

NCOP LOCAL GOVERNMENT WEEK

10TH SEPTEMBER 2020

The Impact of Municipal Boundary Re-determinations on Municipal Governance, service delivery, financial sustainability and effective performance of local government



Dr. Beyers Naudé
MUNICIPALITY | MUNICIPALITEIT | UMASIPALA
rising together for development

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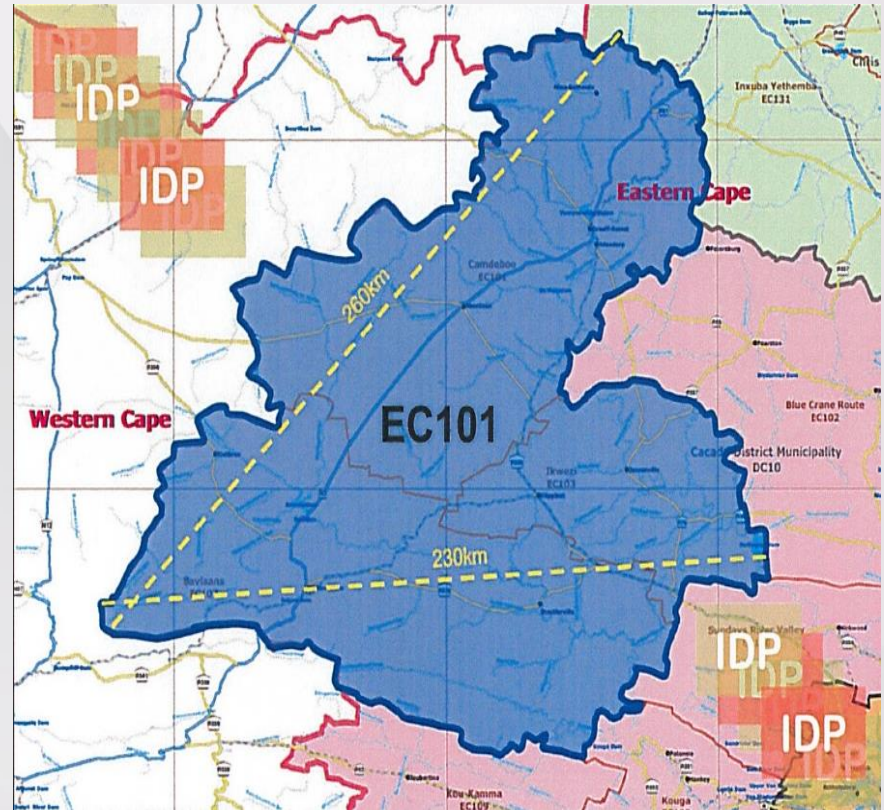
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Background

- Dr. Beyers Naudé Local Municipality:-
 - Based in **Sarah Baartman DM, Eastern Cape;**
 - officially established on **3 August 2016** after the Local Government Elections;
 - merging the erstwhile **Camdeboo, Ikwezi and Baviaans Local Municipalities;** and
 - incorporates the towns of Nieu Bethesda, Graaff-Reinet, Aberdeen, Jansenville, Klipplaat, Steytlerville, Willowmore with **Graaff-Reinet being the Seat.**

Background

Geographically, Dr. Beyers Naudé LM makes up more than **49%** of the Sarah Baartman District Municipality's landmass, with a **low population density of 2.8 persons per km²**.



Background

STATISTICS	
Total population	82197
Unemployment Rate	28%
Youth unemployment Rate	33%
Number of Households	20784
Average Household Size	3,8 persons
Area Cover	28,653 square kms
Wards	14
Councillors	27

Demarcation Imperatives

QUOTE 1:

“Most importantly, municipal demarcations must improve the economic, social, administrative and financial sustainability of municipalities, bringing together people in geographical units so that they can largely live, work, shop and play in the same municipal area”

QUOTE 2:

“Merging municipalities are not only about striving to improve settlement patterns, leadership and economic bases, but they are also about creating more financially viable municipalities”

Key Demarcation Factors for Dr Beyers Naude LM

- Merger of municipalities which were quite small in population terms but large in area terms;
- General loss in population, possibly due to migration and/or increasing urbanisation;
- Merger of smaller municipalities, without a rates base, becoming even more financially unviable;
- elected councillors have larger areas to serve; and
- National Treasury's financial distress scores found generally that there was no or improved change in their status before and after the formal mergers occurred.

Financial Position: Creditors at Merger

CREDITOR	IKWEZI LM	BAVIAANS LM	CAMDEBOO LM
Eskom	15 446 997.65	4 132 843.00	10 851 483.43
Sars	134 766.03	0	0
Pension / Compensation Fund	0	345 855.00	0
Auditor-General	6 566 433.06	8 890 146.00	124 525.21
Salga	1 574 000.00	2 525 678.00	0
Bytes	756 794.86	1 328 544.00	0
Other creditors	7 023 533.45	2 128 408.00	3 432 556.42
TOTAL	31 502 525.05	19 352 474.00	14 408 565.06

TOTAL INHERITED DEBT: R 65 263 564.11

CURRENT ASSETS VS CURRENT LIABILITIES – 30 June 2019

The information presented below is taken from the unaudited figures of the **2018/19** Financial year

Current Assets

VAT Receivable	8,515,946
Inventories	5,428,557
Other Receivables	3,624,091
Receivables from Non-exchange Transactions	3,856,579
Receivables from Exchange Transactions	16,296,017
Cash and Cash Equivalents	24,312,902
	<u>62,034,092</u>

Current Liabilities

Other financial liabilities	10,000,000
Payables from Exchange Transactions	173,889,937
Payables from Non-exchange Transactions	1,543,399
Consumer Deposits	3,316,576
Unspent Conditional Grants and Receipts	26,455,177
Provisions	544,502
Employee benefit obligation	2,991,000
	<u>218,740,591</u>

*Unspent conditional grants at June 2019 relates mostly to the drought grants for which roll over was approved. Spending was done during the 2019/20 financial year.

CURRENT ASSETS VS CURRENT LIABILITIES

- Current Assets = 62 034 092; Current Liabilities = 218 740 591
- The norm current ratio is **2:1** for assets versus liabilities
- Current municipal ratio is **0.28:1** (unaudited results for 2019/20 shows a current ratio of 0.14:1).
- The municipality has **no cash backed reserves**
- The main contribution is the **high creditors** balance for the municipality and **low cash levels**.

ADMINISTRATION IMPACT OF DEMARCATION/MERGERS

- Rationalisation of services;
- Change management costs;
- Acquisition of new technology for human resources, financial and payroll systems;
- Harmonisation of systems;
- Rationalisation of administrative policies;
- Rationalisation of fees and tax rates;
- Harmonisation of asset registers;
- Rationalisation of voters roll; and
- Merger management, coordination and communication costs.

HUMAN RESOURCES IMPACT OF DEMARCATION

- Harmonisation of wages, salaries and allowance (wages are often set at the highest level paid by separate municipalities);
- Harmonisation of human resources policies;
- Harmonisation of councillor allowances;
- Costs associated with retraining and retooling of workers;
- Costs associated with staff redeployment; and
- Retrenchment or staff layoff costs.

REVENUE & EXPENDITURE IMPACT OF DEMARCATION

- Increase in expenditures due to wage and services rationalization;
- Tariffs; and
- Tariffs increase for some consumers in previously low tariff municipalities.

Conclusions: Dr Beyers Naude Experience

1. There was limited planning, change management, costing and provision of resources for the transitional processes of the merger;
2. The absence of a functional & dedicated team to work with the merged municipalities to properly manage the change processes, was evident;
3. Lack of Proper planning and a transitional grant to facilitate the restructuring process;
4. Due diligence study should have been commissioned after boundary decisions to identify the financial situation of the affected municipalities; and
5. Municipal demarcation was seen as a solution for viability and sustainability.

Recommendations: Dr Beyers Naude Experience

- 1. MUNICIPAL SUSTAINABILITY:** investigate options to raise the revenue levels and particularly the transfers to the municipalities which have lower levels of economic opportunity;
- 2. TRANSITIONAL FUNDING:** 3 year budgets should be provided for mergers which would allow transitional costs to be accommodated;
- 3. IMPACT ASSESSMENT:** Due diligence study should be commissioned to assess the financial and governance situation of demarcated municipalities; and
- 4. DEMARCATION LEGACY:** Municipal demarcation should not be seen as a solution for viability and sustainability.

THANK YOU