

30 April 2021

PSAM submission relating to the Makana Local Municipality (MLM) Draft Budget and IDP for 2021/2022

- 1) The [Public Service Accountability Monitor \(PSAM\)](#) is a civil society institute based at Rhodes University which seeks to better understand, unpack and contribute to addressing societal problems originating from systemic public resource management challenges.
- 2) The PSAM welcomes the opportunity to review and comment on the MLM draft budget and IDP for 2021/22. Our comments and proposals that follow seek in summary to ensure:
 - reasonable cost containment, affordability and improved financial management and accountability in MLM;
 - more accurate revenue estimates considering historical trends and the local economy and residents means;
 - appropriate regard for the financial distress that most residents of MLM find themselves in;
 - that due regard is taken of the current state of service delivery and that residents should not have to carry excessive financial consequences considering the origins and causes of MLM's financial position;
 - that rather than budget for a R133 million surplus to be used to fund certain increases that are with respect, not adequately motivated for, the budget should be revised downwards.
 - Greater and more effective public participation in this important democratic process.
- 3) a) The PSAM note the following statement in the [draft Budget for 2021/2022](#) (see page 4):

“The application of sound financial management principles in the compilation of the municipality’s financial plan is essential and critical to ensure that Makana Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities”

This statement unfortunately stands in stark contrast to the numerous serious findings contained in the [Auditor-General’s 2018/19 audit of the MLM](#)¹ which culminated in a disclaimed audit opinion being expressed. In this audit report dated 24 January 2020, the AG draws attention to:

“... note 51 to the financial statements, which indicates that the municipality incurred a deficit of R5.1 million during the year ended 30 June 2019. Management had identified certain financial risks that negatively impact its ability to sustain current levels of operations before taking government grants into account. As stated in note 51, these events or conditions, along with other matters set forth on note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality’s ability to continue as a going concern.”

¹ <http://mfma.treasury.gov.za/Documents/07.%20Audit%20Reports/2018-19/02.%20Local%20municipalities/EC104%20Makana/EC104%20Makana%20Audit%20report%202018-19.pdf>

b) National Treasury have therefore rightly emphasized in an [8 March 2021 Circular](#)² that:

In order to achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance. Where municipalities consistently fail to deliver their mandates, the Constitution provides for provincial and/or national government to intervene.

c) Under such circumstances, the **PSAM proposes that the budget documents be revised to specifically acknowledge the serious findings contained in the latest Auditor-General's report** and that:

- i) The Mayor, Municipal Manager and section 57 manager's undertake to addressing the latest Auditor-General findings within the 2021/22 Budget and IDP by means of specific reference and commitment to improving the financial management and sustainability of MLM, and including specific SMART plans targets in the IDP in this regard;
- ii) The proposed **Council Resolution contained in the draft 2021/22 Budget be revised to include an additional paragraph resolving that:**

The Council requires corrective action to be implemented by the senior management and Mayor to address the findings of the Auditor-General and in this regard resolves that quarterly progress reports on corrective action be tabled at Council sittings for consideration and such matters be planned and included within the IDP to support improved implementation and oversight.

4) a) The PSAM note the significant downward trend in the collection of revenue within MLM (especially within *Property rates* and *Service Charges*) if consideration is had to *Table A1 Budget Summary* which appears at page 3 of [MLMs draft A1 Budget Schedule](#). It appears that MLM seek to rectify the declining collection trends by introducing above inflation tariff increases, which PSAM are opposed to for reasons that appear below.

b) The PSAM are concerned that MLM will not be able to collect anywhere near to its revised revenue estimates (for 2021/22) given various factors and that this will lead to serious cash flow difficulties, pressure from creditors and funds intended for service delivery likely being redirected. To illustrate this, consider for instance that for *Service Charges*, MLM budgeted to collect R298m in 2020/21 whereas it now projects it will only collect R204m – around R94m or a 1/3rd less. For *Property rates* it was originally budgeted to collect R98m in 2020/21, whereas the projection is now that R85m will be collected – almost R15m less than what was originally budgeted. Despite these revenue trends, MLM is seeking approval for a budget for 2021/22 where *Service Charges* are projected at R325m. **Is it realistic to think that MLM will be able to collect such revenue and is it prudent to adopt such a budget?** In considering this issue further, the PSAM would like to draw attention to the following article (related to Amatole District Municipality and not MLM) that [appeared in December 2020](#):

A report from Treasury in December, describing reasons for the municipalities' financial distress, concluded that the municipalities were "living beyond their means, spending more than they collect in revenue and have bloated organisational structures that are not fit for purpose".

The report said many municipalities purposefully overstated their revenue collection in their annual budgets to avoid unfunded budgets.

"The revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue and therefore finding themselves in cash-flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.

"The failures in these municipalities can't be fixed by additional funding. Prudent financial management is required together with proper political and administrative leadership," Treasury said.

- 5) a) The PSAM note according to the [draft Budget \(see page 3\)](#) that:

The general salary increase of 7% has been forecasted.
Notch increases are limited to 2.3% where applicable.

- b) Considering the financial position of MLM and its audit track record, and the submissions contained below objecting to certain proposed tariff increases, **the salary increases proposed in the Budget cannot be afforded and should be withdrawn.**³ The PSAM note the following guidance and cautions conveyed by National Treasury in its [8 March 2021 Circular](#)⁴ to all municipalities:

....in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), municipalities are advised to take into account their financial sustainability when considering salary increases. It has been observed over the previous years that salary increases were above inflation. In addition, municipalities that could not afford such increases did not apply for exemption as provided by SALGBC.

Given the current economic condition exacerbated by the COVID-19 pandemic, municipalities are urged to consider projecting increases to wage that would reflect their affordability. Some municipalities are already not able to afford the current wage cost and would indeed have to apply no more than a zero per cent increase in the 2021/22 MTREF and exercise the option for exemption for any negotiated increase above the level of their affordability.

Therefore, should accounting officers fail to consider salary increases within the ambit of the municipality's available resources and financial position, such failure will constitute an act of financial misconduct as defined in section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

³ The PSAM note that SALGA has only proposed an increase of 2.8% according to <https://www.timeslive.co.za/news/south-africa/2021-04-13-28-salary-increase-on-table-for-municipalities-staff/> & <http://www.salga.org.za/Documents/Media%20Room/Media%20Statements/Media%20Statement%20SALGA%20wage%20proposal.pdf>

⁴

http://mfma.treasury.gov.za/Circulars/Documents/2021_22%20MFMA%20Budget%20Circular%20No.%20108%20-%2008%20Mar%202021%20%28Final%29.pdf

c) Under the circumstances that MLM finds itself in, the **PSAM call upon Mayor and Municipal Manager to apply a zero percent increase in the 2021/22 MTREF and to also exercise the option for exemption from any negotiated increase above MLMs level of affordability.**

Should the Mayor and Municipal Manager decline to do so the **PSAM propose that the Council adopt the budget without any inflation based salary increases.** The PSAM submit that this is a critical cost-containment measure necessitated by the particular and serious financial circumstances of MLM.

For the reasons explained above and below, the PSAM also propose that councilor's remuneration **not be increased** due to the severe financial position and state of weak financial management and oversight within MLM.

6) Within the [draft Budget for 2021/2022](#) (at page 13 thereof) we note the following planned tariff increase:

“A tariff increase of approximately 8 percent for sanitation from 1 July 2021 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 percent of waste water treatment input costs...”

The PSAM **does not support this proposed sanitation tariff increase and requests that MLM reduce the increase to align with the current inflation rate and mindful of the CPI, failing which the PSAM requests that Council reject the proposed tariff for the following reasons:**

a) Residents of various areas/suburbs continue to report inadequate maintenance of sewerage lines that result in serious health hazards due to the prevalence of raw sewerage in public places.⁵ Many of these problem areas have existed for months and in some cases years and are rightly acknowledged in certain respects within the draft 2021/2022 IDP. Considering such seriously inadequate levels of service, it is unacceptable and unjustifiable to now seek such a significant increase to the tariff.

b) Sewerage continues to flow into natural water systems/rivers/creeks/valleys in or near to Makhanda and poses a significant threat to residents living near to and/or reliant upon such systems.⁶ Until such time as the MLM Sewerage Treatment Works are routinely operating reliably and effectively - as opposed to the discharge of raw sewerage into such systems – a tariff increase of the extent proposed should rightly be opposed and rejected by both residents and Council mandated to act on their behalf.

c) Rather than imposing a tariff increase on residents of MLM that continue to be adversely impacted by current levels of inadequate sanitation service, the PSAM would encourage the MLM to motivate to National Treasury for increased grant funding to address the infrastructure challenges that continue to impact negatively on sanitation services.

⁵ See for instance: <https://www.groundup.org.za/article/overflowing-sewage-and-no-refuse-collection-makhanda/> ; <https://www.timeslive.co.za/news/south-africa/2020-10-30-our-homes-smell-like-sewage-and-rubbish-makhanda-community-takes-city-to-court/> ; <https://www.timeslive.co.za/news/south-africa/2020-06-03-makana-municipality-ordered-to-address-sanitation-problems-in-makhanda-after-sewage-spills/> ; <https://www.dispatchlive.co.za/news/2020-01-30-makana-needs-r395m-to-fix-its-sewerage-network/>

⁶ PSAM note that at page 162 of the 2021/2022 IDP of MLM that: “The Belmont Valley WWTW is currently not meeting the set discharge standards and needs to be upgraded and refurbished. The WWTW is currently running at 150% of its capacity. The upgrade will unlock development in the area, as currently all housing projects have been put on hold as the WWTW is overloaded and overflowing, thus polluting water resources in the area and downstream. ECDC funding is promised for this intervention.”

d) We also note the proposed tariff increase is more than double the current rate of inflation and occurs within a pandemic where many residents financial wellbeing has been negatively impacted and many have lost employment or had to downwardly revise their standard of living due the diverse detrimental impacts of COVID-19.

e) We have considered the MLM "*Motivation for higher than inflation Tariff increases*" that appears at [page 3 of the draft budget](#). We respectfully disagree with the motivation that the tariff will address "arrear debts" nor that the tariff increase should be used to "settle all the arrear debt". Those who owe MLM should account for their debt and residents who routinely pay the current tariff should not be punished or have to carry costs that should be borne by debtors.

7) Within the [draft Budget for 2021/2022](#) (at page 11 and 12 thereof) we note in particular the following planned water tariff increase:

A tariff increase of approximately 8 percent from 1 July 2021 for water is proposed. In addition 6kl water per month will ONLY be granted free of charge to registered indigent residents.

In light of the Drought situation, Makana Municipality's punitive tariff structure will continue to be implemented until the Settlers' Dam level increases to considerably above 30%.

And the following note regarding proposed "Stepped Tariff (Critical Period):

NB:(i) Critical periods will be based on the Dam Levels such as when Settlers Dam is less than 30% the situation will be critical and Engineers will alert Finance in order to alter tariffs.

The PSAM is respectfully **opposed to the proposed water tariff increase** for the following reasons:

a) MLMs extended water supply challenges and the proposed water tariff increases are not largely or primarily attributable to "the Drought situation". A large contingent of residents of MLM have not received reliable and regular municipal water supply over a protracted period of time (running into years for some areas) due to inadequate maintenance, infrastructure breakdowns and human resource challenges within MLM that cannot be primarily attributed to drought factors.⁷ To introduce a water tariff increase that is double the current rate of inflation under circumstances where many residents have and continue to experience extended water supply outages due to factors that cannot be largely attributed to drought conditions is unacceptable in our view. In objecting to the proposed Water tariff, the PSAM is also mindful that the current state of erratic municipal water supply has meant that residents have had to spend (if they have funds) extra on the sourcing of water (through the installation of rain water tanks; the purchase of bottled water etc).

b) James Kleynhans Water Treatment Works (JKWTW) is in the process of being upgraded to support increased water supply to MLM. According to page 161/5 of the draft 2021/22 IDP of MLM:

"The project, once completed, will increase the output capacity of James Kleynhans Water Treatment works from 10Ml to 20Ml/day. This will ensure that supply meets demand."

⁷ See for instance: <https://www.dailymaverick.co.za/article/2021-02-24-excuses-excuses-as-makhanda-goes-a-week-without-water/>

The PSAM note further that according MLM, the upgrading of JKWTW will be completed by September 2021.⁸ Under such circumstances the **PSAM do not see adequate or appropriate motivation for the proposed “Stepped Tariff (Critical Period)”, especially beyond September 2021.**

c) In addition, the PSAM note that Settler’s Dam has been well below 30% for a number of years and is unlikely to see an increase above 30% of its capacity for the next few months and possibly a few years unless we experience unprecedented record rainfall. Considering the position and observations made in the preceding paragraphs, linking the Stepped Tariff to the level of Settler’s Dam is respectfully arbitrary and unreasonable. Were the terms of the proposed Tariff to be accepted by Council without proper regard for the upgrading of JKWTW, it would effectively mean that all categories of property will be charged under the Critical Period tariff rather than the Normal Period tariff solely due to Settlers Dam level being below 30% and despite the envisaged increased supply capacity planned for JKWTW that is projected to meet demand later this year. **The PSAM accordingly propose the removal of the Critical Period Stepped Tariff from the Budget in its current form.** If retained it could be challenged as irrational and arbitrary.

PSAM submissions related to the [draft 2021/22 IDP](#) of MLM:

8) a) We note that the draft IDP recognizes at page 165 under paragraph 2.3.13 dealing with *Record Management* that:

The municipality does not have proper record keeping and no record management system is in place to ensure that documents are filed and stored correctly. The municipality currently has a manual system of record keeping and document management and the system is characterised by poor record keeping and ineffective document management as well as the loss of documents amongst others.

An electronic document management system was installed in the municipality but has not been functional. Staff should be trained on the electronic document system. The record keeping function within the municipality needs to be reviewed and improved including document security for the protection and management of information.

b) Considering the aforesaid alongside the disclaimer issued by the Auditor-General for the 2018/19 audit of MLM, especially its serious findings relating to inadequate management and retention of supporting documents within the municipality,⁹ **the following revised phrasing is proposed for the second paragraph of section 2.3.13 of the IDP dealing with Record Management:**

“An electronic document management system was installed in the municipality but has not been functional. In 2021/22 all section 57 managers and heads of department will receive in-house training to support routine use of the electronic document management system. Record management will be the subject of assessment during performance assessments of staff. Consequence management action will be taken against staff who perform inadequately and result in critical audit findings relating to record management that forms part of their responsibilities.”

9) As mentioned above (see section 2(c)), the PSAM note that the draft IDP fails to contain any SMART plans and targets concerned with addressing findings contained in the Auditor-General’s report(s). The PSAM therefore **propose that the draft IDP be revised to include such content in order to support corrective action and greater oversight by the Municipal Council.**

⁸ <https://www.grocotts.co.za/2020/09/01/infrastructure-in-focus/>

⁹ See for instance the following numbered paragraphs of the 2018/19 audit of MLM by the Auditor-General: 22; 24; 25; 26; 27; 28, 96.

- 10) a) While it is apparent from the above submissions that the PSAM is critical and opposed to certain of the budget and IDP proposals, we note and appreciate the willingness on the part of the senior management of MLM to advance and deepen public participation opportunities in the budget process.
- b) We would propose earlier opportunities for the public to consider the draft Budget, IDP and SDBIP so that these importance issues and aspects can be more meaningfully considered, understood and engaged with and solutions found. We note for instance that the draft Budget, does do not appear on the [MLM website](#), or the [MLM Communication Facebook page](#) together with an invitation (with deadline) to comment on the draft Budget, IDP and SDBIP. We would recommend that a Notice or Press Release appear on both sites alerting the public to this important democratic participatory process. The PSAM received an email on 28 April 2021 with links to the relevant draft Budget and IDP material inviting comment by 3 May 2021 – effectively giving PSAM three working days to consider the voluminous material. We would encourage MLM to provide the public with more time to consider the material.
- c) We would also encourage residents and the MLM to harness the opportunities afforded by the [Open Government Partnership Local](#) initiative that seeks to support public servants and active citizens build more effective, open and responsive local government. We would like to extend our appreciation to MLM for their ongoing interest in contributing towards this initiative.
- 11) This submission has been drafted under tight timeframes and mindful of other pre-existing deadlines. Should any of the analysis and assumptions informing the PSAM position and proposals be inaccurate we would welcome feedback in the spirit of meaningful public participation and informed and constructive engagement. Thank you.

ENDS

To contact the PSAM regarding this submission please email:



Jay Kruise

Director: Public Service Accountability Monitor (PSAM)

Email: j.kruise@ru.ac.za

School of Journalism and Media Studies

T: +27 (0) 46 603 8358 F: +27 (0) 46 603 7578

16B Prince Alfred Street, Makhanda, 6139

PO Box 94, Makhanda, 6140, South Africa

www.psam.org.za Twitter: @PSAM_AFRICA