

ADVANCING YOUR RIGHT TO SOCIAL ACCOUNTABILITY

Makana Municipality Budget Analysis
• October 2014 • by Edward Thabani Mdlongwa

Makana Municipality

Budget Analysis

2014/15

Edward Thabani Mdlongwa

October 2014

Monitoring and Advocacy Program, Public Service Accountability Monitor

For more information contact the PSAM, psam-admin@ru.ac.za
Tel: (046) 603 8358, Fax: (046) 603 7578

Contents

Introduction	2
South African Local Government System	2
Makana Municipality-Context/Background	4
Key Socio-economic and demographic features of Makana municipality	4
Makana Municipality currently	5
Main Revenue Sources for Makana Municipality	7
Key Findings and Recommendations	7
Finding One	7
Recommendation to Finding One	9

Finding Two	10
Recommendation to Finding Two	11
Finding Three	11
Recommendation for Finding Three	13
Finding Four	13
Recommendation for Finding Four	14
Conclusion	14

Introduction

The South African Constitution commits government departments to the progressive realisation of socio-economic rights within available resources. These rights include the right to education, healthcare, housing, a healthy environment and social welfare.¹ Government seeks to ensure that it addresses the most pressing social and economic needs of those it serves through the prioritisation of public resources within the annual budget.

The Public Service Accountability Monitor (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.² In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems.³ These include: planning and resource allocation systems; expenditure management systems; performance monitoring systems; integrity systems; and, oversight systems.⁴ 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.⁵ The budget analysis (BA) is one of these tools and the main aim of this report is to consider the Makana municipality budget for 2014/2015 and assess to what extent budgeting has contributed to this crisis and to provide recommendations to deal with some of these challenges.

South African Local Government System

In South Africa local government is the closest interface between citizens and government. In terms of the South African Constitution, South Africa has an intergovernmental system that is based on the principle of cooperation between the three spheres of government – local, provincial and national. ⁶The sphere of local government consists of 284 municipalities: 6 Metropolitan (Category A); 226 Local (Category B) and 52 District Municipalities (Category

¹ Constitution of the Republic of South Africa, sections 26, 27 and 29.

² Public Service Accountability Monitor (PSAM). Available at <http://www.psam.org.za/>

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ South African Constitution

C).⁷ Working in conjunction with the provincial and national spheres of government, the key priority of municipalities is to deliver basic services to all communities across the country.⁸ The basic services are contained in the Bill of Rights and are fundamental constitutional rights protected in the Constitution under section 27.⁹ Which provides as follows:

- (1) "Everyone has the right to have access to -
 - (a) health care services, including reproductive health care;
 - (b) sufficient food and water; and
 - (c) social security, including, if they are unable to support themselves and their dependants, appropriate social assistance."¹⁰
- (2) "The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights."¹¹

According to section 152 of the South African Constitution the key objectives of local government include 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."¹²

In addition to the Constitution the local government framework is strengthened and supported by key legislative laws and policies which include the Municipal Systems Act (MSA of 2000), Municipal Structures Act (1998), the Municipal Finance Management Act (MFMA of 2003) and the eight Batho Pele Principles. The MSA and MFMA in particular are key pieces of legislation in that the MSA governs and regulates how municipal officials should engage in their work and what disciplinary measures can be taken if they fail to do so. The MFMA was introduced in 2003 to transform financial planning and management, and maximise capacity within local government to achieve better performance in service delivery.¹³

Despite some of these key legislative and policy frameworks to strengthen local government in South Africa, after 20 years of democracy a number of challenges still remain which are mirrored across various local municipalities. Some of these challenges include corruption and maladministration, poor capacity of skilled personnel within municipalities, financial mismanagement and a lack of accountability and transparency by municipal officials. According to the Government's *20 Year Review* of South Africa, with regards to local government going forward there will need to be continued support by government for some municipalities that are still struggling to build, refurbish, operate and maintain the

⁷ IDASA Local Government Budget Guide, October 2005.

⁸ Ibid.

⁹ South African Constitution, Section 27.

¹⁰ Ibid.

¹¹ Ibid.

¹² South African Constitution

¹³ IDASA Local Government Budget Guide, October 2005.

infrastructure needed for reliable and sustainable service delivery.¹⁴ Furthermore support will be strengthened for local municipalities with regards to the management and operational capabilities in key areas (including development planning, service delivery, human resource management, financial management, community engagement and governance).¹⁵

Makana Municipality-Context/Background

Makana Municipality is located in the Eastern Cape Province on the south –eastern seaboard of South Africa and in the western part of the Eastern Cape Province falling under the Cacadu District Municipality area.¹⁶ The Municipality's area is bordered on the North-east by Amathole District Municipality, North-west by Blue Crane Route, the South by Ndlambe Municipalities and the South-west by Sunday River Valley.¹⁷

Key Socio-economic and demographic features of Makana municipality

Some of the key socio-economic and demographic features of Makana local municipality which are outlined in the *Integrated Development Plan* for 2014/2015 and are based on the Statistics South Africa 2011 Census include that the total population for Makana Municipality is estimated at 80 390, of which 78, 0% are black African, 8, 7% are white, 12, 1% are coloured, and 0, 7% are Indian/Asian.¹⁸ This total population figure is, however, disputed by some critics, with a total population figure of just above 100 000 seen as a more true reflection of the population in Makana municipality. The dominant language in the municipality is Xhosa (66, 5%), followed by Afrikaans at (13, 3%) and English at (9.7%).¹⁹

With regards to education of those 20 years and older, 6, 3% have completed primary school, 36, 5% have some secondary education, 22, 9% have completed matric, and 12, 0% have some form of higher education. Only 6, 3% of those aged 20 years and older have no form of schooling. According to the official statistics from the SA Census in 2011, represented in Figure 1 below, of the economically active population (15 – 64years) 34% are employed, whilst 17% are unemployed.²⁰ There is a high proportion of people not economically active at 43% and the percentage of discouraged work seekers is at 6% whilst the overall unemployment rate is officially said to be at 32,5%.²¹ The socio-economic indicators reflected above for Makana municipality indicate the importance in the quality and efficient delivery of services and local development given the high unemployment rate in Makana municipality.

¹⁴ 20 Year Review South Africa. Available at: www.thepresidencydpm.gov.za/news/.../20%20Year%20Review.pdf

¹⁵ Ibid.

¹⁶ Makana Municipality IDP 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

¹⁷ Ibid.

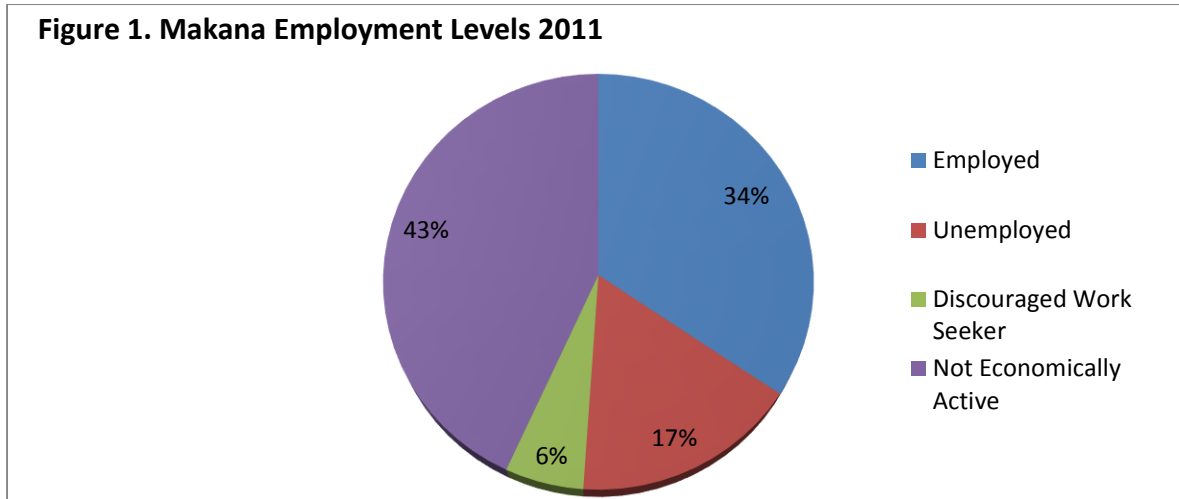
¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

Figure 1. Makana Employment Levels 2011



Makana Municipality currently

Makana municipality was placed under administration, Section 139 (1) (b) of the SA Constitution, on the 28th of August 2014 following sustained and coordinated civil society pressure.²² The civic pressure culminated in the writing of an open letter by both the Public Service Accountability Monitor (PSAM) and the Unemployed People’s Movement (UPM) which was presented to the Makana municipality Executive on the 27th of August calling for the Eastern Cape Province to intervene in the management of Makana municipality based on the continued governance and accountability failings.²³ An administrator Pamela Yako, whose previous jobs included serving as municipal manager at Amathole District Municipality, working for the Department of Environmental Affairs and Tourism, and serving as director-general of the Department of Water Affairs was appointed and begun her assumption of duties on Wednesday the 1st of October 2014.²⁴

The service delivery crisis within Makana Municipality had been well documented in recent times by the media with stories pointing to financial, water provision and maintenance and infrastructure challenges engulfing the municipality. Reports also appeared in local Eastern Cape newspapers especially the *Daily Dispatch* and the local community newspaper in Grahamstown the *Grocott’s mail* documenting the crisis around service delivery within Makana Municipality.

Before the Eastern Cape Provincial government placed Makana municipality under administration Makana municipality was receiving assistance from the Eastern Cape Provincial government under Section 154 (1) of the Constitution which requires that they “*must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and perform their functions.*”²⁵

²² The New Age Newspaper. 29th August 2014. *Makana under administration for 3 months*. Available at http://www.thenewage.co.za/136231-1016-53-Makana_under_administration_for_3_months

²³ The Public Service Accountability Monitor (PSAM). 25th August 2014. Available at <http://www.psam.org.za/press-release/1544/open-letter-with-regard-to-governance-and-accountability-failings-in-makana-municipality-that-require-provincial-government-intervention-in-accordance-with-section-139-of-the-constitution-.htm>

²⁴ Grocott’s Mail Newspaper. 1st October 2014. *Get ready to change fast, says new administrator*. Available at <http://www.grocotts.co.za/content/onlinefirst-news-get-ready-change-fast-says-new-administrator-01-10-2014>

²⁵ SA Constitution.

On the 11th of July 2014 the Eastern Cape Provincial Treasury (ECPT) had decided to further assist with the dismal state of the financial management within Makana Municipality when it released a statement pointing out that “Provincial Treasury took a decision to intervene in the long standing and pervasive weaknesses in municipalities such as Makana Municipality’s financial management and related business processes and systems after the department identified the following challenges:

- Lack of reliable information needed to make sound decisions and reporting on its financial status.
- Operational inefficiency in providing municipal services such as delivery of water services.
- General vulnerability of municipalities to fraud, waste and abuse.”

The Provincial Treasury indicated that their assistance would be provided in accordance with section 154 (1)) of the Constitution which requires that they “*must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and perform their functions.*”²⁶ The statement recorded further that: “Treasury has realised that municipal support has to be tailor made to suit the needs of each individual municipality as they are all faced with different challenges ranging from financial instability, poor audit outcomes, lack of stability in leadership and management...and that Makana Municipality in Grahamstown will be the first beneficiary of this programme”.²⁷

There was compelling evidence that Makana Municipality had exhibited such challenges for some years now, which has resulted in severely compromised service delivery and widespread violations of citizen’s constitutional rights. It had also resulted in public servants and politicians not being held adequately accountable for their action or inaction, which had contributed to the unacceptable state of affairs. Over the past four years, Makana Municipality had annually received disclaimed audit reports from the Auditor-General (AG).²⁸ A disclaimer is defined as “the situation where the accounts of the municipality were too deficient in essential detail for the Auditor General to form an opinion as to the financial viability of the municipality.”²⁹ The annual financial statements had also been submitted late. Additionally, the most recent (2012/2013) AG’s report had drawn attention to a wide range of failures in legal and regulatory requirements at Makana municipality.

In the Executive Summary of the 2014/15 *Medium Term Revenue Expenditure Framework* (MTREF) Makana Municipality had also confirmed that it is facing a number of challenges. Some of the key difficulties that Makana municipality outline include National Treasury maintaining an expenditure ceiling i.e. withholding the local economic share (LES) for Makana Municipality based on national policy by the government in 2013 reflecting government’s commitment to consolidate spending and reduce the fiscal deficit over time.³⁰ Also water provision, revenue management and human resource challenges are identified as key challenges which have led to the critical state that the municipality is currently facing.³¹ When one, however, analyses in depth the issues around Makana municipality it is clear that there

²⁶ SA Constitution.

²⁷ Ibid.

²⁸ National Treasury Makana Annual Reports. Available at <http://www.treasury.gov.za/search.aspx?cx=018115738860957273853%3Aj5zowsrmpI&cof=FORID%3A11&q=makana%20municipality%20annual%20reports>

²⁹ National Treasury. Available at: <http://www.treasury.gov.za/>

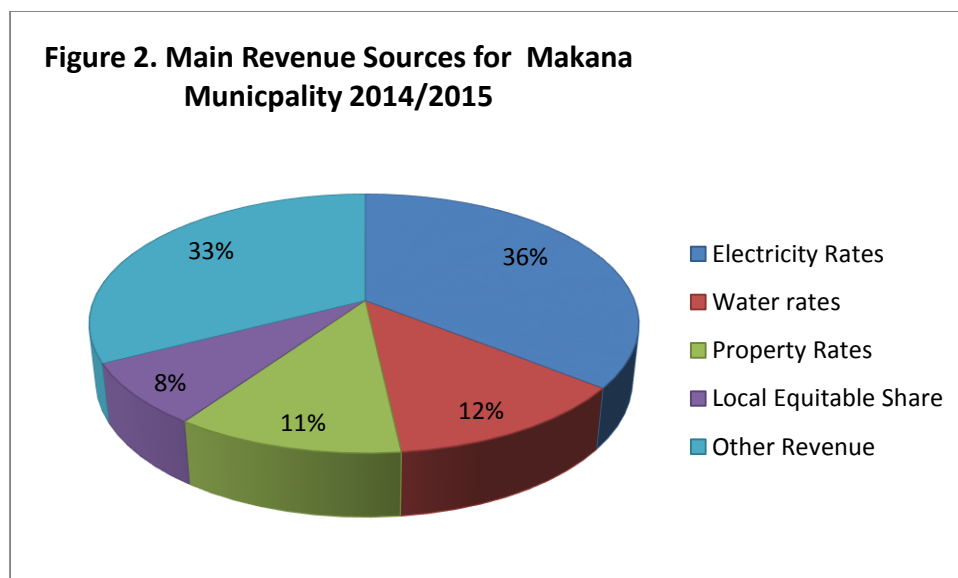
³⁰ National Treasury. Available at <http://www.treasury.gov.za/documents/mtbps/2013/mtbps/Chapter%204.pdf>

³¹ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

is not necessarily a water or financial crisis, instead the municipality is essentially deflecting attention from the problem of poor and unrealistic budgeting which is resulting in a service delivery crisis. The water crisis, human resource and revenue management challenges are all symptoms of and an indirect consequence of the main problem, that of poor and unrealistic budgeting which has led to the current crisis in the municipality. In a nutshell the Makana municipality budget lacks credibility.

Main Revenue Sources for Makana Municipality

Makana municipality is highly reliant on the revenue from electricity provision. According to the Makana municipality final budget 2014/2015, the main revenue sources for the municipality include: electricity, which is said to be the largest revenue source totalling R144 million which represents a 35, 7 percent share of the revenue. Secondly, Water Rates at R50, 84 million represent 12, 6 per cent share of the revenue and thirdly, property rates at R45, 93 million represent an 11.4 per cent share of the revenue. Other revenue is R131, 83 million, which accounts for 33% of the total revenue, and the Local Equitable share is R31, 406 million which is 8% of total revenue. This is represented in the pie chart below, figure 2.



Key Findings and Recommendations

Finding One

One of the key challenges that Makana municipality is facing is its low revenue collection rate. The revenue collection rate in Makana municipality is said to stand currently at 75%.³² This collection rate is very 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

³² Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

required for sustainability.³³ In an ordinary council meeting on the 24th of June 2014 to approve the final budget and IDP for 2014/2015 financial year the acting municipal manager at Makana municipality Mr Themba Mguni pointed out that “a 75% collection rate was achieved only in the previous three months”.³⁴ “That is not who we are in Makana,” he said. “We have been 65% for five years and it is only in the past three months that we are 75%.”³⁵

Makana municipality’s low collection rate was outlined during a response on the Financial Challenges of Makana Municipality in November 2013.³⁶ According to a Municipal Finance Management Act Section 71 report it pointed out the following: ³⁷ “There is an inverse relationship between the debtors and collection rate.”³⁸ The increase in collection rate results in the decrease in debtors and similarly a decrease in collection rate results in an increase in the outstanding debtors.”³⁹ “This is evident in the table below; there has been a decline in the collection rate for the municipality; hence, an increase in the debtors’ book.”⁴⁰ “Furthermore, the 123% collection rate for the 2010/11 financial year seems a particularly high figure. One wonders whether this was due to Makana municipality adopting an aggressive approach to debt collection? Or did they over collect?”⁴¹ “Of great concern is that by the end of 2012/13 financial year the municipality was only able to collect 74% of its revenues”.⁴² The challenge of poor collection rates continues to have an adverse impact on Makana municipality.

Collection Rate Makana Municipality

Financial Year	Percentage
2010/11	123.4%
2011/12	91.0%
2012/13	73.5%

According to the Financial and Fiscal Commission *Analysis of Local Government 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: ⁴³

- 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;

³³ 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%...)

³⁴ Grocott’s Mail Newspaper 27th June 2014. ***Council ignores rates outcry***. Available at <http://www.grocotts.co.za/content/news-council-ignores-rates-outcry-27-06-2014>

³⁵ Ibid.

³⁶ PARLIAMENTARY QUESTION NO 3093- On the Financial Challenges of Makana Municipality – 2013. Available at <http://www.pmg.org.za/print/questions-and-replies/2013/11/26/cooperative-governance-traditional-affairs>

³⁷ Ibid.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ Ibid

⁴¹ Ibid.

⁴² Ibid.

⁴³ Analysis of Local Government Revenue and Expenditure report 2012/13. www.ffc.co.za/.../398-chapter-3-analysis-of-local-government-revenue-a..

- 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.”⁴⁴

Furthermore, it was reported in the *Grocott’s Mail* this year that Makana had based its collection rates on 75% of the total billed revenue which meant that for every R1 owed, Makana planned to get 75c back.⁴⁵ However, the municipality is only collecting 65% of billed revenue. Makana Democratic Alliance (DA) caucus leader and Councillor Les Reynolds said that the finance officials had been working hard to get the money in but they needed support from the council.⁴⁶ Julia Wells the Chief Whip of the African National Congress (ANC) at Makana municipality also pointed out that another factor in residents not paying their rates is the unreliability of the meter systems.⁴⁷ “These are old debts and it is not a new problem,” said Wells. “People say they are willing to pay but they are unsure of the amount because they do not trust the metering systems.”⁴⁸ One has seen the same challenges with regards to meter systems also in large metropolitan cities like Johannesburg.

In response to this and other financial challenges Makana municipality’s revenue enhancement strategy seeks to address some of the challenges above. The revenue enhancement strategy is, according to the Executive Summary on page 187 Part 1 of the Makana municipality Final Budget for 2014/15, proposed as a solution to the municipality’s financial crisis.⁴⁹ Makana municipality points out that the revenue enhancement strategy will be 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.”⁵⁰

Recommendation to Finding One

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

⁴⁴ Ibid.

⁴⁵ Makana in Crisis: Fruitless spending and endless debt. Friday 15th August 2014. Available at <http://oppidanpress.com/makana-in-crisis-finance/>

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

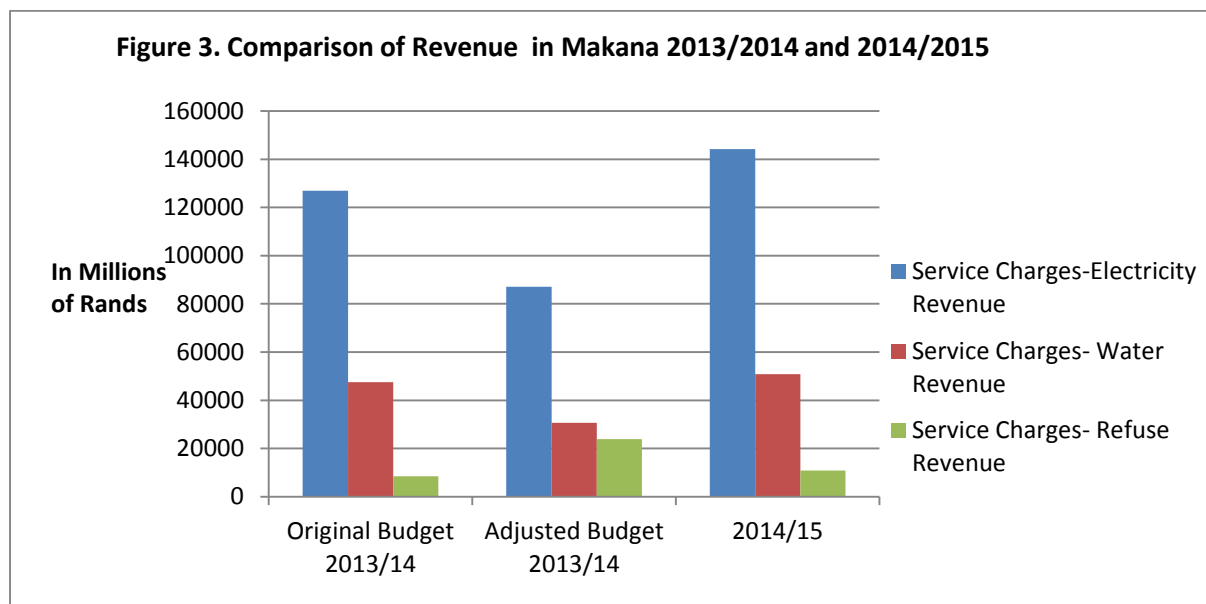
⁴⁹ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

⁵⁰ 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.

Finding Two

On page 193, Table 1, which is a summary of revenue classified by main revenue source of the final Makana municipality budget 2014/15, one notices that for example, with regards to the 2013/14 financial year, which is the current financial year, budget estimates for service charges like water revenue, electricity revenue and refuse revenue do not seem to be realistic. There are significant differences in the amounts budgeted for between the original and adjusted budget for example in service charges for electricity, water and refuse revenue. Electricity pricing billing needs to be very accurate as Makana Local Municipality relies primarily on electricity revenue. The Local Equitable Share (LES) is quite a small part of revenue, thus for municipalities to be able to be effective they need to be good at raising their own revenue efficiently and equitably. This is represented graphically below in Figure 3.



In the figure above one can see that there is a significant difference in the adjusted budget for the 2013/14 financial year and the revenue projection for 2014/15. These projections are unrealistic and the ad-hoc last minute changes reflected in these unrealistic projections of revenue shown above to service charges, then becomes a problem of credibility for the social contract between the municipality and its citizens. The problem with expenditure and revenue was also outlined during a response on the Financial Challenges of Makana Municipality in November 2013 during a parliamentary question and answer session.⁵¹ According to a Municipal Finance Management Act Section 71 report:⁵²

Makana municipality had been operating at a deficit for the past three financial years. This means that the rate of increase in expenditure has been higher than the rate of increase in

⁵¹ PARLIAMENTARY QUESTION NO 3093- On the Financial Challenges of Makana Municipality – 2013. Available at <http://www.pmg.org.za/print/questions-and-replies/2013/11/26/cooperative-governance-traditional-affairs>

⁵² Ibid.

revenue.⁵³ In table 1 below one can see that in the year 2012/13, there was a R134 million operating deficit for Makana municipality. Makana municipality is spending more than it is generating and as such, it has to resort to using its own reserves.⁵⁴ This is however, not the reality or even possible as the municipality does not have enough cash reserves to dip into due to the financial crisis that it engulfing it. If the financial crisis is not urgently addressed it will result in a cash flow crisis similar to the one experienced in late October 2013 when Makana municipality failed to pay its municipal employees.⁵⁵

Table 1. Operating revenue and Expenditure (R millions)

Financial Year	(aa) Revenue	(bb) Expenditure	Surplus/ (Deficit)
2010/11	254.9	288.2	(33.3)
2011/12	329.6	333.10	(3.5)
2012/13	304.8	438.4	(133.7)
2013/14 (MTEF)	382.1	382.1	(0)
2014/15 (MTEF)	404.5	404.5	(0)
2016/17 (MTEF)	426.7	426.7	(0)

Table 1 *MTEF stands for (Medium Term Expenditure Framework).⁵⁶ Available at Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

Recommendation to Finding Two

Makana municipality needs to get its budget planning in order. Unrealistic estimates or projections of revenue which are used as a basis for drafting the final budgets are one of the reasons for the financial crisis engulfing the municipality. One would need to know what methodology is used for the municipality to make its budget projections, as they are not realistic and lack credibility.

Finding Three

Makana municipality is currently facing a huge challenge related to aging and poorly maintained infrastructure, especially for water purposes.⁵⁷ Despite this challenge, when one explores the operational repairs and maintenance budget for 2014/15 there is not much funding put towards addressing such challenges. In Table 5 on page 127 of the Makana

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Tempers flare in cash crisis. Grocott's Mail Newspaper 1st November 2013. Available at <http://www.grocotts.co.za/content/tempers-flare-cash-crisis-01-11-2013>

⁵⁶ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

⁵⁷ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

municipality final budget the operational repairs and maintenance budget is outlined as follows:

Table 5: Operational Repairs and Maintenance

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Depreciation & asset impairment		47 783	44 212	2	8 969	8 969	8 969	27 081	28 679	30 256
Repairs and Maintenance by As	3	16 039	10 887	18 047	17 120	-	-	18 359	19 494	20 571
Infrastructure - Road transport		16 039	10 887	18 047	4 166	-	-	3 001	3 178	3 353
Infrastructure - Electricity		-	-	-	2 000	-	-	2 750	2 912	3 072
Infrastructure - Water		-	-	-	-	-	-	2 550	2 700	2 849
Infrastructure - Sanitation		-	-	-	840	-	-	810	911	961
Infrastructure - Other		-	-	-	-	-	-	10	11	11
Infrastructure		16 039	10 887	18 047	7 006	-	-	9 121	9 712	10 246
Community		-	-	-	2 633	-	-	834	883	931
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6, 7	-	-	-	7 481	-	-	8 405	8 899	9 394
TOTAL EXPENDITURE OTHER ITEMS		63 822	55 100	18 049	26 089	8 969	8 969	45 441	48 173	50 827

Table 5.⁵⁸ Available at Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

One can see from the table above that despite Makana municipality pointing out that water provision and maintenance of infrastructure is a key challenge, between the 2010/2011 financial year and up to the current 2013/2014 financial year, there was no money allocated for operational repairs and maintenance for water⁵⁹. Similarly with funds made available towards sanitation operational repairs and maintenance, the table reflects that only R8, 4 million in the financial year 2013/2014 was made available.⁶⁰ For the financial years 2014/2015, 2015/16 and 2016/17 the following amounts shown below in the table are allocated for water infrastructure operational repairs and maintenance:

Infrastructure - Water	2014/15	2015/16	2016/17
Amount (Millions)	R2,550	R2,700	R2,849

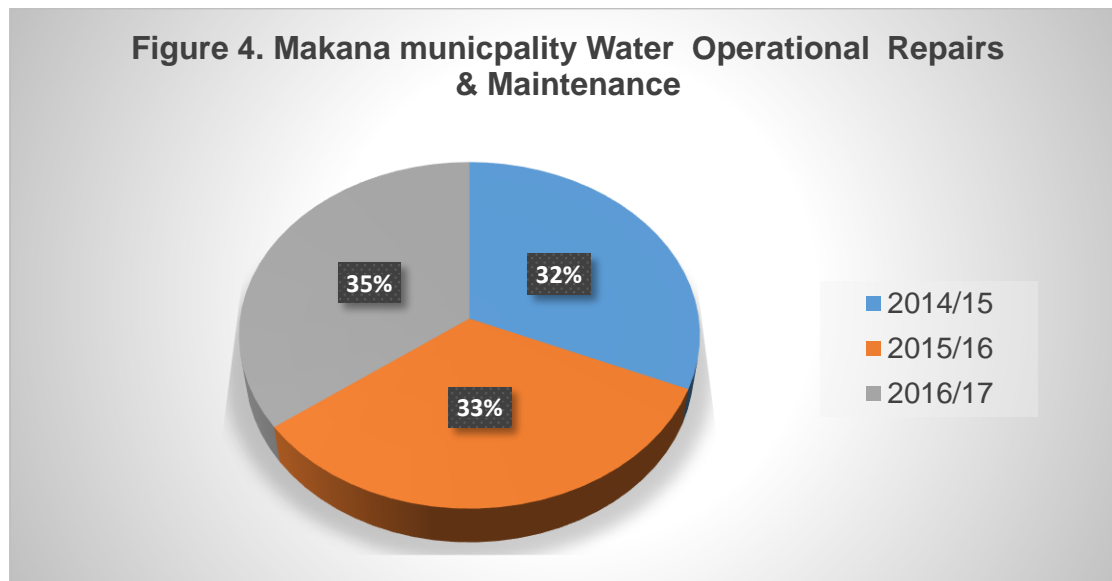
These amounts are very minimal in comparison to what is required to address the challenges related to quality water service delivery. If one looks at the pie chart below (figure 4) one can see that between the 2014/15 financial year and the 2016/17 financial year there

⁵⁸ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

⁵⁹ Ibid.

⁶⁰ Ibid.

is only a difference of 3 per cent in terms of the funds allocated towards the operational repairs and maintenance of water infrastructure.



Recommendation for Finding Three

Despite National Government assisting Makana municipality through various capital initiatives like the Municipal Infrastructure Grant (MIG) and the Department of Water Affairs (DWA) assisting with regards to water infrastructure and maintenance, based on the fact that Makana municipality sees water provision and the aging infrastructure as key challenges, they should also devote a large pool of internal funds in their budget for this purpose. If one looks at the crisis with regards to water service delivery for example, the lack of internal budget funds devoted for operational repairs and maintenance over the past four years can explain why to some extent there has been huge challenge in providing quality service delivery of water to the Makana community despite national government assisting with capital at times to fund this.

Finding Four

One of the key challenges which Makana local municipality faces is related to human resource management. The 2012/13 AG report for Makana municipality identified some of the following key challenges with regards to its human resource⁶¹

- “The acting municipal manager & CFO were appointed for a period of more than six months, which was in contravention of section 54A (2A) of the Municipal Systems Act (MSA).
- Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of Municipal Systems Act.

⁶¹ Makana Municipality Auditor General Report 2012/2013

- An approved staff establishment was not in place, as required by section 66(1) (a) of the Municipal Systems Act.
- The chief financial officer did not have the higher education qualification as required by section 83 of the Municipal Finance Management Act and regulation 4 and 5 of the Municipal Regulations on Minimum Competency Levels.
- The municipal manager did not sign a performance agreement, as required by section V 57(2) (a) Municipal Systems Act.”

Other human resource management challenges that Makana municipality faces include that of a high vacancy rate for key positions within the municipality. Makana municipality currently has an Acting Chief Financial Officer (CFO) and an Acting Municipal Manager deployed by National Treasury to assist the municipality.⁶² This is a symptom that is common across many local municipalities in South Africa and one of the key challenges identified regularly by the National Treasury local government reviews.⁶³ Based on the 2011/2012 annual report there are 823 approved positions in the organisational structure of which 587 are filled, resulting in a 29% vacancy rate for Makana municipality.⁶⁴

Recommendation for Finding Four

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.

Conclusion

From the evidence above through this budget analysis it is clear that Makana municipality is facing a service delivery crisis. One is clearly able to identify and summarise the service delivery crisis at Makana municipality as consisting of the following factors:

- Unrealistic and poor budgeting and planning
- Poor financial management and controls;
- Poor administration
- A lack of accountability by the Executive management within Makana municipality;
- Inadequate oversight by the municipal council.

The situation in Makana municipality is comparable to severe service delivery challenges that have been experienced in Emalahleni and Bushbuckridge where these municipalities capacity

⁶² Grocott's Mail Newspaper 10 April 2014. Available at <http://www.grocotts.co.za/content/economix-new-cfo-requests-patience-makana-10-04-2014>

⁶³ National Treasury Local Government Budgets and Expenditure Fiscal Reviews. Available at: <http://www.treasury.gov.za/publications/igfr/2011/lg/>

⁶⁴ Annual Report 2011-2012 Makana municipality. Available at: <http://www.treasury.gov.za/search.aspx?cx=018115738860957273853%3Aj5zowsrmpIi&cof=FORID%3A11&q=makana%20municipality%20annual%20reports>

to function had virtually disintegrated.⁶⁵ 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 also under administration.⁶⁶ According to the SA Constitution, provincial government may assist with problems in local government using either section 154 or section 139 of the Constitution. Section 139 is a more direct and intensive form of assistance in that it determines that:

“When a municipality cannot or does not fulfil an executive obligation in terms of the Constitution or legislation, the relevant provincial executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation, including –

- (a) issuing a directive to the Municipal Council, describing the extent of the failure to fulfil its obligations and stating any steps required to meet its obligations;*
- (b) assuming responsibility for the relevant obligation in that municipality to the extent necessary to -*
 - (i) maintain essential national standards or meet established minimum standards for the rendering of a service;*
 - (ii) prevent that Municipal Council from taking unreasonable action that is prejudicial to the interests of another municipality or to the province as a whole; or*
 - (iii) maintain economic unity; or*
- (c) dissolving the Municipal Council and appointing an administrator until a newly elected Municipal Council has been declared elected, if exceptional circumstances warrant such a step.⁶⁷*

National Treasury has clarified that section 139 interventions would occur if there were contraventions of section 137 of the Municipal Finance Management Act (MFMA).⁶⁸ The criteria for this would include: a failure to make payments, where municipal expenditure exceeds revenue, where a municipality is operating with a deficit, where there is late submission of annual financial statements (AFS) and where disclaimed audit opinions are expressed by the Auditor-General (AG).⁶⁹ Makana municipality certainly meets this criteria hence it has been placed under administration section 139 (1) (b) intervention by the Eastern Cape provincial government. To ensure the meaningful recovery of Makana municipality in ways that will address its governance and accountability failings one is hopeful that the application of section 139 (1) (b) of the Constitution will be a stepping stone towards efficient, effective and quality service delivery and will thus ensure a better future for all citizens of Makana.

⁶⁵ Parliamentary Monitoring Group. Support to municipalities under section 139 of Constitution: Department of Cooperative Governance & National Treasury. Available at: <http://www.pmg.org.za/report/20130911-support-municipalities-under-section-139-constitution-department-cooperative-governance-national-treasury>

⁶⁶ Ibid.

⁶⁷ SA Constitution

⁶⁸ Ibid.

⁶⁹ Ibid.

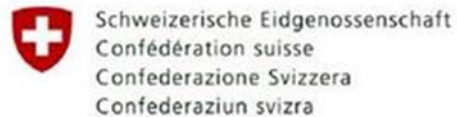
OUR ORGANIZATION

The South African Constitution commits government departments to the progressive realisation of socio-economic rights within available resources. These rights include the right to education, healthcare, housing, a healthy environment and social welfare. In order to effectively realise these rights through the delivery of public services, 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 produces the following reports annually; Budget Analysis, Strategic Plan Evaluation and Expenditure Tracking Reports alongside occasional service delivery reviews.

Visit www.psam.org.za

Acknowledgements

The PSAM acknowledges with gratitude the financial support of the Swiss Agency for Development and Cooperation (SDC), the Open Society Foundations (OSF), the Open Society Foundation for South Africa (OSF-SA), the Open Society Initiative for Southern Africa (OSISA) the Hewlett Foundation, the Beit Trust and Heinrich Boll Foundation.



Swiss Agency for Development and Cooperation SDC





Thabani Mdlongwa joined PSAM in October 2013 and has 5 years' research experience. He previously worked at the Africa Institute for South Africa (AISA) based in Pretoria in the Sustainable Development programme. Thabani has also worked as a junior consultant at Synergy Global Consulting based in Johannesburg and has had short term research assignments with the Human Sciences Research Council (HSRC) and Urban-Econ. Thabani holds a Master's Degree in Development Studies from Nelson Mandela Metropolitan University (NMMU) a Bachelor of Social Science from Rhodes University and a Post- Graduate Diploma in Enterprise Management (PDEM) from Rhodes University.



Public Service Accountability Monitor
16B Prince Alfred Street
Rhodes University
Grahamstown ,6140

Phone: 046 603 8358/8827
Fax: 046 6037578

Facebook:

<https://www.facebook.com/publicserviceaccountabilitymonitor>

Twitter: https://twitter.com/Right_to_SAM