Tuesday, 17 November 2020]

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PARLIAMENT

OF THE

REPUBLIC OF SOUTH AFRICA

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

TUESDAY, 17 NOVEMBER 2020

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ANNOUNCEMENTS

National Council of Provinces

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1. Bills passed by Assembly and transmitted to Council for concurrence

(1) Bill passed by National Assembly and transmitted for concurrence on 17 November 2020:

(a) **Rates and Monetary Amounts and Amendment of Revenue Laws Bill** [B 26B - 2020] (National Assembly – sec 77).

The Bill has been referred to the **Select Committee on Finance** of the National Council of Provinces.

(2) Bill passed by National Assembly and transmitted for concurrence on 17 November 2020:

(a) **Taxation Laws Amendment Bill** [B 27B - 2020] (National Assembly – sec 77).

The Bill has been referred to the **Select Committee on Finance** of the National Council of Provinces.

(3) Bill passed by National Assembly and transmitted for concurrence on 17 November 2020:

(a) **Tax Administration Laws Amendment Bill** [B 28 - 2020] (National Assembly – sec 75).

The Bill has been referred to the **Select Committee on Finance** of the National Council of Provinces.

2. Referral to Committees of papers tabled

(1) The following papers are referred to the **Select Committee on Land Reform, Environment, Mineral Resources and Energy** for consideration and report:

(a) Agreement between the Government of the Republic of South Africa and the European Atomic Energy Community (EURATOM) for Co-operation in the Peaceful Uses of Nuclear Energy, tabled in terms of section 231(2) of the Constitution, 1996.

(b) Explanatory Memorandum to the Agreement between the Government of the Republic of South Africa and the European Atomic Energy Community (EURATOM) for Co-operation in the Peaceful Uses of Nuclear Energy.

TABLINGS

National Assembly and National Council of Provinces

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(a) Annual Report of the South African Human Rights Commission (SAHRC) for 2019-20.

(b) Annual Financial Statements of the South African Human Rights Commission (SAHRC) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(c) Report of the South African Human Rights Commission (SAHRC) on the Promotion of Access to Information Act, 2000 (PAIA) for 2019-20.

(d) Report and Financial Statements of the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities (CRL Rights Commission) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

2. The Minister of Agriculture, Land Reform and Rural Development

(a) Report and Financial Statements of Vote 24 - Department of Agriculture, Forestry and Fisheries for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 24 for 2019-20.

3. The Minister of Cooperative Governance and Traditional Affairs

(a) Reports and Financial Statements of Vote 4 – Department of Cooperative Governance for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 4 for 2019-20.

4. The Minister of Employment and Labour

(a) Report and Financial Statements of Productivity SA for 2019-20, including the Report of the Independent Auditors on the Financial Statements and Performance Information for 2019-20.

5. The Minister of Forestry, Fisheries and Environment

(a) Report and Financial Statements of the South African National Biodiversity Institute (SANBI) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(b) Report and Financial Statements of the South African Weather Service for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(c) Report and Financial Statements of the South African National Parks (SANParks) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(d) Report and Financial Statements of the iSimangaliso Wetland Park Authority for 2018-19, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

6. The Minister of Human Settlements, Water and Sanitation

(a) Report and Financial Statements of Vote 38 – National Department of Human Settlements for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 38 for 2019-20.

(b) Report and Financial Statements of the Water Research Commission for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

7. The Minister of Justice and Correctional Services

(a) Report and Financial Statements of Vote 21 – Department of Justice and Constitutional Development for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 21 for 2019-20.

8. The Minister of Police

(a) Report and Financial Statements of Vote 23 – Department of Civilian Secretariat for Police Service for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 23 for 2019-20.

(b) End of Term Report of the South African Police Service for 2014-2020.

9. The Minister of Public Works and Infrastructure

(a) Financial Statements of Agrément South Africa (ASA) for 2019-20, including the Report of the Auditor-General on the Financial Statements for 2019-20.

10. The Minister of Sports, Arts and Culture

(a) Report and Financial Statements of Vote 40 – Department of Sport and Recreation South Africa for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information of Vote 40 for 2019-20.

11. The Minister of Trade, Industry and Competition

(a) Integrated Annual Report of the Industrial Development Corporation of South Africa Limited (IDC) for 2019-20,

(b) Annual Financial Statements of the Industrial Development Corporation of South Africa Limited (IDC) for 2019-20, including the Report of the Independent Auditors on the Financial Statements and Performance Information for 2019-20.

(c) Report and Financial Statements of the South African Council for the Non-Proliferation of Weapons of Mass Destruction for the period 1 April 2019 to 31 March 2020.

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(b) Reports and Financial Statements of the Ports Regulator of South Africa for 2019-20, including the Reports of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(c) Report and Financial Statements of the Road Accident Fund for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(d) Report and Financial Statements of the Road Traffic Management Corporation (RTMC) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

(e) Report and Financial Statements of the Passenger Rail Agency of South Africa (PRASA) and its subsidiaries (the group) for 2019-20, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2019-20.

National Council of Provinces

1. The Chairperson

(a) Report on the 2020 NCOP Provincial Week

Consolidated Report of the NCOP Provincial Week Programme, 26 – 30 October 2020

NATIONAL COUNCIL OF PROVINCES
PROVINCIAL WEEK

Draft Report:
Provincial Week 2020

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A. INTRODUCTION: SETTING THE SCENE

The Provincial Week 2020 Programme of the National Council of Provinces (NCOP) was held from 26 – 30 October 2020 under the theme: *Building and Ensuring Capable and Financially Sound Local Government".*

The Provincial Week is one of the key mechanisms initiated by the National Council of Provinces (NCOP) to achieve its Constitutional mandate of representing the provincial interests in the national sphere of government. It is intended to provide Permanent Delegates to the NCOP the opportunity to return to their provinces, as delegations, to deal with matters that affect their provinces in the national sphere of government. It also affords the NCOP the opportunity to undertake joint oversight with the Members of the Legislature and Municipalities and work together in ensuring the continuous monitoring of progress in the delivery of services to communities.

Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services. The Constitution enjoins local government to ensure the provision of services to communities in a sustainable manner and strive to do so within its financial and administrative capacity. Further, the Constitution advocates that the mandate of local government is to provide democratic and accountable government for local communities ensure provision of services to the communities in a sustainable manner; promote social and economic development; promote a safe and healthy environment and encourage the involvement of communities.

Community organizations remain critical partners in local development to ensure that municipalities conduct the public affairs in a manner that is responsive to the constitutional obligations. The Chairperson of the National Provinces, Mr Masondo (MP), emphasised during the provincial week that local government forms part of the country's overall socio-economic transformation agenda, and is the sphere of government closest to the people.

Within the current global and domestic economic conditions, coupled with South Africa fiscal position, and further exacerbated by the *COVID-19 pandemic*, local government's finances are at risk. According to the *2020 Medium Term Budget Policy Statement* (MTBPS) the intergovernmental transfers to provinces and municipalities would grow below inflation, or expected to contract.

Building from the *Local Government Week*, the Provincial Week 2020 recognised the need for national and provincial governments to support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers and perform their functions as provided for in section 154 (1) of the Constitution.

Despite the Constitutional provisions, Local Government is still faced with some of the primary challenges:

- Revenue capacity and capability of many local municipalities, particular poor towns and rural municipalities remains a challenge;
- In addition, municipalities are faced with weak finances (ranging from poor financial statements, credit rating, weak revenue base, revenue collection rate and systems such as billing systems and debt to state entities, including owed to the municipality by other state entities);
- Demand for local government services continue to increase despite poor economic activity and less revenue growth;
- Lack of investor confidence, including investments in economic and social infrastructure further deepen state of the local government economy, and affect livelihoods;
- Lack of Local Economic Development Initiatives, if happening they are faced with weak programme coordination across the spheres of government. Further, there is insufficient collaboration with private sector to deepen private sector participation in the local economy.
- Poor accountability of Local Government to residents and rate taxpayers;
- Delegated functions to Local Government without clear policy frameworks and funding and financing capability continues to suffocate growth, and development of municipalities including lack of planning capability;

- Failure and collapse of governance and administrative systems in municipalities;
- Non-compliance with *Municipal Finance Management Act* (MFMA) and other legislative conditions that led to loss and or withholding of Equitable Share and *Conditional Grants such as Municipal Infrastructure Grant* (MIG);
- In some instances, demarcation decisions did not yield better services delivery, did not improve efficiencies and enhance service delivery instead created instability, and collapsed finances of local municipalities;
- Amalgamation of municipalities, not accompanied with adequate financial and non-financial support could yield no better outcomes. Municipalities could not take advantage of scale in the provision of services, and pooling resources and technical capacities.
- In some instances, amalgamation processes consolidate poor municipalities, or relative better municipality with a poor municipality. Without adequate financial and non-financial support, the initiatives could not produce net benefits as envisaged;
- Corruption and fraud;
- Insufficient capacity and capability to deliver due to adequate skills particular in finance, engineering and development planning;
- Weak political and economic governance;
- Service delivery protests;
- Inadequate provisioning of basic services to communities (water and sanitation, electricity, etc.).

The role of local government is enshrined in the Constitution, and also finds expression in various legislative and policy documents governing local government. During the *2020 Local Government Week*, it was observed that despite interventions undertaken to address local government structural constraints such as *Municipal Support Programme, Project Viability; Project Consolidate, Local Government Turn Around Strategy, Siyenza Manje* and the current *Back to Basics* not much has materially changed the overall performance of local government. Poor political governance, and overall financial and economic governance remains a challenge. There is a need to address the challenges faced by local government such as institutional, political and financial weaknesses in a more holistic manner.

Poverty, inequality and unemployment remains a challenge. Young people, women and people with physical disabilities are most affected. Many government reports, including reports from global institutions such as the World Bank, OECD and the country's Reserve Bank point to higher rate of inequality, poverty and unemployment as immediate challenges that South Africa needs to address. Any interventions to address local government capacity and capability need to take into account the immediate socio-economic challenges. Hence any efforts to reset the economy need to be framed around the socio-economic challenges.

The current economic conditions have shown a need to review the current intergovernmental financing model. Service delivery demands driven by changing demographics have put pressure on infrastructure of local municipalities. Some of the stakeholders in local government believe that the current equitable share formula needs to be reviewed.

Current debate both globally and domestically, has emphasised the important role of local government in meeting developmental challenges. The necessary reforms are needed to strategically place local government at the centre of development policy efforts such as the *District Development Model* approach.

This report is derived from the consolidated provincial week reports of the nine provinces. The provincial week programme was developed with a focus to ensure that efforts are geared towards scaling up local government performance to deliver services to communities in a sustainable manner and within its financial and administrative capacity. To this effect, the programme focused on the following:

- State of service delivery;
- Plans to address governance challenges in the municipalities; and
- Key interventions to improve the financial state of the municipalities.

The *Local Government White Paper, 1998* emphasises that in order to have a well-functioning Local Government, there is a need for the three spheres of government to work in a cohesive manner in terms of governance, coordination to improve overall function of the government. The *District Development Model* launched by the President of the Republic seeks to put into practice the strategic objectives of the *Local Government White Paper, 1998*.

B. STRATEGIC OVERVIEW OF THE PROVINCIAL WEEK REPORTS

The section below provides salient points of the Provincial Week programme drawn from the detailed consolidated provincial reports. It also carries over all the recommendations contained in these reports. The consolidated provincial reports are available for perusal of the comprehensive daily reports.

1. Eastern Cape Province

1.1 General overview

The Eastern Cape local government consists of 39 municipalities and 10 municipal entities. The Provincial Week focused on two municipalities: Nelson Mandela Bay Metropolitan Municipality and Makana Local Municipality. The engagement with local municipalities covered a wide range of issues relating to governance, financial and service delivery challenges. The NCOP delegation also visited various development projects. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors, Council Speakers including Members of the Mayoral Council and the provincial and local government senior managers.

The delegation observed that both Makana Local Municipality and the Nelson Mandela Metropolitan are faced with similar challenges affecting many municipalities in the country. The challenges range from poor political and administrative leadership; lack of financial planning, poor controls and accountability, discrepancies in financial reporting from the local municipalities. Further, local municipalities experience low revenue collection, poor credit management, low implementation of Auditor-General's recommendations as well as non-adherence to regulations and policies. In addition, there is a lack of consequence management, lack of institutional memory (high turn-over in senior officials) and high vacancy rates. Lack of internal capacity especially in finance and engineering exacerbates current challenges.

a) Nelson Mandela Bay

Nelson Mandela Bay is located on the southern coast of South Africa, on the shores of Algoa Bay. The Nelson Mandela Bay Municipality is one of two metropolitan municipalities in the Eastern Cape Province. It incorporates Port Elizabeth, Uitenhage and Despatch, and surrounding agricultural areas, and has an area of 1959, 02 km². The Metropolitan boasts about its pristine scenic coastline that stretches along with a multitude of Blue Flag Beaches. The Coega Industrial Development Zone (IDZ) is situated within the Nelson Mandela Metropolitan Municipality. The initiative is a multibillion-dollar industrial development complex customized for heavy, medium and light industries. It is adjacent to a deepwater port, the Port of Ngqura, and covers 110 km2 of land. Nelson Mandela Metropolitan Municipality is the major seaport and automotive manufacturing centre located on the south-eastern coast of Africa. The main economic industries are manufacturing, community services, finance, trade, and transport.

b) Makana Municipality

Makana Local Municipality (Area:4 376km²) is part of the Sarah Baartman District Municipality. The Municipality is in Makanda (formerly Grahamstown), approximately 130 km from Port Elizabeth to the west, and East London 180km to the east. Makana Local Municipality is strategically situated between two of the province's largest industrial centres. Both coastal cities are served by well-equipped container ports and have major airports linking them to Cape Town, Durban and Johannesburg.

In the Sarah Baartman District Municipality, the Makana Local Municipality is one of the municipalities with the highest unemployment rate. Although in terms of poverty and inequalities, the Municipality is better than other municipalities in the region. Poverty and inequality need to prioritised. The main economic industries are Government, trade, finance and business services, manufacturing, agriculture, transport and communication, and construction.

Weak financial management and weak governance have created political instability in both municipalities. Poor financial and weak governance have been identified as the main factors that cause lack of services delivery, and thus compromise efforts to attract investments to boost local economy, and bolster employment creation initiatives.

1.2 Financial management and governance

The Auditor-General South Africa (AGSA) stated that the financial health of Makana Local Municipality is concerning and requires attention. Control measures must be put in place and debt management improved. The regression by the Makana Municipality to unqualified audit opinion with findings and Nelson Mandela Bay Metropolitan demonstrate that the political instability in the Municipality, leadership, governance, and consequence management issues have impacted the financial viability of the two Municipalities.

In terms of audit findings, the Nelson Mandela Metropolitan remained unchanged, while Makana Local Municipality regressed. Although there are some improvements in terms of financial management in the Makana Local Municipality, the AGSA report reveals that deficiencies in Makana Local Municipality resulted in the Municipality receiving a disclaimed audit opinion.

Makana Local Municipality was under administration in 2014 due to lack of management controls and poor state of financial affairs. The 2014 financial crisis has been hanging over the Municipality. To this end, civil society organizations with the support of the communities are fighting for the Council's dissolution.

In the Nelson Mandela Metropolitan, there is contestation regarding repudiating the implementation of the Section 139 of the Constitution. Infrastructure spending in the Metro remains a concern. The Nelson Mandela Metropolitan spending patterns on grants is extremely poor causing them to apply for rollovers, which were not granted due to lack of administrative leadership. In the 2019/20 financial year, the Metro contributed 53.6 per cent of the total unspent funds in the Province. While Makana Local Municipality contributed 1.4 percent of the total unspent funds.

It should be stated that although many municipalities contest the implementation of Section 139 of the Constitution, if implemented correctly and there is political will in the local municipality to adhere to the measures designed to correct financial management and governance issues there could be a turn around. The recovery plans accompanying the Section 139 interventions could yield the desired results.

Section 139(1) (b) or 139(1) (c) interventions as a constitutional remedial measure in both Municipalities has not always achieved the intended outcomes. In some cases, this has resulted in repeat interventions such as experienced by the Makana Local Municipality or resistance by the municipal leadership at both administrative and political levels whereby the national and provincial support is resisted deliberately. This, coupled with the lack of internal controls, creates a fertile environment for a lack of accountability and corruption to flourish. In the Metro, political leadership has demonstrated lack of political will to support Section 139 interventions advocated by the Department responsible for local government. Some of the allegations claimed that no proper consultation was done regarding the assessment relating to the financial and governance affairs of the Municipality. Further, governance matters in relation to the Metro are subjected to the Courts.

The delegation has emphasised a need for the municipalities to focus on the interest of communities. Service delivery should be a priority. There is a need for the municipalities to tackle issues relating to economic and social infrastructure such as water and sanitation, roads and human settlements. Further, capacitation of the workforce, -maintenance of infrastructure, proper financial management and growing local economic development should be prioritised.

Governance in the Nelson Mandela Metropolitan is a major hindrance for growth in the region. The Metro has an Acting Executive Mayor and Acting City Manager which is described by the MEC responsible for local government as an abnormality in terms of legislation. As the result, service delivery is impacted by such actions. It was reported that governance structures have collapsed. The Council was not able to hold meetings, and the Speaker ignored the petitions to hold council meetings. Approval of the budget, and spending plans are at risk. This has a great potential to compromise service delivery. Further, the Metro is experiencing land invasions. Without governance structures and a functional administration, financial mismanagement and service delivery will not be resolved.

1.3 Accountability

The civil society groups have taken the Makana Local Municipality to court to be dissolved and the Municipality placed under administration due to a lack of service delivery. The court has ruled in favour of the civil society group and community. The municipal Council is currently appealing the court ruling.

In Nelson Mandela Metropolitan, the Municipality does not satisfactorily service communities. AGSA reported that in the Nelson Mandela Metropolitan, collapse of governance structures resulted in a lack of oversight and accountability, consequently the council did not investigate irregular expenditure, which continued to accumulate year on year with no one being held accountable.

1.4 Capacity and skills

Local Government review reports such as the National State of Local Government Assessments (2009), including the 20-year Review of the Local government (2014) reveal that many municipalities lack internal capacity in areas such as finance, engineering, economic development and planning. With regard to the municipalities under consideration, lack of internal capacity is expressed in the Makana Local Municipality.

Nelson Mandela Metropolitan has been operating without a permanent Chief Financial Officer (CFO). The position remained vacant for the second successive financial year. Lack of financial and development planning expertise particularly in infrastructure planning and management is expressed in Makana Local Municipality. It reported that the Municipality has been operating without a Director in the Civil Engineering Division for a long-protracted period of time.

In most cases, lack of internal capacity has been identified even though salaries and wages forms the biggest component of the operational expenditure budget. Further, some of the municipalities rely more on consultancy services for tasks that can be insourced such as financial statements. Like many municipalities in the country, Makana Local Municipality also relies on consultants.

Political interference and nepotism in appointment of staff is another issue that needs to be addressed, and it affects the two municipalities. Some of the protests are linked to poor governance and corruption. Poor capacity and capability to discharge municipal functions is one of the factors that affects the functioning of local municipalities negatively.

1.5 Service delivery

A growing population would cause an increase in the demand for local government services. For the municipalities to attract investments, financial, economic and political governance should be top of the municipalities' growth agendas. Further, both municipalities should establish partnership with local universities to boost internal capacity to improve financial management and governance.

The reports reveal that both municipalities are faced with challenges relating to the provision of basic services such as infrastructure in water and sanitation including housing. The challenges do not only relate to capacity constraints but there is a need for funding and financing of economic and social infrastructure.

Both the Makana and Nelson Mandela Metropolitan have water and sewerage plants that are under refurbishment. Access to water can contribute to economic development that can attract investments to these areas. However, the required finances are not available. For instance, the Makana Local Municipality only has R18 million earmarked to upgrade the Belmont Valley WWTW and R110 million is required.

The Department of Water and Sanitation promised to provide the required funds to assist the Municipality but funds were diverted to COVID-19 projects. This project requires funding, and to refurbish it will not be necessary, it would be better to establish a new site as digesters are falling apart.

Both Municipalities requested the NCOP to intervene by requesting the National Treasury to refinance or release the funding that was previously allocated. The funds were taken away by the Treasury as the development projects were not moving at the desired pace due to delays. The projects faced litigations as the result of contestations. For instance, the Coegakop Wellfield in the Nelson Mandela was declined a rollover of R200 million while for the Makana Local Municipality, R10 million was taken back by the Department of Cooperative Governance and Traditional Affairs (CoGTA) when one of the bidders challenged the process.

It should be emphasized that municipalities need to form partnerships with the private sector including local universities to address the required technical skills. Infrastructure planning, and reprioritisation of the budget to meet infrastructure demands should be prioritised. Additionally, implementing projects in Public-Private Partnerships, could provide the financial and managerial capabilities of the private sector. This could help municipalities to tackle needed finances and technical skills.

As is the case with many municipalities, the Municipalities under consideration are failing to effectively bill for services and to collect the revenue. The municipalities in partnership with the Department of Cooperative Governance and Traditional Affairs, and Water and Sanitation must find means to address water infrastructure challenges for communities as well as businesses. Further, infrastructure maintenance should be prioritised. In addition, prepaid billing system for water and electricity should be implemented. Smart technologies in managing water and electricity should be implemented.

Land use management, and development planning remains a priority. The Nelson Mandela Metropolitan is faced with the challenge of land invasions. The Municipality needs resources to address the demand for services. It became evident that if the Municipality continues to be faced with political governance challenges, it will be difficult to address risks posed by land invasions.

1.6 Development projects visited

1.6.1 Makana Local Municipality

(a) Jameskleyhans Bulk Water Supply

Background

- Project Objectives: *to upgrade the Jameskleynhans from 10 mega to 20-mega capacity;*
- Project initiation/start date: *Four phased projects that are parallel to each other;*
- The total budget for the project (past, current & MTEF): *R110 million;*
- Government Spheres {Department(s) / entity/entities funding the project}: *Department of Water and Sanitation, Amatola Water is the project sponsor, Bosch Consulting is the implementer and Mamlambo is the contractor;*
- Number of people benefiting or intended to benefit from the project: *Grahams town area;*
- Intended completion date: *September 2021;*
- Key challenges experienced during the project: *delayed due to COVID outbreak;*
- Desired solutions to the challenges (from the perspective of the project owners): *On finalisation, this project will supply water to Grahams town west side;* Skills capacity will be critical for the municipality to take over and maintain the site.

Observations and findings

- The project is 15 per cent completed (at the time of this report).
- It is in the second phase.

Recommendations

- It would be important for Makana Local Municipality to obtain the relevant skills set to manage the project.

(b) Mayfield Bulk Outfall Sewer

Background

- Project Objectives*: to upgrade the Mayfield Bulk Outfall Sewer from 16 millimetres to 40 millimetres diameter pipe to ease the pressure on pump stations;*
- Project initiation/start date:
- The total budget for the project (past, current & MTEF):
- Government Spheres {Department(s) / entity/entities funding the project}:
- Number of people benefiting or intended to benefit from the project: *Grahamstown area;*
- The number of people employed in the project:
- Intended completion date:
- Key challenges experienced during the project: *delayed due to COVID-19 outbreak;*
- Desired solutions to the challenges (from the perspective of the project owners): *On finalisation, the project will reduce the sewerage and ease the pressure from the pumps that cause leakages.*

(c) Belmont Valley WWTW repair works

Background

- Project Objectives: *to upgrade the Belmont Valley WWTW Repair Works to 80 megalitres.*
- Project initiation/start date*: in phases.*
- The total budget for the project (past, current & MTEF): *R110 million and currently there is R18 million used to refurbish the site in phases because it is expensive to maintain it and need the development of the new one.*
- Government Spheres {Department(s) / entity/entities funding the project}: *Department of Water and Sanitation.*
- Number of people benefiting or intended to benefit from the project: *Grahamstown area.*
- The number of people employed in the project:
- Intended completion date:

- Key challenges experienced during the project: *Funds were diverted to COVID and hope that the Department of Water and Sanitation will come on board with the required funds.*
- Desired solutions to the challenges (from the perspective of the project owners): *This project requires a lot of money and to refurbish it will not be necessary, it would be better to establish a new site as digesters are falling apart.*

Observations and findings

- It has been refenced and smart security systems installed.

Successes

- It has been refenced with electronic wire and has satellite monitoring to curb vandalism.

Recommendations

- This site can also be used as a bird sanctuary and tourism, so its refurbishment is critical for the local economy.

1.6.2 Nelson Mandela Bay Municipality

(a) Coegakop Wellfield and Water Treatment Works

Background

Coegakop Wellfield and water treatment works were established to augment the water supply sources for the metro. It was initiated as the result of the study conducted on groundwater and a Master Plan was developed and prioritized as part of the 2010 drought intervention plan. It is implemented by Stephanie and Stock as a constructor. The appointment was contested as result R500 000 went for litigations. On finalization, this plant will mean that an additional 85 megalitres of water per day which is 30 per cent of the current water supply will be unlocked. The benefits of this project based on the studies conducted will be financially viable and linked to springs borehole. It is stainless steel based and bombproof to curb vandalism. This projects benefits 100 SMMEs at a cost of R56 million and going forward women and youth will be considered. It is implemented in 4 phases namely: groundwater source identification; drilling of exploration and probe boreholes; drilling of production boreholes and pipelines and construction of treatment plant.

- Project Objectives: *to implement the groundwater obstruction and to address the water shortage;*
- Project initiation/start date: *20 March 2020;*
- The total budget for the project (past, current & MTEF): *R260 million, however, this project estimated cost is R340 million;*
- Government Spheres {Department(s) / entity/entities funding the project}: *Department of Water and Sanitation, National Treasury;*
- The number of people benefiting or intended to benefit from the project: *People from Motherwell and its surrounding including Well Estate, Kamvelihle, Coega IDZ;*
- Number of people employed in the project: *35;*
- Intended completion date: *September 2020.*

Key challenges experienced during the project

- Funds are limited as the result it is implemented in a phased approach;
- Secondly, National Treasury withdrew the funding for this project though it was released late in 2018/19 to be spent;
- Its conditions were for construction and could be used as all the other processes including tendering needed to be in place before construction commences;
- Declined rollover of R200 million to proceed with the project.

Desired solutions to the challenges (from the perspective of the project owners):

- This project requires a lot of money and, requested the NCOP to talk to the National Treasury to allow rollover of the grant and relook the terms of the grants;
- All pipelines in the metro requires R90 billion to refurbish, a finances that the Municipality does not have;
- Maintenance is under-budgeted and the Department of Water and Sanitation promised to assist.

Recommendations

- Insurance of both over and underground pipes is critical and should be looked at;

(b) KwaNobuhle Wastewater Treatment Works

Background

- Project Objectives: *to rectify and refurbish existing 9.0 Ml /day plant to ensure 100 per cent operating capacity, compliance to environmental standards of discharging;*
- Project initiation/start date: *December 2017*
- The total budget for the project (past, current & MTEF): *estimated cost is R32.5 million;*

- Government Spheres {Department(s) / entity/entities funding the project}: *Department of Water and Sanitation, National Treasury;*
- Number of people benefiting or intended to benefit from the project: *ward 46 and surrounding;*
- Number of people employed in the project: *25;*
- Intended completion date: *September 2018;*

Key challenges experienced during the project:

Does not function effectively due to civil, mechanical and electrical shortcomings;

- Faults in the existing systems resulting in breakdowns;
- Substandard effluent is discharged into the river system due to faults;
- The project went beyond the scheduled time and expected to finish by 30 October 2020;
- Difficulties within the ward resulted in prolonged project implementation.

(c) Walmer Heights Collector Sewer

Background

- Project Objectives: *to augment the sewer collector that has reached overcapacity and reached a life span to meet the needs of expansion.*
- Project initiation/start date: *06 November 2018.*
- The total budget for the project (past, current & MTEF): *estimated cost is R9.7million.*
- Government Spheres {Department(s) / entity/entities funding the project}: *Nelson Mandela Bay Metropolitan Municipality.*
- Number of people benefiting or intended to benefit from the project: *20 communities.*
- Number of people employed in the project: *20.*
- Intended completion date: 16 September *2020*.

Key challenges experienced during the project:

- Three months' shutdown related to COVID-19 delayed the progress.
- The contractor is behind the approved timelines.

1.7 Recommendations per Municipality

The following recommendations were made:

1.7.1 Nelson Mandela Bay

- The Municipality should provide a report on measures put in place to mitigate against any further delays and possible cost escalations in the Walmer Heights Collector Sewer.
- CoGTA and Nelson Mandela Bay Metropolitan should meet urgently to discuss issues related to the support.
- The MEC for Human Settlement and the Nelson Mandela Bay Metropolitan must have a formal meeting to address housing issues and reasons relating to the existing backlog.
- The NCOP should engage the National Department of Human Settlements to discuss NMBM issues related to housing.
- The NCOP should engage the National Treasury to establish progress in terms of releasing the funds and to discuss progress concerning the issues raised by A-G during the audit.
- The Nelson Mandela Bay Metropolitan should submit the progress report with details of corrective measures in place to address the irregular expenditures as well as fruitless and wasteful expenditure.
- The NCOP should as a matter of urgency engage the MEC: CoGTA as per his responsibility to discuss support given to the NMBM and to ensure that an agreement is reached between the two parties
- There is a need for a formal meeting between the NCOP, MEC for Human Settlement and NMBM to establish the reasons behind the existing housing backlog.

- The NCOP should engage the National Treasury to establish the progress in terms of releasing the funds and receive a progress report from the Municipalities in addressing the issues raised by the AGSA.
- The NMB should provide more detail on its report, including corrective measures to address the irregular expenditures and furnish the delegates with that report.

1.7.2 Makana Local Municipality

- Makana Local Municipality must prioritise the filling of critical vacancies such as the Director of Infrastructure and Director of LED as a matter of urgency.
- The NCOP should meet the Department of Water and Sanitation and put plans in place to assist the Makana Local Municipality.
- Makana Local Municipality must furnish the NCOP with the financial status report to prepare for engagements with the National Treasury so that necessary documentation is available.
- The two Municipalities must partner (Makana and Nelson Mandela Bay) to share best practices and to ensure skills transfer especially in engineering and water and management.
- Makana Local Municipality should address the housing development challenges and formulate a plan to deal with human settlement.
- Makana Local Municipality reported that an Engineer is needed even through a secondment, as they were unable to attract suitable candidates. The delegates suggested that the Municipalities share best practice with each other so that there could be skills transfer that would benefit both Municipalities. A reference was made on NMBM and the strength they demonstrated.
- Section 154 support should continue under the guidance of COGTA and Provincial Treasury.
- The Municipality has seen improvements but has not eradicated the backlogs of infrastructure; debt and financial mismanagement.
- Funding is required to deliver on sewerage, roads and electricity networks.

- The Municipality does not have funding to replace aged heavy-duty plant and no grants exist for these purchases.
- The District Municipality will assist with door-to-door verification of properties and services to fix the billing data and address continuous audit findings on revenue.
- Skills capacitation in Finance & Corporate Services Departments is necessary especially for internal controls and document management.
- Require interest-free repayment agreements of arrear debt particularly with the Department of Water and Sanitation, and Amatola Water.
- Filling of vacant Senior Management posts speedily.
- Staff matters around Organogram, job descriptions & Job evaluation to be completed.
- Investigating committees must meet more regularly to deal with legacy Unauthorised; irregular; Fruitless & Wasteful Expenditure.
- Procurement for 2020/21 Capital Projects to be expedited to ensure that there is no under expenditure at year-end.
- Council and its oversight Committees must continue with effective oversight over the Executive.

2. Free State Province

2.1 General overview

The Free State local government consists of 23 municipalities The NCOP Provincial Week Programme in Free State focused on three local municipalities, namely: **Matjhabeng Local Municipality, Maluti-a-Phofung Local Municipality, Metsimaholo Local Municipality,** as well as the **Mangaung Metropolitan Municipality**. Engagements during Provincial Week covered a wide range of issues relating to governance, including financial governance and service delivery. The meetings were attended by relevant political authorities, ranging from Members of the Executive Council, Mayors, and Council Speakers (including Members of the Mayoral Council) to provincial and local government senior managers.

The **Matjhabeng Local Municipality** is situated in the Lejweleputswa District Municipality. It is one of the five municipalities in the district. The Municipality covers an area of 5 690km² and includes the towns of Allanridge, Hennenman, Odendaalsrus, Ventersburg, Virginia and Welkom. The main economic industries in the Municipality are mining and manufacturing. It is the main economic, educational and entertainment growth node in the Lejweleputswa District Municipality.

Crime, such as theft and vandalism, illegal mining activities and misuse of the sewer system is one of the risks that has the potential to undermine growth and social stability in the Matjhabeng Local Municipality. Further, the Municipality also has ageing infrastructure, all of which hinder service delivery to the community. For example, the Municipality finds it challenging to conserve water and to manage the demand for water. As is the case in many municipalities, the Matjhabeng Local Municipality needs to invest in economic and social infrastructure to further stimulate the economic growth of the Municipality, and thus attract investment and create needed jobs.

The **Maluti-A-Phofung Local Municipality** is situated within the Thabo Mofutsanyana District. The Municipality is one of six municipalities in the Thabo Mofutsanyana District. The municipality is located on the eastern parts of the district and it shares boundaries with Phumelela in the north, the KwaZulu-Natal Province in the east, and Dihlabeng in the west. Further, the Municipality shares the border with the Kingdom of Lesotho in the south. The Municipality covers an area of 4338 km² and includes the towns of Harrismith, Kestell and QwaQwa. The main economic industries in the Municipality are social services/government and agriculture. As is the case in many municipalities in the country, inequality and poverty remains a challenge in the Municipality. It therefore needs to address the issue of unemployment.

Metsimaholo Local Municipality is the smallest of four municipalities in the Fezile Dabi District, making up 1 717km² of its geographical area. The Municipality was established following the amalgamation of the four erstwhile municipalities of Sasolburg, Deneysville, Oranjeville and the Vaal Dam. The main economic industries in the Municipality is manufacturing, retail and community services. As is the case with Maluti-A-Phofung Local Municipality and other municipalities in the country, unemployment, poverty, inequality and crime should be prioritised.

The **Mangaung Metropolitan Municipality** shares its boundaries with the Districts of Lejweleputswa to its north, Thabo Mofutsanyane to its north-east and Xhariep to its south. To its south east, Mangaung shares a border with Lesotho. The Metro is formed by several administrative nodes; Bloemfontein, Botshabelo, Dewetsdorp, Mangaung, Soutpan, Thaba Nchu, Van Stadensrus and Wepener, and covers an area of 9 886km². The main economic industries in the Metropolitan is government, finance and construction.

The Metro has a major responsibility to implement development initiatives to drive economic development in the region. Investment in economic and social infrastructure should be prioritised. Population growth would certainly increase demand for services. The Metro also faces the triple challenge of inequality, poverty and unemployment.

The following trends have been identified as the key cross-cutting challenges across the municipalities: poor political and administrative leadership; poor planning and lack of nexus between the Integrated Development Plans (IDPs) and Budgets; poor governance and uncoordinated political oversight; poor financial planning, controls and accountability. Further, municipalities are faced with challenges ranging from lack of revenue and credit controls to poor supply chain management and total disregard for audit outcomes and recommendations. These challenges undoubtedly undermine service delivery and societal development.

2.2 Financial management and governance

The Matjhabeng Local Municipality, Metsimaholo Local Municipality as well as the Mangaung Metro Municipality are placed under administration by the provincial government. The audit outcomes of the Matjhabeng Local Municipality regressed from an unqualified audit opinion in the 2016/17 financial year to qualified audit opinions in 2017/18 and 2018/19. In terms of revenue collection, the Municipality's billing year as of June 2020 was R2.2 billion. However, the Municipality only managed to collect R1.2 billion, translating into a collection rate of 54 per cent. Unauthorised expenditure by the Municipality increased from R1 billion in the 2017/18 financial year to R1,8 billion in 2018/19. Fruitless and wasteful expenditure increased from R195 million in the 2017/18 financial year to R364 million in 2018/19. Irregular expenditure increased from R481 million in the 2017/18 financial year to R715 million in 2018/19. The Municipality also faces a rising cost of servicing its debt, particularly debt owed to Sedibeng Water and Eskom, which affects its financial viability.

The Metsimaholo Local Municipality continues to experience challenges ranging from poor governance to financial management. The Council causes instability by continuously refusing to accept the new Administration appointed through section 139 of the Constitution. The Municipality has implemented a control measure to reduce the legal costs by appointing a law firm that will assist it with the legal issues. Between March and 30 September 2020, the Municipality incurred approximately R16 million (R16 168 121) in legal fees.

The debtors' collection rate decreased from 71 per cent prior to the announcement of the national state of disaster to 52% in June 2020 but improved to 64 per cent in September 2020. The Municipality implemented a targeted approach to debt collection from businesses, organs of State, government employees, farms and other residents. The Municipal Council resolved that a 50 per cent discount would be given to households and small businesses who settle accounts between 1 October and 31 December 2020 as Covid-19 relief. A total of R8.4 million will be written off as bad debt to accommodate this resolution.

With regard to the Mangaung Metro Municipality, its fiscal position is deteriorating, including non-compliance with laws and regulations, declining financial health, collapse of governance and institutional structures and significant complaints from the communities on service delivery challenges. As is the case in the Metsimaholo Local Municipality, the Metro reportedly does not cooperate with the administrators deployed by the Provincial Executive Council.

Unauthorised expenditure by the Metro amounted to approximately R722 million during the 2016/17 financial year, while fruitless and wasteful expenditure for the same financial year amounted to R7.5 million. No disciplinary steps were taken against the offending employees, nor were any criminal proceedings instituted in this regard.

The average monthly collection rate in the Metro from all revenue sources for the past nine months is R1,7 million and the monthly gross salary of all employees, including Councillors, is R9,1 million. This highlights that expenses of the municipality exceed its income received, which is a clear indication that the Metro is not implementing cost containment measures fully. All the projects are dependent on grant funding: thus the Mangaung Metropolitan Municipality is not self-sufficient. The Metro's primary source of revenue generated from infrastructure services, less the expenditure required to deliver those services, cannot fund the balance of operating expenditure. The correction of this deficit scenario is fundamental to achieving a sustainable financial position and/or reduce dependency on government grants and subsidies. The Metro's cash management is poor and cash balances are too low.

The Maluti-A-Phofung Local Municipality was placed under section 139(1)(b) intervention in February 2018. However, the intervention has recently been terminated and the Council is doing everything possible within its control to give political guidance and leadership. *The Municipality has not submitted financial statements for the past two financial years*. It obtained a qualified audit opinion in 2016, based on receivables from exchange transactions and lack of audit evidence on repairs and maintenance.

The Municipality struggles to service its Eskom debt of R5.6 billion, due to poor revenue collection. Consequently, on 21 July 2020, Eskom attached the bank account of the Municipality for the debt it owes. The attached accounts affect the ability of the Municipality to meet its operational obligations, such as paying salaries. Further, the revenue collection rate of the Municipality was 16 per cent in April, 53 per cent in May and 56 per cent in June 2020. The current levels of revenue collection and the continued loss of revenue through tampering with prepaid meters or bypassing them remains a big threat to the financial and economic sustainability of the Municipality.

Further, debtors increased significantly as a result of poor credit control and debt collection, from R1 billion in the 2017/18 financial year to R1.3 billion in 2018/19. The Municipality has issued a letter of demand to the Department of Public Works to recover debt of R307 million.

The Municipality has unauthorised expenditure of R3.1 billion for 2017/18 and fruitless and wasteful, as well as irregular expenditure pertaining to supply chain, has also increased. No action has been instituted to date against the transgression. Further, overtime claims remain a significant challenge in the Municipality, despite previous measures taken to limit it. Spending with regard to legal costs has been a concern, however the Municipality has implemented a control measure to reduce the legal costs by appointing a law firm (Rampai Attorneys) that will assist it with the legal issues. Between March and 30 September 2020, the Municipality incurred more than R16 million in legal fees.

2.3 Accountability

Recommendations of the Internal Audit and Risk committee are reportedly not fully implemented in Maluti-A-Phofung Local Municipality. It was also revealed that the financial misconduct board failed to investigate allegations and adjudicate cases of financial misconduct within the Municipality. The Matjhabeng Local Municipality was advised to establish a functioning audit committee and financial misconduct board. Forensic audits with consequence management must be authorised by the provincial government.

The Auditor-General has noted that despite training and awareness sessions conducted by the South African Local Government Association, Treasuries and the Auditor-General for the Municipal Public Accounts Committee members, Mangaung Metropolitan Municipality still struggles to understand and/or fully discharge their responsibilities. Due to the lack of knowledge and understanding of their role, no tangible work was performed by the committee, which was sometimes caused by limited reports submitted to the council sittings. This lack of action by the committee resulted in the accumulation of unauthorised expenditure of R2,3 billion, irregular expenditure of R949,5 million and fruitless and wasteful expenditure of R78,7 million, without any individual being held accountable for the transgressions.

Across the municipalities under consideration, the Auditor-General noted that the lack of consequence management is a policy area that needs to be prioritised.

2.4 Capacity and skills

Matjhabeng Local Municipality reportedly has a 40 percent vacancy rate. The Municipality has highlighted its inability to attract and retain skilled employees (Accountant & Engineers) as a direct result of not being able to offer competitive salaries. Lack of skills in finance, engineering and development planning cut across municipalities. Many municipalities have demonstrated underspending in conditional grants linked to infrastructure development. Underspending of the Municipal Infrastructure Grant (MIG), particularly in small, rural and poor municipalities, is linked to the lack of critical skills such finance and engineering.

Maluti-A-Phofung Local Municipality employees within finance, technical services and supply chain did not comply with minimum competency levels required by the Municipality. Staff discipline is a concern and overtime claims are poorly managed, resulting in high employee costs.

The Municipality uses consultants in the areas of finance, project management, and legal services. These include to compile its Fixed Asset Register, debt recovery and to ensure GRAP-compliance with accounting financial standards (AFS). This is ascribed to the failure to retain skilled employees.

In the past, the Municipality reportedly disregarded recruitment policies and processes. As result, it is bloated with irregular appointments and has a problem of 76 ghost employees. Further, employees within finance, technical services and supply chain did not comply with minimum competency levels required by the Municipality. Staff discipline is a concern and overtime claims are poorly managed, resulting in high employee costs.

Matjhabeng Local Municipality would have to develop a recruitment, retention and succession strategy for the critical skills required in the Municipality. This will reduce the dependency on consultants in the Municipality. The Municipality would need to develop a training programme for the financial board to empower them to investigate allegations and adjudicate cases of financial misconduct. Further, in terms of organisational internal capacity of the Matjhabeng Local Municipality, it was reported that the Municipality's lack of research capacity to strengthen the knowledge of the Municipal Public Accounts Committee (MPAC) has affected the Municipality's ability to validate performance reports and conduct or recommend investigations on unauthorised and irregular expenditure. This affects good governance in the Municipality.

Metsimaholo Local Municipality appointed a service provider to compile its annual financial statements (AFS) for the 2019/2020 financial year to help it overcome some mistakes highlighted in the previous financial statements. The Municipality's salary bill is currently at about 27.3 per cent and is set to increase to about 33.8 per cent after filling of current vacancies.

With regard to Mangaung Metropolitan Municipality, it was reported that the Metro has 7 130 positions on its structure, 3 771 (53 per cent) of which positions are filled, with a vacancy rate of 47 per cent. However, it is important to note that the Metro needs to restructure the management structure from the current bloated structure of 51 General Managers and eight Directorates. Further, poor management of overtime claims in the Metro result in high employee costs and employees do not comply with attendance and time management requirements. The Metro has a lack of internal controls, resulting in leave and absenteeism being mismanaged. Some outsourced contracts duplicate functions performed by internal components.

As indicated elsewhere in this report, the capacity of the MPAC needs to be addressed. In the Mangaung Metropolitan Municipality, the Metro incurred unauthorised expenditure of R2,3 billion, irregular expenditure of R949,5 million and fruitless and wasteful expenditure of R78,7 million, without any individual being held accountable for the transgressions. The Auditor-General attributes some of the omissions to poor organisational capacity, both at the political and administrative level.

2.5 Service delivery

As the economic hub of the district of Lejweleputswa, the Matjhabeng Local Municipality would need to invest in economic and social infrastructure. Economic opportunities in the Municipality attract movement of people from other areas in the district. Infrastructure, such water and sanitation, is thus likely to be in demand. However, the Municipality finds it challenging to conserve water and to manage the demand for water. In addition, the Municipality needs to address its outstanding debt with the Sedibeng Water Board. Infrastructure maintenance is critical, Sedibeng Water needs to replace the ageing water infrastructure and seal leaks on reservoirs.

Like other municipalities in the country, Matjhabeng Local Municipality experiences non-payment of electricity. The “culture of non-payment” of electricity and water has put pressure on the ability of the municipalities to provide electricity, leading to a huge debt burden.

The Maluti-A-Phofung Local Municipality experiences a problem of an electricity vendor (Cintel) that deducts a percentage after selling the electricity units of the Municipality. Further, the Municipality has an insufficient supply of water and electricity to all areas. In addition, the supply of electricity is continuously interrupted due to vandalism and theft of transformers and an overburdened grid caused by bypassing. Within the Municipality, the Linda Mkhondo area continue to experience a challenge regarding access to water and sanitation and communities are not happy with water tanker services. Further, infrastructure in the Municipality is ageing and requires refurbishing and maintenance.

Road infrastructure, including investment in water and sanitation, is critical in supporting growth and development. The condition of tarred and asphalt-surfaced roads has significantly deteriorated. Maluti-A-Phofung Local Municipality has very limited resources to attend to backlogs on repairs. Further, seven waste treatment plants of the Municipality are dysfunctional.

The Metsimaholo Local Municipality maintains 1350 bucket toilets on a weekly basis in the Themba Kubheka informal settlement. A honey sucker tanker (truck) is provided in Deneysville and Oranjeville on a need basis. Waste removal is rendered to Sasolburg, Vaalpark, Zamdela, Deneysville and Orangeville on specified days. Illegal dumping is being managed, as 87 per cent of illegal dumping sites have been removed. The electricity infrastructure in the Municipality is under a lot of strain and intervention is needed to replace ageing infrastructure. Further, most of the roads in the Municipality are already showing signs of deterioration in the form of deflection, rutting, potholes, aggregate loss because of ageing binder, cracks, etc., and thus require urgent intervention-rehabilitation and reconstruction.

As already stated before, water infrastructure is critical. In the Metsimaholo Local Municipality water supply capacity from Rand Water is not adequate for the planned new developments, i.e. Sasolburg properties and Mooidraai. The water pressure in Oranjeville is being addressed by upgrading it and the bulk line to the reservoir and installing a new water tower. However, the project is currently halted due to contractual issues with the contractor. The Municipality has cash flow challenges, due to covid-19 expenses and higher legal fees due to higher litigations against it. The cash flow challenges of the Municipality directly impact service delivery.

The Auditor-General has reported that since 2016, the financial position of the Mangaung Metropolitan Municipality had deteriorated to such an extent that unspent conditional grants, namely the urban settlements development grant, the municipal disaster recovery grant and the public transport network grant, were utilised to fund operational activities. This had a negative impact on infrastructure development.

It was reported that an estimated 60 per cent (1596+716=2312km) of the roads in the Municipality are in a poor or very poor condition, with Wepener displaying the worst conditions. Further, visible sewer spillages are frequently left unattended for long periods in the Municipality. A total of 1300 and 1023 sewer spillages were reported for the months of June and July 2020, respectively. In addition, a total of 40 000 Ventilated Improved Pit Latrines (VIPs) were reported as full in June, whilst 36 000 were reported in July. The Metro's failure to attend to this was attributed to the lack of tools of trade and human resources.

Ageing infrastructure is a significant problem that causes most of the sewer spillages in the Metro. Further, the Auditor-General indicates that water losses of R186,7 million (31 per cent) were suffered mainly due to technical losses; burst water pipes and leaks indicating dilapidated infrastructure and a lack of maintenance; as well as faulty meters and unmetered sites.

Notwithstanding all the mentioned challenges, the Metro is reportedly achieving +90% minimum service level to households (electricity, water and solid waste), with the exception of sanitation (74.5 per cent). Further, it was reported that with interventions the Metro would be moving on the recovery path. However, the Auditor-General stressed that the Metro reported unauthorised expenditure of R1,4 billion due to overspending on salary cost, overtime, the unbudgeted settlement agreement with the water board and the under-budgeting of non-cash items.

2.6 Recommendations

2.6.1 Matjhabeng Local Municipality

- The Department of Water Affairs, Provincial Treasury and Cooperative Governance and Traditional Affairs (CoGTA) should assist the Municipality with a debt recovery plan and training of consumers on water conservation and electricity saving. This must be completed in the current financial year and progress to be reported on a quarterly basis to the provincial legislature.
- The Municipality must establish a revenue enhancement committee to turn around its financial status as a matter of urgency by the end of the financial period.
- The Department of Water Affairs must assist the Municipality to develop a comprehensive study and implementation to improve water conservation and water demand management. This must be done in the next financial period and progress reported on a quarterly basis to the provincial legislature.
- The Municipality must review internal controls and policies to ensure that internal audit recommendations are implemented speedily. The Municipality must report progress on the implementation of the internal audit recommendations on a quarterly basis to the audit steering committee.
- The Municipality must establish a functioning audit committee and financial misconduct board.
- Forensic audits with consequence management must be authorised by the provincial government. The audit reports must be submitted to the NCOP by the end of the next financial year.
- The provincial government must keep a blacklist of municipal managers responsible for the regress of any municipality to a point where it warrants intervention.

- The Municipality must develop a recruitment, retention and succession strategy for the critical skills required in the Municipality. This will reduce the dependency on consultants in the Municipality.
- The Municipality must develop a training programme for the financial board to empower them to investigate allegations and adjudicate cases of financial misconduct. This must be completed in the next financial year and council must receive progress reports quarterly.
- The Municipality must develop a sustainable payment plan for the debt owed to Sedibeng Water.
- The Municipality and Sedibeng Water must replace the ageing water infrastructure and seal leaks on reservoirs.
- The MEC of CoGTA must make the section 106 investigation report into Matjhabeng available to the SC on CoGTA in the NCOP as soon as it is finalised.
- The Municipality must make available a report on theft of municipal infrastructure. This must be completed by the end of the financial period and submitted to the NCOP Committee on CoGTA.

2.6.2 Maluti-A-Phofung Local Municipality

- The Municipality and Eskom must conclude on the development of an affordable payment plan before the end of the financial period.
- The new organogram that has been developed by the Municipality must be reviewed in line with its financial state.
- The Municipality has no consequence management in place. Thus, it should establish a Municipal Disciplinary Board by the end of the financial year.
- The Municipality must conduct a skills audit to assess level of skills, knowledge and competency across its functional areas by the end of the next financial year.
- The Municipality must implement a system to monitor hours worked to limit the increasing cost of overtime claimed by officials by the end of the financial period.

- The Municipality must implement the revenue recovery plan that was compiled in conjunction with national and provincial treasury by the end of the financial year.
- The Municipality must conduct a staff audit or headcount on a monthly basis to physically confirm staff on its payroll.
- The Municipality must submit a report on the identified ghost staff, Eskom debt payment plan and proposed solutions to the water supply challenges to the office of the Chairperson of the National Council of Provinces by end of November 2020.
- Of the 49 prepaid electricity vendors in the Municipality, only 13 had contracts. It is recommended that the new senior management formalise the Municipality's relations with the remaining vendors by formally contracting with them by the end of the financial year.

2.6.3 Metsimaholo Local Municipality

- Urgent intervention in the form of rehabilitation and reconstruction of the roads is required by the end of the financial year.
- The municipal manager will have to interrogate each and every manager/supervisor, as well as the respective directors, regarding overtime claimed before payment can be made in order to avoid the Municipality paying unnecessary overtime.
- The Municipality must ensure that operation Patala, which will be implemented from 1 January 2021 to encourage debtors to pay, is effective.
- The Municipality must recover irregular, fruitless and wasteful expenditure incurred in the Oranjeville Sports Complex from identified officials, contractor and architects by the end of the next financial year.
- The Municipality must initiate disciplinary action against the accounting officer and officials for their acts of misconduct. This must be concluded by the end of the financial year.
- The Municipality must fill vacancies of Senior Managers within the next three months.

- The Municipality must fill all critical vacancies by the end of the next financial year.
- The MEC of Cooperative Governance and Traditional Affairs must intervene to settle the disputes between Councillors and the administration.

2.6.4 Mangaung Metropolitan Municipality

- The Municipality must conduct a benchmarking exercise to determine how to restructure its organisational structure, given its financial position.
- The Municipality must conduct a process of identification, prioritisation, re-skilling, redeployment and filling of critical vacancies with skilled employees by the next financial year.
- The Municipality must develop and implement an overtime policy and an effective performance management policy by the end of the financial year.
- The Municipality must explore the use of a shift system to mitigate against high overtime cost.
- The Municipality must establish an effective disciplinary board in terms of the municipal regulations for financial misconduct and offences. This board must conduct an independent preliminary or full investigation into financial misconduct and offences by the end of the financial year.
- The Municipality must accelerate the implementation of prepaid metering to replace credit metering.
- The Municipality must put in place systems to reduce non-core spending. This can be done by focusing on cost containment strategies.
- The Municipality must establish a cash flow management committee with clear terms of reference (ToR) to ensure strict control over payments and management of bank balances by the next financial year.
- The Municipality must assess and identify all contracts that duplicate internal functions and terminate such contracts due to financial constraints by the end of the next financial year.
- The Municipality must reprioritise budget allocation towards the advertisement of critical vacancies and purchase of tools of trade.

3. Gauteng Province

3.1 General overview

The Gauteng local government consists of 11 municipalities and 14 municipal entities. The NCOP Provincial Week Programme in Gauteng focused on three municipalities namely **Emfuleni Local Municipality, and Sedibeng District Municipality including Tshwane Metropolitan Municipality** covering wide range of issues relating to governance, including financial and economic governance, and service delivery. Further, the programme included an oversight visit to various development programme. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors, Council Speakers including Members of the Mayoral Council and the provincial and local government senior managers.

As stated in many government reports such the National State of Local Government Assessments (2009), including the 20-year Review of the Local government (2014) following trends have been identified as the key cross cutting challenges across the municipalities; poor political and administrative leadership, poor planning and lack of alignment between the Integrated Development Plans (IDPs) and Budgets, poor governance and uncoordinated political oversight, and poor financial planning, controls and accountability. Further, municipalities are faced with challenges ranging from lack revenue and credit controls, poor supply chain management, and total disregard for audit outcomes and recommendations. There is no doubt that these challenges undermine service delivery and societal development.

Sedibeng District Municipality covers 4 173 km² and is Gauteng's Southern Corridor. It consists of three local municipalities: Emfuleni, Midvaal and Lesedi. Towns within these municipalities include Vereeniging, Vanderbijlpark, Meyerton and Heidelberg. Townships include Evaton, Sebokeng, Boipatong, Bophelong, Sharpeville, Nigel and Devon. The District Municipality is surrounded by three provinces, namely Free State in the south, Mpumalanga to the east and North West to the western part. The District has a great growth potential.

Emfuleni Local Municipality is one of the municipalities within the Sedibeng District Municipality. The municipality is characterised by poor infrastructure such as a high number of potholes, sewer spillages, neglect of refuse collection and ageing road infrastructure. This is a reflection of poorly managed budgets as well as staff and skills shortages. The poor financial, economic and political governance in the municipality has a negatively impacts to service delivery. For the past two years, the Municipality has been under Section 139(1)(b) of the Constitution for two years, and it does not any signs that it would be able to deliver itself out pf the current dysfunctional state. The main economic industries of the region include agriculture, mining, manufacturing, electricity, construction, trade, transport and finance.

In an attempt to address the challenges identified as the major contributors to the failure of local government and governance. The Provincial government is on the path to support local municipalities in areas related to municipal finance support, municipal institutional support, governance and infrastructure and service delivery. Including disaster management and fire services, community based risk assessments, public awareness programs and materials, and disaster relief activities and material. In addition, support would be provided to enhance monitoring functionality of the Disaster Management Centre through reports and functionality assessments.

Like any municipalities, both the Sedibeng District Municipality and Emfuleni Local Municipality need to invest in economic and social infrastructure to further stimulate the economic growth of the municipality, and thus attract investment and create needed jobs. Investment in water infrastructure, including social housing development remains a challenge that needs to be tackled. The case in point, was the Vaal River system. Which is one of the indicators that highlight that service delivery has been negative impacted by lack of financial and economic governance. SANDF was required to intervene in an attempt to remedy the challenge of sewerage flowing into the Vaal River system.

Tshwane Metropolitan Municipality is the only metropolitan municipality in Gauteng province that borders three provinces, namely Mpumalanga province in the east, Limpopo in the north and North West in the west. The development of the Metro is around 3 critical development nodes; Central Business District, which comprise of the Pretoria Inner City), and the Metropolitan Nodes, which covers areas such as Brooklyn, Centurion, Hatfield, Akasia and Bronkhorstspruit. Including, urban areas classified as the underserviced township areas, which covers areas such Mabopane, Ekangala, Atteridgeville, Mamelodi, Ga- Rankuwa Hammanskraal, Olievenhoutbosch, Refilwe, Soshanguve, Temba and Zithobeni. The main economic industries include community services, finance, trade, manufacturing and and transport (11.6 percent) Significant economic industries include construction, trade, transport and finance with the green economy. Further, research and innovation and development is representing crucial multi-dimensional and dynamic sectors of growth.

Unemployment, poverty, and inequality remains key socio-economic factors that any regional economic strategy need to respond to. Government resources at all levels need to be strategically allocated to appropriately tackle the socio-economic challenges. Hence, financial, economic and political governance in municipalities need to addressed.

3.2 Financial management and governance

Sedibeng District Municipality spending on salaries was approximately 57 per cent of operating expenditure in 2018, which is more than the 40 per cent of the standard norm. This spending pattern has the potential collapse the administration, and salary obligations might not be met. Further, in 2014 a report commissioned by the District municipality revealed that Sedibeng District Municipality’s organisational structure was bloated. Nothing was done to drastically implement the recommendations provided in the report.

Finance and supply chain management still remains a challenge. AGSA remarked that the supply chain management processes were disregarded in Sedibeng District Municipality. Most awards were processed by officials outside the supply chain management division, resulting in irregular expenditure of R9 million. Although generally, it is reported that the Province has taken steps to reduce irregular expenditure due to non-compliance. More still need to be done in terms investigations, and application on consequence management.

The District Municipality was described as heavily depended on grant, constituting 75 per cent of its revenue, that is transfers and subsidies, and 18 per cent of the total revenue consumed by its agency function. For 2020/21, the District Municipality has approved unfunded budget amounting to R422 million. The Municipality however developed a financial strategy to support its 2020/21 unfunded budget. The fundamental question is whether in the first place there was a cash to fund priorities. It documented that the District Municipality no major municipal services provision in the budget. There is a limited internal funding contribution to capital projects. As already stated the Sedibeng District Municipality’s major challenge is the heavy loaded organizational structure and consequent high employee costs. The composition of the budget does not support economic growth, and service delivery.

If there is nothing drastically done to avert the situation. Sedibeng District Municipality will further go deeper to the current financial crisis. A multi-prong approach need to be designed to rescue the District Municipality. It not just about funding, or financing. It is about repositioning the District Municipality to meet its constitutional, and developmental requirements. Both from strategic policy approach, and human capital requirements.

Further, the AGSA expressed that Sedibeng District Municipality’s financial position is influenced by the district funding model and their allocated functions in terms of legislation including basic services such as water, electricity, wastewater and sewage disposal, and solid waste disposal. AGSA report further say that the functions can be adjusted in terms of legislation by allocating any functions vested in the local municipality to the district municipality, or vice versa. In other provinces, the case is different. District municipalities are able to generate revenue. The case is different in Sedibeng District Municipality. AGSA recommends that districts ensure that staff are used optimally for service delivery to ensure the efficient use of limited funds. Alternatively, the funding provided to districts needs to be increased to allow them to break even and perform their functions adequately.

Emfuleni Local Municipality has recorded underspending on Capital Budget of 34.91 per cent between July 2017 and June 2018, spent 0 per cent on maintenance in 2017 and 2018. However, overspent by 25.1 per cent of the operating budget in the 2018 financial year. 15.4 per cent was spent towards salaries in 2018, which is lower than the norm, hence the non-expenditure and poor service delivery. Further, the Municipality has demonstrated lower collection rates on water revenue are mainly because of consumers who are not paying for this service, evidenced by debtors for this source of almost R5 billion.

There is a strong view that section 139 has not been effective instead section 154 of the Constitution should be applied. This view is getting traction with the envisaged implementation of the District Development Model advocated by the President. Interventions through section 139 are viewed to be lacking sufficient support, more as specially they lack of of post-intervention measurement of improvement, and the weak application of intergovernmental checks and balances. The District Development Model is much supported because is premised on collaborative working approach. Bringing all spheres of government to plan, budget and allocate resources in a more strategic approach. Support and build capacity of our municipalities in all key areas such as spatial planning and economic development, infrastructure delivery, financial management including public participation and governance, would be crucial for the success of the District Development Model. Further, tapping to the skills endowed in the private sector would be critical.

Emfuleni Local Municipality like many local municipalities continue to experience high level rate of debtors. The situation would likely increase as a result of COVID-19 pandemic, in an already worsening socio-economic conditions compounded by a “culture of non-payment. Households constitute 84.7 per cent of the total amount owed, and 2.4 per cent was owed by government, mainly because of properties that are not in the asset register of the Department of Public Works. Further, 93.1 per cent of household debt was older than 90 days, reducing prospects of recoverability.

Emfuleni Local Municipality is struggling to reach payment agreements with its major creditors ESKOM and Rand Water. A payment agreement could be reached with ESKOM, but not with Rand Water. This resulted in the municipality’s budget being unfunded. Further, invoice submission remains the problem, although the Debt Management Committee is currently working to resolving this matter. The total budget, around R6.3 billion, is a deficit budget, with the total Capital Budget dependent on grants. Low internal contributions and lack of funds constraint infrastructure development and maintenance. The most recent challenges the Municipality experienced, and which led to a qualified audit for the last financial year, was described as: improper accounting and disclosure of community assets, failure to assess property plant and equipment for impairment, non-submission of audit evidence to substantiate distribution losses, and none submission of audit evidence to substantiate irregular expenditure.

The provincial government indicated that Emfuleni Local Municipality will continue to be provided with support to implement Financial Recovery Plan, particular in financial manage inclusive of Supply Chaim Management. However, despite the support the municipality is receiving in areas such as infrastructure, which Municipal Infrastructure Support Agency (MISA) would be expected to play a leading role, provincial departments responsible for finance and local government offering experts in areas of finance including supply management and development planning. The situation appears it would need concentrated efforts, particular political commitment.

Further, what make things difficult relates to governance. It was reported that there is instability within political executive, will allegations that the Municipal Manager was irregularly suspended by the Council. There is stalemate in the Council to resolve the matter. The situation has an effect to the functioning of the administration. Further, the posts of Chief Audit Executive and Head of Revenue remain vacant. This is relevant considering that the Municipality highlighted that at the end of the 2017/18 financial year, the Municipal Public Accounts Committee conducted an investigation into the alleged Irregular expenditure to the amount of R872 million on contracts that were awarded without following proper supply chain management regulations.

City of Tshwane Municipality received an uunqualified audit opinions for the past 4 years - with matters of emphasis. However, there are repeat findings in the 2018/19 management report, despite the implementation of an audit action plan to address the shortcomings.

The Metro faced a number of administrative and political challenges in terms of its administration. During December 2019, the City of Tshwane Municipality was placed under administration where the Gauteng Provincial government evoked Section 139 read with Section 154 of the Constitution to take over the administration of the City. From the political governance point of view, at the time of the provincial week programme, the Metro did not have a permanent Executive Mayor, and the Council was dysfunctional. Further, the Metro experienced administrative instability with the position of the City Manager remained vacant, and some of the Senior managers were on suspension for a period of time, and now back.

With regard to Municipal Standard Chart of Accounts (mSCOA), the Metro is far behind with implementation and not at the stage of using a core financial system that is mSCOA's compliant. Further, the revenue collection rate is deteriorating from around 95 per cent between 2013/14 and 2015/16 to 88 per cent in 2018/19. The Metro has implemented revenue enhancement strategies from July 2019 to improve the collection rate to 91.5 per cent. It is sitting with outstanding net debtors which have increased registering R5.6 billion from 2017/18 to R7 billion in 2018/19.

For the City of Tshwane Municipality to reinforce its finances. The Metro should intensify efforts in collecting long-outstanding debt to improve its cash position, which can then be used for service delivery including capital projects. This will ensure that it has a stronger financial position, as its capital budget is declining due to limited funds and sustainability is threatened as the cash coverage ratio is less than a month (Norm 1 – 3 months). Further, the court ruling on cancellation of the Glad Africa contract (Project Management) – collapsed service delivery. As a result, a number of performance targets were not achieved.

Further, AGSA remarked that the metro’s financial health remained of concern due to a number of factors, including a high salary bill of R9,2 billion which equated to 26 per cent of revenue, and electricity and water losses of R1,5 billion and R1,1 billion, respectively. In addition, the large 62 per cent impairment of debt meant that the metro did not receive a large amount of revenue billed, negatively affecting its ability to provide basic services. It is reported that the Metro is taking an average of 71 days to pay creditors as it took 67 days to collect monies owed by citizens. This omission has forced the City of Tshwane Municipality to rely on other sources of finance including long-term loans in order to meet its obligations.

Further, it was reported that the Metro in the AGSA reports that unlike other municipalities in the Province who utilised consultants efficiently, the City of Tshwane Municipality was an exception as it spent R213 million on consultants to correct the fixed asset register and verify assets. Despite this, AGSA still identified material findings on assets including R367 million of completed projects that were not recorded under the correct category of property, infrastructure and equipment and that were not depreciated due to the inadequate monitoring of controls such as linking the completion of projects with financial reporting.

AGSA remarked that Emfuleni Local Municipality, and the City of Tshwane have used R312 million in consultancy fees. Further both the municipalities failed to submit financial statement before the cut-off of the audit report. AGSA stressed that the quality of financial statements is a demonstration to residents that public funds are being accounted for correctly, and an indicator of increased accountability and transparency.

3.3 Accountability

Poor political, and finance management affects accountability. In the municipalities under consideration, it was revealed that internal controls were not always performed properly, resulting in poor-quality financial statements submitted for auditing and non-compliance with legislation. Across the municipalities under consideration, the AGSA noted that they lack of consequence management. This is a policy area that need to be prioritised. It is emphasised by the AGSA that quality financial statements indicate to residents that public funds are being accounted for correctly, and an indicator of increased accountability and transparency.

All the municipalities, in the past have experienced service delivery protests. Further, dysfunctional councils undermine accountability processes. Sedibeng District Municipality and Emfuleni Local Municipality, including the City of Tshwane Metropolitan Municipality have experienced service delivery protest, and their councils collapsed at some point.

3.4 Capacity and skills

Like other municipalities in the country, skills shortages in areas such as spatial planning and economic development, infrastructure delivery, and financial management need to be prioritised.

Emfuleni Local Municipality, has been facing instability at senior management level over a period of 3 years, the most part of which there were no senior managers, including the Municipal Manager. The post has been recently filled.

This municipality is currently under Section 139(1)(b) intervention. Administrative stability in Tshwane Metropolitan Municipality has been affected by the political governance.
The provincial government has undertaken to support municipalities to address capacity and capability in areas such as spatial planning and economic development, infrastructure delivery, and financial management.

Tshwane Metropolitan Municipality it was revealed that 630 ghost employees were identified, 12 people who were verified through Home Affairs as beneficiaries deceased employees continue to earn salary, and the master file which is used to capture the employees of the Metro had shortfalls as it could not recognize about 7 000 legitimate employees.

Organisational structure in Sedibeng District Municipality need to reviewed and aligned to policy and legislative mandate. AGSA recommends that Districts ensure that staff are used optimally for service delivery to ensure the efficient use of limited funds. Also it was revealed that the organisational structure is bloated. The structure is misaligned with core functions of the District Municipality.

3.5 Service delivery

It was reported that the provincial government has Government Debt Management Committee with the aim to fast-track payment of monies owed to Municipalities by National and Provincial Government Department. Further, the importance of asset management was highlighted. The provincial government indicated that it has implemented an initiative to ensure that municipalities manage their assets to strengthen financial and economic government of municipalities. Further, to ensure municipal assets support economic growth and development. The Asset Management Support has supported Lesedi, Emfuleni, Rand West City and Merafong City local municipalities with additional capacity to compile a GRAP 17 compliant Infrastructure Asset Registers.

Sedibeng District Municipality, and Emfuleni Local Municipality need to prioritised investment in water and sanitation infrastructure. Invest to economic and social infrastructure would create economic opportunities in the municipality. Infrastructure such water and sanitation is urgently needed. The role of the national department of Water and Sanitation is critical. The issue of ageing infrastructure need to be addressed. Capital budget need to be prioritised. The composition of the budget need to support economic growth and development. This means the wage bill should be addressed the District Municipality.

In Tshwane Metropolitan Municipality, AGSA report shows that the financial constraints had a negative impact on service delivery; for instance, the Metro did not achieve 13 of 33 targets during the year and some projects were halted or delayed. This included R381 million of assets under construction such as the upgrading of the Temba and Babelegi wastewater treatment works. The metro also has a diverse range of assets valued at R39 billion.

Like other municipalities in the country, Tshwane Metropolitan Municipality and the two municipalities under consideration need tackle the “Culture of Non-payment” of electricity including water. This is already putting pressure on the ability of the municipalities to provide services, and increasing debt owed to critical service providers such as Eskom. In addition, the supply of electricity is continuously interrupted due to vandalism and theft of transformers and an overburdened grid caused by bypassing. Further, the infrastructure in the municipalities is ageing and requires refurbishing and maintenance.

3.6 Development Project Visited

Background of the sites visited

Sites visited: Katlehong, Kliptown and Maraisburg commuter train stations operated by PRASA.

Due to the fact that the three sites are all part of the same issue – PRASA train stations vandalised significantly during lockdown period, their observations will be combined into a single report as the same observations, findings and recommendations apply to all three sites.

Key observations and findings

Governance

- The NCOP delegation was disturbed by the extent of damage to PRASA infrastructure, and was of the opinion that only a serious lack of management responsibility over an extended period of time could have led to the scale of damage observed at all three stations. In mitigation, PRASA stated that the period of vandalism coincided with the termination of security services, and the redeployment of rail police to COVID-19 duties in the province. That left 133 PRASA security staff to attempt to patrol the province's infrastructure. A number of PRASA staff was attacked by vandals, who often operated in large groups and were not concerned by efforts to stop their activity. Some arrests were made, but the extent of the vandalism was too severe to control. The delegation was concerned about the nature of the vandalism and cable theft, and considered the likelihood that there should be a closer look at potential political reasons for the targeted crime. There should also be an intensification of efforts to prosecute scrap metal dealers that support and provide a steady market for cable thieves. There should be more effort made by SAPS to arrest those responsible for buying stolen copper.
  - At all stations, the electrical and signal infrastructure was vandalised. Train services are either suspended, or PRASA is contemplating using Diesel engines as overhead power supply has been removed. The Diesel service is non-sustainable, and in most cases, regular train services is not expected to be introduced before April 2021. As a result, commuters are now forced to depend on taxi and bus services.
  - Re-implementation of services is severely curtailed by ongoing vandalism and a lack of funding. PRASA managers informed the delegation that train lines are prioritised for operationalisation based on the degree of damage experienced, with those that are less damaged put into service first. Repairs are a challenge as vandals and cable

thieves strike almost immediately after repairs are completed, resulting in upgrades such as a new optic fibre-based signal system being put on hold.

- Stakeholder engagement appears to be dysfunctional. The committee expressed concern that such damage to public infrastructure could be inflicted without it being reported to PRASA. The delegation also wanted to know whether PRASA had a good relationship with communities, whether they have requested that communities assist with the prevention of vandalism, to take pride in the maintenance of public infrastructure and, after the damage was incurred, whether communities are kept up to date on timelines of repairs and re-introduction of service. PRASA felt that stakeholder engagement was sufficient at Katlehong, but admitted weaker engagement at other stations. PRASA was contradicted at Katlehong though, with their public engagement statement being refuted.
- PRASA's credibility has been damaged by what has occurred and how the entity responded. The situation is worrying and it is clear that better partnerships are required to solve problems and normalise the situation.

3.7 Recommendations

3.7.1 PRASA

- Concerns were raised around the security staffing indicated in the presentation, with only: 47 per cent (368 out of 814) Physical Security posts filled, 0 per cent (0 out of 84) Monitoring Control Room Operators posts filled, and 20 per cent (98 out of 480) Armed response posts filled. Noting these numbers, it seems clear that the blame for the rampant infrastructure theft and vandalism can be placed squarely at the feet of PRASA
- The NCOP delegation resolved to call on the province to assist in convening a follow-up meeting or workshop between the NCOP and PRASA, together with provincial role players, in order to interrogate the details of PRASA's recovery plan. At this workshop, matters of budgetary constraints and security can also be addressed.

- The incidences of cable theft at all three stations appear to have been assisted by insiders, as thieves knew exactly where to dig. There is a need to reflect on this possibility as it is a serious matter.
- The stakeholder engagement processes of PRASA need to be revamped and improved in order to improve public perception of PRASA and the value of the rail infrastructure as a public asset. Engagement structures should be maintained per corridor and stakeholders should be kept up to date with developments. The NCOP offered its assistance in this regard if required.
- PRASA requested that the NCOP assist with impressing upon Treasury and the Minister of Transport the urgency of the financial challenges related to the recovery plan and infrastructure repair. Money has been made available for this process, but every effort is required to expedite the procurement process, within legal confines, in order for passenger rail services to be normalized.
- The management of PRASA which presided over the period of vandalism and infrastructure loss should be held accountable for the damage incurred. There appears to be no consequence management at PRASA, which raises concerns about possible staff involvement with the looting of state resources.
- A probe is required into the potential political reasons for the degradation of PRASA infrastructure, and to determine who benefitted from the looting of state infrastructure. SAPS need to act decisively against those scrap metal dealers that continue to provide a ready market for stolen state property.

The delegation expressed concern over the commitment of management to prevent the vandalism that had occurred, and once the damage had been incurred, to address the shortcomings of the past approach in order to normalise train services and repair infrastructure. The opinion was expressed that the mismanagement of PRASA can be observed in small details such as the lack of maintenance of toilets in functioning stations. That culture of non-commitment is magnified to express itself in the less than adequate response to escalating vandalism during the lockdown period. It is understood that new managers have been appointed, but the state in which PRASA finds itself now can only be attributed to a total lack of leadership at the entity.

3.7.2 Municipalities

a) Midvaal and Ekurhuleni Municipalities

- Midvaal and Ekurhuleni municipalities are self-sustainable and should share their experiences with other municipalities to improve their functioning.
- Municipalities could be losing out on potential revenue by supplying free basic services beyond what is required. There is a need for all municipalities to improve their capacity in this regard.
- The following points for improving the financial viability of all municipalities should be prioritised: Revenue collection and Supply Chain Management practice need to improve; Expenditure prioritisation is needed; Accruals need to be taken into account when budgeting; Debt collection services that keep a large percentage of revenue recovered is not a viable option.
- The Municipal Audit Support Programme (MASP) requires a much more rigorous and intensified approach. Joining resources between SALGA, CoGTA and Treasury through their Operation Clean Audit programme will yield better results.
- Collaboration between the three spheres of government through support and monitoring as advocated in section 154 of the Constitution and District Development model should be encouraged to address challenges in our municipalities.
- There is a need to develop a regulatory protocol to manage coalition governments in municipalities to ensure political and administrative stability.
- The current funding model for local government is no longer well matched with the growing functions and responsibilities of local government.
- There is a need to review the current Treasury requirements that allow the withdrawal of municipal equitable share withdrawn because of outstanding accounts with Eskom, but similar penalties are not imposed on other spheres of government that owes money to municipalities

- The powers and functions of municipalities need to be finalised as a matter of urgency.

b) City of Tshwane Municipality:

a) The delegation stated that there is a need to return to the municipality for a follow-up visit once greater clarity about the legal challenges to the intervention exists. It was also felt that the presentation contained a large amount of information regarding the intervention and normalisation of functioning at the municipalities that warranted a return visit from the NCOP. The sentiment that there was a need for follow-up visits was also expressed in relation to other Gauteng municipalities and will be highlighted in the recommendations of the daily report.
b) It was requested that details on the 44 Actions mentioned in the presentation should be provided to the NCOP.
c) The delegation requested details of the finances of the municipality before and after intervention as the NCOP would want to be able to compare the finances of the City of Tshwane municipality at present and before the intervention.
d) The municipality stated that a formal plan to develop 80 000 units have been presented on the Mamelodi resettlement plan, and details can be presented to the NCOP if required.
e) There was general agreement that the transition back to a Council led municipality needs to be effectively managed, with a proper, full and timeous handover taking place.

c) Sedibeng District Municipality:

f) It was also noted that, while the presentation opened by outlining the Powers and Functions for which it was responsible, the rest of the presentation focussed on areas which have been devolved to the Local Municipalities. Concerns were raised that the presentation was in fact not highlighting the real problems facing the District Municipality as outlined by the MEC on Day 1, namely an unsustainable Organisational Structure. The

Executive Mayor and the MMC for Finance both confirmed that this issue had already been flagged as far back as 2014, but that no progress had been made in addressing the issue.

g) All spheres of government should work together to secure funding to ensure that service delivery and infrastructure maintenance is possible, as the situation is affecting the provision of basic services. The Auditor General should also review cases like this municipality in order to determine if struggling municipalities are true going concerns or are operating under a funding deficit.

h) The way in which equitable share is determined need to be revisited, as has been suggested by SALGA and the FFC. In Sedibeng, the wage bill exceeds its revenue stream. It was further constrained by having to perform partially funded or unfunded mandates. Comparing equitable share to expenses, the municipality appears to be nearly 50 per cent under-funded.

i) The Sedibeng Local Municipality was advised that its presentation must be reviewed to fill gaps of challenges with proposed solutions and highlight support challenges if they exist. If there are any challenges with support provided to the municipality, it should be highlighted in order for the NCOP to incorporate it into its final deliberations at the end of this provincial week.

d) Emfuleni Local Municipality:

j) It needs to be highlighted that the current administration has inherited many challenges that is a result of the actions of the previous administration, and that it is not receiving any assistance in resolving these.

k) The delegation, together with COGTA, should assess the legislation that apply to preventing such massive Unauthorised Irregular or Fruitless & Wasteful Expenditure losses, and determine what controls need to be improved.

l) The municipality stated that a list of all unfinished projects, together with completion plans, can be supplied.

m) The municipality was asked to look into ways to improve service delivery and it was proposed that the NCOP should visit the municipality for follow-up meetings and detailed oversight.

n) The Executive Mayor's presentation also highlighted that, in spite of a Section 139 intervention, the municipality had received little or no help from the Provincial and National Spheres of Government.

City of Tshwane Municipality, recommendations are reflected as follows:

o) It was expressed that that there is a need to return to the municipality for a follow-up visit once greater clarity about the legal challenges to the intervention exists. It was also felt that the presentation contained a large amount of information regarding the intervention and normalisation of functioning at the municipalities that warranted a return visit from the NCOP. The sentiment that there was a need for follow-up visits was also expressed in relation to other Gauteng municipalities and will be highlighted in the recommendations of the daily report.
p) It was requested that details on the 44 Actions mentioned in the presentation should be provided to the NCOP.
q) The delegation requested details of the finances of the municipality before and after intervention as the NCOP would want to be able to compare the finances of the City of Tshwane municipality at present and before the intervention.
r) The municipality stated that a formal plan to develop 80 000 units have been presented on the Mamelodi resettlement plan, and details can be presented to the NCOP if required.
s) There was general agreement that the transition back to a Council led municipality needs to be effectively managed, with a proper, full and timeous handover taking place.

Further, it was decided that:

t) It is clear that there is a need, once all court actions have been resolved, and facilitated by the provincial government, for the NCOP to return to the province to visit all three municipalities with the aim of supporting the municipalities towards improving their situation.

u) The NCOP should study the outcomes of the proceedings in order to determine how assistance rendered to municipalities can be improved before a point is reached where interventions are required.

v) It is clear that Inter-Governmental Relations are not what is desired, which raises questions around the municipal funding model and grant structures, and how national government will address the obvious challenge.

w) For most municipalities interacted with today, it is clear that internal controls and audit responsibility need to be improved.

4. KwaZulu-Natal Province

4.1 General overview

The KwaZulu-Natal local government consists of 54 municipalities and three municipal entities. The KwaZulu-Natal Legislature's programme ran concurrently with the oversight work of the NCOP, which only focused on three municipalities (uMzinyathi, uThukela District Municipalities and Mpofana Local Municipality) that are having a range of challenges covering governance, including financial and economic governance, and service delivery. There were no service delivery development projects that were visited. The provincial week oversight sessions were mainly conducted via interactive virtual meetings. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors including Members of the Mayoral Council and the provincial and local government senior managers.

uMzinyathi is the 11th District Municipality in the KwaZulu-Natal province. The uMzinyathi District Municipality is situated in the north central part of the KwaZulu-Natal province and it is approximately 8079 km² in extent and stretches over a distance of about 160km from the north of Dundee to the south of Greytown. The uMzinyathi District consists of four municipalities; *viz* Endumeni to the north of the district, Umvoti to the south of the district, Msinga to the west and Nquthu located to the east.

uThukela District is the 10th District Municipality in the KwaZulu-Natal province. The district municipality derives its name from one of the major rivers in the Province, the uThukela River that rises from the Drakensberg Mountains, and supplies water to a large portion of KZN and Gauteng. Further, the district shares a boundary with three district municipalities, namely, Amajuba to its north, uMzinyathi to its east and uMgungundlovu to its south. In addition, in the north west, the district shares a boundary with Free State province and a border with Lesotho to its south west.

According to the *District Development Model Profile and Analysis*, about 66 per cent of the population in the uMzinyathi live under poverty. Within the uMzinyathi district municipality, most poverty-stricken areas are could be found in Nquthu recording 75.2 per cent and Msinga Local Municipality registering 71.9 per cent. Endumeni local municipality recording the lowest at 47.3 per cent, while uThukela's population living under poverty was recorded at 62.7 per cent. uMzinyathi and uThukela are the two districts nationally with the highest population living in poverty. Further, most of the places in the uThukela District Municipality that could be categorised as the most poverty-stricken areas are found in Okhahlamba recording 68.6 per cent and Inkosi Langalibalele registering 65.5 per cent. Alfred Duma Local Municipality recording 58.7 per cent. KwaZulu-Natal and the Eastern Cape both prominently feature in the top 10 districts with high poverty rates.

In uMzinyathi District Municipality, as articulated in the *District Development Model Profile and Analysis*, the average annual household income is R14 600, with over 30 per cent of the households earning less than the average income and 12 per cent with no income. With regard to uThukela District, the average annual household income is R14 600, with 15 per cent having no income. 6 per cent of the district population earns less than R4 800 per month. Low level of income generated in terms of average annual households indicates that many people are indigent and rely on the government transfers.

Both district municipalities are facing high level of unemployment. Young people, women including persons with disabilities are the most affected. For instance, it was reported that due to the high level of unemployment in the uThukela District Municipality there are social ills such as high indulgence in cannabis, particular by learners.

The Mpofana Local Municipality is part of the uMgungundlovu District Municipality. It is one of the local municipalities with highest level of poverty and inequality including unemployment rate in KZN. With COVID-19 ravaging the economy and its industries such as tourism and textile, with the latter having witnessed serious negative impact. The Tia Yuen Textile was most affected, and it is the main employer. It has been closed since Level 5 lockdown, and about 800 people were affected. The closure of Tia Yuen also affected the Municipality's revenue, as it is one of the main customers that the municipality banked on in terms of electricity consumption. Further, the incentives package that could be designed to retain Tai Yuen would also have knock-on effect on the municipality's finances.

4.2 Financial management and governance

The uMzinyathi and uThukela District Municipalities are currently under administration in terms of section 139 of the Constitution. For 2017/18 financial year uMzinyathi District Municipality received an adverse audit outcome, and in 2018/19 it received a disclaimer. While in 2017/18 financial year, uThukela district municipality received a qualified audit with findings, and in 2018/19, the District's situation did not improve registering again a qualified audit with findings. According to the audit findings both district municipalities have failed to show basic financial management, and also demonstrated governance failures.

With regard to Mpofana local municipality in terms of audit outcomes, in 2017/18 financial year it received a disclaimer with findings. In 2018/19 financial, the municipality received again a disclaimer with findings.

uThukela district municipality's Audit Committee was flagged by the AGSA as not fully functional due to lack of skilled personnel and weak internal controls.

As a result, the District received a disclaimer for three consecutive financial years. Further, the Audit Committee recorded poor performance. It has not been able to meet, reports have not been drafted and there's no consequence management especially with regard to irregular and wasteful expenditure that is reported to be around R115 million.

AGSA advances that politically, the uThukela District Municipality was stable with a Mayor and a functioning Council. What was lacking was the implementation of consequence management mechanisms to foster accountability. Further, there were incidents of service delivery protests as a result of water shortages and water interruptions experienced by communities.

Supply chain management issues cut across the municipalities under consideration. For instance, in uThukela District Municipalities the AGSA flagged that continual payments were made to service providers without any planning for the development or refurbishment of water infrastructure. The main contributors to the irregular expenditure were the continued use of expired contracts and contracts that did not have an end date. Further, the AGSA highlights that competitive bidding processes were not always followed, awards were made to bidders whose tax matters were not in order, and declarations of interest were not always submitted by winning service providers.

UThukela District Municipality has serious Eskom debts and this has caused them to reprioritized some programmes in order to settle this debt. The culture of "nonpayment", also exacerbated by lack of economic activities, remain as one of the challenges that will continue to affect revenue base of municipalities.

The residents of the Ladysmith area had been protesting over the lack of water that should be provided by the District. The annual audit identified that the District was not reliably determining the areas that required access to water. Rationing water according to preferred communities is another issue that was flagged by the AGSA, particularly in uThukela District Municipality. Further, the AGSA report indicates that senior management and support staff were not strongly committed to improving service delivery outcomes.

Senior managers are in many instances identified as not paying attention to risk management, effecting internal controls and managing the resources in an efficient and effective manner. Lack of strong political leadership makes things worse. The filling of senior managerial posts is a challenge due to outside influence and disagreements among councillors on who should be appointed and at what position. This affects all the municipalities under consideration.

4.3 Capacity and skills

Shortage of skilled personnel, particularly in finance, is one of the key issues that affect uThukela, uMzinyathi District Municipalities and Mpofana Local Municipality. The AGSA has further identified that consultants continue to be appointed in many instances while officials are in positions to execute these functions. Political interference in appointment of staff is another issue that needs to be addressed to all the municipalities under consideration. The issues that have been identified feature very strongly in various government review reports in relation to local government. To this day, they still persist as negative factors that affects the functioning of local municipalities.

4.4 Service delivery

AGSA has found that both uMzinyathi and uThukela District Municipalities have failed to execute their constitutional and legislative functions of adequate potable water supplies, management of wastewater and sewage disposal, as well as road infrastructure maintenance. Moreover, they were unable to provide administrative, technical and financial support to local municipalities, as District Finance Forums that were set up for these purposes were mostly poorly attended and/or non-functional. The issues that have been raised by the AGSA were long identified by various reviews such as *the National State of Local Government Assessments* Report, 2009 that was undertaken by government. Infrastructure backlog and lack of maintenance of basic infrastructure are some of the issues that continue to affect municipalities including uMzinyathi and uThukela District Municipalities.

The uMzinyathi District Municipality has about 56 wards and 126 790 households. Only 69.3 per cent of these do have access to water. On the other hand, uThukela District has about 74 wards and 161 787 households. Only 77.1 per cent of these do have access to water. Both district municipalities have two major challenges that are crippling them in terms of service delivery, namely the collection of revenue and distribution of water supply to relevant communities.

Access to water within the local municipalities under the uMzinyathi District Municipality vary according to the availability of infrastructure and/or sources of water like dams or rivers. Within the uThukela *District Municipality*, Okhahlamba Local Municipality has 89.4 per cent of household with access to water, while Alfred Duma Local Municipality has 86.5 per cent access to water, and lastly Inkosi Langalibalele has 95.4 per cent of households with access to water. A study that was commissioned by the Provincial Planning Committee (PPC) identified 384 potential dam sites that can be sources of water to serve the different local communities.

In an attempt to address water supply shortages uMzinyathi and uThukela Dstrict Municipalities are embarking on the refurbishment of the old and poor reticulation infrastructure as well as the construction of boreholes for water supply. Further, the districts have spent more than R140 million respectively on drilling and refurbishing boreholes hand-pumps in order to ensure the availability of water to relevant communities.

Like the uMzinyathi District Municipality, the uThukeka District Municipality indicated that the water infrastructure is dysfunctional, and further vandalism of public infrastructure was the biggest challenge. Further, due to the drought a number of boreholes have run dry and the District Municipality needs support. To that effect, it will be approaching the Department of Water and Sanitation to request a portion of the MIG funding for the development of infrastructure.

Further, the uThukela District Municipality has been allocated R339.7 million to address its water supply challenges. The KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs (COGTA) Project Unit and the Department of Water and Sanitation would be providing technical support to address water supply challenges.

uThukela District Municipality has an electricity backlog amounting to R799 million. The municipality reported to be experiencing high number of illegal connections that are eroding revenue for ESKOM and the District Municipality. The District is in the process together with provincial COGTA department to meet with ESKOM to develop a strategy and plan to deal with illegal connection issue with the communities.

Based on the information shared by the provincial government, uThukela District has a huge potential to attract tourists however crime and the lack of infrastructure hinders efforts to boost tourism in the area. The three local municipalities do not have the revenue for the revitalisation of the small towns within their localities and therefore require the assistance of national and provincial government. Further as a result of COVID-19, many industries such as small hotels were affected.

Mpofana Local Municipality has about 4 wards and 2 136 households. Only 58.1 per cent of them have access to water. Further, wards in deep rural communities are struggling to gain access to water and road infrastructure. This worsen their socio-economic conditions. The municipality has quite a number of unregistered dams and there is a need to register these dams, and build water infrastructure facilities to address water challenges. Funding and financing would be needed. The Municipality has been able to spend 100 per cent of the MIG by June 2020 compared to failure to spend this grant in the previous financial year. This signals a good start to address infrastructure challenges.

Like other municipalities, Mpofana Local Municipality is failing to effectively bill for services and collecting the revenue. Further, the municipalities under review are unable to maintain positive cash flows to pay creditors within the thirty days' timeframe as required by law. Mpofana Local Municipality is one of the local municipalities that have serious cash flow problems because of its inability to collect revenue and failure to tightly enforce cost cutting measures. Further investigations regarding financial mismanagement of municipality finance have been completed and the matter has now been referred to the Hawks for further investigations. It is still too early to indicate whether the Local Municipality is moving in the right direction, taking into account the challenges that the municipality need to address.

Like in other municipalities, some of the residents in Mpofana Local Municipality are using electricity through illegal connections. Further, public infrastructure assets such as electricity infrastructure need to be replaced.

4.6 Recommendations

- Like many municipalities, uMzinyathi, uThukela District Municipalities and Mpofana Local Municipality are owed by many government departments. Government departments, and other state entities are urged to initiate payments of outstanding bills owed to the municipalities. The NCOP is requested to facilitate a sustainable solution. Non-payments by government departments affect finances of local municipalities and thus affect service delivery.
- The *Department of Cooperative Governance* and *Traditional Affairs and Water and Sanitation* in collaboration with the municipalities should find means to address water infrastructure challenges to tackle water supply shortages to ensure that local communities, and businesses have access to basic services such as water.
- In line with section 139 of the Constitution, the national and provincial state entities including development finance institutions should work closer with the district development agencies to craft plans to revive the district

economy and its industries to boost regional economic growth, attract investment and scale employment opportunities. Further, the *District Development Model* offers great opportunity for development agencies to work in an integrated manner to boost local economic development.

- The *District Development Profile and Analysis* has identified areas in the uMzinyathi and uThukela District Municipalities as a mixture of eco-resources production region, agri-enterprise and small-scale farming resource region with protected areas. National and provincial including private sector resource mobilisation should be undertaken to stimulate industries linked to agriculture and tourism including eco-tourism.
- Investment in economic infrastructure should be prioritised. Partnership with the private sector should be promoted. The District Development Agency should be repositioned to exploit economic opportunities.
- Further, the Department of Public Works and Infrastructure should consider placing the uThukela Water Infrastructure Programme as one of the priority programmes in the South Africa Infrastructure Investment Initiative.
- Development programmes of the Department of Small Business Development should reach rural and small towns.
- South African Police should accelerate intervention to prevent livestock theft along the uThukela/Lesotho border.
- Various Departments in the province of KwaZulu-Natal owing money to uThukela (DPWI, Transport, Health, Human Settlements) must expedite payment.
- The Mpofana Local Municipality need to come up with a sustainable solution to tackle ESKOM debt estimated to be around R197 million.
- The Municipal Standing Committee on Accounts (MSCA) must finalise the migration of the IT accounting system for credible monthly and annual financial statements.
- The Premier's office should fast-track the roll-out of "Operation Siyahlola" which is aimed at monitoring, and where necessary intervening in municipalities struggling with service delivery issues.
- The land reform programme need to be accelerated to support local farming industry.

- It has been acknowledged that governance at these municipalities have been weak with inadequate leadership and guidance. Lack of coordination at all spheres of government has been identified. Further, section 139 intervention have not realised intended outcomes. It was emphasised that the approach presented by the *District Development Model* should be followed in addressing financial and economic governance problems faced by the municipalities. COVID-19 pandemic has presented an opportunity for all spheres of government to work in more integrated manner to stimulate economic growth, drive investment and boost employment opportunities. Regulatory impediments at local level must be addressed to support local businesses including social enterprises.
- There is view that some of the problems municipalities experience flow from the structural defects of model of local governance and cooperative governance. Many studies and policy papers have been done by government on the need to review the distribution of powers and functions between the three spheres of government and between district and local municipalities. Studies conducted by government are suggesting a need to review the intergovernmental fiscal transfer framework, more specifically the equitable share formula. Government is urged to reflect and respond on the adequacy of the current local government system to ensure it responds to the functional requirements of local government as enshrined in the Constitution. The review process of the local government system should be inclusive to cover the needs of all three spheres of government, civil society stakeholders and members of the public.

5 Limpopo Province

5.1 General overview

The Provincial Week focused on three local municipalities (Thabazimbi, Modimolle-Mookgophong and Mogalakwena) within the Waterberg District Municipality, all of which have been under repeat interventions by the Limpopo Provincial Government in terms of section 139 of the Constitution.

The Thabazimbi Local Municipality covers an area of 11 190km² and includes the Amandelbult and Thabazimbi mine towns. The main economic sectors in the Municipality are mining, agriculture and tourism. Modimolle-Mookgophong Local Municipality was established in August 2016 following the local government elections through the amalgamation of Modimolle (Grade 3) and Mookgophong (Grade 2) Local Municipalities to form a Grade 4 Municipality. It covers an area of 10 367km² and includes the towns of Modimolle, Mookgophong (Naboomspruit) and Vaalwater. The main economic sectors in the Municipality are business services, agriculture, government services, community services and tourism. The Mogalakwena Local Municipality covers an area of 6 156 km² and covers Mokopane, formerly known as Potgietersrus. The main economic sectors in the Municipality are mining, agriculture, and tourism.

The engagement with local municipalities covered a wide range of issues including financial and economic governance and service delivery. The NCOP delegation also visited various development projects. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors, Council Speakers (including Members of the Mayoral Council) to senior managers from provincial and local government.

After frank discussion between the NCOP delegation and the provincial and local government political and administrative leadership and management, the following trends emerged; poor political and administrative leadership; lack of financial planning, controls and accountability; discrepancies in financial reports from the local municipalities. Further, local municipalities experience low revenue collection, insolvency and poor credit management; low implementation of audit outcomes recommendations; as well as non-adherence to regulations and policies. In addition, there is lack of consequence management; lack of institutional memory (high turn-over in Senior Officials) and high vacancy rates; and lack of internal capacity, mostly in the supply chain management and council committees. Further, the municipalities rely more on consultancy services for tasks that can be insourced, mostly for the development of financial statements. As is the case with many municipalities in the country, Thabazimbi, Modimolle-Mookgophong and Mogalakwena local municipalities experience poor service delivery.

5.2 Financial management and governance

It should be noted that all local municipalities in the district earn between 19 and 30 per cent of their income from the sale of electricity. According to the *District Development Model Profile and Analysis*, the income earned from rates is extremely low in municipalities in the Waterberg District Municipality. Further, municipalities in the District rely more on national grants to support their services. The Mogalakwena Local Municipality has a grant dependency of 60 per cent, while the remainder of the municipalities vary between 33 to 40 per cent.

Thabazimbi Local Municipality has regressed in terms of keeping up to date with its accounts or financial liabilities, specifically liabilities towards ESKOM, Magalies Water Board and the South African Revenue Service, amongst others. Provincial Treasury cited poor financial reports and plans, indicating that it is difficult to obtain reports from the Municipality. Despite financial challenges that the Municipality grapples with, it has managed to record improvement in areas such as revenue collection, recording almost 100 per cent collection in electricity (attributed to switch to prepaid meters); increased property tax rates (mainly collected from business (Spar, Mines, Thaba Mall); and water rates (phasing in water meters in the Municipality). Further, the Municipality has implemented an action plan to address the Auditor- General’s 62 audit findings for the 2018/19 financial year, and has thus far addressed 52 (83 per cent) of the audit findings. With regard to the salary wage bill, Thabazimbi Local Municipality has reduced the wage bill from 62 per cent of the total municipal budget to 40 per cent. This achievement was cited as a work in progress towards achieving a wage bill below 35 per cent of the total budget. Further, crucial or senior management posts have been filled. The Municipality plans to end its reliance on consultants to prepare its Annual Financial Statements (AFS) by advertising a post for an internal specialist to conduct the AFS and develop financial plans. In terms of audit outcomes, the Municipality has made significant strides since the 2016 financial year from obtaining audit disclaimers and findings to a qualified audit opinion.

Since the amalgamation of the two municipalities, Modimolle-Mookgophong Local Municipality has become insolvent. This is attributed to the fact that it has a bloated wage bill caused by duplication of positions with the merger of the two municipalities. It has also inherited substantial debt. Further, between the 2016/17 and 2019/20 financial years, the Municipality obtained disclaimer audit opinions. The Municipality is under intervention in terms of section 139 of the Constitution, and it receives support from the provincial department of cooperative governance, human settlement and traditional affairs, with the assistance of the National Treasury. It was indicated that the payment of the Water Services Infrastructure Grant (WSIG) projects by the national department to service providers is a long and laborious process. The process results in delays in the implementation of projects. Further, delayed approval of conditional grants lead to non-implementation of projects, and potential return of grant funds.

Electricity collection rates sometimes exceed 100 per cent, owing to the back-billing strategy the Municipality is implementing, in term of which those who have not been paying or who have been underpaying before switching to the prepaid system are billed for the previous 36 months of monies owed to the Municipality. Modimolle-Mookgophong Local Municipality has improved its revenue collection, with most residents on prepaid electricity. It has also introduced a new valuation roll and took over the vending of electricity, which increased its revenue by 10 per cent. With regard to services rendered by Eskom, the Municipality services its bill through 60 per cent weekly payments. It pays 27 of the 28 electricity accounts it has with Eskom monthly via debit orders.

Strides in areas of financial management and governance were made. The political leadership in the Municipality has stabilized and is functional. Further, findings with regard to the forensic report were addressed, and cases were opened with the Hawks. Also, internal disciplinary actions were taken, contracts with implicated vendors were terminated. The Municipality has a financial recovery plan that was approved by the MEC responsible for local government on the 8th of November 2018 and later adopted by the Council in February 2019.

Mogalakwena Local Municipality reportedly does not verify work done by consultants and/or contractors before paying them for services rendered. Thus, service providers are paid full amounts for projects not completed, leading to qualified, irregular, fruitless and wasteful expenditure findings. For example, the Municipality paid R13.3 million of the awarded R38.7 million on work not done towards the construction of Moshate Stadium that is funded through the Municipal Infrastructure Grant (MIG). This highlights the lack of internal financial control measures.

Further, development project funds are depleted before projects are completed. Service providers continue providing services to the Municipality even after their contracts expire, resulting in irregular expenditure. There is a lack of record management, and the Municipality relies heavily on a total of 41 consultants to conduct services. The bulk of the outsourced services are financial statements and VAT function, landfill rehabilitation and closure provision, asset management, and technical services (planning, scoping, design and contract supervision).

The Municipality is rated in the top ten of municipalities with escalated unqualified, irregular, fruitless and wasteful expenditure. To this end, only two officials have been placed on suspension. It was indicated that the Municipality lacks qualified officials in Supply Chain Management (SCM), which results in non-adherence to SCM processes. Mogalakwena Local Municipality has indicated that it has started implementing consequence management.

5.3 Accountability

As is the case with many municipalities, municipal public accounts committees in the District did not investigate irregular, unauthorised and/or fruitless and wasteful expenditure. At Modimolle-Mookgophong Local Municipality it was reported by AGSA that none of the irregular, unauthorised and/or fruitless and wasteful expenditure was investigated. The three main political parties in the council could not reach consensus on the process that needed to be followed in conducting the investigation. In many instances, municipalities just condone irregular, unauthorised and/or fruitless and wasteful expenditure. This was the case in the Modimolle-Mookgophong Local Municipality, without any consideration of the circumstances under which it had been incurred, emphasised the AGSA report.

5.4 Capacity and skills

The AGSA report reveals that there was a high reliance on consultants, skills were not transferred, and some officials became complacent when consultants were appointed and did not perform the jobs they were appointed to do, raising questions about municipalities paying for officials and consultants to do the same job. Millions were spent to improve the outcomes, but there were no consequences for poor performance.

The municipalities under consideration have all relied on consultants to render services in functional policy areas. For instance, in the Mogalakwena Local Municipality, the bulk of the services with regard to financial statements and VAT function, landfill rehabilitation and closure provision, asset management, and technical services, were outsourced.

Thabazimbi Local Municipality, like many municipalities, experiences low or lack of institutional memory caused by the high turnover in senior officials. Moreover, critical senior posts in the Municipality, i.e. the position of Municipal Manager and Chief Financial Officer, are not filled, with officials working in acting capacity. Lack of institutional memory also affects Mogalakwena and Modimolle-Mookgophong local municipalities.

Further, as stated in other municipalities, political interference has an effect in eroding operational capacity. There is a perception of political interference in directing projects or unjustifiably influencing operational matters. The role of the political authority in the operations of the administration has grown to such a level that it is labelled as a ‘political management system’. Further, Councillors in all the municipalities under consideration are not trained in terms of their roles and on financial management.

Modimolle-Mookgophong Local Municipality is one of the local municipalities that relies on the services of consultants. Skills transfer need to be prioritised, reports the AGSA. Lack of skills transfers affect the local municipalities under consideration. Due to lack of critical skills, service delivery in the Municipality is poor, as water is not continuously provided to households; there are potholes in the roads and no lights.

The lack of a human resource management and development plan is much more pronounced in the Mogalakwena Local Municipality. The Municipality experiences poor organisational health and capability, which affects most of the local municipalities. The Municipality continues to experience political and administrative instability, which has affected service delivery. In addition, governance reports cite procedures followed to appoint employees as irregular. Further, there is a lack of coordination between the Local Authority Executive and the municipal Council.

5.5 Service delivery

In all municipalities, lack of capacity and skills have a direct impact on service delivery. For instance, in Mogalakwena Local Municipality, it was reported that the Municipality has stalled or incomplete projects that affect service delivery, such as water and sanitation. Municipal infrastructure is deteriorating. Water is not continuously provided to households. The Municipality relies on emergency measures for water supply, such as water tankers. Further, road infrastructure is not maintained (potholes). However, the Municipality has reported that it has completed the development of its master plan for bulk services, such as bulk water services, wastewater services, onsite sanitation for rural areas, and water conservation and demand. What should be emphasised is whether the development plans were crafted internally or whether they were largely outsourced.

The *District Development Model Profile and Analysis* reveals that most municipalities in the Waterberg District Municipality have insufficient financial resources to provide water, electricity, sanitation, solid waste, sports and community facilities. Ageing infrastructure in towns need to be prioritised.

5.6 Development projects visited

5.6.1 Modimolle-Mookgophong Local Municipality

(a) Modimolle Landfill Site

Background of the site

- Name of the project: *Modimolle Landfill Site;*
- Project initiation / start date: *05 May 2019;*
- Total budget for the project: *R32 million;*
- Department(s) / entity/entities funding the project: *Municipal Infrastructure Grant;*
- Number of people benefiting or intended to benefit from the project: *Planned target 68 employees, with 48 currently employed;*
- Intended completion date: 11 December 2020;
- Key challenges experienced during the project: *Delays owing to lockdown and shortage in supply of materials (attributed to the lockdown), and non-payment or delayed payments by the Municipality*;
- Desired solutions to the challenges (from the perspective of the project owners): *Improve the turn-around time for payment of invoices*.

Observations and findings

- The landfill site is still under construction. The 19 000m² pit has been excavated.
- The contractor was busy installing the membranes and drainage system for the sub-surface water and leachate.

Successes

- None cited, the project is still in the initiation phase.

Recommendations

- The Municipality and Treasury should work towards improving the turnaround time from receiving certificate of works or invoices to payment to the prescribed six weeks or shorter.

(b) Joe Slovo Main Sewer Outfall-Modimolle

Background of the site

- Name of the project: *Joe Slovo Main Sewer Outfall-Modimolle;*
- Project initiation / start date: *15 June 2019;*
- Total budget for the project*: R21 million;*
- Department(s)/entity/entities funding the project: *Water Services Infrastructure Grant;*
- Number of people benefiting or intended to benefit from the project*: 11 985;*
- Number of people employed in the project: *53 employees;*
- Intended completion date: *February 2021;*
- Key challenges experienced during the project: *Delays owing to lockdown, labour unrest that lasted for two months and non-payment or delayed payments by the Municipality;*
- Desired solutions to the challenges (from the perspective of the project owners): *Improve the turn-around time for payment of invoices;*

Observations and findings

- The sewage pipeline is still being excavated. There is overflow from the current pipeline, indicating the need for immediate replacement, as it pollutes the nearby Nile River. A total of 4000 households will be connected to the new sewage pipeline. The treatment plant that is fed by the sewage pipeline would require upgrade to be able to meet the growing demands.

Successes

- The first phase of the pipeline has reduced the direct overflow into the river, thus reducing pollution.

Recommendations

- The Municipality and Provincial Treasury should work towards improving the turnaround time for receiving certificate of works or invoices to payment to the prescribed six weeks or shorter.

5.6.2 Mogalakwena Local Municipality

(a) Moshate Stadium

Background of the site

- Name of the project*: Moshate Stadium;*
- Project initiation/start date: *April 2016;*
- Total budget for the project: *R59 million, of which R13 million was paid before the termination of the project and the AGSA found that it constituted a material irregular finding;*
- Department(s)/entity/entities funding the project: *Municipal Infrastructure Grant and Municipality;*
- Number of people benefiting or intended to benefit from the project: *Moshate Village;*
- Number of people employed in the project: *50 local labourers and additional 80 persons hired by the 10 sub-contractors;*
- Intended completion date: *April 2017;*

- Key challenges experienced during the project: *Extension of earthworks, owing to old building materials found during excavation; Community interference led to the project stopping, demanding local companies to be sub-contracted; and the main contractor did not pay sub-contractors on time.*
- Desired solutions to the challenges (from the perspective of the project owners): *The Municipality must provide the local community with a sporting facility.*

Observations and findings

- The project site manager indicated that the contractor reportedly does not pay the labourers and sub-contractor. The engineer raised concerned about the building pillars not being built up to code. The contractor complained about engineering designs after implementation had started. This was resolved by the engineer, who found a sub-contractor to effect the necessary designs.
- The structures are incomplete and are being vandalised, as the contractor left the site and project.
- The project costs increased owing to labourers requesting salary increases.
- The Municipality sourced additional funds towards the project from internal funds (R7 million).
- The engineer recommended termination of the project after the contractor defaulted but the Municipality (through acting Municipal Manager Maluleka) went against the engineer's recommendation, citing legal issues.
- The contractor was paid R600 000 in back pay that he was owed and would not come to site.
- The project stopped at 65% completion, yet four additional payments were made to the main contractor after the project had ended.
- The contractor was reported as not being on-site between 2017 and 2019 and only returned to site in 2019.

Successes

- Sewage pipelines have been installed.
- Irrigation systems for the lawn fields or greens were installed.
- The project reached 65 percent completion at the time of project closure or ending.

Recommendations

- The Municipality should put in place measures to ensure that available onsite infrastructure is protected from further vandalism.
- The Municipality should explore the possibility of completing the project by providing additional funds to restart it.
- The Municipality must recover funds that were irregularly or fruitlessly spent.
- Investigations are underway and the municipality should lay criminal charges against those implicated.

(b) Mogalakwena Wastewater Treatment

Background of the site

- Name of the project: *Mogalakwena Wastewater Treatment (in Mashodi Village, Mokopane*);
- Project initiation / start date: *24 June 2015*
- Total budget for the project: *R295 million*;
- Department(s)/entity/entities funding the project: *Municipal Infrastructure Grant and Municipal Funds;*
- People benefiting or intended to benefit from the project: *Mogalakwena Community;*

- People employed in the project: *Construction Company CMC Tecroveer Joint Venture, Engineering Services by Aurecon South Africa (Pty) Ltd (Municipal Technical Manager indicated that she will have to establish the exact number of people employed from colleagues, but indicated a lot of people were employed);*
- Intended completion date: *23 June 2017;*
- Key challenges experienced during the project: *Labour issues, demand for sub-contracting of locals; Labour rates increased above the budgeted rates. The project was stopped, as the Municipality could not continue to fund the project.*
- Desired solutions to the challenges (from the perspective of the project owners): *The treatment plant should provide 10 million litres of treated water per day.*

Observations and findings

- The project ended before major works were implemented.
- Ivan Platinum, a new local mine, was identified as potential funding partner to finance the project to completion of the plant and to provide it with grey water.
- The project site is fenced off and locked.

Recommendations

- The NCOP delegation cautioned that the partnership between the Municipality and the Ivan Platinum mine should not result in the Municipality subsidising the mine in the end. It recommended that the contracts to be entered into reflect that favourable rates will be paid to the Municipality for the grey water to be provided from the treatment plant.

(c) Industrial Well Field

Background of the site

- Name of the project: *Industrial Wellfield Development Project in Mokopane;*
- Project initiation / start date: *21 August 2019;*
- Total budget for the project*: R32, 6 million;*
- Department(s)/entity/entities funding the project: *Water Services Infrastructure Grant;*
- Number of people benefiting or intended to benefit from the project: *Inhabitants of Mokopane Town and nearby Peri-Urban areas (such as Moshate and others);*
- Intended completion date: *End of September 2020 (extended to March 2021);*
- Key challenges experienced during the project: *A total of 45 days of continuous rain*. *Further, Covid-19 related delays (such as lockdown and restrictions). Community unrests and tribal issues, including the so-called community project hijackers. The project was extended to include the Town of Mokopane, due to growing water demand (and droughts).*
- Desired solutions to the challenges (from the perspective of the project owners*): Initial scope of works was ear-marked to provide water supply in the peri-urban areas.*

Observations and findings

- The Project is at 70 per cent completion rate, with all 11 boreholes drilled and planned to be connected.
- The scope of work deviated, owing to growing water demands and drought experienced in Mokopane town, for four of the 11 boreholes to feed into the town's water supply and the remaining ones to supply the peri-urban areas.

Successes

- 70 per cent of the project was completed.

- All the 11 boreholes planned for in the project were drilled and fitted with pump houses, and left with connection to power sources.

Recommendations

- The Municipality should install an early warning alarm system at the borehole pumping sites to protect the infrastructure;
- The Municipality should explore artificial ground water recharge during rainy seasons to ensure the sustainability of the groundwater, as part of integrated water resource management.

5.7 Recommendations

5.7.1 Thabazimbi Local Municipality

It was recommended that the Thabazimbi Local Municipality provide comprehensive reports, for submission to the office of the Chairperson of the NCOP, with each providing a detailed account of:

- The cost of procured consultancy services and the services rendered in the Municipality by 06 November 2020.
- Vacancy rates at all levels within the Municipality by 06 November 2020
- The Municipality's action plan to address issues highlighted by the Auditor-General by 13 November 2020.

- The functioning of all Municipal Council Committees, such as frequency of meetings over this financial year, issues covered and others by 13 November 2020.
- Litigation within the Municipality, including those resolved and ongoing by 13 November 2020.
- The Special Investigating Unit and Forensic Reports, which the Municipality highlighted were conducted by external Organs of State and in respect of which no report back was received, as well as all internal forensic reports, by 13 November 2020.
- How consequence management is applied in all areas of the Municipal functions by 13 November 2020.
- The training needs of the Municipal Public Accounts Committee (MPAC) and the appointment of a Researcher to provide the necessary support, which pose barriers to the Thabazimbi Local Municipality MPAC functioning, by February 2021.
- The salary bill of officials, as well as strategies to ensure compliance in terms of reducing the municipal wage bill to less than 35 percent of its total bill, by 20 November 2020.
- The issues that led to the ward committees not being established, specifically in Ward 5 and 11 of the Thabazimbi Local Municipality, by 20 November 2020.
- The unauthorised, irregular, fruitless and wasteful (UIFW) expenditure findings by the Auditor-General, by 13 November 2020.
- The Municipality's public participation and interactions or engagements with the communities, as it pertains to the municipal activities (including copies of any attendance registers for the engagements, events or meetings), by 13 November 2020.

5.7.2 Modimolle-Mookgophong Local Municipality

It was recommended that the Modimolle-Mookgophong Local Municipality provide comprehensive reports, for submission to the office of the Chairperson of the NCOP, with each providing a detailed account of:

- The cost of procured consultancy services and the services rendered in the Municipality by 10 November 2020.
- Vacancy rates at all levels within the Municipality by 10 November 2020.
- The Municipality's action plan to address issues highlighted by the Auditor-General by 17 November 2020.
- The functioning of all Municipal Council Committees, such as frequency of meetings over this financial year, issues covered and others by 17 November 2020.
- Litigation within the Municipality, including those resolved and ongoing by 17 November 2020.
- Information on the Municipality's revenue vs. expenditure, with emphasis on the highlighted discrepancies on the staff numbers or payroll by 17 November 2020.
- How consequence management is applied in all areas of the municipal functions by 13 November 2020.
- Detailed information on the job evaluation, as well as its impact on the Municipality's expenditure by 13 November 2020.
- Information on the functionality of the Municipal Public Accounts Committee (MPAC), and the appointment of a Researcher to provide the necessary support. It was stressed that the Researcher to be sourced should be a competent researcher, and must undergo training by Treasury and SALGA immediately after appointment. The report is due by the end of February 2021.
- The unauthorised, irregular, fruitless and wasteful (UIFW) expenditure findings by the Auditor-General by 17 November 2020.

5.7.3 Mogalakwena Local Municipality

It was recommended that the Mogalakwena Local Municipality provide comprehensive reports, for submission to the office of the Chairperson of the NCOP, with each providing a detailed account of:

- The cost of procured cconsultancy sservices and the actual services rendered in the Municipality by 10 November 2020.
- Vacancy rates at all levels within the Municipality by 10 November 2020.
- The unauthorised, irregular, fruitless and wasteful (UIFW) expenditure findings by the Auditor-General and the Municipality's action plan to address such issues by 17 November 2020.
- The functioning of all Municipal Council Committees, such as frequency of meetings over this financial year, issues covered and others, by 17 November 2020.
- Litigation within the Municipality, including those resolved and ongoing, by 17 November 2020.
- Information on the revenue vs. expenditure, with emphasis on the highlighted discrepancies on the staff numbers or payroll, by 17 November 2020.
- How consequence management is being applied in all areas of the Municipal functions by 13 November 2020.
- Detailed information on the job evaluation, as well as its impact on expenditure, by 13 November 2020.
- Information on the functionality of the Municipal Public Accounts Committee (MPAC), and the appointment of a Researcher to provide the necessary support. It was stressed that the Researcher to be sourced should be competent and must undergo training by Treasury and SALGA immediately after appointment. The report is due by 13 November 2020.
- With regard to the Auditor-General's findings of material irregularities in the Moshate Stadium Project wherein the Municipality made payment on work not done, it was recommended that the Municipality refer the matter to the Provincial Executive and for criminal investigation. It was recommended that the Municipality report on progress with such referrals by 13 November 2020.
- The Municipality should provide the NCOP delegation with detailed information on employees, including their friends and families, who are doing business it by 13 November 2020.

- The Municipality should provide the NCOP delegation with an account of use and state of municipal investments, and provide a report on the municipal assets by 13 November 2020.

In addition, it was recommended that:

- The NCOP should intervene to unlock bottle-necks in various development projects in the Province, such as the Flag Bosheilo Project.
- The Provincial Government should consider extending the current 12 months' intervention in terms of Section 139 of the Constitution in the Mogalakwena Local Municipality. It was highlighted that the Municipality is still facing financial challenges, including economic governance challenges related to infrastructure development and management.
- The Municipality should provide detailed information with regard to the development projects visited.

6. Mpumalanga Province

6.1 General overview

The Mpumalanga local government is divided into three districts, which host 17 municipalities. The NCOP Provincial Week Programme in Mpumalanga focused on three municipalities, namely Emalahleni, Lekwa and Govan Mbeki Local Municipalities. It covered a wide range of issues relating to governance, including financial governance and service delivery. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors, Council Speakers (including Members of the Mayoral Council) to senior managers in provincial and local government.

The Emalahleni Local Municipality is situated in the Nkangala District of Mpumalanga. It is one of six municipalities in the district. The Municipality covers an area of 2 678km² and includes the Towns of Kriel, Ogies, Phola and eMalahleni. The main economic sectors in the Municipality are mining, power generation, steel, vanadium and chrome. The Municipality is strategically located in terms of the provincial context and transport network. It is situated in close proximity to the City of Ekurhuleni, City of Johannesburg and City of Tshwane Metropolitan municipalities in Gauteng. It is connected to these areas by the N4 and N12 freeways. These freeways converge at eMalahleni, from where the N4 extends to Mbombela, the provincial capital, and ultimately Maputo in Mozambique. The N4 freeway, along with the railway line that runs adjacent to the freeway from Gauteng to Mozambique, constitute the Maputo Corridor.

The southern areas of the Emalahleni Municipality form part of the region referred to as the Energy Mecca of South Africa, due to its rich deposits of coal reserves and power stations. eMalahleni and Middelburg (situated in the adjacent Steve Tshwete Municipality) are the highest order settlements in the Nkangala District. These towns offer the full spectrum of business and social activities, and both towns have large industrial areas. The towns fulfil the function of service centres to the smaller towns and settlements, as well as farms in the district.

The Lekwa Local Municipality is situated within the Gert Sibande District. It is one of seven municipalities in the district. It was established on 5 December 2000 after the amalgamation of three former Transitional Local Councils, namely Standerton, Sakhile and Morgenzon. The Municipality covers an area of 4 557km² and includes the towns of Morgenzon and Standerton. Standerton serves as an urban node, whilst Morgenzon, which is 45km northeast of Standerton, serves as a satellite node. The main economic sectors in the municipality are agriculture, forestry and fishing; community, social and personal services; and private households.

The Govan Mbeki Local Municipality is situated in the south-eastern part of Mpumalanga Province, adjoining Gauteng Province in the south-west; approximately 150km east of Johannesburg and 300km south-west of Mbombela (capital city of Mpumalanga). It is one of seven local municipalities under the jurisdiction of the Gert Sibande District municipality and the area it covers is mainly agricultural/rural, with three urban conglomerates, namely Leandra (Leslie, Lebohang and Eendracht) on the western edge, the Greater

Secunda (Trichardt, Evander, Kinross and Secunda/Embalenhle) in the central part and Bethal//Emzinoni in the east.

As is the case with many municipalities in the country, Emalahleni, Lekwa and Govan Mbeki Local Municipalities are faced with inequality and poverty, which affect African communities more than other race groups. So, for example, the overall unemployment rate in the Emalahleni Local Municipality stands at 27.3 per cent. Of this, 30 per cent of unemployed people are female, 20 per cent are male and 36 per cent accounts for the youth. As a result of relative low levels of education in the population, the Municipality experiences skills shortages. In the Lekwa Local Municipality, unemployment stands at around 27,5 per cent. Of this amount 32,5 per cent of unemployed people are female, 23,1 per cent are male and the overwhelming majority (57,8 per cent) accounts for the youth. In the case of the Govan Mbeki Local Municipality, the unemployment rate is around 25,5 per cent. Of this amount, 30,5 per cent of unemployed people are female, 21,8 per cent are male and more than half (52,9 per cent) constitute unemployed youth.

6.2 Financial management and governance

Overall, municipalities in the Province still battle to pay creditors. The total amount due to creditors and payable by municipalities as at the end of June 2020 amounted to R8 billion, which was reported as understated. Further, Eskom debt amounts to R10.3 billion as at the end of August 2020. The total outstanding debtors in the Province amounts to R5,6 billion. The total outstanding Government debt is R1,9 billion.

Many municipalities still do not submit the required financial data strings. This leads to lack of credible financial data, which distorts the status of municipal finances for the province. Eight municipalities' budgets were found to be unfunded for the 2020/21 financial year. Following the Special Adjustment budget process and Provincial Treasury engagements, only two municipalities' budgets remained unfunded, namely Emalahleni and Dipaleseng.

Overall, actual billings amounted to R16 billion or 86 per cent of the adjusted budgets for the 2019/20 financial year. The total aggregate operating expenditure amounted to R16 billion or 74 per cent of the total adjusted budget of R21, 7 billion. Capital expenditure, recorded at R2, 3 billion or 53 per cent of the total adjusted budget amount of R4,3 billion, was below the benchmark of 100 percent for the period under review.

COVID-19 affected the functioning of many municipalities around the country, including in the Mpumalanga Province. For instance, due to the lockdown, revenue from licenses and agency fees were less in the first two months of the 4th quarter. With many households facing lay-offs and their finances stretched to the limit, they were unable to pay for the services rendered by the Municipality. However, even before the COVID-19 period, municipalities such as Emalahleni faced challenges such as low municipal payment rate, illegal connections and reconnections, faulty meters and the inaccurate consumption information on the financial system. Further, the Auditor-General indicates that the Municipality has in the past demonstrated an inability to collect billed revenue, which makes it difficult for the Municipality to meet its obligations as and when they become due. It was reported that the Municipality's revenue collection rate is currently at 60 per cent, which is way below the National Treasury norm set between 95 per cent to 100 per cent.

Financial data is critical for planning, and assists in decision-making. Although the Emalahleni Local Municipality submits monthly reports required in terms of section 71 of the Municipal Finance Management Act of 2003, figures do not correspond with figures on the mSCOA data strings. Further, the Municipality's bulk purchases from Eskom far exceed their monthly electricity revenue, resulting in its debt owed to Eskom escalating from R3,1 billion on 30 June 2019 to R4,3 billion on 30 June 2020.

The Municipality is one of the municipalities in the Province that need to turn around their financial position. During the 2018/19 financial year, the Emalahleni Local Municipality was categorized as a financially distressed municipality. However, according to the Auditor-General's recent report, the

Municipality's audit outcome improved from a disclaimer in the 2015/16 financial year to a qualified audit opinion for the 2018/19 financial year. This improvement is attributed to the efforts made by the Provincial Treasury and provincial Department of CoGTA in the form of training of the Municipal Public Accounts Committee and the establishment of a Disciplinary Board.

Lekwa Local Municipality has received unqualified audit opinions from the 2013/14 to the 2016/17 financial years, its audit outcome regressing to a qualified audit opinion in 2017/18 and further regressing to a disclaimer in 2018/19. The Auditor-General indicates that the Municipality was one of the municipalities that were categorised as financially distressed. Although the Municipality received provincial government support in terms of section 139 of the Constitution, the Auditor-General reported that the intervention did not yield substantial positive results due to the late approval and implementation of the financial recovery plan.

The Lekwa Local Municipality is one of the eight municipalities in the province that contribute to the escalating Eskom debt, owing the Eskom R1,1 billion. This is an increase of R310 333 million from December 2018 to date, with an average monthly account of R36,4 million against average monthly capability of R19 million. Further, the Municipality is unable to honour its repayment plan agreed to with Eskom, accruing on average monthly interest of R10, 1 million.

It was reported that as at 31 December 2019, the Lekwa Local Municipality had a variance of -R175 441 million on its electricity revenue bulk purchases of R323 518 million, against revenue of R14 807 million billed. Between December 2018 and December 2019, the Municipality's debtors increased from R865 million to R1 billion.

Govan Mbeki Local Municipality is in the same situation as Lekwa Local Municipality. For the period under consideration, the Municipality received a financial recovery plan through section 139 of the Constitution. As is the case in many municipalities, the Govan Mbeki Local Municipality struggles to recover the cost of unbilled water. Rand Water is reported to be the second highest creditor, amounting to R317 million. Further, reduction in electricity supply has an effect on payment for services, as communities are reluctant to pay due to internal load shedding. Further, the Municipality remains financially unsustainable due to expenditure exceeding income, with Eskom debt as the highest contributor to the current financial status quo. The Municipal Council adopted a repayment plan that has since been rejected by Eskom.

The Municipality intends appointing Gert Sibande District Municipality as the implementing agency for electricity management for Bethal/eMzinoni. To this end, it plans to ring-fence funds earmarked for electricity revenue for Bethal/eMzinoni. This process will be guided by the Council.

It was reported that the Municipality's 2018/19 Annual Financial Statements (AFS) were submitted late and are still being audited, whilst the 2019/20 AFS will be submitted on 31 October 2020, as per the applicable legislation. Both the Municipal Manager and the Chief Financial Officer are currently on suspension as a consequence of non-submission of the 2018/19 Annual Financial Statements.

The Council approved irregular expenditure amounting to R191 million on 30 January 2020, as per resolution A005/01/2020, subsequent to the year-end and reporting period. The write-off will be reflected in the financial statements for the period ending 30 June 2020. The Council also approved write-offs amounting to R324 million relating to previous financial years (2016/2017 and 2017/2018) as per resolution A005/01/2020 that is subsequent year end and reporting period. The Municipality has witnessed an increase in irregular, unauthorised, fruitless and wasteful expenditure, with no consequence management. It should be noted that allegations of fraud, corruption and maladministration remains a high risk.

Most of the municipalities have no clear system of delegation and separation of powers and authority between its administrative and political components, as articulated in various legislation and policies governing local government. For instance, in Govan Mbeki Municipality serious concerns were raised regarding alleged political interference in the operations of the administration. Further, across the municipalities under consideration, the Code of Conduct for Councillors and officials is not strictly adhered to and implemented.

Political in-fighting and service delivery protests are some of the issues cited in Lekwa Local Municipality as factors that hinder service delivery. Further, all municipal governance structures are non-functional. The Municipality has not yet processed reports required in terms of section 106 of the Municipal Systems Act. Further, committees established in terms of section 80 of the Municipal Structures Act of 1998 are not functional. Section 80 committees play a critical role in terms of managing policy decisions that affect overall governance of the Municipality.

6.3 Accountability

Lekwa Local Municipality did not investigate any of their previously reported unauthorised, irregular or fruitless and wasteful expenditure. Failure to act against commissions that display total disregard for the laws that regulate local government weakens public trust and confidence between communities and the councils. As is the case in most municipalities, neither Emalahleni, Lekwa, and Govan Mbeki Municipalities' political leadership, nor the administration, are providing effective leadership to address financial and economic governance failures.

It should be noted though that municipalities, such as Emalahleni, developed policy frameworks for the enforcement of a Code of Conduct for Councilors. Further, Councilors and relevant committees were trained on issues of governance, financial management, service delivery, policy-related matters and oversight. The municipalities continuously fail to implement recommendations made by various assurance providers. The political and administrative leadership allowed unethical behavior, misconduct and a culture of no consequences, notes the Auditor-General.

Govan Mbeki Municipality does not have a public participation policy, nor does it have an engagement programme with communities. Further, over the past three years, the Municipality has been plagued by violent protests due to its poor public participation programmes that have failed to engage communities regarding service delivery demands. This is exacerbated by the lack of a working relationship between the Municipality and Community Development Workers (CDWs).

6.4 Capacity and skills

The Auditor-General reports that a total amount of R7,80 billion in the Province was spent on the wage bill, consultants and contracted services. In some cases, consultants were appointed to do the work of appointed staff.

In case of Emalahleni, it was reported that the Municipality's Performance Management System is at lower levels. Monitoring of service delivery by staff at regional service centres is ineffective. The Municipality has no effective human resources plan in place.

According to the Auditor-General's report, Lekwa Local Municipality has been struggling to secure a full staff complement for a number of years. The overall vacancy rate was 52 per cent and the senior manager vacancy rate was 67 per cent. The vacancy rate in the finance department was 33 per cent. For example, senior management positions, such as the Chief Financial Officer, Director Corporate Services and Director Technical Services are vacant. The Auditor-General reports that in the case of Lekwa Local Municipality, consultants, instead of municipal officials, responded to audit findings. According to the Auditor-General, this act shows that municipal officials were unable to explain the transactions that made up the financial statements and did not have the necessary skills to perform the accounting tasks throughout the year and stabilize the internal controls.

Govan Mbeki Local Municipality lacks appropriate skills and technical capacity to efficiently and effectively run the technical services department. Further, alleged political interference in the administration has resulted in skills drainage, with some valuable officials opting to either resign or rendered redundant within the administration.

Further, it was reported that the Govan Mbeki Local Municipality's operational budget to address the current vacancy rate of 42 per cent to fill critical vacancies, particularly in the Energy, Water and Sanitation, Roads and Storm-Water, Internal Audit and Risk sections, is insufficient. This includes the budget for training and reskilling of personnel in critical areas. In addition, consultants were appointed to assist with the preparation of the financial statements, as well as the correction of prior year figures due to the disclaimer that the Municipality received in the previous year, reported the Auditor-General.

6.5 Service delivery

Investment in economic and social infrastructure remains a priority, and many municipalities are struggling to plan, budget and spend capital budgets. Emalahleni Local Municipality received R119 975 million through the Municipal Infrastructure Grant in the 2019/20 financial year, which amount was fully spent by the end of June 2020. The allocation for the 2020/21 financial year was R119 million. Of this amount, the Municipality spent R33 294 million (27.9 per cent) as of the end of August 2020. As is the case in many municipalities, Emalahleni Local Municipality experiences excessive backlogs in terms of electricity; continuous pollution of water resources due to poor operation and maintenance of waste water treatment works (WWTWs); aged infrastructure (old asbestos pipes), leading to frequent pipe bursts; and demand for water supply exceeding daily production of water, leading to shortages affecting various development projects, such as Siyanqoba housing development.

Similarly, Lekwa Local Municipality experiences infrastructure challenges, namely road infrastructure is old and not maintained, resulting in poor storm water drainage, potholes and non-functional traffic lights. Further, the Municipality faces a scourge of sewer spillages in almost all wards. This is attributed to sewer infrastructure leading to the Muller Pump Station being partially or wholly dysfunctional, including Rooikopen 1 and 2 Pump Station; Steijn Pump Station; Johan Pump Station; Standerton Wastewater Treatment Works; Taljaard Pump Station; and Muller Pump Station. This has led to heavy sewer flowing from the residential areas down the streams, making its way into the Vaal River.

Further, all the planned infrastructure projects relating to water and sanitation have not been initiated. Water supply shortages to rural or farming communities remains a challenge. Lack of investment in water infrastructure continue to cause problems, for instance there are leakages within water infrastructure due to ageing infrastructure and water infrastructure requiring upgrading; and an insufficient budget to deal with operational and maintenance issues. It remains a concern that some pumps had already been refurbished in the last two financial years but have also collapsed and are no longer functional due to vandalism. The Department of Human Settlements is also assisting with the installation of two pumps within the new settlement of Standerton Ext 8.

The Waste Water Treatment Works is not functional (i.e. sand filters, valves, water pipelines, air blowers, clear water pumping units) and design capacity is no longer meeting the demand. In an attempt to address water and sanitation infrastructure challenges, the Municipality is engaging the national government and Development Bank of Southern Africa (DBSA) with the aim of getting further financial assistance, especially for the refurbishment and upgrading of the Standerton Waste Water Treatment Plant, which is estimated to cost approximately R250 million. Further, Lekwa Local Municipality also needs to invest in electricity infrastructure. In addition, the Municipality experiences waste removal challenges, including illegal dumping. The Municipality has insufficient refuse collection vehicles to service all areas.

In terms of the Municipal Infrastructure Grant, the Govan Mbeki Local Municipality was allocated R57 million in 2019/20. By the end of the financial year, the Municipality had spent R53 million (or 94 per cent) of the grant. In the 2020/21 financial year, grant allocation was R57 million, of which R3,5 million (or 6 per cent) was spent by the end of the first quarter. In the past, the Municipality has experienced delays in finalising the appointment of service providers for Municipal Infrastructure Grant projects. As a result, it was unable to fully spend the allocated Municipal Infrastructure Grant budget for the past two consecutive financial years.

Govan Mbeki Local Municipality has license to distribute electricity to its consumers. It has a total of six points of delivery from Eskom, totalling 140MVA. This capacity is often exceeded to 164MVA during peak demands, leading to power disruptions and Eskom penalties. Load shedding of power supply to residents is mainly due to demand exceeding supply in terms of Notified Minimum Demand (NMD), especially during the winter period. Further, vandalism and illegal connection of electricity in the pump stations have contributed significantly to the collapse of operations and failures.

Further, the Municipality has breached contracts it has entered into with Eskom, Rand Water and Sasol (which recently serviced the maintenance of waste water treatment plants to minimise and eliminate sewer spillages at minimal costs by its Synfuel Engineers). It is unable to address Eskom, Rand Water and SASOL debts. It owes Eskom R2.1 billion.

The Municipality is plagued by sewer spillage due to ageing infrastructure. This includes lack of operations and maintenance of wastewater treatment plants, which contribute to the problem of sewer spillages. The total collapse of manholes and overloaded outfall lines in the Municipality are amongst the issues that have affected the sewer system negatively. For instance, in the Leandra Township households have constructed their houses on the sewer servitudes, leading to total collapse of the sewers. As a result, spillages were streaming into houses or flushing backwards in their toilets and drainage systems.

It is essential for local municipalities to establish partnerships with the private sector local economic capacity to address inequality, poverty and unemployment. Govan Mbeki Local Municipality lacks an effective *Local Economic Development Strategy* to respond to unemployment, poverty and inequality, especially among young people. Further, spatial planning and land use management is critical. The Municipality's Spatial Development Framework is outdated and needs to be reviewed, with the view to aligning it with the Spatial Planning and Land Use Management Act (SPLUMA).

Further, the linkage between urban and rural areas is poor and does not facilitate economic development. There is poor alignment of authorisation for competing land uses. Also, rehabilitation of previously mined land within the Municipality is poor. Further, the Municipality experiences delays in finalising the land use scheme and its reporting on land invasion is inadequate.

6.6 Recommendations

- The Mpumalanga, Department of Cooperative Governance and Traditional Affairs (CoGTA) must assist municipalities with the implementation of SPLUMA and develop a draft standard policy and a draft standard by-law for adoption by municipalities to manage land invasion.
- With regard to Emalahleni and Govan Mbeki Local Municipalities, the provincial Department of CoGTA should investigate the causal factors that prevent the holding of Council meetings and find mechanisms to ensure that meetings take place.
- All local municipalities need to formulate strategies and communication plans to train/educate community members about the necessity to pay municipal services, with a view to bringing an end to the "culture of non-payment", which impacts service delivery negatively.
- SALGA, Provincial Treasury, the provincial Department of CoGTA and other relevant stakeholders should convene an urgent meeting with ESKOM and other service providers, such as water boards, to address collectively the debt owed by municipalities.

- In all municipalities, Financial Recovery Plans should form an integral part of governance mechanisms, and should be institutionalised. In particular, the Lekwa and Govan Mbeki Local Municipalities should accelerate the implementation of its Financial Recovery Plan and submit regular reports to Provincial Treasury. Further, The Municipal Council must monitor implementation of the Municipality's Financial Recovery Plan closely, as failure to implement it can have dire consequences for the Municipality, such as the invocation of section 139(5)(b) of the Constitution, read with section 146(3)(a) of the Municipal Finance Management Act.
- The municipalities should establish Budget Steering Committees, chaired by the Executive Mayor. Members should consist of the Municipal Manager, Chief Financial Officer and all other nominated senior managers reporting to the Municipal Manager. Some of the functions of the Budget Steering Committee should be to monitor the Municipality's budget performance in relation to actual performance on revenue collection and spending, reprioritise the Municipality's budget in line with the Cash Flow Management Plan, including re-aligning the Municipality's budgeted expenditure from non-critical expenditure items to agreed service delivery priorities.
- Further, the Budget Steering Committee should form a Cash Flow Management Committee to review and monitor progress on the implementation of the mandatory Financial Recovery Plan; develop and implement the cash management plan; monitor weekly total revenue collected, orders issued and contracts awarded; develop and implement a cash management plan; and implement revenue management controls.
- The Emalahleni Local Municipality should improve internal controls over Supply Chain Management (SCM) by adopting a number of measures in line with the Municipal Finance Management Act, 56 of 2003 (MFMA). These include implementing SCM controls; centralising the approval of requisitions and bid specifications in the Cash Flow Management Committee; and revising the SCM policy to strengthen controls over the use of Regulation 32 appointments (Regulation 32 appointments to be submitted to Provincial Treasury for guidance and support before appointment is finalised).

- The Cash Flow Management Committee should monitor total revenue collected, orders issued and contracts awarded on a weekly basis; review all Service Level Agreements (SLAs) in ensuring that the services are critical and that inclusion of performance management clauses and value for money principles are applied; and submit all new SLA's to Provincial Treasury for advice before signing with service providers.
- All municipalities should consider implementing the prepaid electricity meter system as part of their capital budget-spending item.
- The management of contracts in all municipalities should be improved.
- Municipalities should devise plans to maintain public infrastructure, including providing security to protect development projects against vandalism. Collaborative efforts with law enforcement agencies should be prioritised.
- Relevant sector departments at national and provincial level should support all the municipalities to develop Local Economic Development plans that are aligned to the spatial development framework. The District Development Model should be applied to address economic growth, investment and job creation initiatives. Financing and development planning capacity in all municipalities need to be enhanced.
- All relevant infrastructure departments, such as water and sanitation, should lead in addressing water infrastructure investment. The Departments of Minerals and Energy and Public Enterprises should scale up their support to address electricity development issues. This means collaborative efforts in areas such as water, sanitation, electricity, refuse removal and roads infrastructure should be established. Functional capacity and the capacity of the Municipal Infrastructure Support Agent (MISA) should be prioritised to enhance infrastructure implementation. Collaboration with development agencies, such as the DBSA, should be prioritised.
- The organisational health and capability of all municipalities should be addressed, particularly in functional areas such as finance, engineering and development planning.
- Municipalities should develop human capital management and development plans to enhance functional performance of employees.

- The Govan Mbeki Local Municipality should review its organogram to respond to service delivery challenges in the Municipality.
- Municipalities should re-establish all committees established in terms of sections 79 and 80 of the Municipal Structures Act, 1998.
- Municipalities should prioritise maximum revenue collection to enable them to pay their creditors by:
- Addressing inefficiencies in billing electricity and water.
- Considering the appointment of debt collectors to improve debt collection.
- Municipalities should accelerate economic activities to create employment. Lack of jobs, and lack of significant private sector activity have a direct impact on the revenue base of municipalities.

7. Northern Cape Province

7.1 General overview

The Northern Cape local government consists of 31 municipalities, made up of five district municipalities and 26 local municipalities. The NCOP Provincial Week Programme in the Northern Cape focused on three local municipalities namely Phokwane, Dikgatlong and Joe Morolong municipalities covering a wide range of issues relating to governance, including financial and economic governance, and service delivery. Phokwane Local Municipality has been dissolved in terms of S139(1)(c) of the Constitution. The meetings were attended by relevant political authorities ranging from Members of the Executive Council, Mayors, Council Speakers including Members of the Mayoral Council and the provincial and local government senior managers.

The following trends have been identified as the key cross cutting challenges across the municipalities; poor political and administrative leadership, poor planning and lack of alignment to the Integrated Development Plans (IDPs) and budgets, poor governance and uncoordinated political oversight, and poor financial planning, controls and accountability. Further, municipalities are faced with challenges ranging from lack of revenue and credit controls to poor supply chain management. Many municipalities across the country including in the Province have total disregard for the audit outcomes and recommendations. There is no doubt that these challenges undermine service delivery and societal development.

Dikgatlong Local Municipality is situated in the Frances Baard District Municipality. It is home to the site of the first alluvial diamond digging and is now renowned for its fly-fishing spots and luxury game reserves. The Municipality covers an area of ± 7 315 km² and includes the towns of Barkly West, Delportshoop and Windsorton. The population is approximately 46 841. It was established in 2000 through the Local Government Demarcation processes, when the three towns were amalgamated into one municipality. The main economic industries are agriculture mining, and manufacturing.

Phokwane Local Municipality is nestled in the lush green delta of the Hartswater region and boasts the second largest irrigation scheme in the Southern Hemisphere namely the Vaalharts Irrigation Scheme. The Municipality is situated 125 km on the N18 to Vryburg within the Frances Baard District Municipality. The administrative seat of the municipality is Hartswater. The Municipality has a total population of 61,321 inhabitants of whom the majority is found in the peri-urban areas of the municipality. In terms of agriculture Phokwane exports grapes, citrus and olive products. The main economic industries are agriculture, community development, retail, private households and informal trading.

Joe Morolong Local Municipality formerly known as Moshaweng is an average small area spreading over about 9477.4560 square kilometres situated within John Taolo Gaetsewe District Municipality. The area is mostly rural with about 60 per cent of it compromising virgin land surface. The total population of the area is less than 100 000 with only 58 per cent of it being economically active. The main economic industries are agriculture, mining, and community services.

As with many other municipalities in the country, the municipalities under consideration should tackle unemployment, poverty, and inequality. Any regional or municipal economic strategy needs to respond decisively to tackle unemployment, poverty, and inequality. Government resources at all levels need to be strategically allocated to appropriately address the socio-economic challenges. Further, investment in economic and social infrastructure such as water and sanitation, including energy should be prioritised. Hence, weak financial, economic and political governance in municipalities need to addressed.

7.2 Financial management and governance

For the last two years, Dikgatlong Local Municipality's audit outcomes have regressed from qualification to disclaimer. The number of issues in the audit report increased from 8 to 14 and then regressed to 8 again under the current review period. The Municipality has not submitted the required information in terms of their monitoring tool or audit action plans.

Further, the Municipality has over the years adopted an unfunded budget despite not being allowed to adopt unfunded budgets. These budgets are supposed to be reworked until a funded position is realized. These unfunded budgets resulted in the Municipality spending beyond its means.

As is the case with Dikgatlong Local Municipality, Joe Morolong Local Municipality has been underperforming in respect to audit outcomes. The Municipality has for the past 3 years received a disclaimer audit opinion. The number of issues raised in the audit report has gradually increased over the 3 years. The Municipality has not submitted the required information in terms of their monitoring tool or audit action plans.

Further, the Municipality has been adopting funded budgets. Like Dikgatlong Local Municipality, the Municipality lacks good financial discipline, and it would need to do proper prioritization to ensure it attains good financial health.

Between 2018/19 to 2019/20, Phokwane Local Municipality has been tabling unfunded budgets. The audit opinions remained stagnant over the 2 years for which the audits were finalized. The number of issues raised in the audit report reduced from 16 to 14. The Municipality hasn't submitted the required information in terms of their monitoring tool or audit action plans. Due to political instability, the Phokwane Local Municipality did not table its draft reviewed IDP and their final IDP review was adopted on the 27 July 2020 together with the budget by the Provincial Executive Council.

The municipalities are struggling to recover debt from government departments. This should be prioritized.

In terms of the revenue collection, Dikgatlong Local Municipality's total revenue bill recorded was R190,339 million or 93 per cent. *Property rates* amount to 149 per cent of the adjusted budget followed by *transfers and subsidies* at 118 per cent. *Electricity* is at 40.5 per cent and *refuse and sewerages* at 79 per cent and 76 per cent respectively.

The under-performance on electricity revenue is a serious concern as this would indicate possible errors in the billing process. This poses a risk of cross subsidising electricity services from other services which may have a negative impact on the municipality's ability to service its bulk creditors and service delivery in general. Dikgatlong Local Municipality lacks the ability to report on actual collection.

The Joe Morolong Local Municipality due to its rural nature, depends mostly on Government Grants. Most individual customers are indigents. The Municipality has a number of mining customers who contribute 60 percent of services and taxation revenue. The municipality has 10 mines from which it was previously not collecting property rates. However, this has now been rectified through a data cleansing exercise. Government institutions were not billed previously but are now being billed. They owe the municipality millions of rands which they are in the process of pursuing to settle outstanding accounts, failing which legal action will be taken against them. Government departments owe a total of R96,005,178. The district municipality owes the municipality a total of R2,399,271.

The Municipality's total billed revenue recorded R221, 654 million or 117 per cent of the adjusted budget. *Property rates* is reported at 387 per cent of the total budget followed by *water revenue* at 342 per cent and *electricity revenue* at 315 per cent. *Transfers and subsidies* is the lowest at 69 per cent of the total budget. The high percentages reported for *Property Rates, Water and Electricity* is indicative of unrealistic budgeting.

Further, Joe Morolong Local Municipality received an amount of R95.618 million for the provision of free basic services. This is based on an indigent rate of 75 per cent, one of the highest rates in the province. This is meant to service a total of 18 316 poor households in the municipal area. The approved 2020/21 municipal budget as published on the National Treasury website indicated that the municipality did not provide for the provision of free basic services. The municipality will then basically be unable to provide free basic services as this item has not been budgeted for. No additional information/ explanation was available from the municipality at the time of completion of this report.

In terms of revenue collection, Phokwane Local Municipality realised an amount of R312,917 million. *Property rates revenue* is reported at 101 per cent of the total budget followed by *Transfers and subsidies* at 85 per cent, E*lectricity* at 84 per cent and other revenue at 77 per cent. *Water* at 75 per cent and *Sewerages and refuse* at 71 per cent and 49 per cent respectively. With regard to r*efuse revenue, the Municipality* reported at 49 per cent, and that might jeopardise the ability of the municipality to adequately provide services as income from the provision of the service will be low. It was noted that the Municipality reports revenue billed and not the actual revenue received, this distorts reporting and the ability to determine the viability of the municipality.

Further, Phokwane Local Municipality received R68,074 million for the provision of free basic services for the 2020/21 financial year. This is based on a calculation making provision to subsidise 65 per cent or 13040 poor households in the municipal area. The Municipality only budgeted R53,553 million, resulting in a shortfall of R14,520 million. It should be noted that the inability to adequately provide for indigents highlights inefficiencies in indigent management and budgeting processes. This poses a risk as it might lead to an increase in municipal outstanding creditors for bulk water and electricity, as the municipality will be unable to adequately sustain the provision of free basic services.

In terms of municipal debt and fruitless and wasteful expenditure. The unauthorised expenditure is the main contributor of the unwanted expenditure followed by the irregular expenditure in the Dikgatlong Local Municipality. This is reflective of poor expenditure management and poor supply chain management internal controls.

Other serious concerns relate to the lowest expenditure which was reported under bulk purchases of water and electricity at 43 per cent of the adjusted budget as at 30 June 2020. The highest expenditure was reported under economic and environmental at 132 per cent, which constitutes overspending of 32 per cent. This might be an indication of poor budgeting by the Municipality.

Phokwane Local Municipality has the highest debtors balance which is at R636 499 874. The municipality is having difficulty with revenue collection and the difference between revenue billing vs revenue collection is currently 67.3 per cent. The Municipality has historical debt due to Eskom and the Water board amounting to R278 988 345. Eskom debt includes interest of about 23 per cent of the total. The Water Board has not charged interest yet.

Further, the Municipality incurred irregular expenditure for 2017-18 which amounted to R48.1million. Fruitless and Wasteful expenditure amounted to R13.8million.

Spending related matters in relation to Phokwane Local Municipality. It was highlighted that the highest expenditure was under bulk purchases of water and electricity at 210 per cent, which constitutes overspending of the adjusted budget by 110 per cent. This is an indication of poor budgeting or incorrect reporting. Followed by contracted services and remuneration of councillors at

80 per cent of the adjusted budget. Further, spending on employee related costs were reported at 84 per cent of the adjusted budget, this can be attributed to the vacant positions within the municipality. Although the employee costs are excessive at 84 per cent as opposed to the norm of 25-40 per cent. it should be noted that critical posts remain vacant i.e CFO, Director Technical services. Further, no spending was reported under finance charges, depreciation and debt impairment as at 30 June 2020, this relates to the poor state of financial management and reporting.

Dikgatlong Local Municipality reported a negative net cash balance for three consecutive quarters, which increased during the third and fourth quarter of the financial year. It further, reported a cash cost coverage ratio of less than a month calculated at (-2). This indicates that the municipality will be unable to sustain operations if no revenue is received for one month.

In Joe Morolong Local Municipality, unauthorised, irregular and fruitless and wasteful expenditure remained unresolved. The Municipality recorded in 2019/20 financial year, fruitless and wasteful expenditure amounting to R269 486.97, and irregular expenditure: R6 763 156,36. In addition, bank reconciliations are not performed on a timely basis and appropriately. All unknown deposits have not been cleared on a timely basis, and reconciliations were not done between purchases and additions to the asset register. The assets register has not been updated with disposed assets and reconciled with the total assets as per the general ledger. Further, payments of creditors are not taking place within the prescribed time frame of 30 days due to municipalities indicating cash flow constraints, and suspense accounts are not cleared regularly.

7.3 Accountability

There is lack of consequence management in the municipalities. Almost all seemse same problems are repeating themselves in all the municipalities, for example, the fruitless and wasteful expenditure.

With regard to Dikgatlong Local Municipality, it was reported that the indications from the Internal Audit are that the combined assurance model is somehow effective as the Audit Committee amongst other duties reviewed the annual financial statements of the municipality before they were submitted for audit. However, the MPAC was not empowered and capacitated to implement effective consequence management.

With regards to Phokwane Local Municipality, it was reported that the municipality did not have effective governance structures throughout the year, which resulted in weakness in internal controls within the municipality. The MPAC was not empowered and capacitated to implement effective consequence management. There are vacancies in key management positions including the municipal manager and CFO. Due to this instability, consultants still had to be appointed to prepare financial statements.

7.4 Capacity and skills

It was reported that many employees do not attend training. Further, the vacancies in senior management and in critical positions result in the continuous use of consultants without any skills transfer to permanent staff and the situation remains a critical challenge. Further, the representation of women in senior positions is a concern and there is a need to ensure that vacancies are filled by women in senior posts as this will assist in addressing service delivery challenges. The utilisation of consultants needs to be minimised and there is a need to ensure that the skills are developed internally.

Joe Morolong Local Municipality has the average overall vacancy rate of 23 per cent with a senior management vacancy rate of 83 per cent. The Municipality filled the post of the Municipal Manager on 09 October 2017. Further, the positions of Director Corporate Services, Director Planning and Development Services, Director Community Services and Chief Financial Officer positions were filled on 08 July 2019. Also, the position of the Director Technical services was filled on the 01 October 2019. However, a considerable number of critical posts in the Technical Services department have been vacant since 2018/19 due to a dispute which was declared by one of the Trade Unions at the Bargaining Council on allegations of insufficient consultation. It was reported that the matter is now resolved and Council approved the organogram by end of June 2020. The municipality is in the process of filling the critical, vacant and funded posts.

The staff in the key positions in finance have an insufficient understanding of the accounting framework and implementation of basic financial controls. This resulted in the Municipality having to appoint consultants to prepare their financial statements. This is the matter that was affecting all the municipalities under consideration. Further, the municipalities utilise consultants for the preparation and compilation of annual financial statements. This in turn results in the over-reliance on consultants to prepare financial statements to the detriment of credible in-year financial and performance reporting and compliance with legislation.

In the case of Dikgatlong Local Municipality there is instability at top management (Director: Technical Services and Municipal Manager). Internal capacity to adequately address matters relating to capital projects remains a challenge.

7.5 Service delivery

It should be stated that the municipalities need to invest in economic and social infrastructure. As stated elsewhere in this report. Many municipalities struggle to spend their capital budget. In other instances, many municipalities do not have sufficient revenues that could be channeled to capital infrastructure such as water and sanitation, roads, energy-electricity, including waste infrastructure.

It was a common thread in all 3 municipalities that in respect of free basic services, a certain amount of money was allocated and the municipalities were not using the money for indigents. Members were of the view that more pressure needs to be put on municipalities in respect of service delivery and that the matter needs investigation.

Another common thread was in respect of electricity, water and sanitation problems which was being experienced due to over spending and poor budgeting. Further, that the number of debtors in all municipalities was quite high.

The municipalities under consideration have an inability to pay and/or honour agreements with services providers such as Eskom, Water Boards, and other major creditors. The COVID-19 pandemic has also worsened the financial position of municipalities.

Municipalities are still struggling with water provision to people especially in areas where the cost of water is high and in water is scarce. Generally, water provision, sanitation and ageing infrastructure is a huge challenge which needs to be addressed by all municipalities. Water provision and related costs to provide services through a third party affect consumers, particularly in small and rural towns or communities such as Namakhoi as the cost of the service per capita is unaffordable. The cost of water per kl is R19.00. It was reported that many communities are unable to afford this amount. This is compounded with the socio-economic conditions.

Many municipalities lack capacity to implement infrastructure as already stated in this report, and other government review reports about the state of local government finances, and service delivery. Municipalities struggle to complete municipal infrastructure projects. Some of the factors that hinder infrastructure implementation relate to challenges due to shortages of supply of material. This could be related to disadvantages in location to strategic suppliers. Further, municipalities do not adhere to MIG compliance requirements, which poses a risk in respect of not receiving the second tranche of conditional grants.

Dikgatlong Local Municipality was allocated R31,213 million in direct conditional grants for the 2019/20 financial year, of which the total allocation was transferred as at 30 June 2020. The grants spending was low at 62 per cent of the allocated amount as at 30 June 2020. The highest expenditure was reported under MIG at 68 per cent, which is unacceptable given the dire needs of services by communities, followed by INEP at 50 per cent, FMG at 34 per cent and the lowest spending was reported under EPWP at 3 per cent. No spending was reported for MDGs as at 30 June 2020. The Municipality received a rollover approval of R5 million from National Treasury. The financial recovery plan was not available.

In terms of the conditional grants spending with regard to Joe Morolong Local Municipality, it was allocated R114,149 million for the 2019/20 financial year, of which the total allocation was transferred as at 30 June 2020. The Municipality is rural, with a serious water, sanitation and roads infrastructure backlog. The grants spending was low at 69 per cent of the allocated amount as at 30 June 2020. The highest expenditure was reported under EPWP at 440 per cent, which constitutes overspending of 340 per cent. This highest spending on conditional grants was followed by MIG at 93 per cent and FMG at 83 per cent. The lowest spending was reported under WSIG at 30 per cent of the allocated amount. No spending was reported for MDG as at 30 June 2020. The Municipality received a rollover approval of R1.4 million from National Treasury.

Despite the challenges the municipality has in areas such as water and sanitation including roads, it should be noted that Joe Morolong Local Municipality reported that it does not owe Eskom and Sedibeng Water Board any monies.

Service delivery tools has been the biggest challenge Phokwane Local Municipality has faced, to the extent that there were no tools of trade when the administrators arrived. The Premier unveiled 6 vans which will assist the municipality to carry service delivery functions. The Municipality is expecting more tools of trade in December 2020.

With regard to conditional grant spending in relation to Phokwane Local Municipality, the Municipality was allocated R26. 265 million in direct conditional grants for the 2019/20 financial year, which was reduced by R11, 980 million for MIG during the stopping and reallocation process. The total allocation was adjusted to R67,684 million due to the fact that the Council could not agree on the project list, slow spending and including utilisation of grant funds for other purposes. The highest expenditure was reported under WSIG at 69 per cent. National Treasury approved the rollover application amounting to R20.3 million.

Further, the Municipality reported a negative net cash balance for three consecutive quarters, which increased during the third and fourth quarter of the financial year. In addition, cash cost coverage ratio of less than a month calculated at (-2) was reported. This indicates that the municipality will be unable to sustain operations if no revenue is received for one month. It was reported that the Financial recovery plan is in its final stages. Like other municipalities, the challenge has been the implementation and monitoring of the financial recovery plans.

It should be noted that the provincial government is working closer with the Development Bank of Southern Africa to assist municipalities with planning, and designing revenue enhancement asset management mechanisms. Further, national government has amended the MIG Framework to cater for emergency projects by allocating 10 per cent to cover repairs and refurbishment of water infrastructure and 10 per cent to cover sanitization and PPE provision.

7.6 Recommendations

Recommendations in relation to the Joe Morolong Local Municipality are:

- The municipality should implement joint plans with the Department of Water and Sanitation to address the challenges in relation to the 134 non-functional boreholes. The Department of Water and Sanitation should provide the NCOP with a written report on the 134 non-functional boreholes and the measures that were undertaken to remedy this situation.
- The progress on the Vaal Gamagara Water Project requires further discussion and engagement at a National level.

- The Municipality should work towards less reliance on consultants and provide training and skills development to ensure that internal staff capacity is improved, particularly in financial management.
- The building of houses should be prioritised and the municipality should ensure that service providers are managed appropriately and faced with consequences for poor workmanship.
- The Municipality should work towards improving its audit, financial and procurement plans and fill the critical vacant posts to improve overall compliance with reporting standards.
- Operation clean audit' should be implemented to ensure the improvement of audit outcomes. Three municipalities were identified as having serious audit concerns and 'Operation Clean Audit' is focussed on 5 towns. The recommendation was therefore that the NCOP should be furnished with a written report on the issues faced by the municipality and the implementation of 'Operation Clean Audit' to address these issues.
- There should be penalties for Departments who owe municipalities money. These penalties should also apply to the mines who owe municipalities money. A mechanism for penalties for defaulting payments should therefore be implemented accordingly within the municipality. The recovery of debt will ensure that the municipality has sufficient funds for service delivery.
- The poor condition of roads needs to be addressed on an urgent basis. The Department of Public Works must furnish the NCOP with a report on the measures undertaken to improve the condition of roads in this municipal area.
- A written report should be furnished to the NCOP on the emergency housing provisions made, including the condition of the houses and any challenges encountered in respect of poor workmanship as well as the measures undertaken to resolve these challenges. The written report should include a comprehensive beneficiary list of those who received housing.
- A written report should be furnished to the NCOP on how social / labour plans are being used to address infrastructural challenges.
- The interaction between the municipality and Treasury is important in respect of the monitoring tool and audit action plan and the Mayor should

assist with this interaction. A written report should be furnished to the NCOP on emergency housing, the implementation of the monitoring tool, audit action plan and financial recovery plan.

- A written report should be furnished to the NCOP on the impact of fleet management services on basic service delivery and whether or not legal advice was obtained on this matter, the outcomes of which should be included in the report to the NCOP.
- A written report should be furnished to the NCOP on Treasury interventions on unfunded budgets of municipalities.

Recommendations with regard to Phokwane Local Municipality are:

- A roundtable needs to be convened to discuss the concerns raised in respect of Sedibeng Water Board as this matter has a direct impact on service delivery.
- The Municipality must await the outcome of the CCMA decision prior to advertisements of vacant posts, as this will ensure that the Municipality does not incur wasteful expenditure.
- Consequence management be implemented to ensure that investigations are conducted and the necessary funds are recovered.
- Payment arrangements should not incur interest going forward as this will greatly assist the Municipality in reducing outstanding debt.
- The unfunded mandates of libraries must be addressed by Provincial and National government.

Recommendations with regard to Dikgatlong Local Municipality:

- Municipality should rather opt to hire permanent staff to assist with the compilation of the required reporting documentation. Further they should also consider shared services with the district municipality.
- There should be ongoing discussions amongst the community and the municipal management in order to curb the vandalism and destruction of infrastructure.

- Municipality should take heed of and abide by the guidelines set by the office of the Auditor General.
- The Municipality must adopt a more efficient and effective measures and policies to deal with delinquent staff.
- Since the delegation did not receive a briefing from the Department of COGTA the acting Municipal Manager must provide a written response on the progress made in finalising the disciplinary process. This is to be carried out as a matter of urgency.
- The Acting Municipal Manager must make available the Bufferzone Housing allocation list.
- Gender equality and gender equity should be applied in recruitment and appointments, particularly at senior management level within municipalities.
- Municipalities must implement gender budgeting across all programmes.
- Municipalities must present a clear plan as to how they will address the recovery of debt from government departments. This plan needs to be implemented as soon as possible.
- A clear plan needs to be developed and implemented to address the challenges faced by municipalities in respect of water provision and to address ageing infrastructure. A written report should be furnished to the NCOP on how the Province will address water, sanitation, housing and ageing infrastructure.
- Political intervention is required to address the lengthy suspensions of CFOs.
- The NCOP should develop a strategy to address the challenges faced by municipalities in respect of Sedibeng and Eskom.
- The utilisation of shared services should be implemented to forge collaboration and assist municipalities.
- The Department of Water and Sanitation should furnish the NCOP with a written report on the strategies to address the challenges in respect of the provision of water and sanitation within the Province.
- The District Development Model should be utilised to respond to issues on how district municipalities and departments can address the various issues to ensure collaboration. COGSHA should brief the municipalities in the

Province on the District Development model and the impact it may have in terms of capacity within local municipalities.

- Treasury must provide a report on the assistance provided to municipalities on unfunded budgets.
- Municipalities must provide a report on the impact of Covid-19 on the work of the municipalities.

8. North West Province

8.1 General overview

The North West local government consists of 25 auditees, broken down into 18 local municipalities, four district municipalities and three municipal entities. The NCOP Provincial Week Programme in North West focused on four local municipalities, namely Mahikeng Local Municipality, Madibeng Local Municipality, Maquassi Hills Local Municipality, and Naledi Local Municipality, and Bojanala District Municipality. Engagements during Provincial Week covered a wide range of issues relating to governance, including financial governance and service delivery. There were various development projects that were visited. The meetings were attended by relevant political authorities, ranging from Members of the Executive Council, Mayors, and Council Speakers (including Members of the Mayoral Council) to provincial and local government senior managers.

As is the case with other municipalities in the country, poor political and administrative leadership; poor planning, and coordination of policy and programmes, were some of the factors identified as key contributors to the crisis that many municipalities are facing. Furthermore, it was identified that in many municipalities there is a lack of alignment of the Integrated Development Plans (IDPs) and municipal budgets including poor governance and uncoordinated political oversight and controls and accountability. Further, municipalities are faced with challenges ranging from lack of revenue and credit controls to poor supply chain management and total disregard for audit outcomes and recommendations. These challenges undermine service delivery and societal development.

In the Province, it was reported that in 2014/15 there were 6 unqualified audit outcomes and this has deteriorated to zero unqualified audit outcomes in the 2018/19 financial year with 13 disclaimers. In terms of current progress, most municipalities remained stagnant with about four municipalities having regressed. There were only two municipalities showing improvements, which are Moses Kotane and Kagisano-Molopo. The AGSA has over the years identified that the municipalities in the Province, like in other provinces show lack of accountability for how public funds were spent, overreliance on consultants due to lack of skills, they are incapable and lack effective governance structures. In addition, interventions made by provinces have not yielded desired outcomes. Finance and supply chain management components have shown total disregard of laws and regulations.

AGSA stressed that most municipalities in the Province are in a financial crisis. Most of them operate on a deficit budget, which has increased 243 per cent. Further, the equitable share, which enables municipalities to provide basic services to poor households and perform core municipal functions, did not even cover salaries, which exceeded the equitable share by R56,3 million. The financial situation has resulted in a portion of salaries being funded through conditional grants. This trend is more pronounced in municipalities where own resources were limited.

The financial situation shows a clear picture that municipal's public spending composition is imbalanced. It does not support economic growth and development. Public spending is not channelled to the core functional programmes that enhance service delivery. Thus investment in economic and social infrastructure is curtailed. This is the story shared by many municipalities.

AGSA remarked that Naledi Local Municipality which was affected by an industrial strike was unable to make alternative operational arrangements to ensure continuity of transaction processing and record keeping during the strike. As a result, the Municipality missed the legislated deadline for submission of financial statements and only submitted these during November 2019. Also it was unable to make transactions during the industrial action. Service delivery was completely hampered.

The municipalities under consideration are faced with the challenges ranging from low level of revenue generation and collection, expenditure incurred on non-core and no-essential items (not supporting economic growth and development), rising unauthorised, irregular and fruitless and wasteful expenditure-posing a potential for corruption. Inadequate revenue collection issues such as lack of tariff setting methods, lack of adoption of smart technologies to manage water and electricity metering and illegal connections, further put strain to the financial situation of local municipalities. Further, records documents not stored securely, which has direct effect on governance and accountability.

It was reported that municipalities in the province owe Eskom a combined figure of R2.7 billion, with Ditsobotla Local Municipality being the highest with R623 million. They also owe water boards significant amounts. Further, in some instances municipalities are issuing incorrect invoices to organs of state, invoices sent late, and organs of state are billed on land owned by municipalities.

Asset management, including spending on conditional grants and contract management are some of the challenges that need to be addressed. Much like in other municipalities, this is the area that municipalities need government and private sector support to draw skills to local government. This would help local municipalities to improve service delivery. The provincial government is currently assisting Bojanala District Municipality with the preparation of Financial Recovery Plan.

Despite the support through section 154 of the Constitution, including the most prominent section 139 of the Constitution, municipalities still struggle to turn around the financial situation. This has led other stakeholders in local government to call for a reform of local government regime in the country.

Bojanala Platinum District Municipality comprises of five local municipalities: Kgetleng Rivier, Madibeng, Moses Kotane, Moretele and Rustenburg. The municipal area is approximately 18 333km² in extent and the major cities/towns are Brits, Derby, Hartbeesfontein-A, Hartbeespoort, Koster, Madikwe, Marikana, Mooinooi, Phatsima, Rustenburg, Swartruggens, Tlhabane and Mogwase. The main economic industries are government, mining, finance, manufacturing, and to limited extent agriculture.
As is the case in many municipalities, the District Municipality, Mahikeng Local Municipality, Madibeng Local Municipality, Maquassi Hills Local Municiaplity, and Naledi Local Municipality need to invest in economic and social infrastructure to further stimulate the economic growth of the Municipality, and thus attract investment and create needed jobs. Further, it should focus on tackling poverty and inequality.

Mahikeng Local Municipality and Madibeng Local Municipality fall under the jurisdiction of the Bojanala Platinum District Municipality. The mining sector is the largest within Bojanala Platinum District Municipality accounting for R 71.5 billion or 52.1 per cent of the total GVA in the district municipality's economy.

8.2 Financial management and governance

Bojanala Platinum District Municipality received 5 disclaimer opinions from 2014/15 to 2018/19 financial years. The following root causes were identified: lack of supporting source documentation, payroll and creditors reconciliation that do not agree with financial statements, and journals not adequately supported and reviewed.

The District needs to reprioritise the composition of spending. It was reported that it takes the District Municipality more than 30 days to pay creditors which indicates that there is failure to adhere to the Municipal Finance Manage Act. Further, the cash available is not sufficient enough to cover the municipality for

3 months. The employee related costs is 57 per cent of the total operating expenditure which is above the norm of 25 – 40 per cent. It needs to manage the wage bill to ensure that the spending patterns support core functions of the municipality.

AGSA remarked that Bojanala Platinum District Municipality cash reserves declined over the years, and had an impact on payment of salaries, which is one of the expenditure item that has the potential affect the operations of municipality.

Total adjusted budget is R378 million, while expenditure to date is R301 million with the surplus of R77 million. The District Municipality has a history of being unable to meet financial obligations. In most cases the available cash is not sufficient enough to cover the municipality for 3 months. The employee related costs is 68, reduced from 70 per cent in 2018 financial which is above the norm of between 25 – 40 per cent.

Unlike other District Municipalities such as Ngaka Modiri Molema and Dr Ruth Segomotsi Mompati, Bojanala not have a function to provide basic services such as water and sanitation. That has an effect on its revenue generation capacity. It was reported the District Municipality services cover areas such as integrated development planning that includes district coordination, municipal health awareness services and local tourism to promote economic activity.

Bojanala Platinum District Municipality revenue collection areas relate to collection of funds linked to municipal-by laws on health and environmental, including community development services. It was indicated that the Municipality does not have reliable data-base which could be used as a base for collection of revenue relating to violation of by-laws. The District Municipality generates revenue through issuing of permits, licenses and penalties in ensuring compliance with environmental and health management and disaster. The revenue capacity of the District need to be prioritised.

With regard to fruitless and wasteful expenditure, the District Municipality recorded an amount of R7.1 million. However, the management and MPAC has not investigated any fruitless and wasteful expenditure since 2017/18 to date.

AGSA remarked that local government in the Province lacks a culture financial discipline, and political interference is very prevalent. Senior management demonstrated unwillingness to implement financial and governance recommendations. Further, Internal Audit Units and Audit Committees are rendered ineffective by unresponsive Municipal Managers and Councillors that are tasked with oversight lack the political will to effect consequences.

Further, according to the AGSA report the cost of using consultants in the municipalities in the Province increased significantly by 45 per cent. This remains a concern as both the quality and the submission rate of financial statements regressed from the previous year. Irregular expenditure remained high and increased by R719,8 million due to a lack of political will to effect consequences, creating an environment that was conducive to a blatant disregard of the supply chain management laws and regulations.

The municipalities under consideration in this report are under administration in terms of section 139 of the Constitution. Mahikeng Local Municipality was placed under section 139 primarily as result of the VBS investment matter. The intervention started in 2018 until June 2020. The VBS matter has received national attention and interest. It is one of the matters that has an effect on political stability of the Municipality. Further, the implementation of section139 and 154 of the Constitution should be managed much better. Roles and responsibilities need to be clearly managed in the interest of sustaining governance and accountability between the provincial government and the municipal councils.

AGSA remarked that Mahikeng Local Municipality, like other municipalities, needs to reprioritise the spending composition. Of the total revenue amounting to R946,7 million, 24 per cent (R226,6 million) was from the equitable share and 6 per cent (R57,7 million) from the conditional grants. However, salaries and wages amounted to R345,1 million which meant that the equitable share and grants were not enough to pay for these expenses. Additionally, the Municipality paid R20,1 million to consultants to assist with the preparation of the financial statements and asset registers. The financial difficulties were further compounded by the fact that the Municipality, on average, only collected 23 per cent of the revenue billed to the community and 86 per cent of all debts were impaired due to it being unlikely to be collected. The Municipality also wrote off consumer debts of R349,7 million without following the credit-control and debt-collection policy. This amount was more than the billing for service charges for the year of R235,8 million. This meant that the municipality was fully dependent on grants to pay operational expenses and that the delivery of services to the community was unsustainable due to low payment levels.

With regard to Naledi Local Municipality, the political executive authority and Council are functioning, but there are political divisions that affect effective functioning of Council. In Madibeng Local Municipality, the Municipality is reported to be in a state of paralysis. Council operations are dysfunctional. Again, political factional battles are identified as the main cause of weak political governance that has an effect on the financial governance of the Municipality.

In Madibeng Local Municipality it was highlighted that Sections 79 and 80 committees are not fully functional (MPAC and Rules committee). As result, meetings are unable to reach a quorum.

Maquassi Hills Local Municipality, has been placed under section 139 as a result of poor political governance that has caused instability in Council. Further, political interference with appoint of staff is one of the major concerns. Other local municipalities that reported to be under administration include JB Marks, Tswaing, and Ramotshere Moiloa. However, in Tswaing Local Municipality the Council rejected the intervention, and the provincial government was interdicted. In Maquassi Hills Local Municipality there was a contest between the administrator and the Council, when both appointed different municipal managers. This has marred accountability in the Municipality. AGSA sees these acts in municipalities as part of a concerted effort to undermine governance and accountability in the municipalities. As a result, service delivery gets compromised.

8.3 Accountability

As a result of poor political and administrative governance in the province, additional eight municipalities were placed under administration from the initial five placed under administration during the previous year. AGSA stressed that accountability keeps on deteriorating as the 'plan, do, check, act' cycle that underpins a healthy financial system remains either ineffective or non-existent at the majority of municipalities.

8.4 Capacity and skills

In Madibeng Local Municipality, a number of operational and administrative challenges were highlighted, which include a lack of alignment of certain functions within the organizational structure. There are a number of vacancies at senior management level that include Municipal Manager, Chief Financial Officer, Director ITS and Director HSP. Further, staff abuse overtime, thus draining already strained financial resources. There is reportedly a lack of professionalism.

Mahikeng Local Municipality paid R20,1 million for consultants to assist with the preparation of the financial statements and asset registers. As with the Bojanala Platinum District Municipality, and other municipalities, the spending ratio is not aligned to the core business of municipalities. In many municipalities, there is a shortage of critical skills needed to accelerate service delivery. As stated elsewhere in this report, many municipalities lack skills in areas like finance, contract management, supply chain management, engineering including and development planning.

8.5 Services delivery

It was reported that all the four District Municipalities (Ngaka Modiri; Bojanala; Dr Kenneth Kaunda; and Dr Ruth Mompati) faced about 107 service delivery protests. The service delivery protests were as a result of allegations of corruption and maladministration, lack of refuse removal, sanitation, health services, and poor conditions of roads including other economic and social infrastructure.

In an attempt to improve service delivery, the provincial government has established a Rapid Response Team (RRT) constituted by Members of the Executive Council (MECs), supported by a technicians to offer technical support to municipalities. The RRT is a multi-disciplinary team offering financial management support including infrastructure delivery support and contract management.

As part of the COVID-19 response, the provincial government with the support of the national government has provided water tanks to municipalities. The project amounted to R2 million covering Rustenburg and Madibeng Local Municipalities.

For the 2020/21 financial year, spending for the MIG is expected to be R1.8 billion. Infrastructure spending remains low in many municipalities. This is the matter that needs to be addressed. Investment in economic and social infrastructure is critical. It is one of the enabling levers to attract investment, stimulate economic growth and create needed investments. AGSA has emphasised that municipalities need to pay particular attention to investment and management of infrastructure such as water and sanitation including energy infrastructure.

In the infrastructure assets visited such as Brits Water Treatment Plant, the following issues were highlighted:

- The treatment plant is older than 30 years;

- The plant supplies the whole of Madibeng, but it supplies only 50 per cent of the water demand. Cost to meet the demand is R320 million;
- The quality of water complies 100 per cent with specifications and it is considered safe for consumption;
- The quality of incoming water from the dam is polluted and as such the plant spend more money cleaning it;
- The plant is unable to pump water to Madidi, Ouskraal and Jericho;
- Workers reported that they are being intimidated;
- They report that, they are not supplied with tools of trade (i.e overalls);
- They allege that, materials are removed from the site to another site; and
- Workers also reported that, they were not allowed to raise concerns.

With regard to Lethlabile Waste Water Treatment Plant, the following issues were reported:

- Inlets were not working, pumps were stolen and vandalised;
- Dosing points were damaged;
- There is no security fence
- Animals in the area die because of consuming water from the sewer;
- An estimated R12 million is required to bring the plant to normality; and
- The Municipality reported that there is no single solution for this plant.

In relation to Mothotlung Water Waste Treatment Plant:

- The delegation observed similar challenges as experienced in Lethlabile including; vandalism of assets and unavailability of security;
- The plant is not operational and the sewer dumped into the river; and
- An estimated R18 million is required to revamp the plant.

Spending in municipalities should be geared at addressing some of the issues raised in the Brits Water Treatment Plant, Lethlabile Waste Water Treatment Plan, and Mothotlung Water Waste Treatment. Asset maintenance should be prioritised. The role of the national Department of Water and Sanitation needs no further emphasis in supporting municipalities to address water and sanitation infrastructure. Further, investment in roads infrastructure should be prioritised, including other public amenities such as community parks, libraries and sports and recreation operated by the Municipality. Collaborative investment with other national and provincial departments would be essential. The public amenities play a critical role in cementing social cohesion.

8.6 Recommendations

- Continued utilisation of consultants needs to be managed much more efficiently, and effectively. Skills transfer should be prioritised. Many municipalities under consideration continue to spend more money on consultants but there is no improvement on the financial statements produced. The Delegation has, however, commended the Bojanala Platinum District for not using consultants for their financial reports.
- Efforts to be accelerated to turn around the financial health of the local municipalities. AGSA has noted that most of the municipalities are in financial distress. All the spheres of government should work in a collaborative manner to support local municipalities.
- Provincial government needs to apply 139 of the Constitution correctly. The context is to enhance support to municipalities. However, municipalities need to address their own internal capacity issues. Re-alignment of the organisational structure to core business, and to the credible spending plans.
- Section 139: The delegation believes that there are challenges in the implementation of section 139. The delegation, therefore, is of the view that there should be an honest conversation between the NCOP delegates, Provincial Legislature and provincial government on how best to handle sec 139 interventions.

- Review of Legislation: The delegation recommends that where legislation provides limited powers then that legislation should be reviewed and strengthened. The delegation further advice municipalities to identify all those areas in legislation that needs to be reviewed.
- Skilled Professionals: Municipalities need to conduct skills audits, and recruitment process must be highly ethical. Political interference should be curtailed.
- Provincial government needs to scale up the monitoring and evaluation capacity and capability to be able to identify problems very early, and apply solutions in collaborative manner with municipalities.
- Consequence management: The delegation is concerned about lack of consequence management when policies and procedures are disregarded. The delegation believes that time has arrived for all those who intentionally disregard policies and procedures to be held accountable and where necessary face disciplinary actions.
- Administrators: The window of recycling of administrators and non-vetting of administrators should be closed. Ethical and competent administrators should be appointed.
- Post Audit Action Plan: The delegation is concerned about the lack of implementation of post audit action plans in municipalities. The delegation therefore, request municipalities to submit to the NCOP their detailed post audit action plans.
- Capacitating councillors: The delegation recommends that councillors should receive on-going capacity building to understand local government issues and to keep abreast of developments in local government.
- Records management: The delegation has noted that records management is a challenge for many municipalities and this leads to municipalities taking wrong decisions, which are not informed by data. The delegation recommends that municipalities should focus on improving their records management. The delegation further request municipalities to submit detailed plans on how they deal with record management and where there are challenges submit plans on how those challenges will be addressed.

- Forensic Audit Unit: The provincial treasury should set up a Forensic Audit Unit to investigate fruitless and wasteful expenditure, unauthorised expenditure and all corruption related matters. The unit should also work with law enforcement agencies to refer cases of financial mismanagement, fraud and corruption fro investigation.
- Dire situation of municipalities: The delegation is concerned about the dire situation in municipalities and believes that there is no commitment and concrete plans to fix the problems in municipalities. The Committee urges COGTA in the province to urgently draft a turn-around plan on how different challenges affecting struggling municipalities will be addressed.
- Equipment for Water Treatment Plants: The delegation is concerned that millions of rands were spent on equipment for water treatment plants. But the equipment was stolen. Plans to ensure assets belonging to municipalities are safe and protected, need to be developed, and resources should be set-aside to support security initiatives. In addition, the municipality should engage with communities about the importance of taking care of the facilities in the community.
- Veld Fires: Fire services should be appropriately allocated resources to meet its functional requirements. Provincial government should work closely with Municipalities to ensure that appropriate funds are allocated.
- Servicing of Municipal Debts: Financial management, including cash flow management and liability capacity and capability should be scale-up. Creditors should be paid according to law and regulations.
- VBS Investment: The delegation is seriously concerned about the money lost to VBS investment matter which could have been used for much needed services in municipalities. The law enforcement authorities must speed up the investigations. Further, political and administrative leadership to investigate and institute disciplinary proceedings against all those involved.
- Unfunded Projects: The delegation is concerned about projects that are unfunded in Municipalities and would like to get a detailed reason for approving such projects especially in Local Madibeng Municipality. Unfunded commitment further deepens the financial condition of municipalities.

- Water Safety: The delegation is again concerned about the water safety especially for human consumption in Madibeng Municipality. The Municipality is urged to urgently come up with workable plans to address water safety issues in Madibeng.

9. Western Cape Province

9.1 General overview

The Western Cape Provincial Week focused on Kannaland Local Municipality located within the Garden Route District Municipality. Kannaland Local Municipality is located in the western part of the Little Karoo and includes four towns namely; Ladismith, Calitzdorp, van Wyksdorp and Zoar. The Provincial Week took a form of a hybrid with some Members conducting oversight visit to development projects, others via virtual platforms. The meetings were attended by relevant political authorities ranging from Members of the Executive Council (MECs), Mayors, Council Speakers including Members of the Mayoral Council and the provincial and local government senior managers.

The Western Cape local government consists of 30 municipalities and two municipal entities. The Municipality under consideration, Kannaland, has since 2004 been faced with challenges ranging from poor financial management and governance. These have been attributed to instability both at the political and administrative level. The financial and political governance challenges have negatively affected delivery of basic services such as maintenance of water and sanitation, roads, electricity infrastructure as well as refuse collection.

Kannaland Local Municipality received over R33.9 million under Project Consolidate Recovery Plan from both National and Provincial sector departments to implement specific identified development projects. In 2010, the Municipality was nominated to be part of Local Government Turnaround Strategy Programme (LGTAS).

Post 2011 local government elections, the Department of Local Government (DLG) together with the Provincial Treasury (PT) initiated projects in support of LGTAS and these included: development of a spatial development framework, development of a human settlement strategy, securing land for Zoar cemetery, mediation with Eskom regarding municipal arrear account and rehabilitation of Schoongezicht road. Between 2011 and 2014 COGTA, DLG, PT and Provincial Sector Departments reviewed LGTAS with a view to bringing the Municipality in line with the principles of Back-2- Basics programme. In support of this plan, the Western Cape Provincial Government allocated both human and financial resources.

In 2014, a number of critical projects were implemented with limited contribution to improved governance, stability and service delivery in the Municipality due to instability linked to internal politics of the council that caused the Municipality to become dysfunctional. During this period, mismanagement and fraud were endemic in the Municipality. Following 2016 local government elections, political leadership at the council changed, and coalition local government emerged. The new coalition government inherited a municipality facing serious governance, financial and service delivery issues with outstanding debts of over R75 million and creditors amounting to R69 million.

The systemic nature of these challenges necessitated the Municipality to go under voluntary administration in terms of section 139(5) of the Constitution. Prior to this intervention, the Municipality went through different interventions by both the provincial as well as national government. In 2016, the provincial government of Western Cape intervened based on a Kannaland Municipal Council resolution in terms of section 139(5) of the Constitution read with sections 139(1) and 141 to 142 of the Municipal Financial Management Act (MFMA) where a financial recovery plan was finalized. In 2018, the provincial Executive resolved to assume responsibility in terms of section 139(5)(c) for implementation of the financial recovery plan. In this regard, the provincial Department of Local Government appointed an implementation manager to monitor the implementation of a Financial Recovery Plan while the Department deals with administrative responsibilities. The main objective of this initiative

was to improve internal controls and avert future negative audit outcomes towards achieving financial sustainability and to improve service delivery.
The Municipality has shown improvements in administration, oversight and compliance, financial management; public participation and delivery of basic services, albeit that some of these will take some time to show significant improvements. The annual financial reports of the Municipality showed an improvement from a series of disclaimers in previous years to unqualified audit reports with findings in both 2017 and 2018.

9.2 Financial management and governance

The provincial Department of Local Government, and Provincial Treasury together with national and provincial sector departments provided support to implement the recovery plan to be reviewed regularly with changing needs and responsibilities of the Municipality. In one of the review sessions in 2017, the Municipality conceded that it was unable to implement executive measures to execute the recovery plan. A number of financial challenges exists in the Municipality. The Municipality is encountering financial instability owing to the previous culture of financial mismanagement, hollowing of public funds with impunity and lack of audit controls. In 2017 the financial non-viability of the Municipality was at its highest, the institution went into voluntary administration under section 139(5), and a Financial Recovery Plan (FRP) was developed in 2019 with the appointment of an implementing manager accompanied with a holistic support package in the form of Section 154 of the Municipal Systems Act 32 of 2000.The FRP does not comply in every respect with section 142 of the Municipal Finance Management Act (MFMA) due to it being drafted before the National Treasury provided new guidelines for the plan. National and Provincial Treasury are in the process to align the FRP with the MFMA. In this regard, definite and measurable targets must be set to positively affect the organisational capacity and institutional knowledge.

The Kannaland Municipality is unable to meet its financial obligations, cannot pay creditors and deliver basic services. This leads to inflated municipal rates as an attempt to raise revenue and consequently leading to payment defaults by the majority of indigent households in the area. So, like many municipalities in the country, the Municipality is experiencing low revenue collection, poor credit management, slow implementation of the AGSA recommendations. Further, there is non-adherence to regulations and policies. There is lack of consequence management and institutional memory due to the high turnover of municipal officials. Under collection of revenue affects the financial sustainability of the Municipality.

The Municipality owes creditors approximately R100 million with the biggest creditor being Eskom which was initially owed about R12 million. The debt owed to Eskom has since been reduced to R4 million due to the standing payment arrangement between the two institutions. South African Local Government Association (SALGA) is owed about R3 million and the majority of creditors are government institutions.

On the historic debt owed by indigent households, only 60 per cent can be recouped and 40 per cent will be written off. It was also reported that Municipality has capped its interest rate owed by indigent households on tariffs during the COVID–19 pandemic in an effort to reduce the financial strain. On the other hand, there is negative trend wherein indigent households exceed their allotted free basic services for water and electricity and this weighs in heavily on the equitable share. The Municipality is unable to utilize debt collection measures used by other municipalities, such as the blocking of electricity meters, due to Eskom being the supplier of electricity to many households. The Credit Repayment Strategy and Credit Restructuring Plan are both in the process of development and these will be utilized as supporting documents when the municipality applies for funding from the National Treasury.

Currently between 70 to 80 percent of the water consumed in the Municipality is provided by boreholes. However, there is a need for a new dam, called the Swartberg Dam, for which the Department of Water and Sanitation needs to provide the funding. The Swartberg dam project has been gazetted previously, but does not appear on the current medium term budget of the Department.

The water supply challenges in Zoar have been addressed in large by the expansion of the water treatment plant. Two additional boreholes are being envisaged subject to authorisation by Cape Nature, the custodian of the land identified for the boreholes. This will augment the water supply in Zoar while a bigger dam is planned with funding applied for from the national Department of Water and Sanitation. The increased volume of water from 45 cubic meter to 90 cubic meter will increase water security in Zoar. The water treatment plant produces good quality of water, which complies with the minimum blue drop standard in water quality management.

The Municipality is using prepaid smart meters for water and electricity as a viable solution to collect debt owed and to prevent recurring revenue under collection and this will be executed through the envisaged collection model. A software tool is being implemented using the Geographic Point System (GPS) coordinates to locate residents and businesses owing money to the Municipality. However, the claims that the ICT system of the municipality is integrated are not accurate because periodically the Municipality has to purchase extra software to comply with registration and monitoring of services and be able to detect illegal tempering with the installed smart meters.

Further, it was also reported that the investigations for irregular distribution of food parcels during the COVID–19 pandemic lockdown period is being conducted by the Special Investigating Unit (SIU), and the outcomes and possible prosecutions will be unveiled later in the year. With regard, to the Energy Vault project, which was an unsolicited bid process shows that supply chain management processes were flouted. It was reported that National Treasury advised the Provincial Treasury to engage in stakeholder consultation in developing the operating model with stipulated timeframes. Despite supply chain non-compliance issues detected in the Energy Vault project, which is a Public Private Partnership development initiative. It was reported that the Public Private Partnership Energy Vault would be a driver of economic development in Kannaland and contribute to improved employment opportunities and household incomes.

Others view that the forensic reports generated in the Municipality could help in resolving the political instability. It is viewed that the Council has corrupt elements that need to be prosecuted. One of the forensic reports was completed and is at the disposal of provincial department responsible for local government. It was reported that the *National Prosecuting Authority* (NPA) has been processing the matter since July 2019. On the other hand, the *Directorate for Priority Crime Investigation*, known in the public as Hawks have been conducting their investigations for 1 and half years to date.

9.3 Accountability

The Municipality's audit outcomes were not finalized by the legislated date. The AGSA highlighted issues that exist in the Municipality. The lack of oversight due to instability and political and administrative positions has impacted negatively on good governance. It has led to action plans not being developed, implemented or monitored to address all the prior year audit findings and previously reported internal control deficiencies. The Internal audit unit is not functional which affects good governance and financial management.

It was reported that after the provincial government's intervention, there is a drastic improvement on the administration in terms of oversight and compliance, financial management. Further, public participation in decision making has improved and delivery of basic services is showing signs of improvement. However, it was admitted that a lot needs to be done to turn a dysfunctional council into an effective institution. It was reported that the Municipality is resetting its finances by means of establishing new financial relationships with the creditors and the debtors and thus ensuring prudent implementation of FRP and restore financial sustainability in the institution. However, AGSA reports that lack of culture of governance has caused inefficiencies, and rendered the Municipality to become dysfunctional.

The duration of the provincial government' intervention would depend on the milestones achieved as outlined in the recovery plan. The Municipality is expected to submit quarterly performance reviews to explicate deliverables.

There is an electronic audit action plan that allows weekly assessment of progress in respect of the implementation of the Financial Recovery Plan.

9.4 Capacity and skills

It was reported that in terms of staff establishment of about 160 personnel in Kannaland Municipality, 24 of these positions are vacant. The Council has no autonomy to appoint staff without prior approval from the MEC of Local Government Department. In the Western Cape Province, the Municipality is the only municipality under administration in terms of Section 139 (5) of the Constitution.

The Municipality still faces significant challenges such as financial viability, human resources management and service delivery. The AGSA reported that positions such as those of the Chief Financial Officer (CFO) and the supply chain management manager have not been filled permanently, with different employees acting in these positions. The lack of internal capacity, mostly in the finance component has caused the Municipality to rely more on consultants for the preparation of their year-end reconciliations and financial statements.

9.5 Service delivery

Dealing with inequality, poverty and unemployment remains a challenge, and must be prioritized. It was reported that the Municipality in partnership with the provincial government is paying particular attention to concentrate resources on job creation, and thus to diversifying the local economy. There are plans to develop local economic development strategy, and the strategy would be aligned to the provincial growth and development strategy as well as the National Development Plan for synchronization and maximization of resources. Support of SMMEs is at the top of the agenda. The primary issue is to allocate more resources to strategic projects to attain optimal impact. However, to attract investment, financial management, governance and provisioning of basic infrastructure such water, electricity should be prioritized.

There is no record of investment in capital projects as a result the Municipality relies heavily on National and Provincial Municipal Infrastructure Grants for cash flows and delivery of basic services. There is a need for deliberate efforts to invest on economic and social infrastructure. Partnership with all other spheres of government including the private sector is crucial. The Public Private Partnership Energy Vault project is good example that private sector participation could be leveraged to improve overall economy, and thus enhance household incomes.

Infrastructure spending should be prioritized. It was reported that in the short-term 70 to 80 per cent of water resources in the Municipality are provided through the boreholes. However, for medium to long-term water provision plans are afoot with the D*epartment of Water and Sanitation* in partnership with the Municipality to invest on the construction of a dam to increase water supply to households and businesses.

9.6 Development projects visited

a) Zoar sports ground expansion

Background

1.1. Name of the project: *Zoar sports ground expansion;*

1.2. Project Objectives: *The objective of the project is to develop competitive standard of recreational facilities for the benefit of rugby, cricket, netball and soccer sporting codes for all the communities in Kannaland municipality;*

1.3. Project initiation / start date:

1.4. Total budget for the project (past, current & MTEF): *R3.7 million for sports field ablution facilities and resurfacing of netball field and R1.3 million for high mast lights.*

1.5. Government Spheres {Department(s) / entity/entities funding the project}: *The project is funded from the Municipal Infrastructure Grant;*

1.6. Number of people benefiting or intended to benefit from the project: *More than 9000 people;*

1.7. Intended completion date: *December 2020;*

1.8. Key challenges experienced during the project: *There is a big challenge with access to water for irrigating the sporting fields and water for running ablution facilities. The wife of the late caretaker is still staying in the precinct and there is minimal vandalism, however the new caretaker is staying off the site with no formal agreement with the facility management. Further,* all the sporting codes are not permitted to practice due to the municipal observation of Covid – 19 safety protocols. Covid – 19 has also derailed the establishment of Community Sports Council.

1.9. Desired solutions to the challenges (from the perspective of the project owners): *George District Municipality should assist in the establishment of the sporting council and this will in easing off the pressure of managing the sport facility and coordination of the different sporting codes including hosting of tournaments within the District Municipality. Further, the lights around the sporting fields should be functional, and the engineering plans should erect three steel poles on each side of the pitch and use LED efficient lights. Zoar community would like an increase in their Municipal Infrastructure Grant budget beyond the current R11 million of 2020/21 financial year in future allocations. Funding for implementation of recycling of grey water also need to be increased to ensure adequate water for ablution facility usage and irrigation of sports fields. The newly completed ablution block will be used when the sporting fields reopen.*

Observations and findings

1.1. In addition to the playing of rugby as the most popular sport in Zoar, other sporting codes still need to be promoted as options for the community citizens.

Successes

1.2. The Municipal Infrastructure Grant funding has been well spent by Kannaland Municipality in Zoar with completed ablution facilities ready to be operated once the sport activities resume after the Covid – 19 disruptions.

1.3. The sporting grounds are well maintained and the risks of vandalism is properly managed due to the presence of the caretaker employee during the day and the wife of former caretaker at night who lives on the premises.

Recommendations

1.4. The Sports Council need to be established as a matter of urgency with assistance from George District Municipality using the consultative process of the Integrated Development Plan (IDP) for collective buy-in by all the affected communities in the district.

1.5. Sporting ground will be utilised by all schools around Zoar and the Standing Committee on Local Government should follow up on the issue to ensure that the Sporting Council is established.

1.6. To mitigate the potential risk of vandalism of the sporting amenities in Zoar, the Kannaland Municipality together with the sporting facility management need to urgently formalize the employment agreement of the new caretaker so that he can stay on the precinct on a fulltime basis.

b) Zoar Water Treatment Plant

Background of the site

1.7. Project Objectives: *The objective of the project is to provide adequate water supply to Zoar community for household and industry consumption;*

1.8. Project initiation / start date: *The plant has been operating for the longest time with below par capacity condition and was only upgraded for increased capacity in May 2020;*

1.9. Total budget for the project (past, current & MTEF): *In 2019, the project operational cost was at about R750 000 and the cost increased to R3 million in 2020;*

1.10. Government Spheres {Department(s) / entity/entities funding the project}: *The project is funded by Western Cape Local Government Department under section 154 support package;*

1.11. Number of people benefiting or intended to benefit from the project: *Over 9000 people from Zoar stand to benefit from the project;*

1.12. Number of people employed in the project: *the plant is automated and therefore only the Water Process Controller is employed at the Plant;*

1.13. Intended completion date: *The expected completion date is before the end of October and was due for official opening on 29 October 2020;*

1.14. Key challenges experienced during the project: *There is a big challenge with access to water as the reserve dam is small and can hold water for only about one-month worth of supply. This means residents have to use water sparingly until the planned bigger dam is constructed. The newly refurbished water treatment plant desperately needs a roof top worth about R3 million to protect and preserve the longevity and durability of the infrastructure;*

1.15. Desired solutions to the challenges (from the perspective of the project owners): *Funding for implementation of grey water master plan also need to be increased to ensure adequate recycling and reticulation of grey water for industry and irrigation purposes;*

Observations and findings

1.16. Two additional boreholes are being envisaged subject to authorisation by Cape Nature the custodian of the land identified for the boreholes. This will augment the water supply in Zoar while a bigger dam is planned with funding applied for from the national Department of Water and Sanitation;

1.17. The increased volume of water from 45 cubic meter to 90 cubic meter will increase water security in Zoar;

1.18. The water treatment plant produces good quality of water, which complies with the minimum blue drop standard in water quality management;

1.19. The Aveo water contractor has been in charge of the refurbishment and maintenance of the plant and will soon hand over the operational responsibilities to the municipality, which creates empowerment opportunity for skills development and transfer;

1.20. The pond system water will be recycled and used for irrigation in the local Agriculture industry. This will largely depend on the planned Energy Vault project under the auspices of Provincial Treasury overseeing the bidding process to secure a capable service provider;

Successes

1.21. The automated water plant system has inbuilt alarm system which is automatically triggered by foreign elements pertaining to vandalism;

1.22. The water challenges in Zoar have been kept at abeyance by the existence of water treatment plant, the demand for water only outstrips the supply during the summer season, and this issue will be eliminated only when the new dam is constructed to completion.

Recommendations

1.23. The standing Committee on Environmental Affairs should follow up with Cape Nature on the authorization of establishing the two bore holes.

1.24. Funding for the Water Plant roof should be allocated for in the medium term budget and this is critical to preserve the newly refurbished infrastructure.

9.7 Recommendations

- The provincial Department of Local Government should continue its interventions to build capacity, administrative and financial support to Kannaland Local Municipality.
- External financial support for the maintenance of surfaced roads in Kannaland Municipality should urgently be sourced to avoid costly reconstruction of roads in the future.
- The Municipality should urgently attend to the “cleaning-up” of its database of consumers that should be invoiced on a monthly basis.
- The Municipality should provide a list of labour dispute cases and furnish costs incurred in respect of these and must include updates on consequence management processes in respect of financial misconduct cases.
- The staff audit report should also be made available to the Standing Committee on Local Government in the Western Cape Legislature.
- Kannaland Municipality needs to reprioritize the list of debtors in the light of the majority of indigent ratepayers and enter into realistic repayment arrangements with those debtors that are able to pay. This will generate cash flows to service creditors and create a financial position that enables the municipality to render basic services such as water and electricity provision and collection of refuse.
- There is a need to develop a realistic billing and tariff collection model that will practically improve the financial situation of the municipality and be able to attract investment into the region and inspire employment creation and raise per capita incomes of the citizens.
- The Municipality will present the approved organogram to the Standing Committee on Local Government, which indicates the staff establishment in the institution.

- Kannaland Municipality should develop a short-term debt service strategy, pay short-term creditors to allow budget space for servicing infrastructure, and be able to render basic services.
- Further, local economic development strategy, and action plan should have developed in partnership with key stakeholders such as business and civil society with the aim to stimulate economic growth, attract investment and boost employment.
- Political instability and interference in the administration of the Council that affects decision-making must be prevented to ensure the effective implementation of the financial recovery plan. Any instability at Council level will negatively affect successful implementation of the plan and compromise service delivery.
- Kannaland Municipality needs to “clean up” the list of debtors in the light of the majority of indigent ratepayers and enter into realistic repayment arrangements with those debtors that are able to pay. This will generate cash flows to service the creditors and create a financial position that will enable the municipality to render basic services such as water and electricity provision and the collection of refuse.
- A realistic billing and tariff collection model needs to be developed to improve the financial situation of the municipality to attract investment into the region, inspire employment creation and raise per capita incomes of the citizens.
- External financial support for the maintenance of surfaced roads in Kannaland Municipality should urgently be sourced; to avoid the even more costly reconstruction of roads in the future.
- The Select Committee on COGTA and the provincial standing committee on local government needed to be informed once the reports on investigations into the alleged irregularities are made public.
- The Municipality needs to urgently finalize a new financial recovery plan in accordance with section 141 and 142 of the Municipal Finance Management Act (MFMA) No. 56 of 2003 and ensure desirable outcomes and improved performance management.

- The observations, findings and successes are based on section 139(5) interventions. These should be executed with clear plans in line with set criteria and could be utilized as a preventative measure in financial unstable municipalities to improve financial structuring and to prevent institutional collapse.

C. CONCLUSION: PROVINCIAL WEEK

The challenges identified in this report are similar to those identified in government reports such as the 2011 local government revenue and expenditure, 2009 local government assessment review report and the 20-year review of the local government report. The Financial Fiscal Commission has also recently raised issues on the state of local government and governance. The various reports have proposed solutions to turn around the state of local government.

Despite the support through section 154 of the Constitution, including section 139 of the Constitution, municipalities still struggle to turn around the financial situation. This has lead other stakeholders in local government to call for a reform of the local government regime in the country. Others are saying municipalities are underfunded. Whilst other stakeholders point to a combination of factors ranging from governance failure, lack of capacity and capability to the calls that the design of the intergovernmental system is inadequate to manage the escalating financial, political and economic governance crisis.

In the extreme, others question the very existence of local municipalities. A more consensus view is that local government should be repurposed to become financially sustainable, enhance its organisational health capacity and capability to boost infrastructure delivery capability, and cement good political and economic governance. This perspective recognises that economic activity happens in municipalities. For the economy to grow, a strong local government with effective governance feature strongly as requirements for growth and development. In addition, in order to accelerate service delivery, alignment and integrated planning, the District Development Model would be the driver to achieve municipal excellence; democratic governance; basic service delivery; infrastructure development; financial sustainability and economic growth. Further, the promulgation of the Intergovernmental Monitoring & Support Intervention Bill should be expedited, in order to ensure uniform intervention application that would provide certainty for provinces and municipalities.

COMMITTEE REPORTS

National Assembly

1. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE SECOND AMENDMENT BILL [B24 – 2020], DATED 17 NOVEMBER 2020

The Standing Committee on Appropriations having considered the *Division of Revenue Second Amendment Bill [B24-2020]* (National Assembly – section 76), reports as follows**:**

1. Introduction

The Minister of Finance tabled the Division of Revenue Second Amendment Bill (hereafter referred to as the Bill) in Parliament on 28 October 2020 during the presentation of the 2020 Medium Term Budget Policy Statement (MTBPS). The Bill was tabled in Parliament in terms of section 12(4) of the Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009 (as amended by the Money Bills Amendments Procedure and Related Matters Amendment Act, No 13 of 2018). The Act requires the Minister of Finance to table a Division of Revenue Amendment Bill with a revised fiscal framework if the adjustments budget effects changes to the Division of Revenue Act for the relevant year.

The Bill was referred to the Committee on 11 November 2020 after the National Assembly adopted the 2020 Second Revised Fiscal Framework. The Committee received a briefing from National Treasury on the Bill in its entirety on 12 November 2020. To facilitate public participation, the Committee published adverts in print media in all 11 official languages from 30 October to 6 November 2020. The Congress of South African Trade Unions, Pay the Grants Campaign, and Equal Education made submissions on the Bill in response to the afore-said advertisements. The Financial and Fiscal Commission, Parliamentary Budget Office and the South African Local Government Association were invited to comment on the Bill.

The Bill and its annexures address the following:

- Changes to provincial allocations;
- Changes to local government allocation; and
- Changes to gazetted conditional grant frameworks and allocations

This report focuses on the proposed amendments to the 2020 Division of Revenue Amendment Act (Act No 10 of 2020) as tabled by the Minister of Finance and the matters raised during the engagements with the invited stakeholders and the organisations that made submissions in response to the advertisements.

2. Division of Revenue Second Amendment Bill response to the Covid-19 pandemic

A proposed total of R500 million is added to the 2020 provincial baseline to provide for food relief in response to the impact of Covid-19 to mitigate the adverse effects of hunger and these allocations to provinces are determined in line with the provincial equitable share formula. Furthermore, as part of the Presidential employment initiatives, a proposed R6 998 800 000 is added to the 2020 provincial baseline allocations to employ education assistants at schools (e.g. classroom assistants, cleaners, screeners, reading assistants, after school assistants) and to save school governing body posts at fee paying schools and government subsidised independent schools and proposed allocations per province were determined in terms of applications received per province.

3. Equitable division of revenue raised nationally among the spheres of government

Table 1 below outlines the equitable division of revenue raised nationally among the three spheres of government (National, Provincial and Local). The net effect of the 2020 second adjustments is a decrease in the 2020/21 budget allocation by R3 416 640 000, decreasing the adjusted budget allocation from R1 809 175 080 000 to R 1 805 758 440 000 in the second adjustment budget. The (R17 754 507 000) net reduction on provincial allocation is attributed to the (R25 253 307 000) that is reduced from the 2020 baseline as part of the reduction of R160 billion to the growth of the public service wage bill.

Table 1: Schedule 1: Equitable Division of Revenue raised nationally among the Three Spheres of Government

Spheres of government	Column A			
	2020/21 Main Allocations	**1st Adjustment**	**2nd Adjustment**	**2020/21 Adjusted Allocation**
	R'000	**R'000**	**R'000**	**R'000**
National[1, 2]	1 152 839 556	32 180 670	14 337 867	1 199 358 093
Provincial	538 471 528	-	(17 754 507)	520 717 021
Local	74 683 326	11 000 000	-	85 683 326
Total	**1 765 994 410**	**43 180 670**	**(3 416 640)**	**1 805 758 440**

1. *National share includes conditional allocations to provincial and local spheres, general fuel levy sharing with metropolitan municipalities, debt-service costs, the contingency reserve and provisional allocations*
2. *The direct charges for the provincial equitable share are netted out*

Source: National Treasury (2020 Division of Revenue Second Amendment Bill)

4. Changes to provincial government allocations

4.1. Additional allocations to support the presidential employment initiative

In response to job losses resulting from the Covid-19 pandemic, an additional R1.5 billion is allocated as part of the stimulus package to create jobs through labour intensive projects. These additional allocations are made through conditional grants and the provincial equitable share as follows;

- ***HIV, tuberculosis, malaria and community outreach grant: community outreach services component:*** A total of R213 million is added to grant for recruitment, training and procurement of personal protective equipment for 1 250 community health workers and 2 000 outreach team leaders and the procurement of backpack kits for existing and recruited community health workers and outreach team leaders;
- ***Statutory human resources, training and development grant:*** A total of R180 million is added for the appointment of 1 045 enrolled nurses and 1 236 assistant/auxiliary nurses;
- ***Early childhood development grant:*** A total of R496 million is added to this grant to provide unemployment risk support to 83 333 early childhood development related

workers for six months and top-up payments to 25 500 already employed early childhood development workers to take on compliance support duties; and

- ***Provincial roads maintenance grant:*** A total of R630 million is added to this grant for the creation of 50 000 jobs through maintenance of provincial roads using the S'hamba Sonke Programme.

4.2. Additions to the provincial equitable share

- ***Provincial equitable share:*** A total of R7 billion is added to the provincial equitable share to employ education assistants at schools and to save school governing body posts at fee paying schools and government-subsidised independent schools where employees have been furloughed or had salaries cut due to reduced income from school fees and fund raising initiatives that have been curtailed due to Covid-19 related precautionary measures. School governing bodies will appoint education assistants and decide on the specific duties of these assistants (e.g. reading assistants, classroom assistants, after school assistants, screeners, cleaners) depending on the needs of the school; and
- ***Provincial equitable share:*** A total of R500 million is added to the provincial equitable for providing food relief in response to the impact of Covid-19 to mitigate the adverse effects of hunger.

4.3. Roll-over funds from provincial grant allocations

A total of R475 million is rolled over for the ***school infrastructure backlogs grant*** for the completion of projects that are part of the Sanitation Appropriate for Education (SAFE) initiative, which deals with the replacement and removal of inappropriate and unsuitable sanitation, including pit toilets, at schools. The funds are for schools in Eastern Cape, KwaZulu-Natal and Limpopo

4.4. Reductions to provincial grants allocation

In order to provide for the SAA business rescue plan which required R10.5 billion, reductions were made uniformly across programmes falling within national department, including provincial grants allocation. A total of R1.3 billion reduction on provincial conditional grants is proposed as follows:

Schedule 4, Part A of the Bill

- A total of R56 million reduction from the ***national tertiary services grant***;

Schedule 5, Part A of the Bill

- A total of R14 million reduction from ***community library services grant***;
- A total of R14 million reduction from the ***comprehensive agricultural support programme grant***;
- A total of R52 million reduction from the ***health facility revitalisation grant***;
- A total of R224 million reduction from the ***HIV, TB, malaria and community outreach grant;***
- A total of R5 million reduction from the ***ilima/letsema projects grant***;
- A total of R980 000 reduction from the ***land care programme grant***;
- A total of R4 million reduction from the ***mass participation and sport development grant;***
- A total of R42 million reduction from the ***national health insurance grant;***
- A total of R26 million reduction from the ***statutory human resources, training and development grant;***
- A total of R37 million reduction from the title ***deeds restoration grant;***

Schedule 6, Part A of the Bill

- A total of R336 million reduction from the ***school infrastructure backlogs grant***;
- A total of R240 million reduction from the ***national health insurance: indirect grant***; and

Schedule 7, Part A of the Bill

- A total of R273 million reduction from the ***provincial emergency housing grant.***

4.5. Reduction to the provincial equitable share

A total of R25.3 billion reduction from the provincial equitable share is proposed because reductions were not included in the calculations of the allocations to provincial government at the time the budget was tabled. This is part of the reduction of R160billion to the growth of the public-service wage bill that was announced in the Budget tabled in February 2020.

5. Changes to local government conditional grants allocation

The section below provides an overview of the proposed changes to the local government conditional grants allocations.

5.1. Roll-over funds from local government grants allocation

Schedule 4, Part B of the Bill

- A total of R390 million is rolled over in the ***urban settlements development grant*** to fund commitments for bulk infrastructure related projects in Nelson Mandela Bay Metropolitan Municipality;

Schedule 5, Part B of the Bill

- A total of R98 million is rolled over in the ***public transport network grant*** to continue with the rollout of the integrated public transport network (IPTN) for public and non-motorised infrastructure in Nelson Mandela Bay Metropolitan Municipality; and

Schedule 6, Part B of the Bill

- A total of R307 million is rolled over in the ***regional bulk infrastructure grant*** for drought and Covid-19 water and sanitation interventions nation-wide.

5.2. Additions to local government conditional grants allocations

A total of R12 million has been reprioritised from the department's budget into the ***indirect component of the water services infrastructure grant*** for implementation of various water services interventions

5.3. Reductions to local government conditional grants allocations

In order to provide for the SAA business rescue plan which required R10.5 billion, reductions were made uniformly across programmes falling within national department, including local government conditional grants allocation. A total of R613 million reduction in local government conditional grants allocation is proposed as follows:

Schedule 4, Part B of the Bill

- A total of R4 million reduction from the **integrated city development grant;**

Schedule 5, Part B of the Bill

- A total of R2 million reduction from the ***infrastructure skills development grant***;
- A total of R12 million reduction from the ***integrated urban development grant;***
- A total of R180 million reduction from the ***municipal infrastructure grant;***
- A total of R12 million reduction from the ***neighbourhood development partnership grant;***
- A total of R253 million reduction from the ***public transport network grant***;
- A total of R78 million reduction from the ***water services infrastructure grant***;

Schedule 6, Part B of the Bill

- A total of R18 million reduction from the ***integrated national electrification programme (Eskom) grant;*** and
- A total of R55 million reduction from the ***regional bulk infrastructure grant***.

6. Corrections to gazetted frameworks and allocations

- ***National health insurance indirect grant:*** health facility revitalisation component is amended to correct for an allocation earmarked for Limpopo Academic Hospital. The allocation is being corrected from R653 million to R454 million, as R198 million was shifted to the health facility revitalisation grant during the February 2020 Budget;
- ***Rural roads asset management systems grant:*** The grant framework is amended to correct for the due date of the submission of road condition data that was erroneously captured as 31 September 2020 instead of 30 September 2020. This correction is needed as 31 September 2020 does not exist in the calendar.
- ***Municipal infrastructure grant:*** To correct allocations for ring-fenced sport projects in the municipal infrastructure grant, R25 million is proposed to be shifted to Polokwane Local Municipality from Musina Local Municipality and R9 million is proposed to be shifted to Swellendam Local Municipality from Mossel Bay Local Municipality. The amounts for each project are corrected in the gazetted list of the municipal infrastructure grant ring-fenced funding for sport infrastructure and allocations in the municipal infrastructure grant. This correction will ensure that sufficient funds are made available to complete planned sport infrastructure projects in all the affected municipalities.

7. Comments and hearings on the Bill with identified stakeholders

The section below provides an overview of the comments that were made on the Bill by the invited stakeholders.

7.1. Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) submitted that government's Economic Reconstruction and Recovery Plan (ERRP) strengthened the continuity and consistency of the position taken in the 2019 Strategy document: Economic Transformation, Inclusive Growth and Competitiveness. Whilst it appreciated the aforementioned, it argued that consistency should not be confused with repetitions without proof of real reforms, impacts and outcomes, for it may lose even more credibility of policy and that of implementation of government programmes.

The FFC further reiterated what was stated in its 2021/22 Annual Submission for the Division of Revenue with respect to economic and social development in the context of Covid-19, as follows:

- After reviewing the economic situation leading up to the Covid-19 crisis, the FFC is convinced that a fundamental structural transformation of the economy is inevitable.
- Therefore, the ministers of finance, of economic development and trade and industry, and of labour should jointly address the economic barriers, social inequality, and societal polarisation by adopting a localised product value chain approach.
- The expression of this approach should be found in the incentive grants frameworks of both provincial and local conditional grants, as hard conditions to permit procurement of goods only if they are made or assembled locally within the South African borders, to stimulate the domestic economy and encourage job growth while taking international trade agreements into account.

Regarding Local Government, the FFC submitted that a significant proportion of municipalities were distressed and dysfunctional and that the fiscal health of many municipalities has deteriorated over the past few years. The FFC therefore implored government to prioritise local government and by implication, the poor households. It also emphasized the point that allocations to municipalities should be deployed and used efficiently and effectively. The FFC reported that local government was set to receive a total allocation of R434.3 billion over the 2021 MTEF. This projected allocation was R17.7 billion less than what was announced in the 2020 budget by the Minister of Finance.

The FFC expressed concerns about the effect of the reductions to local government on service delivery, given the increasing bulk costs for water and electricity, and declining own revenue collection. The FFC submitted that it remained concerned about the expected progressive decline in the real growth rates of the LGES.

The FFC highlighted that local government conditional grants were reduced in the 2020/21 supplementary budget by R3,7 billion with further proposed reductions of R569 million in the 2020 Division of Revenue Second Amendment Bill. These reductions were made to make funds available for the SAA business rescue plan among other things, over the 2021 MTEF. The FFC submitted that it seriously was concerned that the reprioritisation of local government funds was meant to fund SOEs. The local sphere was also currently under fiscal stress due to the Covid-19 induced decline in revenues on one hand, and the increase in demand for infrastructure for basic services, on the other. The FFC also submitted that the proposed reductions on conditional grants were in contrast of the infrastructure investment objective which underpinned government's ERRP. Furthermore, the FFC asserted that repeated baseline cuts would have a negative effect on service delivery, infrastructure investment, repairs and maintenance. The FFC was of the view that government should assess the effect of baseline reductions, before implementing the planned reductions over the MTEF period.

Regarding the Covid-19 economic relief package, the FFC submitted that provinces committed to reprioritise R20 billion from the PES to the Covid-19 response from their own budgets. However, the PES will have a negative real growth over the 2021 MTEF and the FFC expressed concern that the reduction which was likely to have a serious negative effect on service delivery.

In terms of the local government and Covid-19 relief, the FFC submitted that while the announced additional allocation to the local government was aimed at assisting municipalities to address Covid-19, the associated costs amounted to R20 billion. The first adjusted budget only provided for only R11billion additional funds, while the remaining amount was secured through repurposing funds within various local government grants. The FFC indicated that it supported the distribution of the Covid-19 funds as metros were the epicentres of the disease. The FFC proposed that Parliament should receive detailed reports from government on how the remaining Covid-19 relief funds would be appropriated. It also recommended that government should invest in reporting systems to ensure accurate and timely monitoring of the Covid-19 relief package.

7.2. South African Local Government Association

The South African Local Government Association (SALGA) acknowledged that current gloomy economic and fiscal outlook, and accepted the significant negative impact that Covid-19 has had on the economy. It further supported the active management of government debt in order for the debt burden not to spiral out of control. SALGA stated that, the difficult decision of budget reductions was necessary, even though there were vast challenges on the ground around poverty, basic service delivery, health and education. It argued that tough decisions have to be taken in order to ensure the sustainability of the country in the long term. Decisions have to be taken in a manner that is fair and equitable across the entire public sector and has the most minimal impact possible on Local government as it is the closest sphere providing service delivery to people. SALGA stated that the State's capacity to provide social assistance and free basic services needs will be adversely affected within the constraints of the current economic and operating environment. It further submitted that the debt owed to local government was approximately R191.5 billion as at 30 June 2020 and the current prevailing operating environment was leading to even more difficulty for municipalities to collect revenue.

SALGA commented that the potential impact of the local government budget cuts through the 2020 MTBPS were likely to cause further economic deterioration for municipalities. This may be exacerbated by the phenomenon of unfunded mandates within local government. SALGA submitted the responsibility to fulfil the functions would still remain at the local sphere of government regardless of lack of funds. Moreover, SALGA submitted that the financial sustainability will be likely negatively impacted.

Key concerns raised by SALGA included, the reduction of local government conditional grants by R613 million in order to contribute towards funding the R10,5 billion rescue plan for South African Airways. SALGA stated that it is strongly disagreed with funds being reprioritized from local government in order to fund SAA. It argued that should government wish to bail out SAA, then the funds need to be reprioritised at the national sphere of government and more specifically within the National State Owned Entity space.

SALGA added that the Auditor General 2018/19 Municipal Audit Outcomes confirm that the financial statements show increasing indicators of a collapse in local government finances, in that 79 per cent or 203 out of 257 municipalities were in a precarious or vulnerable financial health status. Just under a third of the municipalities were in a particularly vulnerable financial position. Under these circumstances, SALGA submitted that it defeats logic to reallocate funding away from local government to national government. The local government budget cuts will further constrain the planned economic stimulus proposed by government. Moreover, cutting funds at the coal face of service delivery will have an adverse impact on local economic employment, wealth and the social well-being of local communities.

7.3. Parliamentary Budget Office

The Parliamentary Budget Office provided summaries of the division of revenue across the three spheres of government including the changes to provinces and local government equitable share and conditional grants. The PBO also highlighted that the adjustments as tabled with the MTBPS also affected the division of revenue, which is now appropriated in the following manner:

- National: 51.2 per cent estimated at 49.2 per cent in the 2020 Budget;
- Provincial: 39.9 per cent estimated at 42.2 per cent in the 2020 Budget; and
- Local: 8.9 per cent estimated at 8.6 per cent in the 2020 Budget.

8. Public submissions on the Bill

The sections below provide summaries of the inputs made by organisations and individuals in response to the advertisement calling for submissions from the public on the Bill.

8.1. Congress of the South African Trade Unions

The Congress of South African Trade Unions (COSATU) submitted that the underlying causes to the fiscal crises were corruption and wasteful expenditure; the impact of state capture on SARS; endless State Owned Enterprises bail-outs; a stagnant economy and declining tax revenues. COSATU further pointed out that the 2020 MTBPS was silent on the key causes of the fiscal crises. It further added that the lazy fixation on the public sector wage bill was unhelpful. That said, COSATU stated that it agrees with the need to effectively manage South Africa's debt trajectory.

On averting corruption, COSATU proposed that the state must ban politically exposed persons (PEPs), spouses and children of politicians from doing business with government through the tender system. COSATU also proposed that there was a need for rapid response anti-corruption courts to deal with corruption cases. Furthermore, COSATU highlighted that in order to properly manage public finances, there was a need to utilize Audit Amendment Act to hold offending politicians and managers financially liable for corruption and wasteful expenditure. Over and above that, COSATU submitted that compromised politicians and managers must be removed from the government systems. Other initiatives proposed by COSATU include capacitation of South African Revenue Services and Customs Enforcement; open online procurement system for entire state and centralized public procurement of large-scale items.

On the public sector wage bill reduction, COSATU strongly submitted that government must engage in the Public Service Coordinating Bargaining Council in good faith and not sneak the wage bill matters through Parliament. COSATU added that government must honour the 2020 wage agreement and fast track the next three-year wage agreement. COSATU recommended that there was a need for a single collective agreement for the entire state; reduction of Office Bearers' exorbitant packages by 305; scrap of the Ministerial Handbook, overseas and business class tickets and travel allowances. Other proposals include, reduction of public service management packages, placement of the salary caps that exist in the public service on managers at all SOEs and public entities; ensuring that public servants, especially lower and middle income earners are protected from inflation.

On budget reductions, COSATU indicated that they appreciate the need for budget shifts to allocate massive resources to fight Covid-19; to provide economic and social relief; and support economy's reconstruction and recovery. However, COSATU raised a concern regarding silence of the Division of Revenue Second Amendment Bill on the possible negative impacts of expenditure cuts, in particular the R17.75 billion reduction in local government grants on their ability to invest in infrastructure.

COSATU welcomed the shift of funds to Early Childhood Education (R500 million) and School Sanitation (R700 million). COSATU also expressed appreciation with the proposal by government to employ 3250 community health workers, 2200 nurses, and the proposal to create 50 000 road maintenance job opportunities. The setting aside of R7 billion for employment of teacher assistants was also welcomed. COSATU also welcomed the extension of R350 Long Term Unemployment Grant and indicated that it should be extended to beyond January 2021. COSATU also expressed appreciation that National Treasury agreed with the pension fund withdrawal proposal for distressed workers. COSATU stated that the Pension Funds Withdrawal Bill should be introduced in February 2021 and enacted by October 2021.

8.2. Pay the Grant Campaign

Pay the Grant Campaign, a subgroup of the C19 People's Coalition Movement, submitted that in the proposed Bill, R25.3 billion was reduced from the public service wage bill under the PES and it was unclear how this will affect provincial budgets. It was of the view that a lack of detailed information on the nature of these wage cuts demonstrated a lack of rigour, insofar as the budgeting processes. It also highlighted that government has indicated that the aim was to effect the majority of its wage cuts in labour intensive sectors such as learning and culture. Pay The Grant Campaign argued that these sectors are overwhelmingly staffed by black women. As a result, if the proposed wage bill reductions were effected by reducing teachers' wages, this will disproportionately harm black women and further exacerbate the racial and gendered impacts of the pandemic.

Furthermore, it added that if public sector wage bill reductions were effected by reducing or freezing teacher posts, there will be overwhelming impact on poor black children, as the class sizes continue to increase. Increasing class sizes are a direct consequence of government deprioritising basic education funding over the past five years. When taking into account inflation, the total spend on education has declined year-on-year for the last four years, while spending per learner declined by 2.3 per cent between 2009 and 2018. Within this context, such wage bills cuts may undermine the right to education. An estimated 600,000 children with disabilities were not in school but the Bill does not make an allocation to the *Learners with profound intellectual disabilities grant.* Moreover, they stated that further to this, approximately 1.6 million children without documentation (mostly in rural areas) have not been able to access schooling.

They acknowledged that the Bill increases the PES for the Presidential Employment Initiative/ Education Employment Initiative concentrated in Kwa-Zulu Natal (approx. 1.4 billion); Eastern Cape (approx. 1.2 billion), and Gauteng (approx. 1 billion). They commented that in light of volatile labour market dynamics that the Covid-19 has brought about, the allocations of these funds should be proportional to the number of those out of the labour market. They argued further that the reason why the allocations have been made in the current form needs to be expanded on, and adjusted to reflect the number of unemployed and discouraged work-seeking people.

On Provincial Conditional Grants, The Pay the Grants Campaign highlighted that as part of a response to the Covid-19 pandemic, R213 million was added to the *HIV, tuberculosis, malaria and community outreach grant: community outreach service component*. They said this refers to an addition within Programme 3 (Communicable and non-communicable diseases) of Vote 18: Health, but what this doesn't mention is that, within this same grant, there are virements, shifts and adjustments. That according to the Pay the Grant Campaign, actually see this grant face an overall *reduction* of R89 million, including an overall reduction of R10.6 million from provinces allocations meant for front-line service delivery programmes. Furthermore, they highlighted that R180 million addition to the *statutory human resources, training and development grant*: *statutory human resources component* for the appointment of approximately 1000 nurses and 1000 assistant nurses was appreciated. On the other hand, they pointed out that what this allocation doesn't mention is that the *training and development* component of this same grant is taking a cut of R26 million, meaning a smaller overall increase from what's stated at R154 million and a potentially worrying neglect of training and development at a time when we should undoubtedly be prioritising the strengthening of health systems.

The addition of R496 million to the *Early Childhood Development (ECD) grant* for primarily to support early childhood development workers was welcome. However, they added that it was greatly concerning that despite the urgent context of Covid-19, the only changes/emergency measures being implemented for Vote 19: Social Development, other than the inadequate extension of the Social Relief of Distress (SRD) grant until the end of January 2021. It expressed concern at the persistence of the insufficient grant amount, the period of extension and the inadequate implementation of the SRD grant. Pay the Grant Campaign submitted that the withdrawal of the Caregiver Grant displays contempt for women and children. They also stated that the Caregiver Grant provided crucial support to women as the gender wage gap has worsened. The absence of the Caregiver Grant make women, in particular, more vulnerable to the blows of poverty and the negative effects that arise from parts of the MTBPS

Moreover, Pay The Grant Campaign commented that there was also R630 million for the creation of 50 000 jobs that was supposedly added to the *Provincial Roads Maintenance Grant*. However, it was not mentioned that this is an addition after this grant was gutted by a reduction of R1.7 billion in the 2020 Special Adjusted Budget, meaning an overall reduction to this grant in 2020 of R1.1 billion. Added to that, Pay the Grant Campaign submitted that there was a R475 million roll over for the *School Infrastructure Backlogs Grant*, which highlighted the positive impacts of this grant. However, what was concerning was that this roll over was actually reduced by R336 million. It further stated that the provincial conditional grants were reduced by R1.3 billion in order to finance the rescue plan for SAA. This was happening at a time when people were being subjected to slow starvation, and were told that there was no money to adequately redress poverty and inequality, this exponentially aggravated by the Covid-19 pandemic.

On changes to the local government allocations, Pay the Grant Campaign expressed concerns about the high rollovers within the municipalities. Specific reference was made to the Nelson Mandela Bay Metropolitan Municipality (NMBMM), which included: R390 million in the *Urban Settlements Development Grant* and R98 million in the *Public Transport Network Grant.* The indirect component of the *Water Services Infrastructure Grant* is allocated R12 million, which is reprioritised money from within the Department of Water and Sanitation.

With regard to roll-overs, Pay the Grant Campaign expressed particular concern about the R307 million rolled over under the *Regional Bulk Infrastructure Grant.* Furthermore, there was a substantial underspending for drought and Covid-19 water and sanitation interventions nation-wide, a situation which can only be further worsened by the R55 million reduction to this grant and a reduction of R78 million from the *Water Services Infrastructure Grant*. Pay the Grant Campaign submitted that, local government conditional grants were particularly affected by reductions amounting to R613 million, in order to fund the rescue plan for SAA.

8.3. Equal Education

Equal Education submitted that the 2020 MTBPS saw the same regressive funding trends and de-prioritisation of social spending that was seen in the Supplementary Budget. Most devastating for the basic education sector was that the cuts made in the Supplementary Budget have not been reversed and instead extended over the medium term.

Equal Education asserted that the MTBPS also highlighted that:

- The R2.2 billion reduction made to the *Education Infrastructure Grant (EIG)* in the June 2020 Supplementary Budget was not reversed.
- R475 million has been rolled over from 2019/20 financial year towards the national *School Infrastructure Backlogs Grant (SIBG)* in order to provide sanitation in Limpopo and KwaZulu-Natal. However, funding was reduced elsewhere in the same budget, including funding for the Eastern Cape, resulting in the national grant increasing by only R139 million.
- The budget reductions made in the Supplementary Budget to programmes aimed at improving maths, science and technology in schools and preventing HIV and AIDS, amounting to R128 million, were not reversed.
- No additional money was allocated towards the National School Nutrition Programme (NSNP).

Equal Education seriously questioned government's decision to prioritise bailing out State Owned Enterprises (SOEs) over essential social spending. Despite the impact of the Covid-19 pandemic on lives and livelihoods, the 2020 MTBPS allocated R10.5 billion to rescuing SAA. This money has been taken directly from different departmental budgets with R276 million taken directly from the Department of Basic Education's budget.

Equal Education submitted that with the continuation of decreased funding over the next three financial years, there may be a reversal in the progress made in the delivery of school infrastructure. The EIG has seen 1 938 essential school construction projects stopped or delayed due to these cuts, including maintenance projects. Not only will the realisation of the Norms and Standards for School Infrastructure be delayed, there could also be a deterioration of school infrastructure gains. With regards to the NSNP, it expressed concerns that the programme was not sufficiently funded to meet the growing crisis of hunger facing learners due to the pandemic.

Equal Education asserted that funding decisions contained the MTBPS were symptomatic of government's commitment to austerity budgeting despite a massive socio-economic crisis. Cuts to education funding will have an impact on the right to basic education and equality for learners across the country for years to come.

Equal Education recommended that the Committee should consider:

- Ensuring that the basic education sectoral budget increases in line with inflation;
- Ensuring that National Treasury reverses budget cuts to the EIG to enable the realisation of the Norms and Standards for School Infrastructure;
- Ensuring that the National School Nutrition Programme is provided with additional funding needed to feed learners who qualify for it – while schools are open and in cases where learners are not in classrooms every day; and
- Requesting that National Treasury classify the Department of Basic Education as a frontline department in the fight against Covid-19.

9. Committee findings and observations

Having deliberated and considered all the submissions made by the above stakeholders on Division of Revenue Second Amendment Bill (B24-2020), the Standing Committee on Appropriations makes the following findings and observations:

9.1. The Committee notes and welcome that the Bill does respond to the negative impact of Covid-19 on the livelihoods of many South Africans through the proposed additional R7 billion allocation that is added to the provincial equitable share to employ education assistants at schools and to save school governing body posts at fee paying schools and government-subsidised independent schools where employees have been furloughed or had salaries cut due to reduced income from school fees and fund raising initiatives that have been curtailed due to Covid-19 related precautionary measures. The Committee views this allocation as an important initiative by government in creating and saving jobs for those who have been financial impacted negatively by the Covid-19 pandemic;

9.2. The Committee notes and the welcome the proposed R1.5 billion additional allocations to provincial conditional grants to create labour intensive projects in response to job losses resulting from the Covid-19 pandemic through the presidential employment initiative;

9.3. The Committee notes and welcome the proposed additional R500 million that is added to the provincial equitable share for providing food relief in response to the impact of Covid-19 - to mitigate the adverse effects of hunger. However, the Committee encourages provincial treasuries to ensure that the procurement processes and the delivery of food parcels is done in a manner that is line with South African procurement laws and prevent any form of corruption that disadvantages the most vulnerable;

9.4. The Committee notes and welcome the proposed R475 million that is rolled over for the school infrastructure backlogs grant for the completion of projects that are part of the Sanitation Appropriate for Education (SAFE) initiative in Eastern Cape, KwaZulu-Natal and Limpopo. The Committee has always emphasised on the need to speedily remove all inappropriate and unsuitable sanitation, including pit toilets, at schools. The Committee views the provision of appropriate sanitation at all schools as a rights issue and an issue that borders on the dignity of learners and an issue that must be prioritised;

9.5. The Committee notes with concerns the proposed R1.3 billion reduction on provincial conditional grants to provide for the SAA business rescue plan which required R10.5 billion. Even though government had to fund the SAA business rescue plan, the Committee is concerned about the uniform manner in which the conditional grants to provinces are reduced. The Committee is of the view that this action sends a wrong message to South Africans, the tax payers in particular that whenever there is mismanagement of State Owned Companies, at all costs business rescue funding requirements will be funded though uniform budget cuts across government programmes. The Committee views all the conditional grants as a key vehicle to provide critical services to the communities, however, the continued reduction of education, health and agriculture grants is a serious concerns to the Committee that requires serious consideration and engagements between the Committee and National Treasury;

9.6. The Committee notes the proposed R25.3 billion reduction from the provincial equitable as part of the reduction of R160.2 billion to the growth of the public-service wage bill. However, the Committee is still not convinced that this is the best approach considering that the negotiations on public service salary increases has not been concluded at the PSCBC and there are already court proceeding on this matter. The Committee is of the view that this move by National Treasury is pre-emptive and should have waited for the courts and the negotiations with public sector labour representative to be concluded; and

9.7. The Committee notes with concerns the proposed R613 million reduction in local government conditional grants to fund the SAA business rescue plan which required R10.5 billion. The importance of local government in providing services to the people cannot be overemphasised and the continuous reduction of local government grants, infrastructure grants in particular is unacceptable to the Committee. The Committee is concerned about the uniform manner in which these grants are reduced and the long term consequences and implications that this will have on municipalities and their ability to deliver services. The Committee and National Treasury are both aware of the state of infrastructure in many municipalities, particularly those in rural areas, and the continuous reduction of infrastructure related allocations to municipalities is a cause of concern to the Committee made worse by the fact that these allocations are reduced to fund SAA which is a national government competency to manage that entity. It is incomprehensible to the Committee as to why municipalities, considering all the know challenges facing municipalities, they now fund a SAA business rescue plan;

10. Recommendations

The Standing Committee on Appropriations, having considered submissions from various stakeholders on the Division of Revenue Second Amendment Bill [B24-2020], recommends as follows:

10.1. In relation to the proposed R1.3 billion reduction in provincial conditional grants allocation to fund the SAA business rescue plan, the Minister of Finance must ensure that National Treasury provide the Committee with an impact assessment report on all provincial conditional grants allocations which were reduced to fund the SAA business rescue plan. The report must highlight the service delivery implications for these proposed grants allocation reductions;

10.2. Similarly to 10.1 above and in relation to the R613 million proposed reduction on local government conditional grants allocation, the Minister of Finance must ensure that National Treasury provide the committee with a comprehensive impact assessment report on each of the local government conditional grants allocations that were reduced to accommodate the SAA business rescue plan . In that report, service delivery implications must be highlighted per conditional grant. The Committee wants to evaluate the impact of these reductions on both service delivery and the intend recipients of the services offered through these grants. The Committee also want to evaluate the scientific manner in which these budget reductions were effected;

10.3. The Minister of Finance must ensure that National Treasury provide the Committee with a detailed report of all the municipalities whose conditional grants allocation were reduced to fund the SAA business rescue plan. In that report, National Treasury must indicate how much each of these affected municipalities owes Eskom for electricity services and the Water Boards for water; and

10.4. All the reports requested above be submitted to the Committee before the tabling of the 2021 budget to allow the Committee sufficient time to analyse these information before the consideration and reporting on the 2021 budget bills.

11. Committee Recommendation on the Bill

The Standing Committee on Appropriations, having considered the Division of Revenue Second Amendment Bill [B24-2020] (National Assembly) referred to it and classified by the Joint Tagging Mechanism (JTM) as a Section 76 Bill, recommends that the Bill be adopted, without amendments.

Report to be considered.