



Vuthela SPARK

IGNITING INCLUSIVE ECONOMIC DEVELOPMENT IN ILEMBE



Seminar to shed light on development charges

Sharing perspectives at a policy and practice dialogue on development charges in the iLembe district

02

Change management process positions Enterprise iLembe to drive local economic development

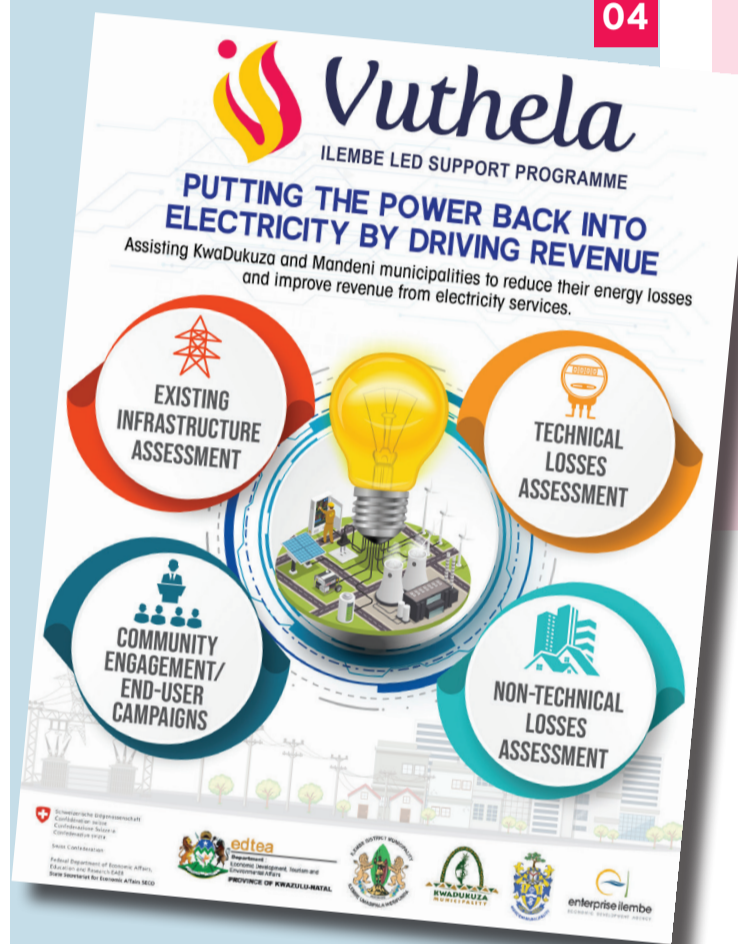
Playing a central role in facilitating and meaningfully driving economic development in the iLembe district

03

New improved initiatives aimed at reducing electricity losses and improving revenue

Assisting the KwaDukuza and Mandeni local municipalities to reduce their non-revenue electricity

04



Ease of doing business project improves building plans approval

Improving building plans approval and the broader value chain to realise growth

05

Municipalities must improve implementation of SCM policies

Improving competencies in supply chain management in iLembe municipalities

06

Vuthela provides municipal leadership, finance and oversight capacity training

Rolling out training for councillors and senior management

06

Editorial: Digging deeper into non-technical electricity losses

In previous issues of *Vuthela Spark*, we examined the impact of non-revenue water and electricity on municipal revenue.

In this issue, we dig a little deeper looking at the work of the Vuthela iLembe LED Support Programme to assist the KwaDukuza and Mandeni local municipalities to reduce their electricity losses. This study comes at an opportune time with significant public attention on the issue in KwaDukuza during this year. This work focuses on non-technical losses which refers to electricity which is consumed but not accurately recorded, either through legal or illegal consumption. The article discusses the project's process and recommended interventions.

This year has also seen increased public attention on development charges made by municipalities. These are charges levied by municipalities on developers to contribute to the bulk infrastructure services related to increased demands from new developments. A new Bill designed to standardise how municipalities across South Africa charge private developers for bulk infrastructure services has been tabled before parliament. Much of the media

focus has been on the court proceedings between the South African Property Owners Association (SAPOA) and the City of Johannesburg over this issue. We talk to several government and private sector role players to get their perspectives on the issue. This is in preparation for a Development Charges Seminar to be hosted by the Vuthela Programme in October with participants from government, organised business, private developers and other relevant parties to promote dialogue in the district

The construction sector is a key driver of the district's economy, and the municipality is one of the fastest growing areas in the country.

around the challenges and perspectives on how best to address development charges and the financing of bulk infrastructure.

Linked to property development, this *Spark* also examines the work that has been done by the International Finance Corporation (IFC) with the KwaDukuza planning department to make it easier to do business. The construction sector is a key driver of the district's economy,

and the municipality is one of the fastest growing areas in the country. The ease with which developers can get planning approvals, from Site Development Plans to occupancy certificates, significantly impacts on the realisation of the economic growth and job potential of

the sector. This project is closely linked to the Senza Lula digitalisation project reported in a previous *Spark*. We look at the successes of the project and areas for improvement.

Also in this issue, we look at the work done by Vuthela's Public Finance Management

(PFM) Component in strengthening the municipalities' Supply Chain Management (SCM) and financial and other oversight capacity. With municipalities regularly underspending on capital budgets, both service delivery and economic development are impacted. Municipalities have already implemented a number of the recommendations from the project, resulting in a noticeable reduction in the current year's unauthorised, fruitless and wasteful expenditure (UIFWE). A critical part of improving SCM processes is the capacity of both councillors and officials to provide oversight on municipal finances. We look at the training being provided by the Vuthela Programme to build this capacity.

With municipalities regularly underspending on capital budgets, both service delivery and economic development are impacted.



Seminar to shed light on development charges in the iLembe district

With the aim of sharing perspectives, the Vuthela iLembe LED Support Programme is holding a policy and practice dialogue to navigate the terrain of development charges.

The Vuthela communications team has been engaging with various stakeholders nationally and in the district on their different views and will be hosting a Development Charges Seminar in October.

The Vuthela iLembe LED Support Programme will host a Development Charges Seminar in October with stakeholders from national, provincial and local government, organised business, private developers and other relevant parties to promote dialogue around the policy and practice of development charges.

New regulations designed to standardise how municipalities across South Africa charge private developers for additional demands on bulk infrastructure services as a result of new developments, are due to be sent to Parliament for approval before the end of September.

Many municipalities are already implementing various forms of development charges for bulk infrastructure based on existing national legislation, provincial ordinances or municipal regulations. This has led to strong opposition from property developers, leaving some municipalities facing litigation over contested regulations.

The Bill due to go before Parliament seeks to create equitable, fair, predictable, uniform and easy-to-administer development charges to cover the costs of providing water, electricity and sanitation.

The Government Gazette of 19 August 2022 confirms that the Minister of Finance intends to present the Municipal Fiscal Powers and Functions Amendment Bill before Parliament for approval in the third quarter of this year. Once the Bill is enacted into law, benefits for cash-strapped municipalities will include enhanced revenue streams for financing strategic municipal infrastructure for development projects that support national government's strategic priorities, the elimination of unfair competition by creating uniformity, and minimising litigation over the administration of development charges.

Developers will be in a better position to estimate the equitable and transparent costs accurately and should benefit from quicker development as bulk infrastructure is installed.

Senior economist responsible for Local Government Finance Policy at National Treasury, Mmachuene Mpyana, says some municipalities are already implementing development charges based on the Spatial Planning and Land Use Management Act (SPLUMA) provincial regulations or the Municipal Finance Management Act.

"The problem is that this legislation did not provide sufficient guidance on how the development charge should be applied. Different terminology and definitions are being used by various municipalities and this has led to confusion among developers.

"The main objective of the Amendment Bill was to address these issues by standardising the approach to be taken by municipalities in terms of how to go about levying development charges for engineering services related to water, electricity and sanitation," says Mpyani.

The experience of municipalities who have implemented development charges indicates the variances in application across South Africa.

The Vuthela iLembe LED Programme assisted in

the formulation of 3 draft Development Charges policies for KwaDukuza, Mandeni and the iLembe District Municipality.

Standardised policy

The project aimed to develop a standardised policy across the municipalities in the district, creating uniformity and predictability for municipal planning officials, property owners and private developers.

Mandeni Local Municipality has processed the policy through all its structures, advertised it for public comment, and the policy has been adopted by council.

iLembe District Municipality has engaged with the draft policy at a management level, but has still to have it advertised for public comment and approved by Council.

KwaDukuza Local Municipality is waiting for the Municipal Fiscal Powers and Functions Amendment Bill to be enacted into law before proceeding further.

"The Vuthela draft policy on development charges has been most beneficial to iLembe District Municipality," says Linda Mncube, CEO of Enterprise iLembe, the district municipality's development arm.

"Before the draft policy was devised, there was no clear procedure for calculating developer contributions. So, what the policy intended to do was produce a process or methodology for determining contributions.

"One of the significant costs for a development is the provision of bulk infrastructure. What the policy does is upfront give the developer some guideline as to how much the developer contributions would be. The policy has also created a uniform method for calculating the contributions.

"There is such a high interest in developers coming into the iLembe area that there has not been much pushback from developers in respect of development charges," says Mncube.

Equitable contribution

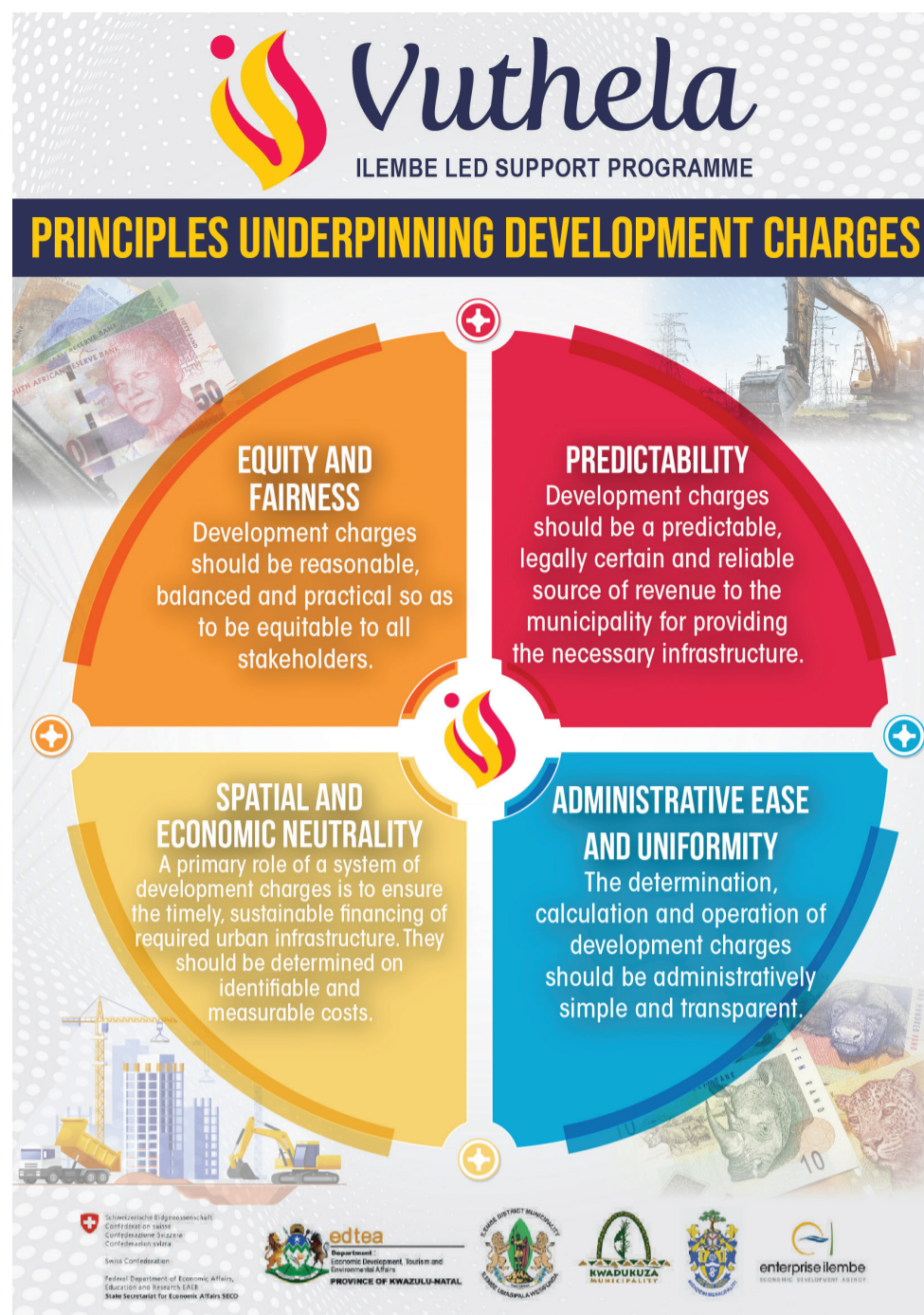
Frikkie Brooks, a development facilitation specialist consultant and former Planning Executive in the KZN Provincial Government, says, "The objective of a municipality is to serve its people. It must provide the services that have been assigned to them in terms of the Constitution and appropriate local government legislation.

"There has to be a proper balance between what you attract to your area and how you ensure that there is an equitable contribution to that development.

"The principle of development charges is something that I fully support.

"In my view, if a municipality has got a development charges policy, it should consolidate all other charges in that development charges policy itself and not come up with piecemeal charges," adds Brooks.

"What I would be pleading for in a process that puts



development charges or development contributions together would be taking a very holistic view on how this is to be done.

"I have come across developers who say it is local government's responsibility to bring bulk services to the boundary of the development, regardless of where it is. Developers must understand that everything that is inside the development must be paid for by the developer."

Muddying the waters

Thys Arlow, Municipal Manager at Midvaal Municipality, says, "The national policy is out of place. It's a case of national government trying to intervene at local government level where they are not supposed to. There are enough guidelines in SPLUMA to guide municipalities who want to implement bulk contributions and we should follow the guidelines in SPLUMA.

"We don't need additional legislation to muddy the water."

Arlow says the old Transvaal ordinances already made provisions for bulk engineering contributions, and the municipality has been levying and collecting bulk contributions since Midvaal's inception in 2000.

"Development charges do play a part in development, albeit a very small part. The contributions are not nearly enough to fund all the infrastructure needs that we have," says Arlow.

While there is overall correlation between national policy and Midvaal's regulations, one disjuncture is that the SPLUMA guidelines require that municipalities have to refund bulk contributions to the developer if an application lapses.

"This is difficult because often we have already committed those funds. If we have to return the contributions, it means that we have to find alternative sources of funding," says Arlow.

"There is always resistance from developers. But we sit down with them and we translate development contributions back to the actual cost per unit of the

Change management process positions Enterprise iLembe to drive local economic development

The Vuthela Programme has been supporting Enterprise iLembe to better position itself as a sustainable economic development agency with a central role in facilitating and meaningfully driving economic development in the iLembe district, writes **Richard Clacey, Vuthela Programme Manager and Partnership and Co-ordination (P&C) key expert**

District development agencies have had mixed success in supporting local economic development in South Africa.

Their genesis largely lies in a national initiative by the Industrial Development Corporation (IDC) Agency Development and Support Programme (ADS) to promote regional economic development in the 'noughties' 2000 – 2010, with the establishment of almost 36 agencies across the country, largely with a focus on facilitating regional "catalytic projects". A number have subsequently collapsed, been absorbed back into municipalities, or are still struggling to play any meaningful role in their areas. Only a few have gone on to position themselves as credible economic actors in their localities, with meaningful results and impact.

A key challenge has been in defining their mandate and institutional status, particularly in relation to municipalities, both local and district, but also in relation to the organised business sector. Enterprise iLembe is one of the few district agencies that has emerged as a fully functioning and funded agency since its establishment in 2006 as a municipal entity, with significant financial support from the iLembe District Municipality over the years.

Since 2019, the Vuthela iLembe LED Programme has been supporting Enterprise iLembe to better position itself as a sustainable economic development agency with a central role in facilitating and meaningfully driving economic development in the iLembe district.

The first phase of the Vuthela Programme support comprised a detailed institutional assessment/ diagnostic that was undertaken by Sigma International at both a programme and institutional level to determine the relevance, efficiency, effectiveness, and impact of the agency with respect to its mandate, programmes, functions, and activities. A key requirement of the assessment was to define specific areas requiring change, with a focus on strategic positioning, mandate, sustainability, and an appropriate funding model.

Streamlining products and services

The key findings related to the need for focus and streamlining the products and services of the agency, as well as finding a better balance between the twin imperatives of supporting both economic development for socio-economic transformation and economic growth. In short, how to support "inclusive growth" in the district, each imperative requiring a different set of skills and services working with different role players and stakeholders (captured by the notion of a left brain, right brain integration). Other issues related to governance with recommendations for a balanced Board of Directors drawn from both the public and private sector and aligned to the key economic sectors in the district (tourism, agriculture, manufacturing, and property development and construction). Other findings related to compliance, performance management and partnerships.



enterprise ilembe
ECONOMIC DEVELOPMENT AGENCY

Assessments were made of the existing project portfolio and specific recommendations made on how to increase impact, sustainability or establish smart exit plans for non-performing projects.

Thereafter Sigma International worked with Enterprise iLembe and role players to develop a 5-year Strategic Plan and Change Management Framework for the organisation. A strategic model based on six key strategic themes was identified relating to relevance, impact, good leadership and governance, income diversification for sustainability,

business agility, efficiency and productivity, and human capital development. Thereafter three overriding strategic goals were developed with specific strategic objectives for each goal to guide the organisation over the period 2019/20 - 2023/4.

Strategic Goal 1 relating to relevant and impactful LED and investment promotion and facilitation initiatives included objectives dealing with marketing, promoting, and facilitating investment and tourism initiatives, the identification and packaging of medium and large impactful economic development projects, business retention and expansion.

Strategic goal 2 focused on sustainability, partnerships,

good governance and income diversification. Specific objectives included dealing with the re-alignment of the governance and leadership structure of the organisation, the balancing of board representation (between public and private sector, economic sectors as well as skills), robust income diversification and strengthened financial management and compliance, and risk management.

Strategic Goal 3 involved human capacity development with a focus on improving skills and productivity as well as building an agile and efficient organisation with a focus on establishing proper planning, project management and a performance management system.

Change Management Framework

Thereafter a Change Management Framework was developed to assist to drive the necessary changes expressed in the 5-year Strategy. Both the 5-year Strategy and the Change Management Framework were formally approved in a resolution by the iLembe District Council on 19 October 2019.

The implementation of both was however delayed by



Richard Clacey, Vuthela Programme Manager and Partnership and Co-ordination (P&C) key expert

the onset of the Covid-19 pandemic in 2020. The new Board selection informed by the 5-year Strategy and Change Management Framework, and the Board Selection policy, developed with the support of the Vuthela Programme, saw the inauguration of the new Enterprise iLembe Board on 14 January 2021. Over the same period, there were changes at the executive level with the resignation of the Chief Executive Officer and Chief Operations Officer.

With a new Board of Directors and the eventual appointment of a new Chief Executive Officer with a clear grasp of the 5-year Strategy and change imperative, an enabling leadership context has subsequently been in place for the change management process.

During 2022, the Vuthela Programme has been supporting Enterprise iLembe with the key institutional objectives identified under Strategic Goal 3 in the 5-year

Strategy and Change Management Framework, with the design, development and implementation of a human resource and performance management

system, as well as a project management information system integrated into the financial management system.

The human resource and performance management system project being undertaken by LEAD HR Consulting (Pty) Ltd has involved the review and development of human resource policies, an organisational structural review as well as benchmark report, job analysis and evaluation,

skills audit and the development and institutionalisation of a performance management system.

The project management and project finance system projects have involved a strategic assessment of the project portfolio, the development of five concept plans, development of a project identification and appraisal framework, as well as the development of an integrated project management information system linked to the financial management system which can systematically monitor and capture appropriate project indicators around inputs, activities, outputs and results across the project portfolio in agriculture, enterprise development, skills development, and tourism.



New improved initiatives aimed at reducing electricity losses and improving revenue

Non-Revenue Electricity Strategies & Programmes (NRESP) project aims to assist the KwaDukuza and Mandeni local municipalities to reduce their non-revenue energy, writes Leon Prinsloo, Associate: Asset Management of Zutari.



Leon Prinsloo, Associate: Asset Management of Zutari.

Electricity that is used and is not paid for results in loss of revenue for the providers which are in most cases municipalities.

Energy losses can be described as energy bought from the supplier (Eskom) which is not sold for various reasons, thereby leaving a gap between what has been bought and what is being sold.

Losses can further be broken down into technical and non-technical losses. Technical losses occur naturally in the network. It is basically the dissipation of power in electrical system components such as transmission lines, power transformers etc. Although technical losses can be calculated and controlled, there will always be a percentage of losses due to the natural occurrence thereof. An electrical utility will typically have technical losses of about 4-10% in the distribution system.

Non-technical losses occur when electricity is consumed but is not accurately recorded, either through legal or illegal consumption.

Typical examples of where non-technical losses may occur are:

- **Unknown or unmetered connection points:**

This typically occurs where a meter is installed, but the information of the meter (whether prepaid or conventional) has not been recorded in the municipality's financial system. Failure to record information in the financial system can normally be attributed to administrative errors. A connection point that is not correctly registered in the system leads to a user that legally consumes energy but is not billed as the user or the meter is not in the database.

- **Faulty meters:**

Faulty meters can be attributed to for example a meter that has stopped recording consumption (stuck meter). For as long as the faulty meter remains at the connection point, the user is consuming energy legally, but does not get billed due to the meter not registering consumption.

- **Meter tampering:**

Meter tampering happens when a user illegally tampers with a meter by either bypassing the meter completely or making the meter "slow" by tampering with the meter in such a way that only a portion of the consumption is recorded.

- **Ghost vending:**

This term is generally used where syndicates are selling prepaid electricity to a consumer, but the consumption does not register in the municipality's official system, as the syndicates have devised a way to "mimic" the official system. Revenue therefor also does not go to the municipality. This is a countrywide challenge.

Non-technical losses, therefore, happen on the commercial side of a municipality's business and are also often termed commercial losses. If left unchecked, non-technical losses will quickly escalate out of control.

The World Bank Group benchmark for total losses (technical and non-technical) for a medium to large municipality is 11%. If technical losses have a standard of 4%, then non-technical losses should not exceed 7%. Unfortunately for many municipalities, this is not the case, with many municipalities exceeding the 11% benchmark by a considerable margin, and in most cases non-technical losses are the biggest contributor.

High losses place a burden on municipalities as the revenue generated from electricity sales may become

insufficient to service the cost of purchasing electricity. To just increase the tariff for electricity sales is not the answer as there are NERSA compliance requirements, but it would also be unfair towards paying customers to foot the bill for non-paying customers, whether they are doing so legally or not.

Municipalities, therefore, need to have comprehensive management plans to address the issues of energy losses and subsequent losses in revenue from energy sales. Each municipality is unique though, and a one-size-fits-all approach is therefore not advisable.

Through the Vuthela iLembe LED Support Programme, Zutari (Pty) Ltd was appointed as the consultant to assist the local municipalities of KwaDukuza and Mandeni to reduce their energy losses and at the same time improve revenue from electricity services.

The Vuthela Programme launched the Non-Revenue Electricity Strategies & Programmes (NRESP) project with the aim of assisting the KwaDukuza and Mandeni local municipalities to reduce their non-revenue energy.

The project has the following stages:

1. Situational analysis and status quo report

As indicated, each municipality's situation is unique. To gain a thorough understanding of each municipality's situation, an in-depth analysis was done through a process of stakeholder workshops and analysis of various reports, drawings, data etc. Four main aspects were analysed during this process: existing infrastructure assessment; technical losses assessment; non-technical losses assessment; and community engagement/ end-user campaigns.

The analysis process was aimed at identifying possible gaps from which strategies could be derived to address these gaps and subsequently produce a management plan ("roadmap") through which losses can be curbed and brought down to international standards and subsequent improvement in revenue from electricity sales.

2. Strategy report

From the findings during the situational analysis and subsequent report, strategies were then developed, specific to the unique needs identified for the two local municipalities.

Strategies were classified into:

- Technical strategies
- Financial strategies
- Institutional strategies
- Social interventions and initiatives strategies



Strategies needed to be prioritised in terms of the following:

- Quick win
- Available funding
- Technical capacity of each municipality

Each strategy as a minimum, covers the following aspects:

- Basic high-level scope of work
- Estimated resources
- Funding options
- Provision of SMART implementation schedules for the short, medium, and long term
- Risks and appropriate mitigation measures
- Innovative procurement and implementation options

These strategies were then presented in stakeholder workshops with municipal officials, and the strategy documents circulated for comments and review whereafter the strategies were also presented to each municipality's Management Committee (MANCO).

Ease of doing business project improves building plans approval

Reforms in KwaDukuza Local Municipality have improved building plans approval and the broader value chain to realise growth in this fastest growing municipality in the country, writes Shannon Moffett, the key expert for the Vuthela Private Sector Development Component.

In 2015, the International Finance Corporation (IFC), member of the World Bank Group (WBG), conducted a study into the ease of doing business in iLembe District Municipality. This study was part of a broader project looking at the ease of doing business at national and sub-national levels.

Based on the findings of this study, a project was initiated in 2019 in KwaDukuza Local Municipality (KDM), one of the district municipalities, to improve the ease of doing business, specifically in respect to the process of building plans approval. The reforms implemented were not limited to building plans, but looked at the broader value chain including other elements in the planning process such as Site Development Plans (SDPs), inspections and occupational certificates. This project forms part of the broader Swiss State Secretariat for Economic Affairs (SECO) funded Vuthela iLembe LED Support Programme within the district.

Why is such a project important? To start with, KDM is one of the fastest growing municipalities in South Africa and the operations of the planning department are critical to realising this growth. In 2018 approximately 11% of the KDM workforce was employed by the construction sector. Furthermore, 7.2% of the municipality's GVA in 2018 was from the construction sector, and 79% of the district's construction sector contribution to GDP takes place in KDM. Having approved building plans in place strengthens property rights and capital accumulation. Having a simple process in place that is not prohibitively costly encourages compliance, and expedites projects realisation which has a major impact on local economic development and job creation. Building plan permitting processes can also be a factor in investment attraction – a previous study in the USA showed that construction costs and the permitting process were among the top 12 factors in choosing a destination for starting up a business.

The project focused on the following activities: (1) streamlining the construction permitting process and related pre-approvals; (2) creating a transparent and simplified regulatory framework, which realises public good health and safety policy objectives and reduces the complexity of the construction permitting process; (3) building the capacity of the construction permitting officials capable of implementing the reforms; (4) strengthening the monitoring and evaluation capacity at the municipality; and (5) ensuring sustained engagements and communication with the private sector and the public.

Programme achievements

For the past three years, IFC has been working closely with the KDM planning unit to implement reforms. Some of the achievements of the programme are as follows:

- The establishment of a Development Assessment Committee (DAC) which meets bi-monthly (or on demand) to assess catalytic or high impact projects where joint assessments shorten the time taken for approval of these projects.
- The signing of a memorandum of understanding with the South African Council for the Architectural Profession (SACAP) to collaborate on the quality of applications submitted by registered



- professionals, and the performance statistics of the Building Control Department as per the national building regulations.
- Reducing costs for developers by making the Land Use Management Scheme free to download (it previously cost R1 500).
- Standard operating procedures were approved by Council and in early 2019, training was conducted by the Building Control Officer.
- Reducing referral rates of first building plan submissions from 94% at the start of the project to approximately 75% to 80% in 2022. This was achieved through:
 - o The establishment of a pre-scrutiny desk at the planning department, and addition of resources and training of officials at this desk.
 - o The development of a checklist for professionals to aid them in ensuring plan requirements are met.
 - o Capacity building through a seminar on the National Building Regulations and Standards Act 103 of 1977 and SANS10400 by the National Regulator for Compulsory Specifications (NRCS) for both architects and officials.
- Service level agreements were drawn up for the commenting departments to facilitate faster turnarounds, and a single-entry point was encouraged (commenting departments were also reduced).
- Site development plans were estimated at 130 days (or perceived by the private sector to be six months)



Shannon Moffett, the Building Inclusive Growth expert in the Vuthela iLembe LED Support Programme.

- and are now averaging at below 30 days for an approval once all development controls are met.
- For first time assessment and decision-making to approval/ refusal of building plans less than 500m2, in FY21 (Q1 to Q3) the average time for this was 21 days, within the legislative requirement that this be done within 30 days. However, on average, 79% of plans are processed within this timeframe, meaning there is room for improvement.
- For building plans greater than 500m2, the legislated timeframe is 60 days. In 2021, the average time taken for the first assessment was 19 days, a significant improvement. However, 6% of these plans were also processed outside of the legally mandated timeframe.
- The municipality now accepts plans and circulates them internally as opposed to the previous process where the private sector would circulate plans to the various departments.
- Minor building works are being processed on average in seven days versus 35 days at the start of the project.
- The reduction of compulsory site inspections from seven to three days due to a risk-based approach, with the following required:
 - o Commencement and open-trench inspection
 - o Open drainage inspection
 - o Final inspection
- Upon a successful final inspection, occupancy certificates are now measured and are issued within four days, instead of the legislated 14 days.
- The project has also worked to improve communication and stakeholder engagement with professionals in the municipality. Quarterly meetings have been held and focused technical sessions are held with architects and planners.

Despite these achievements, there is still room for improvement and KDM continues to roll out initiatives to address bottlenecks identified by the private sector. To ensure continuous feedback, KDM rolled out a client satisfaction survey through the iLembe Chamber of Commerce, Industry and Tourism's survey platform which highlighted challenges and potential areas for further improvements to be considered by KDM to ensure that they continue to improve their services to the public.

A critical reform which KDM is currently implementing is digitalisation of the process which will be a game changer in terms of the government to business services provided by the municipality. The municipality has launched the KDM Senza Lula project which is anticipated to be live by 2024 where many of the planning processes will be digitalised through the implementation of the KDM's Ease of Doing Business Tools and Systems project.

Municipalities must improve implementation of SCM policies

Supply chain management (SCM) is focused on accountability for spending, and for improving service delivery and quality of life, writes Zama Soji, the key expert for the Vuthela Public Finance Management Component.



Zama Soji, the Public Finance Management key expert at the Vuthela iLembe LED Programme

Supply chain management (or procurement) ensures the proper flow of goods and services between suppliers and the municipality, in the right quality and quantity, whilst ensuring timeous and appropriate service delivery as per the integrated development plan.

SCM has been developed in accordance and in conjunction with pieces of legislation to develop and shape SCM within the local government sphere. These include Section 217 of the Constitution, which compels all municipalities to implement a SCM system that is fair, transparent, equitable, competitive, and cost-effective. Chapter 11 of the Municipal Finance Management Act (MFMA) compels municipalities to establish SCM units and implement the SCM Policy, which gives effect to all SCM functional areas.

The Auditor-General, Tsakani Maluleke, commenting on the MFMA 2020/21 audits, called on all role players in the local government accountability ecosystem to diligently play their part to ensure accountability for government spending, and for improving service delivery and quality of life for South Africa's citizens.

Her office's latest report reflects on the audit outcomes over the five-year term of the previous local government administration, and she says the trends in the report demonstrate that the fourth administration (2016-2021) left municipalities in a worse financial position than when they took office.

"The lack of improvement in municipal outcomes is an indictment on the entire local government accountability ecosystem, which failed to act and arrest the decline that continued to be characterised by service delivery challenges in municipalities," says Maluleke.

It seems like no matter how sophisticated the systems put in place to improve supply chain management, municipalities are still found wanting during the external audit on the implementation SCM regulations, policies and procedures.

Stimulating SMME

The government introduced the Five Pillars of Procurement to stimulate and grow Small, Medium and

Micro Enterprises. Every government department's Procurement Policy should include these five pillars. All Bid Evaluation Committees are to follow and apply these five pillars.

While the procurement processes are well structured - spanning from the SCM unit's staffing to bid committees, including clear approval matrixes - municipalities still experience challenges in spending budget allocations, especially capital expenditure.

This can be due to absence of procurement plans, non-sitting of the committees to make decisions on service delivery procurement, as well as delays in the implementation of the projects due to appointments of service providers being challenged in the court of law and this can go on for more than a year without being finalised.

The Public Finance Management (PFM) Component of the Vuthela iLembe LED Support Programme has been supporting municipalities in the iLembe district since December 2018. The support on supply chain management focused on skills of officials in SCM units; how best to manage Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE); and staff capacitation. The project concluded that there are reasonable skills in the district, however, the issues of competency were a concern. This was supported by the Auditor-General's findings on the implementation of SCM legislation and regulations which resulted in municipalities incurring UIFWE. The areas that were flagged as of concern include contract management, effectiveness of bid committees, demand management and understanding of SCM value chain by all end users.

In responding to the above, training was designed to improve competency of municipal officials who are role players in SCM. Further to that, PFM developed a strategy and policy to reduce and manage UIFWE.

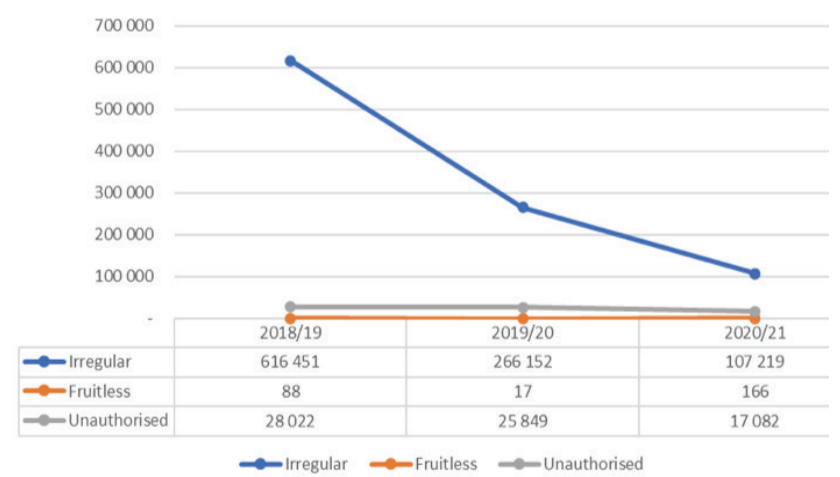
Upon follow up on the implementation of the strategy, it was found in all municipalities that this is partially implemented.



FIVE PILLARS OF PROCUREMENT

PFM has also observed that municipalities have implemented some of the recommendations - this includes ensuring that contract management is a sub-unit of SCM for proper management and reporting among others. We further noticed a reduction of the current year's UIFWE. What is still outstanding is the issue of consequence management where expenditure was irregular and incurred in vain due to no compliance with policies and procedures by individuals.

UIFWE OVER 3 YEARS R'000



Vuthela provides municipal leadership, finance and oversight capacity training

Adequately trained personnel are key to effective delivery of municipal services.

Tasked with the responsibility to serve what has been described as the "higher purpose" of government related to issues of representative democracy, oversight, integrity and ethical leadership, municipal councillors and senior managers need to be fully equipped on policy making and implementation.

To support capacity for this, the Vuthela iLembe LED Programme is rolling out Municipal Leadership, Finance and Oversight Capacity training for both councillors and senior management that is needs-based and accredited with the Local Government SETA.

Involving councillors who serve in oversight committees in the five municipalities of iLembe, KwaDukuza, Mandeni, Ndwedwe and Maphumulo, the training is intended to strengthen and improve councillors' engagement with financial information submitted to them monthly, quarterly, bi-annually and annually for which they must play an oversight role. Of importance is the oversight role played by the Finance Portfolio Committee (FPC) and Municipal Public Accounts Committee (MPAC) members

and successful implementation of a legal framework governing local government.

The training is also geared to senior management in the five municipalities, who are responsible for financial management of their departments which includes, among other things, budget compilation, implementation and reporting, assets, revenue, expenditure management, and governance. The intention is to strengthen and improve senior managers' responsibilities in financial management as outlined in the Municipal Finance Management Act, especially for non-financial managers.

The training programme will be rolled out by Vuthela from September to November 2022.

Seminar on development charges in the iLembe district

infrastructure we need to install.

“What worked best for us was implementing the concept of uniformity. We had a uniform set of rules and we applied them uniformly. No preference was given to anybody.”

The Ray Nkonyeni Municipality on the KwaZulu-Natal South Coast also used SPLUMA legislation to develop bylaws and has implemented a development levy to fund bulk infrastructure since 2006.

Long-standing disputes

Ravy Naidoo, Senior Manager for Building Control at the municipality, highlights the long-standing disputes between municipalities and developers over the charges.

“The outright response from developers has been that they are not in favour of the levy,” says Naidoo.

“Developers do not want to spend additional costs on issues related to planning.

“When we receive applications for rezoning from developers we take them through the reality of the situation and show them the actual costs involved. We also try to win them over with discounts where we can.”

These discounts include reducing the area of properties

applicable for the levy, basing calculations on built floor space only, or removing unusable parts of a property from the total area.

“Another strategy that has worked for us was to sign agreements between our municipal Treasury Department and developers that allowed the developers to pay off the development levy in instalments,” says Naidoo.

Contentious issues

“The eThekweni Municipality has not yet found a home for its development charges policy,” says Lekha Allopi, from the Economic Development Unit.

The municipality has drafted a policy and held public participation meetings. Some developers and stakeholders responded to the draft policy, which has not yet been implemented.

Contentious issues emerged around how the policy would apply in eThekweni to zoned and un-zoned land, the ring-fencing of charges, and the absence of a process to access the money and deliver the services required. Further complications arose around the need to include smaller developers who cannot afford to pay for bulk services upfront.

“The old ordinance made provision for financial guarantees for planning and the development of bulk services, and they worked,” says Allopi.

“Developers are saying that a system is already in place.”

About 10 years ago, development charges implemented by eThekweni Municipality were challenged in court and the municipality was instructed to return the development charges to developers.

Other municipalities also face litigation over development charges, including Stellenbosch and Johannesburg.

The South African Property Owners’ Association (SAPOA) has launched a court application against the City of Johannesburg to stop it from implementing its Development Contributions Policy.

Neil Gopal, SAPOA CEO, says, “The Development Charges Policy is vague, irrational and unreasonable.

“If implemented, the policy will effectively enable the City of Johannesburg to levy charges which compel developers to cross-subsidise developments which are unrelated to their applications.”

Risk to investment

Gopal highlights the long-term risk to investment. “Capital is mobile and businesses will simply stop investing and move more capital to local or international jurisdictions which are more business-friendly. This is already happening at an increased rate.”

With just weeks to go before the Bill goes to Parliament, National Treasury urges all municipalities to gear up with implementation plans.

“Once the Bill is enacted into law, all municipalities will have to comply with the provisions,” says Treasury’s Senior Economist, Mmachuene Mpyani.

“This means that municipalities will have to put a development charges policy in place and enact bylaws to give effect to the policy. The council will have to take a resolution to levy development charges and all the necessary processes must be put in place to implement and administer the charges.

“We are working with municipalities to give them the capacity to implement the charges. We will also issue various tools and templates to assist them, like pro forma policies, guidelines and regulations, samples of what an engineering services agreement should include, and any specific challenges they may experience,” says Mpyani.

Municipalities should ensure that an engineering services agreement is signed with developers to avoid confusion at a later stage, and developers should be told upfront what the costs are and how they were calculated.

“All these measures will help to avoid litigation,” says Mpyani. “Going to court to resolve disputes over development charges should be the last resort.”

‘development charge’ means a charge levied by a municipality in terms of section 9A(1)(a), and contemplated in section 49 of the Spatial Planning and Land Use Management Act, which must—

- (a) contribute towards the cost of capital infrastructure assets required to meet increased demand for existing and planned external engineering services; 5
- (b) contribute towards the cost of open parks and spaces if the land development application provides for the use of land for residential purposes; or
- (c) with the approval of the Minister, contribute towards capital infrastructure assets required to meet increased demand for other engineering services not prescribed in terms of the Spatial Planning and Land Use Management Act; 10

SOURCE: GOVERNMENT GAZETTE

Initiatives aimed at reducing electricity losses and improving revenue

Two short term interventions that emanated from the process and that could reap short-term benefits for the municipalities are:

- **Eskom tariff review for Mandeni Local Municipality**

During the analysis process it was discovered that Mandeni Local Municipality is on an Eskom tariff that leads to them paying more per giga Watt hour (gWh) of electricity than the metros. Mandeni has been assisted with a draft letter to query this tariff with Eskom with the aim of possibly moving to a tariff structure that is more conducive to the municipality’s needs.

- **Large power user (LPU) consumption audits for KwaDukuza Local Municipality**

Experience has shown that one of the best examples of a quick win is to review the consumption patterns of LPUs. A prerequisite for this is that the LPU customers

need to be on automated meter reading so that hourly consumption patterns can be reviewed as opposed to monthly. The reasoning is that meters will develop issues, some examples being a fuse blowing, meters becoming faulty and customers tampering with meters. A short-term intervention of auditing the consumption patterns of at least 120 LPU customers of KwaDukuza Local Municipality that are on functional automated meter reading may well lead to a conservative estimate of the recovery of R12m of lost energy at a return on investment (ROI) of over 600%.

3. Management reports

The final phase of the project is to compile the much-needed Consolidated Comprehensive Management reports that will serve as a “roadmap” for the two municipalities to implement and through the process, reduce non-revenue energy to acceptable levels.

These reports will form the basis of actions to be undertaken, broken down into:

- Specific time frames for the various interventions assisting in planning for implementation purposes.
- Cost estimates per intervention to assist with budget planning and allocation.
- An inter-dependency matrix, as some interventions are dependent on other interventions to ensure optimal implementation of interventions.

The ultimate goal is to ensure multi-pronged approaches for each municipality to:

- Reduce expenditure on electricity.
- Improve revenue from electricity services provided.
- Improve service quality and reliability to consumers.
- Ensure sustainability of services.

We welcome your comments on
Vuthela Spark.
Please send to: lichelleg@meropa.co.za



WHAT IT IS ABOUT

The Vuthela iLembe LED Programme responds directly to the urgent need to address unemployment, poverty and inequality by accelerating inclusive local economic development and growth in line with the National Development Plan, the KZN Provincial Growth and Development Plan, iLembe District Municipality Growth and Development Plan as well as the Integrated Development Plans of the family of local municipalities in the district.

OBJECTIVES

The overarching objective and expected impact of the programme is to contribute to the improvement of the economic future of the iLembe District and the quality of life of its inhabitants, through sustainable growth of the local economy, and the creation of higher, better and more inclusive employment and income generating opportunities.

STATUS OF PROJECTS

The programme comprises 43 projects (contracts) across the five components of which 19 have been completed, 13 are in implementation, four are in procurement, two have been recommended for transfer to municipalities, four have been withdrawn with one recommended for withdrawal.



Add: Suite 29, First Floor, White House Centre, 13 Chief Albert Luthuli Street, KwaDukuza, 4450

Tel: 087 056 0945 **Email:** admin@vuthelaled.co.za **Website:** www.vuthelaled.co.za

CONTACT INFO:



WHO ARE THE PARTNERS?

The Vuthela iLembe LED Programme, is a joint initiative of the State Secretariat of Economic Affairs of the Swiss Confederation, the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs, the iLembe District Municipality, and the KwaDukuza and Mandeni Local Municipalities. The programme includes participation of the Ndwedwe and Maphumulo Local Municipalities.

THE FIVE INTER-RELATED COMPONENTS OF THE PROGRAMME

- ▶ **Public Finance Management** - strengthening the financial position of municipalities through better capacity to plan, finance and manage infrastructure investments and the provision of public services.
- ▶ **Municipal Infrastructure** - improved planning and access to infrastructure services for development investment, effective and efficient service delivery, and sustainable growth.
- ▶ **Private Sector Development Component** - Address obstacles to doing business in the district by improving the regulatory environment and supporting skills development; greater investment in and growth of Small and Medium Enterprises, leading to increased employment.
- ▶ **Building Inclusive Growth Component** - inclusive and sustainable growth and employment interventions to support SMEs in growth sectors.
- ▶ **Programme Management, Partnership and Co-ordination Component** - sustained partnerships and capacity for local economic development in the iLembe District, and the replication of the approach in policy elsewhere in South Africa.