



Local Government

Eastern Cape, South Africa



Makana Municipality Budget Analysis 2017/18



Lungile Penxa

Budget Brief: Local Government & Makana Municipality

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Monitoring and Advocacy Programme

Public Service Accountability Monitor

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Introduction:

The South African Constitution commits government departments to the progressive realisation of various socio-economic rights within available resources. These rights include the right to have access to water and sanitation, education, healthcare, housing and social welfare.¹ The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services. In order to effectively realise these rights through the delivery of public services, municipalities, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems. These include: planning and resource allocation systems; expenditure management systems; performance monitoring systems; integrity systems; and oversight systems. The effectiveness of these systems can be established by monitoring their information outputs. To evaluate these systems, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each system.

The Monitoring and Advocacy Programme of the PSAM evaluates budgeting, planning, expenditure and performance in the following service delivery departments of the Eastern Cape government: Education, Health, Local Government, Human Settlements and Economic Development and Environmental Affairs.

¹ Constitution of the Republic of South Africa. Act 108 of 1996, Chapter 2, Sections 26, 27 and 29.

Executive Summary:

This Budget Analysis focuses on Makana Municipality's (MM) budget projections taking into account the operating and capital budgets, and sources of revenue. The analysis is aligned to Eastern Cape Provincial budget allocations for the Local Government sphere, which falls within the mandate of the Department of Cooperative Governance and Traditional Affairs (COGTA).

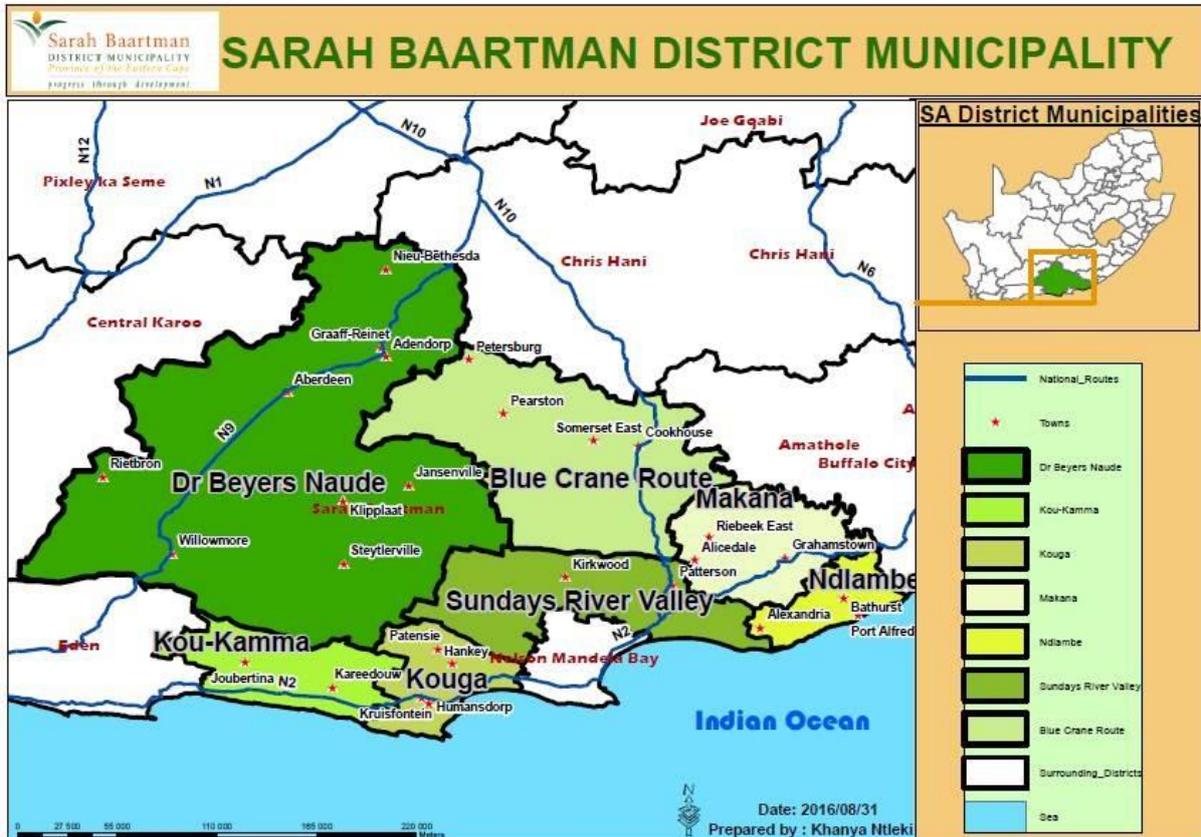
The Municipality budget estimates for 2017/18 are in line with the Municipal Financial Management Act (MFMA) regulations after considering its revenue and expenditure history. However, this analysis illustrates that merely complying with key legislation does not automatically translate to the delivery of social services towards the realisation of socio-economic rights of Makana residents. There are several budgeting and strategic planning weaknesses that Makana must address urgently for this to occur.

The analysis highlights several inefficiencies in the Municipality's prioritisation of limited resources. Makana Municipality allocated an operating budget of R428 million for the 2017/18 financial year. However, this budget does not cater for capacitating existing employees despite the Municipality's own acknowledgement of serious skills deficit in key performance areas.

The Municipal capital budget for 2017/18 is R226 million, but does not accommodate local drought forecasts and expected water scarcity which is expected to have a particularly devastating impact on local business and vulnerable households in particular. The Municipality needs to be proactive in their planning, because a merely reactive approach to challenges may have the result of Makana residents' needs being unmet or severe service delivery delays within the relevant financial year. This can further result in a service delivery backlog in the upcoming financial year and a continued suffering for the poorest residents in the Makana Municipality boundaries.

Electricity and water sales are the major sources of revenue for the Municipality. Makana Municipality is facing numerous infrastructure problems which, when continuously addressed would result in improved revenue generation. The Municipality needs to spend their capital budget holistically to ensure they address their overall problems, so that they can improve their service delivery to residents.

The Municipality needs to do more with the limited resources at their disposal, through capacitating staff internally using those who are critically skilled to empower others to perform better in their functions. This requires municipal leaders (i.e. Acting Municipal Manager & Executive Mayor) to promote a culture of internal cooperation and collaboration throughout the Municipality and across directorates. The Municipality needs make use of the support, guidance and monitoring they receive from the Provincial Treasury, Office of the Premier, Cooperative Governance & Traditional Affairs and Auditor General of South Africa, so that they can benefit extensively and empower municipal staff to be independent and more effective at their jobs. Importantly, the Municipality needs to further commit to implementing outcomes of interventions from the Eastern Cape Provincial Treasury, Office of the Premier and Cooperative Governance & Traditional Affairs.



Map 1: Makana Local Municipality is one of seven municipalities located in the Sarah Baartman District Municipality which covers 34% of the Eastern Cape²

BACKGROUND: UNDERSTANDING MUNICIPAL BUDGETS

A Government Budget is “the financial expression of government plans and policies”³ translated into the allocation of financial resources⁴. The Organisation for Economic Co-operation and Development (OECD)⁵ argues that the government budget must be “comprehensive, encompassing all government revenue and expenditure, so that necessary trade-offs between different policy options can be assessed.” The budget must express the government’s position with respect to accountability, transparency, and scrutiny with the focus

² Sarah Baartman District Municipality, Province of the Eastern Cape. Available Online: www.cacadu.co.za Accessed 21 July 2017

³ OECD (Organisation for Economic Co-operation & Development), 2001. *Best Practices for Budget Transparency. Report: JT00107731*, OECD, Paris. [http://www.olis.oecd.org/olis/2000doc.nsf/87fae4004fa67ac125685d005300b3/c125692700623b74c1256a4d005c23be/\\$FILE/JT00107731.PDF](http://www.olis.oecd.org/olis/2000doc.nsf/87fae4004fa67ac125685d005300b3/c125692700623b74c1256a4d005c23be/$FILE/JT00107731.PDF). (Page. 41).

⁴ Lewis, C.W., 2007. How to Read a Local Budget and Assess Government Performance. Shah, A. (ed). *Public Sector Governance and Accountability Series: Local Budgeting*. Washington, D.C.: The World Bank. P. 179.

⁵ OECD, 2000, p. 4.

on responsiveness, public access and participation, and government employee competence⁶. The budget process involves government institutions planning, collaborating, negotiating and deciding together on a comprehensive plan for spending public resources over an agreed period.

A Municipal budget must be prepared, executed, monitored and controlled in an open, transparent and in a manner that is accountable to the public⁷. The municipal budget process constitutes five phases, namely: strategic planning; municipal-wide budget preparation process; tabling of the draft budget; public consultations and external assessments; and tabling of the final budget⁸. A Municipal Budget is guided by Chapter 4 of the Municipal Financial Management Act (2003) (MFMA) which stipulates how a municipality must prepare and execute its budget. Section 153 (1) (a) of the South African Constitution emphasizes the importance of preparing a budget that prioritizes the needs of the community.

A municipal budget is made up of an operating and capital budget. The former deals with the 'day-to-day' expenses such as salaries, the purchase of bulk water and electricity. The latter deals with the expenditure on things with a long lifespan such as land, buildings, vehicles, etc.⁹ Operating and capital budget obtain their revenue from different sources. South African municipalities receive their operating revenue from the following sources:

- Service charges (e.g. basic services)
- Property rates
- Operating transfers from National Government (e.g. Municipal Equitable Share)
- Own revenue (e.g. traffic fines)

Municipalities receive their capital revenue from the four main sources namely:

- Government grants (e.g. Municipal Infrastructure Grants)
- Borrowing (e.g. Development Bank South Africa)
- Internal generated funds (e.g. surpluses from previous years)
- Public contributions and donations.

This Budget Analysis focuses on Makana Municipality's budget estimates for 2017/18 taking into account the operating and capital budgets, and sources of revenue. Section 21 (2) (c) of the Municipal Financial Management Act (2003) (MFMA), stipulates that "during the preparation of the Municipal Annual Budget, the Mayor of a Municipality must take into account

⁶ Lewis, 2007, p 182.

⁷ Municipal Fiscal Powers & Functions Act (2007); Kumar & Moodley (2003, p. 66)

⁸ Van der Westhuizen, Taylor, Van Zyl, & Rubin (undated, p. 67)

⁹ Van der Westhuizen, et al., (undated, p. 72).

the National Budget, the relevant Provincial Budget, the National Government's Fiscal and Macro-economic Policy.” Similarly, this analysis is aligned to the National and Eastern Cape Provincial Budget Allocation for the Local Government sphere, represented by the Cooperative Governance and Traditional Affairs (COGTA) Portfolio at the Provincial Government Level.

EASTERN CAPE PROVINCIAL PROJECTIONS IN RELATION TO LOCAL GOVERNMENT

The Eastern Cape Province Budget projected receipts for the 2017/18 financial year are R74.646 billion that consists of:

- I. Equitable share allocation of R61.847 billion (82.9 percent)
- II. Conditional Grants of R11.297 billion (15.1 percent)
- III. Provincial Own Receipts of R1.501 billion (2 percent)

The Eastern Cape Provincial Treasury was allocated R725 million where R390 million (over 50%) was allocated to their Municipal Finance Governance programme. According to the Eastern Cape MEC¹⁰ for Finance, Sakhumzi Somyo this programme is intended to assist Municipalities including Makana:

- To improve their revenue enhancement strategies.
- To be monitored on their expenditure of the Municipal Infrastructure Grants (MIG) and other grants since both positive and negative expenditure directly affects the allocation of resources from the National Fiscus.
- To be supported, guided and monitored in the implementation Municipal Standard Chart of Accounts (MSCOA), which commenced from 1 July 2017.¹¹ The benefits of MSCOA include standardisation of all local, provincial and national government reporting, modernisation of financial management through updated systems in order to improve transparency and accountability leading to high levels of service delivery.

Moreover, the Eastern Cape Office of the Premier was allocated R860 million where R24 million was allocated to the Eastern Cape Municipalities. According to the Eastern Cape Premier, Phumulo Masualle, this allocation to municipalities is intended to promote public participation, to promote ward based planning, and to improve community engagement

¹⁰ Member of the Executive Council

¹¹ Somyo, S. 2017. *Eastern Cape 2017 Provincial Budget Speech: 2 March 2017*. Bhisho: Eastern Cape Legislature.

through the Operation Masiphathisane Service Delivery Model or the Back to Basics Model. This suggests that Makana Municipality will also benefit from this allocation to promote public participation, ward based planning and to improve community engagement.

MAKANA MUNICIPALITY 2017/18 BUDGET PROJECTIONS

Table 1: Makana Municipality 2017/18 MTREF Projections

Description	2015/16	2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R Millions	Budget Year 2015/16	Adjusted Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Total Operating Budget & Revenue	427 637	422 210	427 924	452 315	477 645
Surplus/(Deficit)	0	0	0	0	0
Total Capital Budget & Expenditure	62 992	43 168	226 267	55 110	42 348

The above table depicts the Municipality Budget and Estimates from 2015 - 2020, and most importantly are the estimates for the financial year 2017/18. When looking at the 2017/18 budget projection and the 2016/17 adjusted budget, there is a nominal increase of R5.714 million. Makana Municipality indicated that they projected their figures using the Consumer Price Index (CPI) of 6.4 as per the MFMA circular 86 for 2017/18. This circular clearly indicates that in preparation for the 2017/18 MTREF¹² for municipal budgets, the CPI of 6.4 must be

¹² Medium Term Revenue and Expenditure Framework

used as it was also used on the 2016/17 budget estimates.¹³ Using the April 2017 CPI inflation of 5.3¹⁴, the Municipal budget is likely to decrease by R73, 550 million leaving the municipality with a budget of R354, 374 million in real terms for 2017/18. This suggests that Makana Municipality (MM) will find it difficult to address the communities' needs identified in the Integrated Development Plan (IDP) for 2017-2022, which they intended to address in the 2017/18 financial year. When considering 2015/16 – 2017/18, the Municipality's projected expenditure and allocations have been made within the context of less than optimal rates of revenue generation albeit in alignment with MFMA regulations which state that a municipality must "take into account realistic revenue and expenditure projections for future years."¹⁵ However, merely complying with key legislation does not automatically translate to the delivery of social services to realize socio-economic rights of Makana citizens.

The total Capital expenditure between the 2016/17 adjustment and the 2017/18 projections is an increase of R189, 099 million. In 2016/17, the Capital budget was R170, 043 million and it was adjusted to R43,168 million and the final budget became R43,168 million. After considering the capital expenditure history of the municipality, on the one hand, it is unlikely that they will spend their entire Capital Budget of R226, 267 million if they were unable to spend R170, 043 million in the year 2016/17. The inability to spend the allocated funds can raise human resource capabilities to plan in line with the needs of the community, estimate a budget in line with the needs of the community and the human resources available to execute the budget and address the communities' needs planned for in this financial year. On the other hand, the 2017/18 Capital Budget could be higher to address infrastructure problems that when addressed, will result in the Municipality going back to their capital expenditure rate that is between R42 million and R55 million when looking at the capital expenditure history and future forecast.

¹³ Municipal Budget Circular for the 2017/18 MTREF: Page 2.

<http://mfma.treasury.gov.za/Circulars/Documents/MFMA%20Circular%2086%20-%202018%20MTREF%20-%208%20March%202017>

¹⁴ StatsSA. Consumer Price Index for April 2017.

<http://www.statssa.gov.za/publications/P0141/P0141April2017.pdf>.

¹⁵ MFMA (2003, s 21(2)(b))

MAKANA MUNICIPALITY SOURCES OF REVENUE

Figure 1: Makana Municipality Sources of Revenue: 2017/18

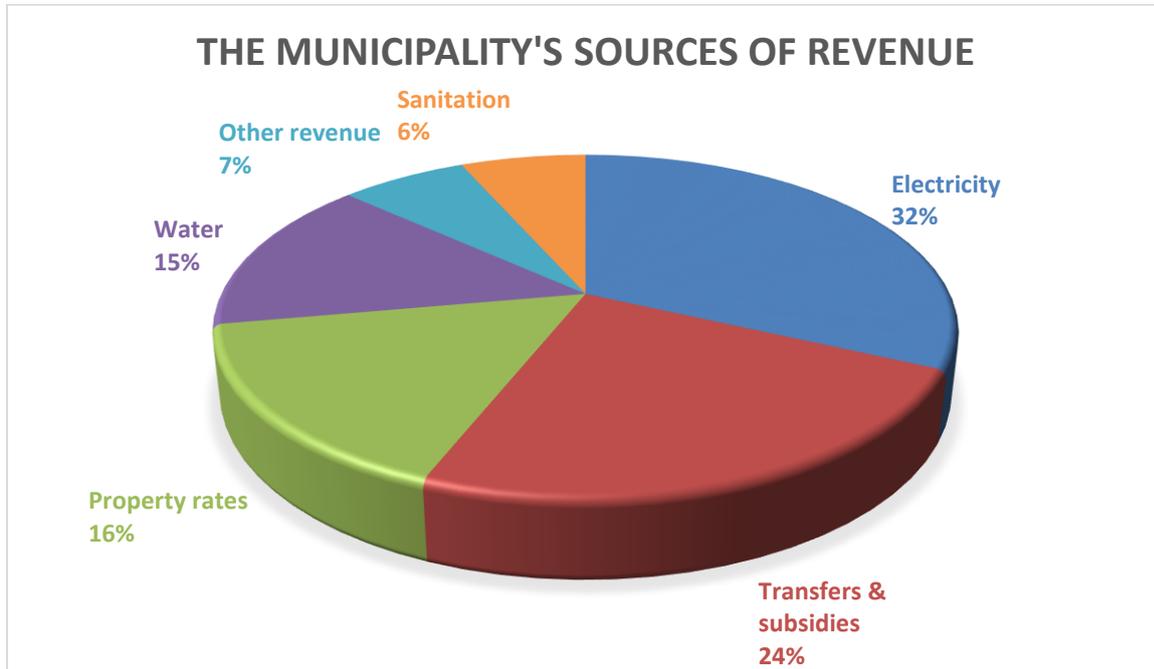


Figure 1 above shows Makana Municipality's sources of revenue. The Municipality collects revenue from the services it provides to its residents, such as electricity, water and sanitation. The municipality is also subsidized by the national government through transfers and subsidies which are the second largest contributors (24 percent) to the municipality's revenue. Transfers to local government are made through the equitable share and conditional grants.¹⁶ The local government equitable share ensures that poor and rural municipalities receive higher per capita transfers to fund free basic services (e.g. electricity) to all poor households. Conditional grants are designed to achieve specific service delivery goals (e.g. infrastructure refurbishment and maintenance), and municipalities must meet specific criteria to receive grants and fulfil conditions when spending them. Municipal conditional grants fund infrastructure through the Municipal Infrastructure Grant (MIG).¹⁷ The following section focuses on electricity and water provisioning, because water is a basic need and access to water is a constitutional right under section 27 (1)(b) and electricity is a basic municipal service protected under section 73 of the Municipal Systems Act. It is also especially important to

¹⁶ National Treasury SA. Division of revenue and spending by provinces and municipalities. <http://www.treasury.gov.za/documents/national%20budget/2016/review/chapter%206.pdf>.

¹⁷ Ibid

place emphasis on the provisioning of water services given that this is an increasingly scarce resource owing to prevailing drought and poor management conditions.

Electricity Provision

In the 2016/17 financial year, the electricity sold amounted to R130 million or 31 percent of the R422 million, Operating Budget. In the 2017/18 financial year, the Municipality projects to have electricity sales amounting to R130 million of the R428 million Operating Budget. The Municipality is likely to make a loss considering the following challenges affecting their electricity revenue.

Electricity Provision Challenges

Nationally, electricity is provided both by municipalities and directly by Eskom through its prepaid services. It is important to acknowledge that this is a national spatial planning problem, and a consequence of pre-1994 government planning processes, where previously disadvantaged communities did not have access to electricity. Post-1994, residents have consistent access to electricity and are able to choose between Eskom prepaid and municipal provided electricity including prepaid. At Makana Municipality, electricity revenue generated benefits both the Municipality (bulk electricity purchases sold to residents) and Eskom (prepaid electricity sold directly to residents). Consequently, this affects the Municipality's revenue generation capability, because the municipality only receives revenue from residents buying Makana Municipality electricity and not benefiting from residents buying Eskom prepaid electricity, because this profit goes directly to Eskom. Moreover, the Financial and Fiscal Commission's (FFC) 2016 findings on alternative revenue collection strategies revealed that Eskom installs electricity without being charged an installation fee for doing business under a municipal jurisdiction throughout the Eastern Cape.¹⁸ Makana Municipality should consider charging Eskom an installation fee for every unit that Eskom electrifies under the municipal jurisdiction. Makana Municipality is in a financial crisis and should therefore consider exploring this additional revenue enhancement strategy. This is important since the Municipality is in need of alternative sources of revenue which will boost the operating budget and ensure that they have more means of providing services to their residents. In addition, the South African Local Government sphere now has the Spatial Planning and Land Use Management Act (SPLUMA) 16 of 2013 which aims to address spatial planning challenges including the one recently highlighted. For future planning, it is important for municipalities including Makana

¹⁸ Financial & Fiscal Commission (FFC) 2016. Recommendations presented to the Eastern Cape Municipalities on Municipalities on the Submission for the Division of Revenue 2017/18 in October 2016.

Municipality to ascertain how a developed spatial planning policy informed by this Act will assist in addressing the electricity challenges affecting the revenue generation of municipalities.

The Municipality has residents recognized as indigent.¹⁹ The Municipality has outsourced services of a company called REVCO²⁰ to verify the data of indigent people,²¹ having indicated that the municipal data register has inaccurate figures of indigent people and that this has affected Makana Municipality's Equitable Share Allocation.²² As a recommendation, the municipal staff designated to do data verification of indigent people require training from REVCO or any other consulting company to capacitate themselves, so that they can sustainably do this work themselves to save costs. Outsourcing services to enhance internal staff capacity is a sustainable short-term strategy for any institution including a resource-constrained Makana Municipality. Moreover, section 154 of the Constitution places a duty on national and provincial government to support and strengthen the capacity of municipalities to manage their own affairs. Additionally, there are various national and provincial support initiatives, some of which are described in Chapter 5 of the Municipal Financial Management Act. Makana Municipality must make use of the provincial support opportunities and ensure that they implement strategies that come out of the provincial interventions.

The Municipality receives their bulk electricity on credit from Eskom and pays on a monthly basis. However, they are not generating enough revenue and this resulted in the Municipality owing Eskom more than R50 million with an interest of around 16 million in 2016 and 2017.²³ The above mentioned issues such as inadequate revenue generation on electricity sold by the municipality, incorrect indigent register, and incorrect billing by the municipality results in electricity sales losses. In order for the Municipality to fully address their electricity losses and paying their Eskom debt, the Municipal leaders need to promote a culture of team work within the relevant directorates and come up with innovative ways of incentivizing their staff to be motivated to work hard under the tough economic times they are facing. With the positive support of their leaders, the Municipality, as a team, needs to work hard to address their

¹⁹ "Residents lacking the necessities of life such as sufficient water, basic sanitation, refuse removal in denser settlements, and basic energy." (DPLG, National Framework for Municipal indigent policies. RSA: Department of Provincial & Local Government. P. 9).

²⁰ Revenue Consulting.

²¹ Makana Municipality, 2017. *Makana & GBF Strategic Planning Session 21 February 2017*: <http://www.makana.gov.za/makana-and-gbf-meet-to-strategise-on-challenge-faced-by-the-municipality/>.

²² The allocation of revenue to the local sphere of government as required by the Constitution.

²³ Records presented in the Municipal Public Accounts Committee (MPAC) Meeting of 13 October 2016 at 10:00.

loopholes through acquiring knowledge from their external support structures (i.e. COGTA, Eastern Cape Provincial Treasury, AGSA²⁴, and FFC²⁵) and sustainably empower each other to ensure current challenges do not become recurrent. The roles played by COGTA, Eastern Cape Provincial Treasury, AGSA, and FFC in the form of providing support, guidance, mentoring, monitoring, advice, recommendations are significant in the future existence of a functioning Makana Municipality.

Water Provision Challenges

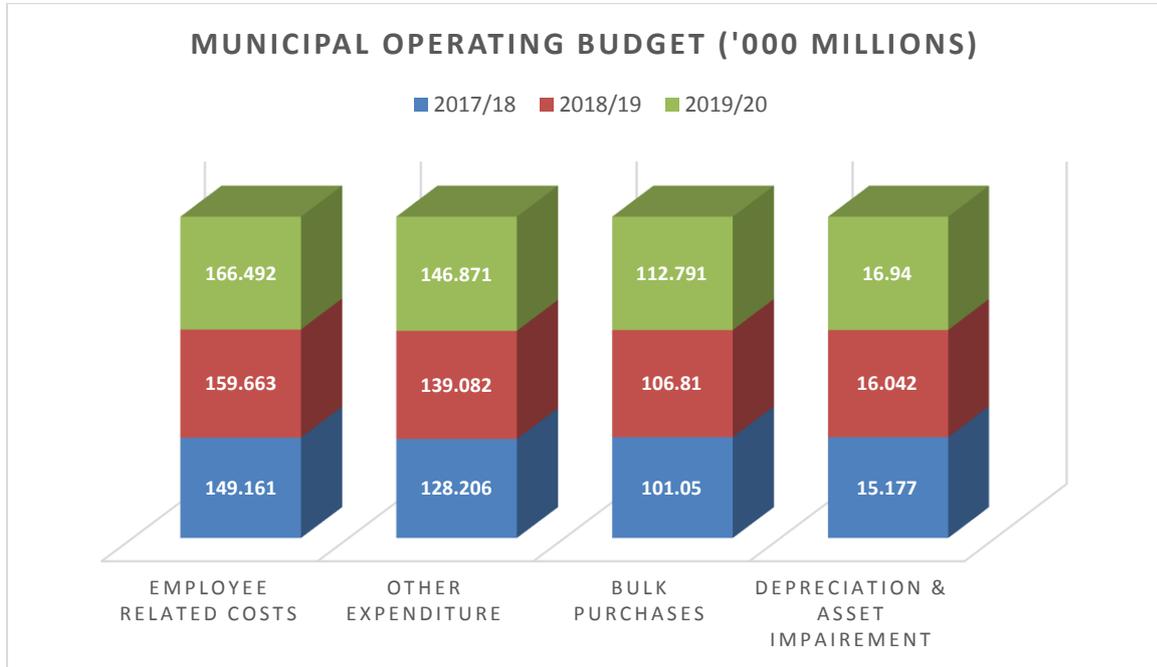
The water sales in 2016/17 year, amounted to R71 million (17 percent) of the R422 million of the overall Operating Budget. In 2017/18 year, water sales are projected to amount to R58 million. Using the CPI of 5.3 for April 2017 on the CPI of 6.4 used for the municipality's budget projections, the water sales are likely to amount to R48 million. The Municipality will make water losses also due to the national drought and the Municipality dams with low water levels in which one dam is unlikely to pump water by September 2017 unless the municipal jurisdiction experience heavy rains that can refill the dams. The municipality's infrastructure engineers should have brought forward a sustainable plan indicating alternative ways of generating water to the Chief Financial Officer (CFO), so that the execution of this plan can be financially catered for in the 2017/18 budget. Without a proactive plan, water scarcity will affect revenue collection from water sales. For future planning, the municipality needs to explore innovative technologies for water generation (e.g. atmospheric water generation) that have been implemented globally by municipalities of the same size and similar circumstances to see what can work for the conditions of Makana Municipality. To provide relief on the water scarcity situation, the Municipality indicated that they will supply water tanks in its communities as a temporary measure. However, water tanks are for storing water and not for generating it. In the worst case scenario, the municipality must have other ways of generating the water that will be stored in those water tanks.

²⁴ Auditor General South Africa is constitutionally mandated to audit and report on how the government is spending the South African taxpayers' money. The AGSA annually produces audit reports on all government departments, public entities, municipalities and public institutions. The audit outcomes are analysed in general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles (<http://www.agsa.co.za/About/Ourvision.aspx>)

²⁵ Financial Fiscal Commission is mandated to make recommendations to Parliament, provincial legislatures, organised local government and other organs of state on financial and fiscal matters as envisaged in the Constitution and other national legislation (<http://www.ffc.co.za/>).

MAKANA MUNICIPALITY OPERATING BUDGET

Figure 2: Current and Projected Operating Budget: Makana Municipality: 2017/18 – 2019/20



Employee Related Costs Allocation

In 2016/17 employee-related costs²⁶ amounted to R124 million²⁷ and in 2017/18 it is R149 million which is 17 percent increase (Figure 2).²⁸ As much as there is a 17 percent increase, the allocation for employees is not increasing enough, because the municipality is not generating enough revenue while spending more than what they are receiving, and the budget projections do not take into account inflation. As a result, this can affect the municipality's ability to attract the best employees in positions requiring scarce skills. In the 2017/18 projected budget, employee-related costs accounts for the biggest amount (35 percent) of the entire Operating Budget. According to the MFMA, the acceptable norm for salaries is between 30-35 percent of the Operating Budget. The CFO indicated that the budget estimates were

²⁶ In the Makana Municipality budget documents they refer to 'employee related costs' throughout as opposed to 'compensation of employees' even though it means the same thing. For your satisfaction please see the Makana Municipality Draft Budget document available on their website:

<http://www.makana.gov.za/statutory-documents/budget/>.

²⁷ Makana Municipality, 2017. Special Council Meeting: 30 March 2017. Grahamstown: Makana Municipality.

²⁸ StatsSA (2017). *Consumer Price Index: March 2017*. Pretoria: StatsSA.

<http://www.statssa.gov.za/publications/P0141/P0141March2017.pdf>.

done using the MFMA circular 86 for guidance.²⁹ She acknowledges that the 35 percent allocation for employee related costs has posed a challenge during the preparation of the 2017/18 Budget Estimates since it has reached the ceiling.³⁰

Table 1: Employee-Related Costs vs Performance of the Municipal Staff

The Operating Budget estimates for the financial year 2017/18 – 2019/20 indicate that Employee-Related Costs take the biggest share of the budget of the financially constrained municipality. The Municipality consists of the following number of staff:

Total Number of Staff	Number of Staff Without Grade 12	Number of Staff with Senior Certificates Only	Number of Staff with Tertiary/ Accredited Professional Training
714	323 (45.2%)	139 (19.5%)	150 (21 %)

As depicted in Table 1, 45.2 percent of the Municipality’s staff are without a matric qualification; 19.5 percent only have matric senior certificates; and 21 percent tertiary or accredited professional training. *Are Makana Municipality employees delivering according to expected standards against key performance indicators and in a manner that is cost-effective?* In the absence of regular individual performance evaluations and basic performance management reporting relating to the 714 Makana Municipality employees – it is not possible to determine the extent to which this is being achieved nor is it possible to effect evidence-based improvements. The Municipality piloted their Performance Management Policy Framework³¹ to Senior Management in the 2015/16 Financial Year.³² The Municipality’s 2015/16 Annual Report³³ shows that this Framework was not up-scaled to the entire municipal staff, because senior managers did not to sign their performance agreements, resulting in their subordinates leading by the example of their leaders.

Lack of application of the Municipal Performance Management Systems undermines section 66 of the Municipal Systems Act. Poor leadership and lack of accountability from the

²⁹ Municipal Budget Circular for the 2017/18 MTREF: Page 2.
<http://mfma.treasury.gov.za/Circulars/Documents/MFMA%20Circular%2086%20-%202018%20MTREF%20-%208%20March%202017>.

³⁰ Chief Financial Officer during Makana Municipality Special Council Meeting on 30 March 2017.

³¹ The Municipality Performance Management Policy Framework was revised during the 2015/16 financial year, but the Council did not approve it because of outstanding internal consultation processes (MM 2015/16 Annual Report).

³² According to the Makana Municipality 2015/16 Annual Report.

³³ Page 46.

Accounting Officers of the Municipality has the impact of further undermining municipal employees' performance and of undermining efficient use of public resources where employee-related costs are concerned. When employees are not performing well to deliver services to the people, and there are no consequences for underperformance; then this impacts negatively on the Municipality's revenue generation capacity. Additionally, employee underperformance negatively affects the implementation of the planned and budgeted development projects to realize socio-economic rights of Makana citizens.

Employee-Related Costs - Vacancy rate³⁴ - Employee Delivery Capacity

Filling of vacancies is dependent on a municipality's ability to have money within the allocated budget to pay prospective staff. Filled vacancies ensure that the municipality has human capacity to deliver services to its communities. For example, in the 2015/16 financial year, the Municipality planned and budgeted for 25 new staff.³⁵

Makana Municipality has managed to fill the critical positions of the Chief Financial Officer and Supply Chain Manager.³⁶ However, prior to 2015 the Municipality has been working towards filling the position of the Municipal Manager and now also that of the Director of Corporate Services.

Table 2: Filling of Strategic Positions

Approved Positions (i.e. MM and S57 Managers)	Number of Approved and Budgeted posts	Filled Posts	Vacancies
Municipal Manager	1	No	1(before 2015)
Director of Corporate Services	1	No	1
Chief Financial Officer	1	Yes	0
Director Local Economic Development	1	Yes	0
Director Technical & Infrastructure	1	Yes	0
Director Community & Social Services	1	Yes	0

³⁴ According to the Makana Municipality 2015/16 Annual Report.

³⁵ Ibid.

³⁶ Makana Municipality (2017). *Ordinary Council Meeting of 25 January 2017*. Grahamstown: Makana Municipality.

Employee Delivery Capacity

According to the Municipal Systems Act (2000) (MSA), section 66 requires a municipality to develop its human capacity to a level that enables it to perform its functions economically, effectively, efficiently, and accountably. The tables above suggests that Makana Municipality (MM) needs critical staff to manage administrative governance. The Municipality is swimming and sinking for survival due to inadequate captains such as the Municipal Manager and Director of Corporate Services³⁷ to give a sustainable direction that will ensure social services are delivered effectively and efficiently. This suggests that Makana Municipality human resource capacity is not developed to the level that allows staff to perform effectively, efficiently and accountably due to a lack of managerial staff with competent skills even before 2015.

Employee-related costs³⁸ excludes employee development trainings, workshops and courses, but only covers incentives which motivate employees to perform at their work. This suggests that in the 2017/18 Municipal Operating Budget, employee skills development initiatives to capacity them are not budgeted for. The 2015/16 Municipal Annual Report indicates that a lot of employee training programmes could not occur because of scarcity of funds. This affects staff performance to generate more revenue for the Municipality. The Municipality must consider internal staff capacity where staff with expert knowledge funded by the Municipality train those that are under capacitated to perform better in their functions. The Municipality cannot achieve this with its directorates working independently, rather it requires municipal leaders (i.e. Acting Municipal Manager & Executive Mayor) to promote a culture of team work throughout the Municipality and across directorates. The Provincial Treasury, Office of the Premier and COGTA are allocated millions of Rands as indicated above on page 6 to provide support, guidance, and monitoring in the provincial municipalities. Makana Municipality needs to use these initiatives, so that they benefit extensively and empower their staff.

Bulk Purchases Allocation

The Operating budget for 2017/18 in Figure 2 above depicts the Bulk Purchases as receiving the third largest share of the total budget. In Makana Municipality, bulk purchases are for Electricity and Water. Bulk Purchases amounted to R71 million in 2016/17 and now they are projected to be R101 million which is a nominal increase of 30 percent. In real terms the municipality is likely to receive R84 million or 18 percent increase. Bulk purchases take the

³⁷ Director for Cooperate Services is the accounting officer of the following departments: Human Resources Management Services; Corporate Administrative Support Services; Information and Communication Technology; IDP/PMS; Communication, Public Relations and Marketing; and Fleet Management.

³⁸ Includes salaries and wages, contributions to medical aid, pension funds, other benefits, and bonuses.

third largest share of the 2017/18 estimated Operating Budget (24 percent). As previously indicated, the Municipality is likely to make a loss on water sales due to the national drought resulting in water scarcity throughout the country. Water scarcity will result in price increases in the purchasing of bulk water from the Department of Water and Sanitation. Electricity and Water sales are the biggest contributors to the Municipal revenue requiring maintenance of both electricity and water infrastructure to ensure that in future they continue to generate the revenue generously.

Electricity and Infrastructure Challenges

The Draft IDP³⁹ indicates that electricity Infrastructure is ageing and it requires constant upgrades and maintenance which are hindered by the budget constraints. In the Municipality Annual Report (2015/16), the Municipal Infrastructure Grant (MIG) was used to address some of these issues. In addition, there are inadequate resources such as vehicles, ladders, materials, testing equipment, safety clothing, designing software; and insufficient staff training for electricians.⁴⁰ The improvement of electricity sales (the biggest source of revenue) partly depends on the rectification of all these issues. We must acknowledge that addressing all these issues is a process that requires the Municipality to prioritize some of them annually with their MIG. In the Municipal Special Council of 30 March 2017, it was indicated that electricity infrastructure received R86 million in the Capital Budget for 2017/18. This implies that the above highlighted infrastructure will be addressed. Sustainably addressing these problems requires a collaborative (i.e. across directorates), strategic and proper planning on how the MIG must be spent effectively and efficiently. The improvement of the above issues would contribute positively on electricity revenue that will improve Makana Municipality's repayment of the Eskom Debt.

As highlighted before, the municipality's accurate verification of their indigent population would ensure that they receive more equitable share. The municipality needs to consider allocating the equitable share more effectively across various programmes instead of paying only the Eskom debt⁴¹, because this undermines their development planning and planned priorities. It further undermines Makana residents' rights to access quality water, sanitation, roads, healthy environment and so forth. In the National Budget Review for 2017, the former Finance Minister, Pravin Gordhan stipulated that municipalities need to balance their plans to extend

³⁹ IDP for 2017-2022, p. 86

⁴⁰ 2015/16 Makana Municipality Annual Report

⁴¹ 2015/16 Makana Municipality Annual Report; Municipal Public Accounts Committee (MPAC) Meeting of 13 October 2016 at 10:00.

and improve services with available resources.⁴² The MFMA equitable share regulations on the Division of Revenue Bill for 2017 in chapter 2 section 5 shows where the municipal equitable share comes from and when it must be transferred to municipalities, but it does not regulate the municipality on how they should spend it.⁴³

Water and Sanitation, and Infrastructure Challenges

In addition to the pressures of the national drought and water scarcity which affects the bulk water demand, the Municipality is also facing water ageing infrastructure, poor maintenance and poor contract management. The IDP 2017- 2022 which was used to prepare the 2017/18 budget indicates that there are inadequate resources (e.g. equipment and human resources) resulting in the inability to attend to complaints and dealing with the problems; and continuous vandalism of critical infrastructure.⁴⁴ The Municipality Capital Budget for 2017/18 indicates that water infrastructure received R177 million, water R73 million, and sanitation R29 million.⁴⁵ The budget reflects the water and sanitation infrastructure problems with the exception of most importantly the national drought resulting into the scarcity of water. This implies that, during budget preparation, there was inadequate cooperation and collaboration between the Technical & Infrastructure Directorate and the office of the Chief Financial Officer about future plans to deliver water in the Makana jurisdiction. The national drought crisis was evident prior to the 2016/17 financial year, the fact that it was not considered in planning for the 2017/18 year questions the capacity of infrastructure engineers in terms of proactive planning.

Roads and Infrastructure Challenges

The overall Makana Municipality roads are in poor condition⁴⁶. The maintenance of the Municipal road network involves four major role players; namely, the Eastern Cape Provincial Road Construction Unit⁴⁷, Sarah Baartman District Road Engineer⁴⁸, Makana Council⁴⁹, and

⁴² National Treasury. Budget Review 2017. Republic of South Africa: 22 February 2017. <http://www.treasury.gov.za/documents/national%20budget/2017/review/FullBR.pdf>.

⁴³ Division of Revenue Bill 2017. [http://www.treasury.gov.za/legislation/bills/2017/b%204-2017%20\(division%20of%20revenue\).pdf](http://www.treasury.gov.za/legislation/bills/2017/b%204-2017%20(division%20of%20revenue).pdf).

⁴⁴ IDP (2017-2022, p. 82-83).

⁴⁵ Makana Municipality (2017). Special Council Meeting of 30 March 2017. Grahamstown: Makana Municipality.

⁴⁶ Makana Municipality Annual Report 2015/16.

⁴⁷ Deals with Roads construction and maintenance through South Africa National Roads Agency Limited (SANRAL)

⁴⁸ Provides funding to maintain Roads infrastructure projects of the Sarah Baartman District Municipality.

⁴⁹ Whose role is to play political oversight of the municipality's functions, programmes and the management of the administration (<http://www.makana.gov.za/wp-content/uploads/2013/07/Local-Government-Functions-and-Objectives.pdf0>).

District Roads Forum.⁵⁰ The improvement of the condition of roads in the municipality depends on the cooperation of these stakeholders. The Makana Annual Report for 2015/16 shows that Makana has provincial roads within its boundaries especially in the Grahamstown central business district (CBD), suburbs, and rural areas. In a strategic planning meeting co-hosted by the Makana Municipality and Grahamstown Business Forum⁵¹, the Executive Major of Makana Municipality indicated that the municipality is financially unable to afford the maintenance of these provincial roads within the municipal boundaries, because they are the responsibility of the Eastern Cape Provincial Department of Roads and Public Works. This suggests that the provincial and rural roads in Makana Municipality are dependent on the Provincial Department of Roads and Public Works which received R 5.1 billion for infrastructure development for the 2017/18 financial year. The Hon. MEC Somyo has emphasised that that Eastern Cape Provincial Treasury in collaboration with the Department of Roads and Public Works have taken a decision to improve rural roads. Similarly, in the 2017/18 Roads & Public Works Budget Vote, the Honourable MEC Thandiswa Marawu confirmed the allocation of R440 million to fix rural roads going to schools and clinics. The Makana Municipality 2015/16 Annual Report indicates that the municipality signed a service level agreement (SLA) on the roads maintenance plan with the Provincial Department of Roads and Public Works. Overall, the improvement of roads infrastructure depends on the prioritization of Makana Municipality in the Provincial Budget. It further depends on the effective functioning of the Inter-Government Relations between Makana Municipality, Sarah Baartman District, and the Provincial Department of Roads and Public Works. In addition, it also depends on whether Makana Municipality prioritised to spend their 2017/18 MIG on the roads maintenance of their urban areas which is within its jurisdiction.

Maintenance Budget for 2017/18

In the Makana Municipality Draft Budget Document for 2017/18,⁵² it is indicated that R89, 5 million will be spent on repairs and maintenance infrastructure assets. Water infrastructure allocation totalling R177, 4 million, followed by electricity infrastructure at R86 million, water at R73 million and sanitation at R29, 4 million. In the above discussion the electricity infrastructure allocation is discussed in relation to electricity infrastructure challenges. Water and sanitation infrastructure challenges have been discussed in relation to water and

⁵⁰ Established to address the problem of a lack of communication between the role players - Eastern Cape Provincial Construction Unit; Sarah Baartman District Roads Engineer, & Makana Council.

⁵¹ Makana Municipality & Grahamstown Business Forum Strategic Planning meeting of 16 February 2017. 1820 Settlers Monument: Grahamstown.

⁵² Makana Municipality (2017). Special Council Meeting of 30 March 2017. Grahamstown: Makana Municipality.

sanitation allocation for 2017/18 showing how the allocation can assist in addressing the mentioned problems. In the 2017/18 maintenance budget there is no mention of a budget to maintain road infrastructure unless urban roads will be repaired and maintained with the R89, 5 million allocated for repairs and maintenance infrastructure assets.⁵³ Roads infrastructure can also be maintained through the MIG allocation for 2017/18 as shown on the table below, but this depends on whether the municipality included roads infrastructure in their proposal for the 2017/18 MIG from Sarah Baartman District municipality since MIG is conditional grant.

Table 3: Makana Municipality MIG Budgets 2016-2020

Description	Current Year 2016/17			2017/18	Medium Term	Revenue &
	Original Budget	Adjusted Budget	Full Year forecast Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Municipal Infrastructure Grant (MIG)	34,474	34,474	34,474	23,526	24,691	25,919

Table 3 above shows that the MIG allocation for 2017/18 has dropped by 10.9 million when compared to the 2016/17 budget. In the national budget review for 2017/18, it is indicated that conditional grants allocations to provinces and municipalities are based primarily on the demand for services, established with data provided by Statistics South Africa.⁵⁴ The Makana Municipality draft IDP for 2017-2022 heavily relied on 2001 and 2011 statistics to prepare for the 2017/18 Budget. These outdated statistics used could have affected the 2017/18 MIG allocation as shown above, because the needs of the Makana residents have increased between 2011 and 2016. Makana Municipality should have done their own needs analysis to obtain an accurate reflection of the needs of the local community. The Municipality currently conducts a needs verification through IDP roadshows. The IDP roadshows are done in public halls, and this depends on people’s attendance of the roadshow. Generally, Makana residents do not attend municipal-driven meetings in numbers. A socio-economic analysis is a better

⁵³ Infrastructure Assets includes all core assets which are integral to the delivery of municipal services, including water supply, sanitation, road transport and storm-water drainage, solid waste removal, electricity supply, and community facilities. It includes all immovable Property, Plant and Equipment (PPE), as well as specific immovable assets such as vehicles that are directly used in the delivery of the service (such as waste removal trucks). cited from DPLG. 2009. *Guidelines for Infrastructure Asset Management in Local Government 2006 – 2009*. Pretoria: Department of Provincial & Local Government. <http://www.cogta.gov.za/mig/docs/7.pdf>.

⁵⁴National Treasury. Budget Review 2017. Republic of South Africa: 22 February 2017. <http://www.treasury.gov.za/documents/national%20budget/2017/review/FullBR.pdf>

option than needs verification because it requires a needs analysis per household covering the entire municipal population. This is important because “the majority of government revenue raised at national level is allocated to provinces and municipalities based on the relative demand for services, rather than their ability to contribute revenue.”⁵⁵ In addition, conditional grants allocations to local government take into account the ability of municipalities to raise their own revenue to fund municipal services,⁵⁶ and Makana Municipality is one of the municipalities battling to raise enough revenue to fund their services. In 31 May 2017, the municipality revenue collection rate dropped from 82⁵⁷ to 71⁵⁸ percent as opposed to the accepted standard of 90-95 percent for sustainability.⁵⁹ All these issues could have likely affected the reduction of the municipality’s MIG for 2017/18.

CONCLUSION

This Budget Analysis focused on Makana Municipality’s (MM) budget projections for 2017/18 taking into account the operating and capital budgets, and sources of revenue. The Municipal budget was analysed in line with the National and Eastern Cape Provincial Budget Allocation for the Local Government sphere.

The Municipality under budgeted for 2017/18 after considering the socio-economic problems they intend to address. The budget estimates’ alignment to the MFMA regulations suggests that the Municipality’s budget preparation focused more on compliance to key budget legislations rather than to reflect the socio-economic needs of the Makana residents. It is important for the municipality to address the needs of its people annually, because people’s needs are not static. When community needs are not addressed as expected, this results in a service delivery backlog. A service delivery backlog is unacceptable when the municipality generates revenue monthly and is subsidized by National Treasury to ensure that people’s socio-economic needs are realized.

The Operating Budget estimates for the financial year 2017/18 accommodated employee-related costs for employees that are not delivering equivalently to what they are receiving.

⁵⁵ National Treasury. *Budget Review 2017. Republic of South Africa*: 22 February 2017. <http://www.treasury.gov.za/documents/national%20budget/2017/review/FullBR.pdf> (p. 68-69).

⁵⁶ Ibid. (p. 72).

⁵⁷ Makana Municipality, 2017. Makana & GBF Strategic Planning Session 21 February 2017

⁵⁸ Makana Municipality, 2017. Makana Special Council Meeting 27 June 2017.

⁵⁹ South African Local Government Association (SALGA). Sustainable Financial System and appropriate fiscal framework for local government. www.parliament.gov.za/.../5.%20SALGA%Presentation_%20Session%...

Under the current financial climate of the municipality, hard work from every municipal employee is crucial. The municipality must have consequence management systems in place and implement them to ensure that all the municipal employees perform to their level best. For efficiency and effectiveness, underperforming employees must account to their managers and there must be consequences for underperforming employees regardless of how solid labour laws are in relation to protecting the interests of employees. Moreover, the municipality needs to spend their Capital Budget holistically to ensure they address their overall problems. The Municipality is urged to utilise the limited public resources at its disposal more effectively and efficiently. The Municipality must consider internal staff capacity where staff with expert knowledge funded by the Municipality train those that are under capacitated to perform better in their functions. This requires municipal leaders (i.e. Municipal Manager & Executive Mayor) to promote a culture of internal cooperation and collaboration throughout the Municipality across directorates. The Municipality needs to make use of the support, guidance and monitoring they receive from the Provincial Treasury, Office of the Premier, Cooperative Governance & Traditional Affairs and Auditor General South Africa, so that they can benefit extensively and improve their service delivery to its residents.

OUR ORGANISATION

The PSAM was founded in 1999 as a research project in the Rhodes University Department of Sociology. Its initial aim was to monitor incidents of corruption within the Eastern Cape government. From 2005, recognising the systemic nature of poor governance and corruption in the province, the PSAM began a concerted advocacy effort to systematically strengthen public resource management by key Eastern Cape government departments. In 2007,

PSAM introduced a training and academic component. The training component has developed to be what is known as the Regional Learning Programme and the academic component has changed to become what is known as the Advocacy Impact Programme. The various activities and interventions by PSAM over the years have emphasised the on-going need for greater and improved accountability interventions by civil society organisations across the region. Through our work we seek to achieve improved networking and advocacy to leverage impact and enhanced learning so that achievements are shared, evaluated and used to bolster social accountability interventions in sub-Saharan Africa.

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