# 1. Report of the Select Committee on Finance on the budget performance and progress made with the implementation of Integrated Development Plans of the City of Ekurhuleni, City of Johannesburg, and City of Tshwane Metropolitan Municipalities, dated 18 October 2017

## Introduction

The Select Committee on Finance had engagements with the City of Johannesburg (CoJ), the City of Tshwane (CoT), and the City of Ekurhuleni (CoE) Metropolitan Municipalities in Parliament on the 02 August 2017. The purpose of the engagement was to assess efficiency, effectiveness and value for money in services delivered by these three Metros, in line with the fiscal oversight role of the Committee. Engaging the Metropolitan Municipalities forms part of the Committee’s strategic goal of ensuring effective oversight over government finances to ensure responsiveness of the budgets to the needs of the people of South Africa.

## Gauteng Province socio economic overview

Gauteng Province was home to 24 per cent (13.2 million) of the total 55 million people in 2015. Most of Gauteng’s population lives in the three metros, the CoJ (4.9 million); the CoE (3.4 million) and the CoT (3.2 million). Gauteng attracts the largest number of migrants, estimated at 543,000 between 2011 and 2016, with overall population increase of 1.2 million since 2010.

In terms of economic activity, Gauteng is the economic hub of SA, accounting for 35 per cent of national Gross Domestic Product (GDP). Economic activity in Gauteng remained concentrated in the CoJ, with GDP of R455 billion; followed by the CoT, with R270 billion and the CoE with R232.7 billion, in 2015.

The labour market statistics show that the Province’s unemployment rate averaged 27.6 per cent in 2015, which was higher than the national average of 24.5 per cent. In the same year, the unemployment rate among individuals aged 15-24 years was 50.1 per cent nationally and 44.1 per cent in Gauteng. There were more employed people in the CoJ (2 million), followed by the CoT (1.124 million) and the CoE (1.147 million). The unemployment rate measured 21.1 per cent in the CoT; 22 per cent in the CoJ and 28.2 per cent in the CoE. Long-term unemployment is rising, especially among the youth and those with low educational qualifications and inadequate skills.

The CoJ has the lowest poverty rate in Gauteng at 16.2 per cent followed by the CoT at 16.1 per cent and the CoE had a relatively higher poverty rate at 18.1 per cent. The regions with lowest poverty rates are Merafong and Midvaal at 15.1 per cent and 13.8 per cent, respectively. About 34.4 per cent of the people of Gauteng live below a poverty line of R577. About 33.2 per cent of the CoJ, 32.1 per cent of the CoT and 35.9 per cent of the people of the CoE still live below a poverty rate of R577 per month, which is the upper poverty line. Since 2014, the number of people on social grants increased by 200 000 in Gauteng Province.

The educational attainment levels showed that in 2014, 37.4 per cent of the Gauteng population had Grade 7-11 qualifications; 34.5 per cent had matric; 8.7 per cent had diplomas; 6.2 per cent had bachelor’s degrees and 2.7 per cent had no schooling.

The Province has made significant progress in providing basic services to the people over time, however, the share of households with access to electricity was lower in all regions in 2014 than in 2010. This may be due to the increase in the number of informal settlements.

The indicators discussed above show that the metros have an important role to play in boosting economic growth and have been growing faster than the national economy. The country’s eight metros are the engines of the South African economy and generates close to 60 per cent of the national GDP. The metros are also the engines of job creation and revenue generation. StatsSA has shown that about 50 per cent of all employment created, formal and informal, are in the eight metros. About 60 per cent of South Africa’s population is concentrated in the metros, due to their better economic performance.

## Presentation by the City of Ekurhuleni Metropolitan Municipality

The City of Ekurhuleni was established in 2000, it has 3.4 million people (25 per cent) of the Gauteng population with 9 towns, 17 townships, 119 informal settlements, and 112 wards. The City has employed over 17 000 employees. The unemployment rate stands at 28 per cent of which 36 per cent are young people. With 3.4 million people, 15 per cent has post-matric qualifications and 4 per cent has no schooling at all. The 119 informal settlements accommodate not less than 600 000 people. The City is in a process of creating its own University of Applied Science and Technology.

The City has the following key highlights of Spatial Planning and Development Strategies:

* Refinement of the Integration Zones: buffer area has been reduced and the mining belt has been included into the Integration Zones;
* Alignment of the Metropolitan Spatial Development Framework (MSDF) precincts with the Capital Investment Framework (CIF) priority areas and Integration Zones;
* Implementation of the CIF Capital Prioritisation Model project prioritisation weighting in accordance with the COE’s strategic objectives through the Capital Planning and Prioritisation Platform (CP3);
* Refinement of the Intergovernmental Pipeline of Projects through the (CP3);
* Improved electronic data capturing as linked to the budget in terms of ward and mayoral priorities; Municipal Standard Chart of Accounts (MSCoA) segments and capital project mapping.

The City’s actual operating revenue was R33.079 billion (96.6 per cent) of the actual budget of R34.238 billion for the 2016/17 financial year. The non-exchange revenue for the 2016/17 was budgeted at R12.698 billion and the actual revenue amounted to R12.086 billion with a deviation of 4.8 per cent less than the budget. The actual revenue from assessments rates was R5.301 billion which was slightly more than the budgeted revenue of R5.299 billion.

The total expenditure budgeted for the 2016/17 was R34.222 billion and the actual expenditure was R32.255 billion which is R1.967 billion (95.7 per cent) less than budgeted for. The budgeted CoE amounted to R6.711 billion for the 2016/17 with the actual expenditure being R98 million less than the budgeted expenditure which represents a deviation of 1.5 per cent. Remuneration for councillors was not taken into account when compiling the budget as it was not certain when the local government elections would take place, and provision for the remuneration of councillors was therefore made for the payment of 112 councillors for the full financial year.

The income from the electricity services for the 4th quarter reflected a positive deviation of R20 million (0.7 per cent) from the budgeted income, the deviation of 1.2 per cent for the 2016/17 is a concern. The income budget was adjusted downwards to compensate for the decline in electricity sales due to alternative energy sources. The actual income from waste management for the 4th quarter was R91.7 million (21.6 per cent) less than budgeted, the results for the 2016/17 were slightly better with R90.4 million (6.4 per cent) less than budgeted. The budgeted income from the water and sanitation for the 2016/17 was R4.980 billion, with the actual results being R4.662 billion which represents a negative deviation of R317 million (6.4 per cent).

The accumulated collection rate for the 2016/17 is 92.05 per cent and is less than the annual target of 94 per cent. Measures had been instituted to increase the rate in the short to medium term. The City has R13.330 billion outstanding debtors, of which R6.293 billion (48.8 per cent) have been provided for as bad debt, leaving R6.837 billion as collectable income. One of the biggest challenges that the Council is facing is the limited credit control measures in areas where Eskom is supplying electricity. Council cannot disconnect the electricity of defaulters.

The City uses the ward committees as a mechanism for engaging and consulting communities on their needs and priorities. The Integrated Development Plans (IDP) review meetings were held in all 20 Customer Care Centres (CCCs) with 101 ward (now 112) committees. When the new administration took office in August 2016, it made few changes and adopted the IDP.

The City highlighted the following achievements:

* A variety of health awareness campaigns were done focusing on (HIV/AIDS, STI’s, TB, Birth Control, etc.) reaching1.4 million people. There was a reduction of mother to child HIV infection to 1.22 per cent from 1.4 per cent;
* 729 peace cops were converted to traffic wardens. A dog unit costing R4.2 million, and 4 precincts which are in different stages (R12.1 million spent so far) were constructed and Special vehicles/equipment were purchased for R49.8 million;
* A total of 5 townships were regularised and a total of 7.025 Ha of dolomitic land was unlocked for development;
* R48 million was spent on installation of lights, R69 million spent on electrical network enhancement, R205 million was allocated for informal settlement electrification, R203 million for renewal/upgrade of substations, and R30 million for renewable energy;
* 10 000 unemployed youth were targeted for IT and Digital Technologies initiatives through a variety of programmes, 231 youth are in Graduate Programmes as interns in partnership with business;
* The bursary scheme was increased from R10 million to R100 million, 511 bursaries were awarded out of 3.156 applicants;
* Launched the Mayoral Service Delivery Programme “Siyaqhuba” to accelerate service delivery. MMC’s and senior managers visit all wards every Friday weekly;
* A single brand identity is achieved and the City of Ekurhuleni name has now been gazetted; and
* Establishment of the Commission on investigations of fraud and corruption.

## Presentation by the City of Johannesburg Metropolitan Municipality

Johannesburg's economic output expanded between 1996 and 2014. All sectors expanded, with the exception of electricity, gas and water; agriculture, forestry and fishing; and, mining and quarrying. The share of financial and business services sector rose strongly, however, the share of mining and manufacturing slipped, implying a loss of potential for local economic multipliers.

The City has created 31723 jobs, excluding Expanded Public Works Programme (EPWP) work opportunities. Over 15 000 community work opportunities were created city-wide. The preliminary reports showed that the City has experienced a 1.6 per cent increase in GDP growth. The City attracted R4.150 billion investment internally, and provided support to 12886 Small Micro and Medium Enterprises (SMMEs) City-wide.

The City highlighted the following achievements:

* Out of 33 section 57 Managers, 30 positions were filled and 3 remained vacant / have acting appointees;
* Independent oversight committees were established and are operational;
* There are over 396 000 City Power customers (domestic, commercial and industrial properties) with ESKOM also a major supplier;
* 83.56 per cent new water connections installed within service standard of 15 days of notification;
* Cumulatively, 138 860 out of 142 285 informal settlements households have access to basic water;
* The City was supplying and delivering chronic medication to senior citizens at 13 old age homes;
* 87 libraries (two satellite libraries) operate citywide throughout the 7 regions; and
* The City has built new libraries in Noordgesig, Brixton, Lehae and Freedom Park.

The City was responding to the following challenges with remedial actions in place: Low economic growth and high unemployment; upgrading of informal settlements; dilapidation of basic infrastructure; inner City security; service delivery protests; inner City improvement; corruption, hijacking and vandalism of City property; drug abuse; and land invasion.

## Presentation by the City of Tshwane Metropolitan Municipality

The City of Tshwane is the third largest municipality in the world. It is the administrative seat of the South African government and is the birthplace of South Africa’s democracy. The City is the second largest provincial GDP contributor, at 28 per cent. The City has 911 536 households, with an average household size of 3.2. The number of employed people is 1 079 273 between the ages of 15 to 64. The unemployment rate measured 21.2 per cent, which was below the national average.

The City reported that during the 2016/17 financial year the actual revenue collected amounted to R28.9 billion against the budgeted amount of R29.8 billion with a variance of R822 million (3 per cent). The expenditure amounted to R26.8 billion (94 per cent) with a variance of R2 billion, against the budget of R28.6 billion.

The City has created more than 168 000 new work opportunities. Close to 900 cooperatives were supported through mentorship and training. An average of R2.5 billion investment is attracted annually.

About 747 249 (81.98 per cent) households have access to drinking water through formal water connections. 722 029 (79.21 per cent) households have access to water borne sanitation. 736 011 (81.98 per cent) households have access to electricity supply through a formal connection. Over 670 km of Storm water network systems and over 730 km of roads have been constructed.

## Site visits

Subsequent to the engagement with the City of Johannesburg (CoJ), the City of Tshwane (CoT), and the City of Ekurhuleni (CoE) Metropolitan Municipalities in Parliament on the 02 August 2017, on the 07 September 2017, the Committee conducted fiscal oversight over projects implemented by the City of Tshwane Metropolitan Municipality. These are Townlands Social Housing Development site, Rooiwal Waste Water Treatment Works, and the Temba Water Treatment Plant sites.

### **Townlands Social Housing Development Project**

The City of Tshwane carried out a housing demand survey in the central business district and surrounding areas in 2012. The survey suggested that there is an immediate need of between 18 000 and 30 000 new residential units (including affordable / social housing) in the Tshwane inner-city areas. The Townlands Social Housing project falls within portion 500 of Pretoria Town and Townlands 351 JT which is within Pretoria. The property which is owned by the City of Tshwane, is well located in Restructuring Zone A and in close proximity to transport routes for ease of movement for the inhabitants.

The project size is 1 200 Social Housing / Rental Units for residents of City of Tshwane with household income of between R5 000 to R15 000. Beneficiaries will be close to work, public amenities and economic activities. It will transfer the rental patterns of the City of Tshwane.

The project is done in phases, with phase one to build 700 units and phase two 500 units. The total development cost including construction and professional fees amounts to R423.757 million, construction fee being R366.969 million and professional fees being R56.788 million. To date, an amount of R19.373 million has been spent on the project.

**6.1.1 Challenges**

The project experienced the following challenges:

* Delayed approval of National Home Builders Registration Council (NHBRC) enrolment;
* Delayed Town Planning approvals;
* Poor performance by contractors;
* Community protest stoppages demanding sub-contracting work and unreasonable rates; and
* Insufficient funding allocated for the multi-year programme.

### **Rooiwal Waste Water Treatment Works**

The plant was built in 1951 with capacity of 180 mega litres operating at maximum. The plant is the largest waste water treatment out of the 15 plants in the City of Tshwane Metro. The Rooiwal plant serves areas such as parts of Soshanguve (South), Pretoria North, Rosslyn, Wonderboom, and Atteridgeville. Influent (Raw) water quality has changed over the years due to changing land-use patterns.

The project capital cost was estimated to be in excess of R2 billion. The City planned to implement the project through a public private partnership model. Part of the scope of the project is that the bidders will be required to source funding for the project. An amount of R10 million has been allocated for the project in the current financial year for professional fees. With regards to maintenance, R19 million has been allocated for Rooiwal in the current financial year under the operational budget.

A detailed maintenance plan has been compiled to address all maintenance related challenges at Rooiwal. All maintenance at the plant will be done according to the maintenance plan.

**6.2.1 Challenges**

The project experienced the following challenges:

* Hydraulic and organic overload, which leads to high sludge production and sub-standard discharges;
* The current primary settling capacity is only 33 per cent of what is required;
* Excess sludge that cannot be dewatered is disposed of on sludge lands, polluting groundwater;
* Insufficient capacity at secondary settling leads to partially treated effluent;
* Partially treated effluent impacts on downstream users, the Temba Water Treatment Plant and other users in this case;
* Cable theft;
* Overloaded sludge belt presses (sludge dewatering belts);
* Frequent mechanical and electrical failure on equipment due to the old age of the equipment;
* Lack of preventative maintenance;
* Shortage of staff on the plant, leading to high over time i.e. fitters and turners, electricians and process controllers; and
* The National Department of Water and Sanitation has issued the City with a directive to improve the effluent quality.

### **Temba Water Purification Plant**

The Temba Water Purification Plant is a major water source in the Greater Temba Region, as the plant serves areas such as Temba, Kudube, Stinkwater and New Eeersterus within the Tshwane boundary, as well as some southern parts of Moretele Local Municipality. The plant serves in excess of 95 000 households.

The project entails the extension and upgrade of the Temba Purification Plant from an existing 60 mega litres per day to 120 mega litres per day. The scope of the work includes the upgrade of the Raw Water Extraction point at the Leeuwkraal Dam and the upgrading of the Pump station and Pumping Main. The plant is currently operating at maximum capacity.

The contract was awarded in March 2013, for a contract amount of R516.624 million (excluding VAT, escalation and Rate of exchange). The estimated construction period was three years. In May 2017, a 20 per cent over and above the contract amount was approved by the EAC for an additional scope of work and that pushed the contract value to R619.949 million (excluding VAT, escalation and Rate of exchange).

Expenditure to date amounted to R768 million with escalation, rate of exchange (ROE) and VAT. A total of 225 local people had been employed on the project with R107.2 million having been spent on them (local labour, sub-contractors and suppliers). An additional R50 million has been approved for the 2017/18 financial year to complete the project. The project is estimated to be partially completed by November 2017.

**6.3.1 Challenges**

The project experienced the following challenges:

* Community protest stoppages which lasted for a period of one year;
* Possible delays in upgrading of Power System to accommodate power requirements by ESKOM;
* Delays in relocation of existing services by other authorities (ESKOM);
* Budgetary constraints;
* Additional authorisations required from the Gauteng Department of Agriculture and Rural Development (GDARD);
* Alternative design for the Sludge Handling due to non-approval by GDARD of first alternative; and
* Additional authorisations required from the Department of Water and Sanitation (DWS) for the desilting of the Leeuwkraal Dam.

The City has put in place mechanisms to address the above mentioned challenges.

## Committee observations

Having engaged with the City of Ekurhuleni, City of Johannesburg, and the City of Tshwane, the Committee observed the following:

### The Committee noted overall improvements in the three metro’s fiscal positions and the efforts made to address the auditor general’s audit opinions and to improve service delivery in the Gauteng Province;

### The Committee noted with concern that the City of Ekurhuleni and the City of Johannesburg, were unable to fully spend their allocated Urban Settlement Development Grants (USDG) whereas they were experiencing huge housing backlogs;

### The Committee noted that the City of Ekurhuleni wishes to take over the supply of electricity in the areas that are supplied by Eskom in order to increase collection of revenue, and it requires support from the NCOP;

### The Committee noted the billing crisis experienced by the City of Johannesburg and the progress made in addressing the matter. The Committee would like to see this crisis resolved;

### The Committee noted with concern, the budget implications of an alleged irregularly awarded contract for the installation of the smart meters amounting to billion R3 billion, by the previous administration of the City of Tshwane and that this matter is currently under investigation;

7.6 The Committee noted that the implementation of the City of Ekurhuleni Harambe transport project has been running late, despite the fact that approximately R412 million had already been spent;

7.7 The Committee noted under-expenditure in key areas such as capital expenditure and maintenance in the City of Ekurhuleni;

7.8 The Committee noted progress made by the City of Tshwane in stabilising its financial position and would like to see some further improvements in addressing the Auditor General’s audit opinions and implementing consequence management in areas of non-compliance with legislation;

### 7.9 The Committee noted that some of the challenges of the Rooiwal Waste treatment plant in the City of Tshwane metro were budget and human capacity constraints; tight government regulations that the City must adhere to; persistent theft of cables, which compromises the budget for infrastructure maintenance;

### 7.10 The Committee noted with concern that failure to maintain the water treatment and purification infrastructure timely, could cause dire health problems for the municipalities serviced by the City of Tshwane metro;

### 7.11 The Committee noted that poor planning and project management of the Temba water purification plant led to many variation orders costing additional millions of Rands to the initial budget;

### 7.12 The Committee noted that some of the challenges that affected timely completion of infrastructure projects in the City of Tshwane were caused by the community protest actions and the licencing delays by the National Department of Water and Sanitation;

### 7.13 The Committee noted that the Townlands social housing development in the City of Tshwane metro will not be delivered on time as initially planned and that only 8 per cent of the total allocated budget of R245 million had been spent; and

### 7.14 The Committee was concerned that the Townlands housing development project was redesigned about 3 to 4 times and that this reflected poor project planning and that it had financial implications.

## Recommendations

### The Gauteng metros should align their respective growth and economic development plans with those of the national government to support set government priorities and objectives;

### In the interest of Intergovernmental relations, the metros should continue to improve consultation and partnerships with broader society, Public Private Partnerships, relevant government entities and the three spheres of government to address cross cutting issues, improve service delivery and grow the economies of their respective cities. The CEO initiative in the Presidency can be engaged with;

### The Gauteng metros, located in the economic hub of South Africa, should enhance integrated planning and budgeting to address service delivery backlogs, and ensure an efficient transport system in the Province;

### In planning and budgeting, the metros should take into consideration, the migration of people into their respective jurisdictions as this has implications for the budget allocation and the demand for social services. The migration of people into the metro’s have to be budgeted for adequately;

### The metros should implement consequence management in instances where there is evidence of non-compliance with the PFMA and the MFMA;

### In allocating funds to the metros, the National Treasury should take into consideration the differences in financial year ends between the national and local government spheres to enable adequate time for the metros to spend the money on intended objectives;

### National Treasury should assist the metros and municipalities with financial and budget reporting, to facilitate budget comparisons and analyses;

### Metropolitan Municipalities should learn the best practise from the EThekwini Metropolitan Municipality’s implementation of the Cornubia integrated housing development project, in terms of spending the Urban Settlement Development Grants (USDG);

### The City of Johannesburg’s initiative of delivering medication to elders in old age homes is commendable and the outreach could be expanded using the EPWP people;

### The City of Tshwane should involve the law enforcement agencies (SAPS, HAWKS, NPA) in investigations of the contracts that were awarded irregularly;

### With regards to insufficient finances, the City of Tshwane Metro should engage with the National Department of Water and Sanitation and their provincial counterparts on conditional grant funding. The City should also explore funding from the DBSA to bridge its municipal infrastructure funding gap and deliver efficient basic and sanitation services to the people;

### The City of Tshwane Metro should fast track the implementation of its organisational structure to address the skills shortage challenge by employing the appropriately qualified and competent individuals to deliver on its mandate;

### There is an urgent need for the City of Tshwane Metro to strengthen its engagements with the SAPS and the Metro police to implement a “cable theft plan” in order to free resources earmarked for maintenance to address their intended purpose;

### The City of Tshwane should comply with the standards and directives issued by the National Department of Water and Sanitation to ensure that the communities, which the Rooiwal and Temba plants serve, get quality water and sanitation services;

### The City of Tshwane’s maintenance and upgrade plan should be aligned with the human settlements development plans and the broader spatial development plan to ensure adequate and quality delivery of water and sanitation services to its people;

### After completion of the Temba water purification plant scheduled for November 2017, the City of Tshwane should ensure transfer of skills and budget adequately for infrastructure maintenance to sustain it;

### The City of Tshwane should improve its project planning and budgeting and stay within the allocated budget and set time frames throughout the project implementation process. The National Department of Water and Sanitation must assist the City of Tshwane metro by addressing the licencing issue on time; and

### In delivering the infrastructure projects, the metros should meet all the conditions of the grants including allocation of 30 per cent to SMMEs, skills transfer, prioritisation of youth, women and people with disabilities and implement an exit plan to protect the SMMEs.

Report to be considered.