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**FOR WRITTEN REPLY**

**NATIONAL ASSEMBLY**

**PARLIAMENTARY QUESTION NO 3456/2015**

**Mr K J Mileham (DA) to ask the Minister of Cooperative Governance and Traditional Affairs:**

1. Whether the Development Bank of South Africa (DBSA) has withdrawn any funding from the Amathole District Municipality (ADM) that had already been committed to municipal infrastructure work and in particular the Siyenza sanitation project; if not, (a) why has ADM not paid the sub-contractors employed under the Siyenza contract for work completed to date, (b) why has work been suspended on the project and (c) when can the sub-contractors expect to receive payment for work completed to date; if so, (i) on what grounds was the specified funding withdrawn, (ii) how does the ADM intend to refund the monies already expended on this project to DBSA and (iii) what contingency plans has ADM put in place to ensure the (aa) payment of its contractual obligations and (bb) completion of work by the contractors on site;

(2) whether a certain company (name furnished) continues to be remunerated and/or employed in terms of this project; if so, on what grounds is the specified company selectively employed to continue operations;

(3)     (a) what are the reasons for the ADM’s move into the R200 million new offices,

when it is unable to meet its financial obligations towards the contractors

mentioned above and (b) how is this move being funded;

(4)    what is his position with regard to the alleged extravagance which does not

directly contribute to service delivery;

(5) Whether the funding should not instead be channelled into finishing the half- completed work on the sanitation project mentioned above?

**REPLY**

1. The DBSA has indicated that it has not withdrawn funding from Amathole District Municipality.
2. The DBSA has indicated that it signed a loan agreement with Amathole District Municipality to advance a portion of its future MIG allocations for the accelerated sanitation programme, with the pledging period expiring on 30 June 2015. The total amount to be advanced as per the loan agreement was R631 million, with the first tranche of R286 million disbursed to the Municipality at the start of the programme (January 2015). Due to the fact that the programme was delayed, the Municipality could not draw the full amount of R631 million before the end of the pledging period. However, the loan availability is still active until 31 December 2016. This means the District Municipality may still apply to National Treasury for the extension of the pledging period. Regarding payment of subcontractors, this is a contractual matter between the Siyenza Group and the affected sub-contractors as the liability for the payment of these subcontractors rests with the Siyenza Group.
3. The Amathole District Municipality has indicated to COGTA that it has terminated its contract with the Siyenza Group, which was carrying out the construction work. This is the reason why the work has stopped.
4. As indicated above, the payment of subcontractors is a matter between the Siyenza Group and the subcontractors concerned.
   1. As indicated above, the DBSA has indicated that it has not withdrawn funding.
   2. As per the loan agreement between DBSA and Amathole District Municipality, the loan amounts are to be repaid to DBSA over the next two financial years (2015/16 and 2016/17), utilising a portion of MIG funding to the Municipality.
   3. The Municipality has indicated that, should National Treasury extend the pledging period, the Municipality will, following required procurement processes, contract directly with as many of the sub-contractors as possible to complete the project.
5. As indicated above, the Municipality has indicated to COGTA that it has terminated its contract with the Siyenza group. Questions regarding the details of this termination and whether any further payments are due to the contractor should be referred to the Municipality.
6. **(a) Reasons for own office accommodation**According to the Amathole District Municipality, the business case to acquire its own offices was prepared as far back as 2004. The ADM has over the years spent a substantial amount on rented office accommodation around East London from its operational budget. It was also felt that a single office structure to accommodate its head office staff was more beneficial than having departments and business units scattered around the city. It remains the aim of the ADM to own its own premises in order to house its office staff, rather than to carry on renting office space.

**Reasons for relocation to Stutterheim**

According to Amathole District Municipality, prior to 2011, the Buffalo City Municipality was one of the local municipalities situated within the jurisdiction of the ADM. According to the location of the ADM’s head office and seat of council in East London at the material time, were within its area of jurisdication:

However, after Buffalo City Municipality was established as a metropolitan municipality following the 2011 local government elections, it ceased to form a part of the ADM. This gave result in a situation where the ADM, which is a largely rural based municipality, having its head office outside its area of jurisdiction. Consequently it does not make economic sense for the ADM to rent property outside its boundaries.

Hence following the establishment of the BCMM, the Council of the ADM resolved that the head office and seat of the ADM must be relocated to within its own jurisdiction. Following a feasibility study, the town of Stutterheim was identified as a suitable home for the ADM.

**(b) Possible Funding for office accommodation**

A public private partnership process (PPP) was initiated. However, suitable private partners could not be identified to work with the ADM to develop suitable premises.

Currently, the ADM is exploring other funding models for the development of its head office in Stutterheim. Whilst it may be possible to secure funding amounting to R200 million for this purpose, for the ADM to commit itself to such a funding arrangement, would require the approval of National Treasury.

1. It would be imprudent for me to comment on a policy decision that is based on factors that are not within my knowledge. I suggest that the Honourable member should pose the question directly to the Amathole District Municipality for a direct reply.
2. The Policy considerations in this matter are peculiarly within the knowledge of the Municipal Council. I suggest that this question be directed to the Mayor of Amathole District Municipality.

We certainly agree that the maximum part of expenditure in the municipality should be spent on services for the public.

1. **BACKGROUND**
   1. The DBSA signed a loan agreement with Amathole District Municipality to advance a portion of its future MIG allocations for the accelerated sanitation programme expiring in December 2015.The loan agreement was dependent on approval by National Treasury to allow Amathole District Municipality to use a portion of its future MIG to pay the DBSA for funds advanced to accelerate the sanitation programme. The loan agreement is valid till December 2016. However, National Treasury approval for the municipality to pledge its conditional grant had a validity period up to June 2015, with an additional grace period of three months thereafter. This meant that the municipality had until September 2015 to complete the programme. The total amount to be advanced as per the loan agreement was R631 million with the first tranche of R286 million disbursed to the Municipality at the start of the programme (January 2015). Due to the fact that the programme was delayed, the district could not draw the full amount of R631 million before the end of the pledging period as approved by National Treasury.
   2. However, the Municipality had submitted a further claim of R81 million to DBSA before 30 June 2015. As per the loan agreement signed between the parties, disbursements were to be made subject to the Municipality providing the Bank with confirmation of work done in the form of payment certificates. The payment certificates submitted with the claim of R81 million could not support work done and the parties acknowledged that it could have been caused by the fact that the contract with the main contractor was in the process of being cancelled. As such Amathole undertook to conduct verification using internal resources.
   3. The Municipality submitted the results of the verification in the form of happy letters signed by recipients of completed toilets to DBSA on 17 August 2015. The Bank and the Municipality assessed the happy letters as well as delivery notes of material on site and confirmed that 30,409 units had been completed and 15, 911 of uninstalled units have been delivered. There was, however, no onsite verification (verification that can confirm the existence of reported quantity, appropriate quality as well as compliance). The DBSA received a signed letter from the Municipal Manager to confirm this information. The DBSA is processing the payment of R92million based on the information provided. The rest of the balance is depended on approval of National Treasury for extension of the pledging period and extension of the loan availability by the DBSA.
2. **DISCUSSION**

Amathole District Municipality is alleging that the reason the project has stopped is because National Treasury has refused to extend the pledging period beyond June 2015.

National Treasury has, however, indicated that it approved the Amathole Business case in August 2014 with a condition that the implementation of the project was going to happen over a nine (09) months period as indicated and motivated for by the Amathole District Municipality in their Business Case. This meant that implementation was to complete on 30 June 2015. Since approval was granted by National Treasury, Amathole District Municipality never approached National Treasury regarding the extension of the time on the pledge with the exception of the meeting dated the 30 July 2015 where a formal presentation was made to National Treasury by the Municipality. Further, in the business case that was approved, the Amathole District Municipality had indicated that they may require an additional three months to accommodate for unforeseeable circumstances. This meant that the implementation period could stretch until the end of September 2015. By virtue of the approval of the business case, National Treasury allowed the Amathole District Municipality the full twelve months of implementation time.

National Treasury indicated that, following the above meeting, National Treasury wrote a letter to the Municipality formally alerting the municipality to the fact that the pledge is lapsing as at the end of September 2015 and has asked for the municipality’s intention going forward. To date the National Treasury has not received any response from the municipality in this regard.



**MINISTRY**

**COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTIONS FOR ORAL REPLY**

**QUESTION NUMBER 2015/3456**

**DATE OF PUBLICATION: XXXX 2015**

Herewith a reply recommended by: Recommended by

**MR NTANDAZO VIMBA DR SEAN PHILLIPSS**

**Executive Manager: Legal Services CHIEF EXECUTIVE OFFICER**

**Date**: **DATE:**

RECOMMENDED / NOT RECOMMENDED

**MR V MADONSELA**

DIRECTOR-GENERAL

Date**:**

SUPPORT / NOT SUPPORTED

**MR A NEL, MP**

DEPUTY MINISTER

Date**:**

APPROVED / NOT APPROVED

**MR PRAVIN GORDHAN, MP**

MINISTER

Date:



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| **INSTRUCTIONS / NOTES** |
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| **THE MINISTER** |

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