



# Vuthela SPARK

**IGNITING INCLUSIVE ECONOMIC DEVELOPMENT IN ILEMBE**

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## Editorial: Shining a spotlight on four big ticket issues

This month's *Vuthela Spark* focuses on the four big ticket issues that have significant impact on the wellbeing of the district local economy: the health of the municipal finances, the management of municipal infrastructure assets, the levying of development charges that affect inward investment into the region, and progress in supporting entrepreneurial development and skills development.

We report on the seminar hosted by the Vuthela iLembe LED Support Programme on the 6 October 2022 to share differing perspectives on the current policy and practice on the levying of development charges in the district, attended by National Treasury officials, developers, municipal officials, the iLembe Chamber of Commerce, Industry and Tourism, the Department of Transport, Enterprise iLembe, and Siza Water.

With new legislation in the offing, it is critical that municipalities, developers, and rate payers find a predictable and equitable system to share the costs for the public infrastructure requirements associated with

new developments in a way that contributes to inclusive growth in the district.

**The good news is that all three municipalities received unqualified audits and there has been a pleasing reduction in unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) over previous periods.**

We look at a summary of the outcome of the Auditor General's (AG) report on the Annual Financial Statements (AFS) 2020/2021 for iLembe District and the KwaDukuza and Mandeni Local Municipalities. (The AG report on the recently completed 2021/22 financial year will be released in 2023).

The good news is that all three municipalities received unqualified audits and there has been a pleasing reduction in unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) over previous periods. But the municipalities are still battling to make any real progress on reducing losses in electricity (KwaDukuza) and water (iLembe District Municipality), with losses amounting to R 182 million and R 111,7 million respectively.

Other areas of concern relate to the 33% under-expenditure of the KwaDukuza electrical infrastructure budget, and the need to strengthen credit control and debt collection policies in Mandeni Local Municipality.

The articles on actions taken to improve the asset management system of the iLembe District Municipality and the outcomes of the Non-Revenue Electricity strategies for the KwaDukuza and Mandeni local municipalities, throw the spotlight on initiatives to address the problems identified in the Auditor General Report.

**Other areas of concern relate to the 33% under-expenditure of the KwaDukuza electrical infrastructure budget, and the need to strengthen credit control and debt collection policies in Mandeni Local Municipality.**

We also report on progress being made on Vuthela Programme initiatives to improve resource efficiency as well as support entrepreneurs and skills development in the district through the report of a two-day site visit by senior officials of the Swiss Government State Secretariat for Economic Development (SECO), the principal funder and partner of the Vuthela Programme.

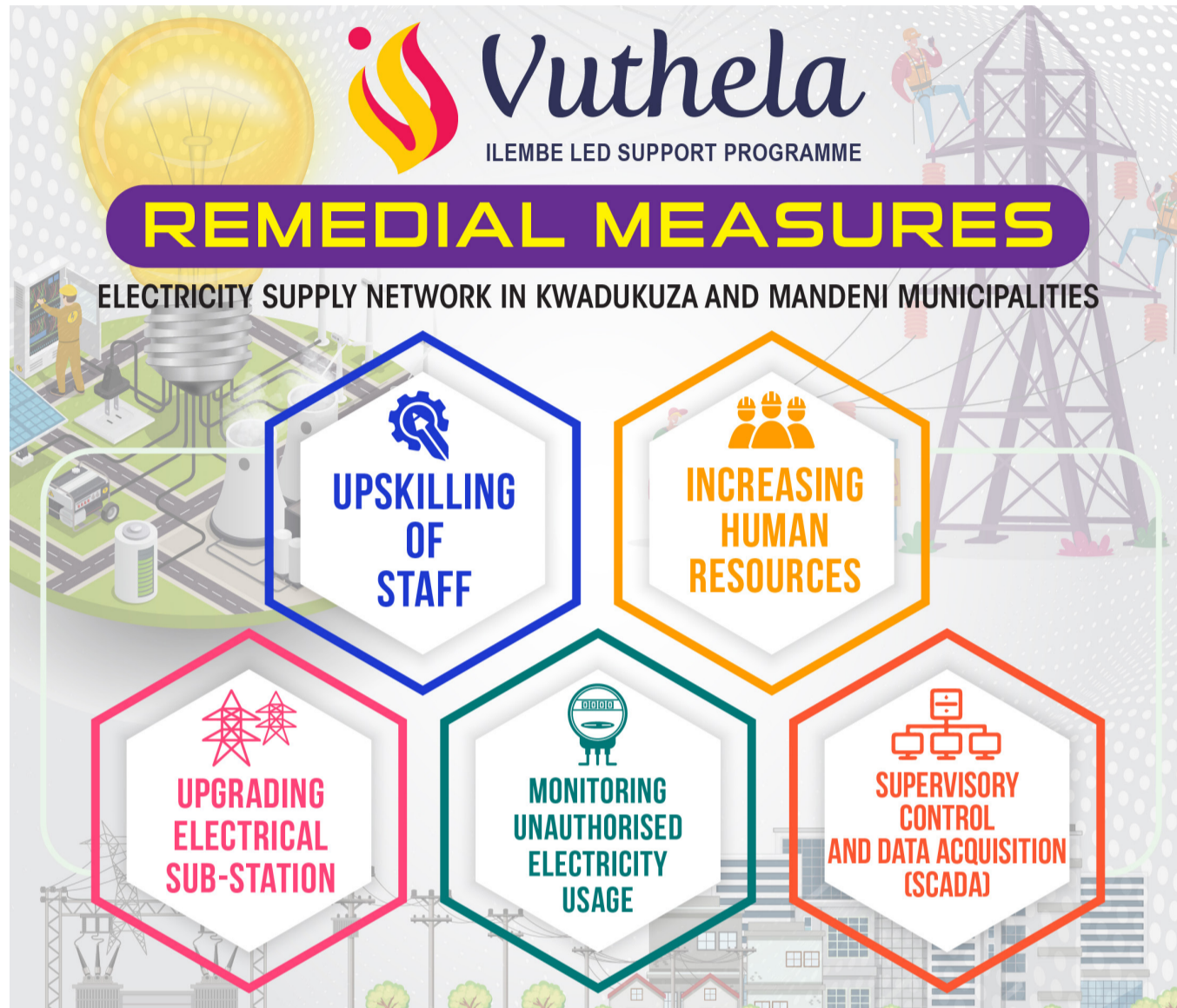


# Switching off non-revenue electricity losses

The Vuthela Programme has initiated an integrated approach to minimise losses caused by non-revenue electricity in KwaDukuza and Mandeni Local Municipalities write Monja Esterhuizen, key expert for the Vuthela Municipal Infrastructure Component.



Monja Esterhuizen, key expert for the Vuthela Municipal Infrastructure Component.



Identifying and plugging the gaps that are robbing municipal coffers of income from the sale of electricity is one of the contributions that the Vuthela iLembe LED Support Programme is making to address municipal finance and infrastructure constraints impacting on the performance of the local economy.

Revenue protection is an integral part of a holistic approach to achieving financial sustainability in municipalities and ensuring effective and efficient service delivery.

The Vuthela Programme has initiated an integrated approach to minimise losses caused by non-revenue electricity in KwaDukuza and Mandeni Local Municipalities. Electricity which is distributed and delivered, but not paid for, is termed “non-revenue electricity”.

To maximise revenue, a municipality needs to improve cash collections (reduce cash losses), and curb non-technical losses that are caused by factors outside the electrical system and infrastructure network. This could include activities to address inaccurate meters, inaccurate meter readings, billing errors, errors in record keeping, consumption by non-metered installations and energy theft.

The electricity supply networks in KwaDukuza Local Municipality were analysed in detail, leading to, among other remedial measures, upskilling of staff, increasing human resources, upgrading electrical sub-stations, monitoring unauthorised electricity usage and the procurement and installation (still in progress) of a Supervisory Control and Data Acquisition (SCADA) system, which uses cutting edge digital technology to monitor and control the entire network from a single

control room.

The Auditor-General’s reports tabled in the KwaZulu-Natal provincial legislature for the KwaDukuza Local Municipality between 2018 and 2021 show material electricity losses totalling R450 million, representing an average 20% of the total electricity purchased by the municipality.

A major cause of non-revenue electricity losses in KwaDukuza Local Municipality is electricity theft. An audit action plan has been put in place to prevent illegal connections, replacing of faulty meters and increasing maintenance of the electricity network and components. An assessment of the billing system found that over 14 000 of about 50 000 prepaid meters (about 28%) had no consumption record for a lengthy period. Some accounts had been duplicated and had more than one meter linked to them.

## Illegal connections

When illegal connections and low consumption are detected in KwaDukuza Local Municipality, the information is handed to the electrical department for action. Illegal connections are disconnected immediately and a tampering fee of R7 853 and a reconnection fee of R810 for first household offenders are payable before the reconnection will be done. In the case of businesses, the tampering fee for the first offence is R11 780 and the offender must also pay a reconnection fee of R810. The electrical department is working round the clock to investigate tampering and it is part of the implementation of the audit action plan.

It has also been ascertained through an audit that the staff at KwaDukuza Local Municipality need refresher training on the Standing Operating Procedures for revenue.

At KwaDukuza Local Municipality, the ageing electricity distribution network is exhibiting signs of degradation in reliability, performance, and functionality. KwaDukuza experienced technical losses in the distribution of electricity of up to 8%, according to Electrical Engineering Services estimates.

These losses are related to the length of distribution lines, overloading the distribution lines, inadequate conductors, distribution transformers located far from load centres, poor network optimisation and an imbalance in three-phase feeders.

KwaDukuza Local Municipality has identified several activities to reduce technical losses in the network, including appointing a service provider to analyse electrical energy flow and determine technical energy losses, and installing statistical meters. None of these initiatives have been completed yet but statistical metering is currently being addressed at substation level.

Similar to the KwaDukuza network, the Mandeni distribution network has aged and its performance has deteriorated. The network was designed and implemented in the early 1980s and had an expected life of 25 years.

**At KwaDukuza Local Municipality, the ageing electricity distribution network is exhibiting signs of degradation in reliability, performance, and functionality.**

Substantial portions of the network were approaching or have exceeded its useful life, requiring ongoing maintenance and the replacement of obsolete equipment. Some of the issues identified include blown-up miniature substations, bypassing substation transformers and damage to substations enclosures, oil leaks and vegetation overgrowth. All of these activities though require a large capital investment which is a challenge for the Mandeni Local Municipality that has a very small revenue base.

The technical losses for the Mandeni Local Municipality electrical network were estimated at 8.5%.

## Infrastructure upgrades

It is clear that future municipal plans in KwaDukuza and Mandeni will require an upgrade of the existing electricity infrastructure, implementing energy conservation and demand management, and the installation of new bulk electrical infrastructure in these and many other similar districts.

Statistics provided by the Mandeni Local Municipality indicated an average electricity distribution loss for the 2018/19 financial year of 7,0% which is well within the acceptable level of 10%. The monetary value of this is approximately R1,8 million over 12 months. The municipality received an unqualified audit report with the following matter of emphasis regarding revenue: material losses of R15,14 million were incurred as a result of a write-off of irrecoverable debt from exchange and non-exchange transactions. An action plan is in place to address these issues.

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Through the Vuthela Programme, Non-Revenue Electricity Strategies and Programmes (NRESP) have been developed to reduce the technical and non-technical losses in KwaDukuza and Mandeni local municipalities. This will assist to prioritise and ensure sustainability of the implemented measures to ensure revenue preservation. The NRESPs give the municipalities a holistic overview of the “revenue leaks” in the municipalities’ electricity service provision. The NRESPs provide information on how much electricity is being lost, why it is being lost, where it is being lost, and what strategies or interventions can be done to reduce the losses.

The programmes detail the plans that each municipality may implement to operationalise the strategies and ensure sustainability of the efforts to address non-revenue electricity. This will help unlock the development potential of the municipalities through the implementation of a cost effective, integrated, and sustainable programme. In addition, strategies will provide a clear business model providing strategically focused actions for implementing the proposed measures, while addressing the financial losses, inherent and residual risks, compliance with institutional requirements and overall sustainability of the programmes.

The SCADA system alluded to earlier as a remedial measure at KwaDukuza Local Municipality is a lasting legacy of the Vuthela iLembe LED Support Programme.

The SCADA system will allow for remote monitoring of the electricity supply infrastructure and control of key elements within the infrastructure. It will provide critical information about the status and performance of the electrical system in real time and generate a series of customised user reports.

This information, especially the statistical metering data, is crucial in conducting assessments of technical losses as it provides an accurate measure of the loading on the network at any given time. It allows network operators to assess the maximum demand and the load profile on the network.

#### Enhancing capacity

The SCADA system and Control Room will enhance the capacity of KwaDukuza to provide efficient electrical services by:

- Providing real time monitoring and control of the electrical network
- Improving response times to customer queries or technical faults
- Enabling optimisation of the electrical services network
- Enabling trend analysis of the networks
- Improving metering and revenue management
- Improving energy efficiency, monitoring and demand measurement
- Improving fault finding, power restoration and preventative maintenance

All the distribution substations within the supply area will be linked to a control centre located at the KwaDukuza municipal offices.

KwaDukuza Mayor, Lindile Nhaca, has stated publicly that unplanned electricity outages will be a thing of the past with the beefing up of human capacity. She said following a meeting with technicians from the electricity department, it was established that after loadshedding, the system requires manual switching on. Shortage of the necessary staff prevented the electricity supply being restored, causing long periods of outages.

Changes in the staffing and organisation of the Electrical Engineering Business Unit are also intended to prepare employees for the implementation of SCADA which will significantly reduce outage response times.

Sibusiso Jali, Executive Director: KwaDukuza Electrical Engineering Business Unit, identified the main issues plaguing his department as lack of human resources and proper training for employees.

The staffing changes would lead to major improvement. The filling of 26 prioritised vacancies at an annual cost of R7.6-million is the first step to establish a well-resourced and skilled business unit to provide efficient and effective electricity services.

## Putting newly-learnt coding skills to the test



Thabiso Ndlovu and Kaitlin Pillay

# KwaDukuza and Mandeni youths are winners of the iLembe ICT Project Launchpad competition

**T**wo youths studying coding – creating instructions for computers – have won the iLembe ICT Project Launchpad competition, winning R10 000 each.

Kaitlin Pillay from Mandeni and Thabiso Ndlovu from KwaDukuza entered the competition as part of the Vuthela iLembe LED Support Programme’s ICT Project.

Of the 52 youths enrolled in the project, 27 qualified for the competition and set about designing a technical solution to a problem faced by a local business. All put their coding skills to use, creating websites for businesses and NGOs. Of the 27 websites presented, 10 were chosen as finalists and the youth had to present their websites to a panel of judges and explain how they went about developing them.

The judges were made up of some of the Project Steering Committee members, Wisemen Cele from the KwaDukuza youth office, Fanele Mazibuko from Enterprise iLembe, and Shannon Moffett of the Vuthela Programme. Judging was done on the extent to which the website met the needs of the business or NGO, the technical proficiency of the website, creativity, and how the youth communicated to the judging panel.

**Of the 27 websites presented, 10 were chosen as finalists and the youth had to present their websites to a panel of judges and explain how they went about developing them.**

While all websites were of a high standard, Kaitlin and Thabiso were adjudged to be winners and received their prizes from Gisela Roth visiting from the Swiss offices of the Vuthela funders, the Swiss State Secretariat for Economic Affairs (SECO), and Judith Shoniwa from the South African SECO office in Pretoria.

**Totally online, the youth are making use of the Enterprise iLembe incubator and the Moses Kotane Institute Digital Centre in Mandeni to complete their 12-month course.**

Both winners were very surprised, neither having done coding prior to starting their studies through the project service provider, IT Varsity. Totally online, the youth are making use of the Enterprise iLembe incubator and the Moses Kotane Institute Digital Centre in Mandeni to complete their 12-month course.

Thabiso couldn’t wait to get home to tell his mum, saying “she is going to be very happy about this”.

Kaitlin said she has “absolutely loved the course, always having a love for IT but never an opportunity to try coding”. She now hopes to go to university next year to study computer science.

Thabiso has also been bitten by the tech bug and is planning to enrol in college to study systems development, a new passion that he has discovered during his studies.

# Asset management to be strengthened at municipalities

An asset management assessment to improve the operations and maintenance management efficiency and effectiveness for iLembe District Municipality, Mandeni and KwaDukuza Local Municipalities.

Infrastructure assets and services form the backbone of municipal operations in serving the community at a specific level of need, at the most efficient cost, for the duration of the life of the asset.

The iLembe District Municipality is the designated Water Services Authority in its area of jurisdiction and is, therefore, responsible for provision of bulk and reticulation water services (water and sanitation) to the KwaDukuza, Mandeni, Ndwedwe and Maphumulo Local Municipalities.

The iLembe District Municipality's infrastructure assets include water pipelines, water and sewer pump stations, water and wastewater treatment works and associated components. But does the district municipality know exactly what infrastructure assets it owns?

One of the business aspects in the financial management of a municipality is asset management. The asset life cycle is an important aspect of determining the current asset value, replacement value and budgeting for asset maintenance and replacement.

The Vuthela iLembe LED Support Programme's Municipal Infrastructure Component which focuses on the improvement and development of municipal infrastructure and services, initiated an asset management assessment of iLembe District Municipality, Mandeni Local Municipality, and KwaDukuza Local Municipality. This comprised an evaluation of the municipalities' corporate management frameworks for infrastructure asset management - its quality, the extent to which it is documented, and how consistently and broadly it is applied in normal operations.

The assessment revealed the three municipalities possessed below "awareness" levels for Asset Management Improvement Practice, Corporate Sponsorship and Commitment, Commercial Tactics and Asset Management Improvement, and Asset Management Responsibilities. The other subcategories that scored above the threshold for "awareness" were Asset Management Skills and Training, Legislative Compliance and Funding Strategies.

The municipalities already compiled a Generally Recognised Accounting Practices or GRAP-compliant

The asset life cycle is an important aspect of determining the current asset value, replacement value and budgeting for asset maintenance and replacement.

asset register (to variable standard). The existing asset register is a financial management requirement, but it has become evident that asset management from an infrastructure perspective, needs to be strengthened.

This includes knowing what assets are owned by the municipality, their value, their condition and the requirements to keep assets in good condition or ensuring timeous and optimal upgrading, maintenance, and replacement of assets - from a technical point of view.

A project consultant, IMQS Software (Pty) Ltd, was appointed to develop Asset Management Plans and conduct System Scoping for the three municipalities.

The assessments of asset management practice maturity were based on interviews with members from the different departments at the respective municipalities and confirmed in a workshop. There were no significant differences between the three municipalities - with all coming off a low base.

## Asset Knowledge

The Asset Knowledge category of practice assesses how well an organisation understands and has access to relevant asset attribute data and information to support asset management processes. The municipalities' existing practice with respect to Asset Knowledge is low.

## Strategic Planning

The practice category of Strategic Planning relates to the municipalities' practice in the preparation of long-term, high-level strategies as a context for the preparation of tactical and operational plans.

The municipalities' overall practice in Strategic Planning was assessed to be low.

The iLembe District Municipality's infrastructure assets include water pipelines, water and sewer pump stations, water and wastewater treatment works and associated components.

But does the district municipality know exactly what infrastructure assets it owns?

## Capital and Maintenance Management

The Capital and Maintenance Management category includes the evaluation of the organisations' processes (and documentation thereof) of all activities involved in the acquisition, project implementation, operations and maintenance of assets. The municipalities' practice in this category was weak.

## Asset Management Planning

The assessment of practice relating to the preparation of Asset Management Plans includes the evaluation of the extent of knowledge fields included in the planning process and how they are applied. Here the municipalities achieved a low score of practice.

## Information Systems

The Information Systems' assessment determines the extent to which the organisations' existing information systems are effective in facilitating integrated Asset Management processes. A very low score was achieved by the three municipalities for the implementation of Advanced Asset Management Systems.

## Organisational Tactics

The assessment of Organisational Tactics is an evaluation of the organisations' corporate management framework for infrastructure asset management - its quality, the extent to which it is documented, and how consistently and broadly it is applied in normal operations. Very low scores (below "awareness" levels) were achieved for Asset Management Improvement Practice, Corporate Sponsorship and Commitment, Commercial Tactics and Asset Management Improvement, and Asset Management Responsibilities.

## THREE-YEAR IMPROVEMENT PLAN

Accordingly, a three-year practices improvement plan, consistent across the three municipalities was proposed.

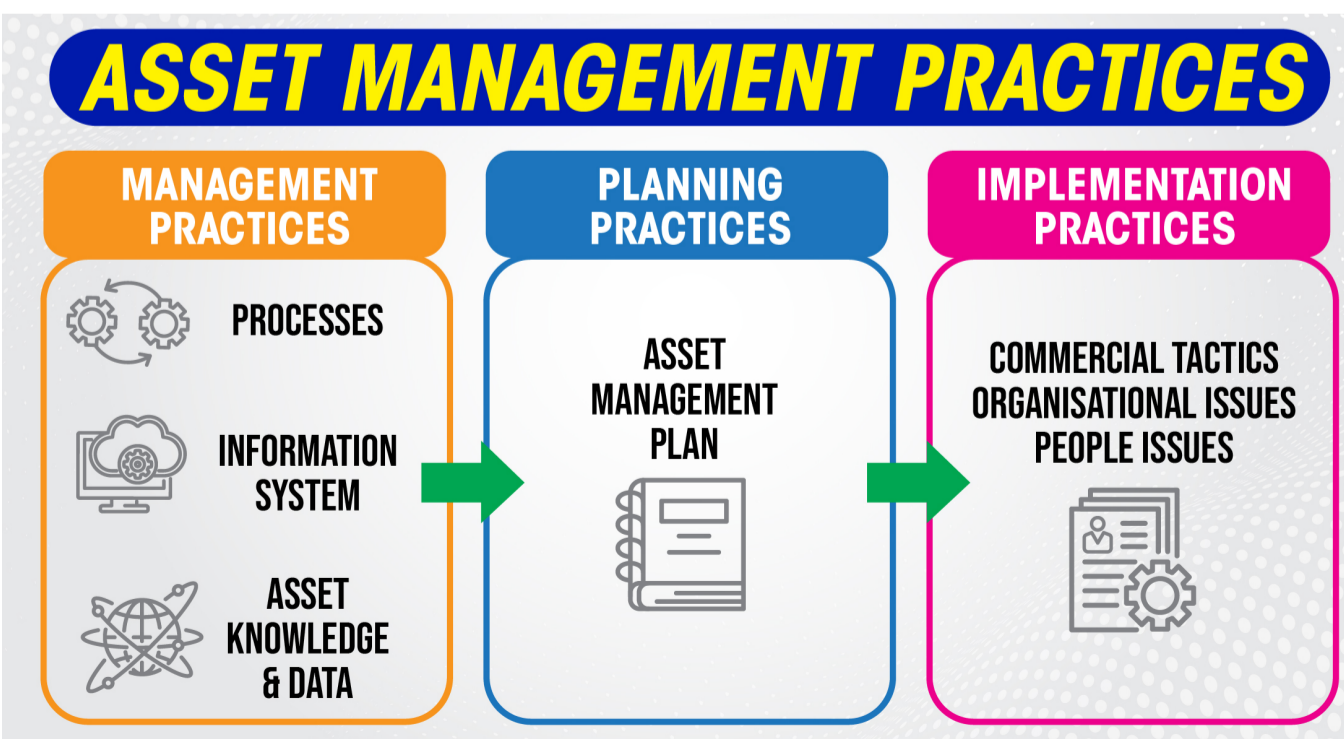
Enhancing the maintenance management process is prioritised to be addressed first as this will have the most tangible benefits for members of the community. This will foster support for further improvements.

The second highest priority item to be addressed is in enhancing the asset register as this is crucial for cross-department integration, vertical alignment (linking operational activities to the strategic objective), more effective life-cycle planning and reporting. This will be addressed in the second year of the practices improvement plan.

The final year entails the enhancement of the management processes associated with projects and a review of the preliminary Asset Management Plans being prepared in this initial phase.

The Vuthela Programme is currently investigating the extent of deficiencies and will provide technical support to ensure that the outcomes of the Asset Management Practices Assessment and Improvement Plan are implemented.

The key output for this assignment is the improvement of operations and maintenance management efficiency and effectiveness, with the focus being on maintenance of the infrastructure assets.



# Sharing perspectives on development charges in the iLembe district

A policy and practice Development Charges Seminar hosted this month by the Vuthela iLembe LED Support Programme highlighted sufficient emerging agreement to implement development charges in a way that was beneficial to developers, municipalities, business and residents to enable economic growth and development.

The Vuthela iLembe LED Support Programme has hosted a seminar to share stakeholders' views on how municipalities should levy charges for infrastructure in new developments.

Participants included local, provincial and national government officials, property developers, iLembe Chamber of Commerce, Industry and Tourism, and representatives from many sectors that will be impacted by new laws around development charges.

A development charge is levied by a municipality to cover the costs incurred by the municipality when installing new infrastructure or upgrading existing infrastructure, allowing private development to proceed.

In the past, municipalities have resorted to various pieces of legislation to charge developers for the installation of water, electricity, roads and sewer services for new developments, leading to disparate application of the law.

The Municipal Fiscal Powers and Functions Amendment Bill, which will regulate how the development charges are applied, was introduced in Parliament last month and is expected to be passed into law next year.

The Bill is likely to be enacted into law early next year, and all municipalities will need to comply with its requirements.

Delegates at the seminar all agreed on the need for developers to pay for bulk services, but differed significantly on how the principle was being applied.

Many municipal officials pointed out the disjuncture between current legislation being used to levy development charges and the new amendments. The application of incentives was another area that needed clarification: should social housing projects be incentivised at the same level as commercial shopping centres, for example?

Sibusiso Mahlangu, IDP and Planning Manager at iLembe District Municipality, said a draft policy was put in place with the assistance of the Vuthela iLembe LED Support Programme.

## Further consultation needed

Further consultation was needed on some of the financial components, especially the cost calculation formula, incentives and collaborative options for funding.

Challenges included concerns that the rationale for development charges was not fully understood by all stakeholders and the calculation formula was not standardised among the family of local municipalities in the iLembe District Municipality.

While it may be difficult for a uniform policy to be applied across municipalities in the district, consensus should be reached on the calculation of costs. Mahlangu added that criteria for developer incentives should be informed by job creation, revenue generation and investment value.

Cobus Oelofse, CEO of the iLembe Chamber of Commerce, Industry and Tourism, said developers were concerned that the cost burden of installing infrastructure was shifting to end users, and that the development charges were acting like a tax on new projects.

It was estimated that up to 26% of total project costs related to development charge costs and that delays on the development process due to the levy added about 15% to the overall costs.

However, the Chamber proposed that other opportunities to secure funding for bulk infrastructure



Participants at the Development Charges Seminar:

should be explored jointly by developers and municipalities; developer contributions should be capped; rates and rebates holidays should be offered to developers as incentives; and development charges be ring-fenced for the installation of new bulk infrastructure only – and not for maintenance and replacement of faulty equipment.

The Chamber supported developer-led planning which included municipal and provincial government officials and optimising the cost and risk-sharing arrangements.

Development facilitation consultant, Frikkie Brooks, said the process of implementing development charges should focus on achieving a win-win outcome for all parties.

This can be achieved by understanding the constraints of local government and the consequences of providing free basic services on municipal finances. Local government is sincere about providing services but is in a difficult situation, said Brooks.

## Partnership model

At the same time, it must be understood that, in the private sector, business has to be viable and profitable. Development charges should be applied in a way that maximises the profitability for the developer and for the municipality in a partnership model that allows both parties to gain significant benefits.

Municipalities needed to increase revenues by expanding their rates base and the scale of the services they provide, and private developers can help municipalities to achieve this, said Brooks.

SA Property Owners Association CEO, Neil Gopal, told the seminar that the industry did not oppose development charges, provided they were applied in a manner that was fair and transparent.

He said if vacant property was surrounded by existing services which had already been paid for, the private sector should not be charged for infrastructure for the second time.

Development charges should be deployed on the specific development only, and should not be used at other sites for additional infrastructure.

SAPOA hoped that the Amendment Bill would lead to development charges that were fair and transparent, and

that it would set limits on how levies are imposed.

The seminar identified several other contested issues which would need to be resolved for the successful implementation of the new legislation.

These included:

1. Standardisation: Using the same formula to determine charges and moving towards greater fairness, accuracy and predictability for developers.
2. Ring-fencing: Ensuring the development charges are used for the new infrastructure required for the development, and not for other developments or services.
3. Reimbursement: Getting developers to pay for infrastructure upfront and receive reimbursements as other developers come in to share the costs.
4. Ease of application: Regulations must not be cumbersome, which may curtail development, and all regulations should be easy to implement.
5. Timing: Ensuring that the planning and approval process keeps pace with the development process
6. Capital: Seeking alternative means of funding will mean that developers and municipalities are not entirely dependent on development charges for infrastructure.

It was proposed that a developers' forum would help to resolve these issues by providing a platform for further dialogue between stakeholders.

## Standardised framework

National Treasury representative, Mmachuene Mpyana, said the Amendment Bill sought to address many of the challenges raised by delegates and would create a standardised framework for levying development charges.

The Amendment Bill was published for public comment in January 2020 and was subsequently refined in line with comments received. The revised Amendment Bill was approved by Cabinet in August 2022 for introduction in Parliament. It was introduced in Parliament on 8 September 2022.

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# AG's big stick yields results from errant municipalities

Strategies to address poor local government audit findings are bearing fruit, writes Zama Soji, key expert for the Vuthela iLembe LED Support Programme's Public Finance Management Component.



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

**W**hen municipalities pay heed to audit findings and improve systems and processes, it is the local communities and businesses that benefit.

The Vuthela iLembe LED Support Programme has supported the iLembe District Municipality and KwaDukuza and Mandeni Local Municipalities to respond to some of the negative findings of their local government audits.

This includes development of strategies to address water and electricity losses, irregular expenditure, procurement management issues and upskilling of supply chain management.

If the strategies are implemented, municipalities will be able to reduce losses, as already evident in the decrease of unauthorised, irregular, fruitless and wasteful expenditure in the iLembe District Municipality and the KwaDukuza and Mandeni Local Municipalities when compared to previous years.

Earlier this year during the release of municipal audit reports, the Auditor General (AG), Tsakani Maluleke, found that a minority of municipalities achieved clean audit findings. She said the biggest problem was the lack of stability and accountability in municipalities across the country.

"A culture of performance, accountability, transparency and integrity should be a shared vision for all involved in local government. It is time to activate the accountability ecosystem to shift the culture in local government through courageous, ethical, accountable, capable and citizen-centric leadership.

"Citizens will live in cities, towns, and settlements where they have access to clean water, sanitation, electricity, refuse services, and good roads and infrastructure.

"Elected representatives in council must ensure that the rates and taxes and the funds provided by national government for basic services and infrastructure development are accounted for and used for their intended purpose," said Maluleke.

In performing municipal audits, the Auditor General relies on the Integrated Development Plan (IDP), Budget, Organisation Balanced Scorecard, and Service delivery Budget Implementation Plan (SDBIP) and other financial reports.

The AG also engages extensively with relevant municipal officials which gives municipalities the opportunity to respond to findings and make adjustments where necessary and as agreed upon with the AG.

Maluleke raised concerns about compliance with legislation in all municipalities. This included expenditure management where the municipalities were found not to be taking reasonable steps to prevent irregular expenditure with there being no consequence management to that effect.

On procurement management, the municipalities were not always complying with supply change management regulations, especially regulation 36(1), which amounts to irregular expenditure. Oversight and monitoring on compliance with laws and regulations were not diligently performed.

**The Auditor General (AG), Tsakani Maluleke, found that a minority of municipalities achieved clean audit findings. She said the biggest problem was the lack of stability and accountability in municipalities across the country.**

## iLembe District Municipality

While the iLembe District Municipality received an unqualified audit report over three years, during this period the municipality incurred material water losses. Even though they reduced from R123,47 million in 2019/20 to R111,71 million in 2020/21, the municipality is still expected to increase efforts to bring losses down to a 30% norm as per National Treasury financial ratios. Illegal connections, water main leaks due to aged infrastructure and overflowing of reservoirs were cited as reasons for losses.

Irregular expenditure incurred during the 2020/21 year decreased from R95 million to R38,47 million. The municipality is putting major efforts in place to manage this expenditure. However, compliance with regulations is still a challenge since the current expenditure is due to tender processes not being followed for expired contracts.

## KwaDukuza Local Municipality

While KwaDukuza Local Municipality received unqualified audit opinions over three years, the municipality is incurring material electricity losses which has increased from R152.5 million in 2019/20 to R181.21 million in the 2020/21 financial year, amounting to energy losses of 23% against a national average of between 6 and 12%. The losses relate to both technical and non-technical losses such as illegal connections. This is detrimental to the municipality's revenue as they are unable to recover costs incurred in the delivering of this service which threatens the municipality's financial viability since electricity is one of the major sources of municipal revenue, accounting for 46% of total revenue.

KwaDukuza Local Municipality was also found to have underspent R78 million, representing 33% of the electricity infrastructure budget. While reasons were provided to the AG, this underspending could have been used to improve access to and stability of electricity infrastructure in the municipality.

## Mandeni Local Municipality

Mandeni Local Municipality received an unqualified audit opinion over three years. Mandeni did not experience material losses on electricity. However, the AG identified that doubtful debt had increased from R41.75 million in 2019/20 to R43.91 million in 2020/21. This indicates that the municipality is not sufficiently implementing credit control and debt collection policies, hence the increase in debt.

## Communities benefit

A positive to emerge from the local government audits is that municipalities have developed AG audit action plans to respond to the unresolved findings. This is being monitored through relevant municipality structures which include the municipal public accounts committee and the audit committee, with reporting to the District Development Model (DDM) Governance Cluster.

The biggest winners, of course, will be communities and businesses that get value for money as the municipalities comply with policies and regulations.

## Sharing perspectives on development charges in the iLembe district

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Mpyana confirmed that development charges must be levied to recover costs that a municipality incurs when providing new infrastructure or upgrading an existing infrastructure and cannot be used for any other purpose. Where adequate infrastructure already exists, and municipalities are still paying off the loans used for the infrastructure, the Amendment Bill allows municipalities to use development charges to repay the debt incurred for that infrastructure.

Mpyana said National Treasury would undertake an assessment of the capacity of municipalities to implement development charges. Treasury would develop and share

the tools needed to implement the Amendment Bill successfully.

Vuthela spokesperson, Richard Clacey, said the seminar had succeeded in bringing stakeholders together to robustly share their perspectives on development charges.

While there were still many areas of disagreement between stakeholders, there was sufficient emerging agreement to implement development charges in a way that was beneficial to developers, municipalities, business and residents to enable economic growth and development. The three municipalities in the district were at different stages in moving towards a uniform and standardised policy. KwaDukuza was using an

existing framework while waiting for the new legislation to be passed. iLembe was still reviewing the policy at management level. Mandeni municipality had approved its new policy and was proceeding with implementation.

"We have an opportunity to do something special here in the iLembe district," concluded Clacey.

"If developers and municipalities put their heads together and agree on a way forward, we can all succeed."

He added that it was now essential for government, the private sector and civil society to strengthen partnerships in the district around this and other development issues to ensure inclusive economic growth. There were structures that had been set up for this purpose, but they are not active.

# Swiss funders visit development projects

Representatives from the funder of the Vuthela iLembe LED Support Programme, the State Secretariat for Economic Affairs of the Government of the Swiss Confederation (SECO), gained insight into the Vuthela Programme implementation and impact during a recent visit, writes Shannon Moffett, key expert of Vuthela's Private Sector Development (PSD) and Building Inclusive Growth (BIG) Components.



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



Alan Werth from RecycleX explains to the visitors how they recycle e-waste in their premises in Ballito

It is not only the majestic Alps, fine chocolates and masterpiece watches that the Swiss are well known for. The funding of social and economic development projects globally has improved the lives of millions.

Closer home, the Swiss State Secretariat for Economic Affairs (SECO) has been funding the Vuthela iLembe LED Support Programme since 2017. 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 residents, through sustainable growth of the local economy, and the creation of higher, better and more inclusive employment and income-generating opportunities.

As the project begins to wind down, Vuthela hosted a SECO mission to evaluate projects under the Private Sector Development (PSD) and Building Inclusive Growth (BIG) Components on 13-14 September 2022. Visiting from Switzerland was Gisela Roth (Programme Manager, PSD) and Philipp Ischer (Programme Manager, Trade Promotion). The local SECO team from Pretoria, Franziska Spörri, Head of Economic Cooperation and Development, and the Programme Managers, Judith Shoniwa and Shakespear Mudombi, accompanied them.

First stop was to meet with e-waste stakeholders in the district as part of the Sustainable Recycling Industries (SRI) e-waste project. The visitors were told by environmental and waste management officials about the challenges of dealing with e-waste since the August

2021 banning of Hazardous Waste Electric and Electronic Equipment (WEEE) to landfill sites. Discussions were held on how the SRI project can help the municipalities achieve their environmental, waste management, and economic development facilitation mandates. An important entry point for SRI is seeking to align the local municipal by-laws that govern e-waste with the policy development process at national level.

Next on the agenda was a visit to one of the biggest e-waste recycling facilities in the country, RecycleX, located in Ballito. Here officials, SECO and the SRI team were shown the processes of refurbishing or dismantling and recycling of e-waste. Philipp Ischer appreciated the work that is being done and asserted that a well-functioning recycling sector is of utmost importance for the gradual transformation of society and economy towards a more circular economy.

The group then moved on to the presentation of prizes in the iLembe ICT project Launchpad competition. Of the 52 youth from KwaDukuza and Mandeni engaged in the one-year coding programme, those that reached module 7 by the end of July were entered in a competition to develop a website solution for a local company or NGO. The members of the project steering committee judged the 10 finalists and Roth and Shoniwa were thrilled to hand over the prizes to the winners, Kaitlin Pillay and Thabiso Ndlovu.

**It was an honour to engage with the youth, and to learn about their journey...**

The SECO representatives got to engage with the youth to understand better their coding journey and their challenges.

"It was an honour to engage with the youth, and to learn about their journey as well as the opportunities they are now able to pursue because of the course. I would like to commend them for their hard work and persistence, and wish them the best in their careers," said Roth.

The SECO team also had the opportunity to meet the water and sanitation team at eThekweni Metropolitan Municipality to discuss the progress made under the Agri-Processing Resource Efficiency project that is implemented by the International Finance Corporation. Some of the key highlights from the partnership have been the facilitation in bringing stakeholders together through the public-private dialogues as well as the water by-law amendments process.

The next day, the SECO team visited the Installation, Repair and Maintenance (IRM) hub, located on the Mandeni Campus of the Umfolozi TVET college. This hub, developed by the National Business Initiative as part of a country-wide hub programme, has seen 17 SMEs supported, 49 youth receiving training to be general repairers and several other IRM support initiatives. The visitors got to hear from Sikhumbuzo Mkwanzazi, Malusi Shezi and Thembelihle Mchunu, three entrepreneurs who are currently being supported by the hub.

**The guests also enjoyed interacting with the stakeholders from the area and learning how the work the Vuthela Programme implements is benefiting the community.**

During the discussion, the visitors learnt about how the entrepreneurs had benefited from the programme including the opportunities they were now able to pursue. The guests also enjoyed interacting with the stakeholders from the area and learning how the work the Vuthela Programme implements is benefiting the community.

The team also visited the iSithebe Industrial Estate. Here, Stuart Adams, the industrial Park Manager, explained the park management model, initiatives to revitalise the park and challenges experienced. From the United Nations Industrial Development Organisation, Klaus Tyrkko explained the work they have been doing in the park as part of their Global Eco-industrial Park programme. A drive through the industrial park was followed by a visit to the old airport site.

The visit also included a networking event in Ballito where Vuthela's main partners including Enterprise iLembe and the iLembe Chamber of Commerce, Industry and Tourism were brought together and challenges and opportunities for iLembe and the area were exchanged openly.

Spörri highlighted that SECO's role is only to facilitate such exchanges and that the key driving forces for change are the municipalities, actors such as Enterprise iLembe, and the private sector.



## 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 20 have been completed, 12 are in implementation, two are approved for award, two are in procurement, two have been recommended for transfer to municipalities, one to commence, and four have been withdrawn.



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## 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.