

**12.  
WATER AND WASTE WATER TREATMENT OPERATIONS MANAGEMENT  
CONTRACT: SC1508/2014**

**8/2/2**

**S Muller/H Blignaut  
17 July 2015**

**(028) 313 5047**

**Corporate Head Office**

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**1. Executive Summary**

The purpose of this report is to present Council with the Water and Waste Water Treatment Operations Management contract in its final form, and to seek Council resolution:

- To approve the contract as it is to be executed, and to authorise the Municipal Manager to sign the contract as is required by section 33 of the Local Government: Municipal Finance Management Act, No 56 of 2003 (MFMA); and
- To grant the right to use, control and manage of the water and waste water treatment works as set out in the Contract, as is required by the Municipal Asset Transfer Regulations No.R878 published in Government Gazette No. 31346 on 22 August 2008.

The Bid Adjudication Committee on 17 July 2015 recommended the award of the contract to the Accounting Officer. The latter awarded the contract on 22 July 2015.

**2. Service Delivery and Budget Implementation Plan - IGNITE**

Directorates: Infrastructure and Planning and Community Services  
Water and Waste Water Services

**3. Compliance with Strategic Priorities**

Provision of democratic, accountable and ethical governance  
Provision and maintenance of municipal services  
Creation and maintenance of a safe and healthy environment

**4. Delegated Authority**

None

**5. Legal Requirements**

Local Government: Municipal Finance Management Act, 56 of 2003 and its Regulations (MFMA)  
Local Government: Municipal Systems Act, 32 of 2000 (MSA)  
Labour Relations Act, 66 of 1995 (LRA)  
Water Services Act, 108 of 1997

Municipal Asset Transfer Regulations No R878  
Overstrand Municipality Supply Chain Management Policy  
Overstrand Municipality Contract Management Policy

## **6. Background/Discussion/Evaluation/Conclusion**

### **Background**

Triggered by significant investment by Overstrand Municipality in water and waste water treatment infrastructure in recent years, Council resolved in June 2011 in terms of section 77 of the MSA that the municipality must undertake an assessment in terms of MSA section 78(1) of the way in which it was structured to deliver water and sanitation services.

Following the MSA section 78(1) assessment, Council resolved on 22 January 2014 (refer to Annexure A) in terms of section 78(2) of the Act to continue to deliver water and sanitation services by way of an internal mechanism, but that a competently skilled and experienced operator should be contracted to operate and maintain the water and waste water treatment works.

The key driver of the contract is the need to secure focussed management of the operations and maintenance of the water and waste water treatment works, and to develop local skills in compliance with regulatory requirements of the operations. The outcomes sought from the contract are on-going assurance of supply of water, and treatment of waste water at the right quantity and quality, and asset preservation over the longer term.

Council delegated the Director: Infrastructure and Planning to undertake a more detailed study to inform the bid specifications, initiate the procurement process, and to report back with regard to the future financial commitments.

### **Discussion**

The feasibility of the Contract was confirmed through a competitive bidding process in compliance with the Supply Chain Management Framework. There is acceptance of the risk proposed in the attached contract for a contract period of 15 years. The price of the Contract is affordable within the current municipal budget. Refer to Annexure G.

The economic and financial benefit to Overstrand Municipality includes:

- (1) The total estimated expenditure over the contract period of 15 years is estimated to be R 830 056 837, excluding VAT, compared to a total estimated expenditure of R 1 088 616 122, excluding VAT, if the Municipality was to fill the organogram as required by regulations. With escalation applied at 6% this reflects a saving of 23.7%;
- (2) Annual escalation of fixed operational and maintenance costs is limited to CPI for the contract period.

(3) Asset preservation in the long term is secured, combined with optimized treatment process efficiencies.

The contract will not have any negative impact on water services tariffs, as the cost is within the approved MTREF of the Municipality, and annual escalation over the contract period is limited to CPI and SALGBC agreed rates for the salary component.

In discussion, National and Provincial Treasury have confirmed that the transaction is not a public private partnership. Nor would the transaction constitute privatisation, as the assets remain with the Municipality, and the Municipality remains accountable for the function. Privatisation would in effect divest the Municipality from any responsibility in regard to the assets or function. In this case the Municipality has a vested interest in that it owns the assets and in order to ensure service delivery. It must take steps to ensure that the bulk works are operated and maintained optimally, and has step in rights if the operator does not perform in accordance with the Contract

### **Evaluation**

The contract is structured to meet the needs of the Municipality and the long term objectives of assurance of supply and asset preservation.

The Contract will achieve the following:

- **Skills development and retention** – regulatory compliance;
- **Assurance of supply** – as Water Services Authority with a duty to ensure service delivery, and as Water Services Provider with direct accountability to the community and mandate to deliver water services, it is important that the Works are operated and maintained optimally;
- **Operations optimisation** – focussed management must optimise operations in order to ensure on-going effectiveness and efficiency within the current budget;
- **Asset preservation** – the Municipality has invested significantly in the infrastructure and it requires focussed management to ensure that the use of the assets can be optimised.

## **7. Financial Implications**

### Source of Funding eg. Capital/Operating Budget Provisions

The financial implications of the contract over its full duration are illustrated in Table 1 below. The estimated cost of the contract over the contract period of 15 years is R830 056 837, excluding VAT. The costs below assume a CPI increase of 6% for the operational costs and 6.1% for the salary contribution.

The cash flow takes into account that the Operator will use the existing supply contract of the Municipality for chemicals up to the end of June 2017, and thereafter its own suppliers, as instructed in the bidding process. The rates

tendered by the Operator for his own chemical supply will result in an estimated annual saving of R 845 000 (before escalation) to the municipality.

The table below compares the projected cost of the Operator with the projected cost of the municipality, if all required positions are created and filled to achieve complete regulatory compliance.

<b>PROJECTED CASH FLOW</b>				
			<b>OPERATOR (VEOLIA)</b>	<b>MUNICIPALITY</b>
<b>Number</b>	<b>Year</b>	<b>Months</b>	<b>Amount pa</b>	<b>Amount pa</b>
1	2015/16	10	R 27 969 966.14	R 37 034 301.67
2	2016/17	12	R 35 660 860.52	R 46 189 965.70
3	2017/18	12	R 37 162 255.01	R 48 821 538.72
4	2018/19	12	R 39 739 064.78	R 52 206 796.64
5	2019/20	12	R 42 506 131.20	R 55 842 002.32
6	2020/21	12	R 45 478 540.92	R 59 746 975.69
7	2021/22	12	R 48 672 664.73	R 63 943 223.73
8	2022/23	12	R 52 106 273.83	R 68 454 093.13
9	2023/24	12	R 55 798 667.01	R 73 304 937.53
10	2024/25	12	R 59 770 810.12	R 78 523 300.60
11	2025/26	12	R 64 045 488.74	R 84 139 116.64
12	2026/27	12	R 68 647 475.47	R 90 184 930.42
13	2027/28	12	R 73 603 713.35	R 96 696 138.07
14	2028/29	12	R 78 943 516.84	R 103 711 251.20
15	2029/30	12	R 84 698 792.29	R 111 272 186.44
16	2030/31	2	R 15 252 616.87	R 18 545 364.41
<b>Total</b>		<b>180</b>	<b>R 830 056 837.79</b>	<b>R 1 088 616 122.91</b>

Source of Funding: Operating Budget (all amounts in table below are excluding VAT)

In evaluating the financial implications the actual expected expenditure was compared with the current budgeted amounts for the Function. The comparison is shown below and indicates that there are sufficient funds in the budget.

**Table 2: Budget Required**

<b>YEAR</b>	<b>BUDGET</b>	<b>ACTUAL ESTIMATED</b>	<b>DIFFERENCE</b>
2015/16	R 35 260 517.00	R 27 969 966.14	R 7 290 550.86
2016/17	R 36 458 482.00	R 35 660 860.52	R 797 621.48
2017/18	R 38 506 166.00	R 37 162 255.01	R 1 343 910.99

Asset Implications:

The water and waste water treatment works will be made available to the operator to operate and maintain for the duration of the contract. Whilst the operator will take operational risk in regard to the assets, the Municipality will remain the owner. No lease fee is required as the contract is a management contract and the Municipality pays the operator a management fee to operate the works. The granting of the right of use is made with the objective of achieving key economic objectives namely asset preservation and operations optimisation.

Because of the direct interface of the contract with the Municipality's water service provider obligations, the risk of non-performance or poor performance must be managed by the Municipality. The capital assets will not be required for the Municipality's own use during the contract period, other than for access to monitor the performance of the operator and to execute the planning and capital development function.

Conclusion:

The Contract is feasible, affordable and achieves the objectives of the Municipality

**8. Staff Implications**

If Council approves the contract, this will trigger the transfer of the function of operating and maintaining the water and waste water treatment works for a period of 15 years. This triggers section 197 of the LRA.

The Municipality has undertaken that there will be no job losses as a result of the contract. The contractor requires the human resource capacity to continue the undertaking of the operations of the water and waste water treatment works, which has a direct impact on the ability of the Municipality to execute its obligation to ensure service delivery.

The 50 municipal employees currently involved with the function have been identified to transfer. The affected employees will be transferred on terms and conditions in the whole not less favourable as their current benefits, from the effective date of the Contract.

The transferred employees will be paid out their accrued leave by the municipality.

The Local Labour Forum (LLF) has been kept advised of progress. A LLF Working Group was established by the LLF, with representation from the Municipality and IMATU and SAMWU. There was regional and local representation from the unions. The task of the working group was to ensure that there was information dissemination; identify potentially impacted employees; identify options for potentially impacted employees; identify legal consequences of options and implementation risks, and report back to the LLF. The working group has no decision making authority. Although both IMATU and SAMWU are in principle opposed to the transfer of the employees, no alternative agreements have been proposed by the Unions, and accordingly section 197 of the LRA applies, with its protection for the employees.

The Municipality is obliged to ensure capacity to manage the contract and monitor performance.

## **9. Comments from other Departments, Divisions and Administrations**

Both section 33 of the MFMA and the Municipal Asset Transfer Regulations require that notice be given to the community and to relevant stakeholders.

In March 2015 a notice was published in regard to the municipality's obligations in terms of the proposed contract and the proposed granting of the right to operate and maintain the water and waste water treatment works. The community and other interested parties were invited to submit to the Municipality comments or representations in respect of the proposed contract and the granting of the right and obligation to operate and maintain the Bulk Works. No formal response in writing in the relevant tender box was received. A local newspaper independently reported on the matter.

See Annexure B: Notice and Information Statement.

A report on the contract and the granting of the right to operate and maintain the Bulk Works was sent to National Treasury, Provincial Treasury, the Department of Local Government and Department of Water & Sanitation. A working session was facilitated to discuss the report.

Written views were received only from the Western Cape Provincial Treasury, which in essence commended the Municipality on the initiative and raised the need to ensure procedural compliance regarding procurement and decision making and ensuring funds are available for the duration of the contract. The

Provincial Treasury “took note of and values the effort of Overstrand Municipality in securing the required institutional capacity to ensure long-term efficient operation and maintenance of water and waste water treatment works. Given that South Africa is a water scarce country, the Municipality is commended in exploring alternative service delivery mechanisms in the delivery of the service.”

The Provincial Treasury concluded “given the current financial position of the Municipality, Treasury has, in principle, no objection against your intention, subject to the required Supply Chain Management processes being followed, the requirements of the MFMA (especially s33) being adhered to and the carry through implications over the MTREF be taken into account within the budgets of each of the affected years with the required budgetary provision to ensure affordability and sustainability over the new MTREF years.”

Refer to Annexure D, Provincial Treasury Letter, and Annexure H, BAC report of 17 July 2015.

In terms of s19(4) of the Water Services Act 106 of 1997, the Operator has disclosed and provided information on any other interests it may have which are ancillary to or associated with the Municipality; and any rate of return on investment it will earn or will gain by entering into the agreement. (see Annexure E: Veolia Letter)

Once concluded, a copy of the contract must be supplied to the Western Cape Provincial Government and the Minister of Water & Sanitation.

## **10. Annexures**

- Annexure A: Council Resolution of 22 January 2014 in terms of section 78(2) of the Municipal Systems Act
- Annexure B: Public Notice in English, Afrikaans and Xhosa and Information Statement
- Annexure C: Stakeholder Letter
- Annexure D: Comments received from Provincial Treasury
- Annexure E: Veolia Letter
- Annexure F: Draft Contract
- Annexure G: MFMA Section 33 Report by Worley Parsons
- Annexure H: BAC Report 17 July 2015

## **RECOMMENDATION TO THE COUNCIL:**

1. that **cognisance be taken** of the responses received to the request for comments, representations, views and recommendations in respect of the contract and granting of the right to use the water and waste water treatment works;

2. that the right to use, control and manage the water and waste water treatment works for the contract period of 15 years to Veolia Water Solutions & Technologies (Pty) Ltd, **be granted**;
3. that the significant economic financial benefit from the contract for the Municipality, **be noted**;
4. that the Contract for the Management of the Operation and Maintenance of the Water and Waste Water Treatment Works in the jurisdiction of Overstrand Municipality, **be approved**; and
5. that the Municipal Manager be authorised to sign the contract on behalf of Overstrand Municipality.

**RESPONSIBLE OFFICIAL :**

**S MÜLLER  
H BLIGNAUT  
M BARTMAN**

**TARGET DATE FOR IMPLEMENTATION :**

**1 SEPTEMBER 2015**

**TARGET DATE TO INFORM APPLICANT :**

**29 JULY 2015**



ANNEXURE A  
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4.7

**REPORT ON MUNICIPAL SYSTEMS ACT, SECTION 78, ASSESSMENT OF WATER AND SANITATION SERVICE DELIVERY MECHANISMS****(ITEM 10, PAGE 144 : SPECIAL MAYORAL COMMITTEE MEETING : 22 JANUARY 2014)**

**MEMBERS OF THE ANC INDICATED THAT THEY ARE AGAINST RECOMMENDATIONS 4 AND 5. CLLR M MSHENXISWA MADE A COUNTER PROPOSAL TO THE EFFECT THAT THE MUNICIPALITY'S STAFF BE TRAINED TO DO THE WORK.**

**WHEN PUT TO VOTE, 10 MEMBERS VOTED IN FAVOUR OF THE RECOMMENDATION OF CLLR MSHENXISWA, AND 15 MEMBERS VOTED IN FAVOUR OF THE RECOMMENDATION OF THE EXECUTIVE MAYOR.**

**THE RECOMMENDATION OF THE EXECUTIVE MAYOR WAS THUS CARRIED.**

**RESOLVED (UNANIMOUSLY):**

1. that the outcomes of the independent assessment be noted;
2. that the comments received from organised labour be noted;
3. that the continuation of water services delivery by way of an internal mechanism be approved;

**RESOLVED:**

4. that it be approved in principle that a competently skilled and experienced operator be contracted to operate and maintain the Water Treatment Works and Waste Water Treatment Works; and
5. that the Director: Infrastructure & Planning be delegated to:
  - 5.1. Undertake a more detailed study to inform bid specifications;
  - 5.2. Initiate the procurement process;
  - 5.3. Report back with regard to the implications of future financial commitments in terms of section 33 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).

**RESPONSIBLE OFFICIAL**

**HANRE BLIGNAUT  
MIKE BARTMAN**

**IMPLEMENTATION DATE:**

**1 FEBRUARY 2014**



## OVERSTRAND LOCAL MUNICIPALITY

### Public Notice:

**Proposed long term operation and maintenance contract for Water and Waste  
Water Treatment Works in Overstrand Municipality  
Local Government: Municipal Finance Management Act No. 56 of 2003:  
Section 33 and Municipal Asset Transfer Regulations, 2008.**

Duly authorised by resolution of Council, the Overstrand Local Municipality, in terms of the provisions of Section 33 of the Local Government: Municipal Finance Management Act, No. 56 of 2003 hereby makes public that it is testing the feasibility of entering into a contract with a skilled and experienced operator to operate and maintain the Municipality's water and waste water treatment plants, in terms of which the operator will be granted the right to manage the Municipality's capital assets for a period of 15 (fifteen) years.

The proposed contract and an information statement summarising the Municipality's obligations in terms of the proposed contract and the proposal to grant the right to manage the capital assets can be inspected at the Municipality's head and satellite offices and libraries during the official hours of operation of these offices and libraries; or accessed on the Municipality's official web-site [www.overstrand.gov.za](http://www.overstrand.gov.za), from 12 March 2015.

The contract will be considered by the Municipal Council of the Overstrand Local Municipality at its Council meeting to be held on 27 May 2015 at the Municipal Office in Hermanus.

Notice is hereby further given in terms of Section 21 and 21A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) that the local community and affected parties are invited to submit comments or representations on the proposed long term operation and maintenance contract for Water and Waste Water Treatment Works in respect of the proposed contract and the granting of the right to manage the assets in Overstrand Municipality. Such comments or representations must be submitted by not later than Monday, 13 April 2015 at 12:00.

Comments or representations must be submitted in a sealed envelope clearly endorsed "**SC1508/2014: Long term operation and maintenance contract for water and waste water treatment works in Overstrand Municipality**" and be deposited in tender box no.6.

All submissions must be addressed to:

The Municipal Manager  
Tender box no. 6  
Overstrand Municipality  
Magnolia Avenue  
Hermanus  
7200

Enquiries can be directed to Mr Hanre Bignaut, Tel: 028 313 5047 and e-mail: [hbignaut@overstrand.gov.za](mailto:hbignaut@overstrand.gov.za).

Persons who are physically disabled or who cannot read or write but wish to participate in the process, may come during office hours to the Municipal Offices, Magnolia Avenue, Hermanus where that person will be assisted by the Director: Infrastructure and Planning or a person designated by him to transcribe that person's comments or representations.

**C.Groenewald**  
Municipal Manager



## OVERSTRAND PLAASLIKE MUNISIPALITEIT

**Publieke Kennisgewing:  
Voorgenome Langtermyn Kontrak vir die Bedryf en Instandhouding van Water- en  
Afvalwater Behandelingswerke in die Overstrand Munisipaliteit  
Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, Wet No. 56 van 2003:  
Artikel 33, en die Munisipale Bate Oordrag Regulasies, 2008.**

Ooreenkomstig die bepalings van artikel 33 van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, Nr 56 van 2003 gee die Overstrand Munisipaliteit hiermee kennis dat dit van voorneme is om met 'n diensverskaffer 'n kontrak vir 'n termyn van 15 (vyftien) jaar vir die Bedryf en Instandhouding van die Water- en Afvalwater Behandelingswerke in die Overstrand Munisipaliteit aan te gaan.

Die voorgenome kontrak en die inligtingstuk wat die Munisipaliteit se verpligtinge ten opsigte van die voorgenome kontrak vervat kan by die Munisipaliteit se hoof-en satellietkantore en biblioteke gedurende amptelike kantoorure geïnspekteer word. Die kontrak en inligtingstuk is ook verkrygbaar op die amptelike webblad van die Munisipaliteit by [www.overstrand.gov.za](http://www.overstrand.gov.za) vanaf 12 Maart 2015. Die voorgenome kontrak sal vir oorweging voor die Munisipale Raad van die Overstrand Plaaslike Munisipaliteit dien tydens die Raadsvergadering geskeduleer vir 27 Mei 2015 by die Munisipale Kantore in Hermanus.

Kennis geskied verder ingevolge artikel 21 en 21A van die Wet op Plaaslike Regering: Munisipale Stelsels, 2000 (Wet 32 van 2000), dat die plaaslike gemeenskap en geaffekteerde partye genooi word om kommentaar of vertoë oor die voorgenome langtermyn Kontrak vir die Bedryf en Instandhouding van Water- en Afvalwater Behandelingswerke aan die Munisipaliteit te lewer. Hierdie kommentaar of vertoë moet teen nie later nie as Maandag, 13 April 2015 om 12:00 ingedien word.

Kommentare of vertoë moet ingedien word in 'n verseëlde koevert, duidelik gemerk **“SC 1508/2014: Langtermyn kontrak vir die bedryf en instandhouding van water- en afvalwater behandelingswerke in die Overstrand Munisipaliteit”** en geplaas word in tenderbus nr. 6.

Alle voorleggings moet geadresseer word aan:

Die Munisipale Bestuurder  
Tenderbus nr. 6  
Overstrand Munisipaliteit  
Magnoliaaan  
Hermanus  
7200

Navrae kan gerig word aan Mnr Hanré Bignaut, Tel: 028 313 5047 of e-pos: [hbignaut@overstrand.gov.za](mailto:hbignaut@overstrand.gov.za).

Persone wat liggaamlik gestremd is of nie kan lees of skryf nie, maar aan die proses wil deelneem, kan gedurende kantoorure na die Munisipale Kantore, Magnoliaaan, Hermanus kom, waar die Direkteur: Infrastruktuur en Beplanning of 'n persoon soos deur hom aangewys daardie persoon sal help om die kommentaar of vertoë neer te skryf.

**C.Groenewald  
Munisipale Bestuurder**



## UMASIPALA WENGINGQI I-OVERSTRAND

### ISaziso soLuntu:

**Isivumelwano esi Phakanyiswayo soku Sebenza se Xesha elide soku Lawula Nokugcina Indawo Yamanzi kunye Namanzi Amdaka ku- Masipala wase Overstrand Ngokwemimiselo yama Candelo 33 lomthetho iLocal Government: Municipal Finance Management Act, No.56 wango-2003.**

UMasipala weNgingqi yase-Overstrand, wazisa ukuba ujonge ukungena kwisivumelwano seminyaka elishumi elina ntlanu (15) nomniki-nkonzo malunga Nolawula Nokugcina Indawo yamanzi kunye namanzi amdaka ku- Masipala wase Overstrand, oko kusenziwa ngokwe mimiselo yamaCandelo 33 lomthetho iLocal Government: Municipal Finance Management Act, No.56 wango-2003.

Esi sivumelwano siphakanyiswayo kunye ne nkukacha ezishwankathela imimiselo ka Masipala ngo kwesi sivumelwano siphakanyiswayo sokusebenza ekulindeleke ukuba sihlolwe yintloko kaMasipala nakwi iofisi ezingamasetyena kwakunye namathala eencwadi ngeeyure zokusebenza zezi ofisi nala mathala eencwadi.Esi sivumelwano siphakanyiswayo kunye neenkukacha siyafumaneka kwi website esemthethweni yakwa Masipala engu-[www.overstrand.gov.za](http://www.overstrand.gov.za) nge 12 ka Mathsi 2015 kokufuna ukusiqwalasela.Esi sivumelwano siya kuqwalaselwa iBhunga likaMasipala elikuMasipala weNgingqi iOverstrand ngexesha lentlanganiso yeBhunga eya kube iqhutyelwa e Hermanus ngomhla we 27 Meyi 2015 kwiiOfisi zikaMasipala eHermanus.

Abantu abasuka ekuhlaleni nabanye abantu abanomdla bayamenywa ukuba bathumele izimvo zabo okanye izinto abazibhalileyo kuMasipala ngokumayela nesi sivumelwano siphakanyiswayo, oko kwenziwa phambi ko 12:00, 13 Aprili 2015, oko kusenziwa ngokwe candelo 84(3) lomthetho iLocal Government: Municipal Systems Act, 32 wowama-2000.

Izimvo ezibhaliweyo Ziibhalwe ngokucacileyo kwimvulophu etywiniweyo kwabhalwa **“SC1508/2014: Isivumelwano sexesha elide soku Lawula Nokugcina Indawo Yamanzi kunye Namanzi Amdaka ku- Masipala wase Overstrand”** mayifakwe kwi Bhokisi ye Ziniki-maxabiso no.6.

Zonke izibhalo zithunyelwe ku:

Umphathi kaMasipala  
Bhokisi yeZiniki-maxabiso no. 6.  
UMasipala weNgingqi yase-Overstrand  
Magnolia Avenue  
Hermanus  
7200

Imibuzo ingathunyelwa ku Mnu Hanré Blignaut Umnxeba: 028 313 5047 ne-imeyili: [hblignaut@overstrand.gov.za](mailto:hblignaut@overstrand.gov.za).

Nawuphi na umntu onqwenela ukuthumela izimvo zakhe okanye izinto abazibhalileyo, abangakwaziyo ukubhala baya kuncedwa nguMlawuli wezoLwakhiwo noCwangciso okanye ngumntu omiselwe nguye kwiZiko loLuntu iOverstrand, eHermanus.

**C.Groenewald**  
**UManejala kaMasipala**



**TENDER NO.: SC 1508/2014**  
**WATER & WASTE WATER TREATMENT OPERATION AND MAINTENANCE**  
**MANAGEMENT CONTRACT**  
**MFMA INFORMATION STATEMENT**

**1. OBJECTIVE**

Duly authorised by Council resolution of 22 January 2014, the Municipality has made public its intention to enter into a long term support contract in regard to the operations and maintenance of its water and waste water treatment works.

Because the proposed Contract is for more than three years, and because the right to use, control and manage the Municipality's water and waste water treatment works will vest in an Operator, the Municipality must comply with S33 of the Local Government: Municipal Finance Management Act No. 56 of 2003; and with the Local Government: Municipal Finance Management Act Municipal Asset Transfer Regulations No. R. 878 published in Government Gazette No. 31346 on 22 August 2008.

The objective of this Information Statement is to inform the community and other interested parties of the proposed contract and granting of rights in regard to the operation and maintenance of the Municipality's water and waste water treatment works.

**2. INVITATION**

The local community and other interested parties are invited to submit to the Municipality comments or representations in respect of the proposed contract and granting of the right to an operator to operate and maintain the Municipality's water and waste treatment works for a period of 15 years.

**3. PROCEDURE FOR GIVING COMMENTS**

Members of the local community and other interested persons are invited to submit to the Municipality their comments or representations in respect of the proposed contract and the granting of the right to manage the assets **before 12:00, Monday 13 April 2015 in a sealed envelope clearly endorsed "Operation and maintenance contract for Water and Waste Water Treatment Works"** and addressed to: Municipal Manager, P.O. Box 20, Hermanus, 7200 and to be deposited in Tender box no.6.

Written enquiries for clarification can be directed to Mr Hanre Blignaut e-mail: [hblignaut@overstrand.gov.za](mailto:hblignaut@overstrand.gov.za).

Any person who wishes to submit comments or representations in respect of the proposed

contract and/or the granting of the right to manage the assets and who cannot write will be assisted by the Director: Infrastructure and Planning or a person designated by him at Overstrand Civic Centre, Hermanus up to Friday 10 April 2015.

#### **4. PROJECT BACKGROUND**

Overstrand Local Municipality is the water services authority and water services provider for its area of jurisdiction. To enable the Municipality to meet the growing demand for services, it has invested in upgrading infrastructure and technology associated with the bulk infrastructure.

The Municipality undertook an investigation in terms of s78 of the Local Government: Municipal Systems Act into the way in which it is structured to deliver water services to its community. Council took a s78(2) decision in January 2014 to continue to deliver water services by way of an internal mechanism. In other words, the water services provide (WSP) mechanism continues to vest directly in Overstrand Municipality, who will be directly accountable to the community.

The investigation did however reveal some short term challenges with regard to regulatory compliance with the qualifications of operators required for the water and waste water treatment works, and also potential long-term challenges with regard to the operation and maintenance of the bulk water and waste water treatment works, in particular, the need to sustain access to, and affordability of the skills and expertise required to operate the technology and the water and waste water treatment works.

After considering a number of factors, including the views of organised labour, the Council resolved to remain an internal water services provider; and that a competently skilled and experienced operator be contracted to operate and maintain the water and waste water treatment works.

The Municipality is undertaking a competitive procurement process to test the feasibility of the contract, on the terms as proposed below.

#### **5. THE CONTRACT**

##### **5.1. Key Driver**

The key driver of the Contract is the need to:

secure focussed management of the operations and maintenance of the bulk works for the medium term; and

- develop local skill in compliance with the regulatory requirements of the works.

##### **5.2. Key Outcomes**

The key outcome sought is effective and efficient water services delivery by taking steps to ensure:

- on-going assurance of supply of water and treatment of sewerage at the right quality and quantity; and
- asset preservation over the longer term.

### **5.3. Scope**

The scope of work addresses the operation and maintenance of the water and waste water treatment works in the jurisdiction of Overstrand. It excludes any capital infrastructure planning or development which will functions remain with the Municipality.

The Operator will report directly to the Municipality, and be paid by the Municipality. The Operator will have no engagement with the community.

### **5.4. Term**

It is planned that the contract will become effective 1 July 2015, or as soon thereafter as is procedurally possible.

The contract term is 15 years, taking into consideration the key driver and outcomes sought, proposed risk transfer, the protection of the capital investment made by the Municipality and the desire to have local employees skilled and trained during the process.

### **5.5. Risk Transfer**

The Municipality will transfer the responsibility of the operations and maintenance of the water and waste water treatment works to the Operator.

The Operator will be given the right of use and responsibility to operate and maintain the water and waste water treatment works during the Contract period. It will also have the obligation to safeguard the assets.

Although there will be an interface with the municipal water services provider for service delivery and the municipal water services authority for monitoring purposes, the Municipality will not require the water and waste water treatment works during the period of the Contract.

The Municipality will retain technical and financial risk in regard to planning for and executing infrastructure development in regard to the water and waste water treatment works.

The Municipality will be required to execute its oversight functions and regulatory role as the water service authority, including setting of tariffs and policies for water services delivery.

The contract provides for annual planning, regular reviews and will provide for termination and step-in rights of the Municipality in the event of non-performance. Given the interface with municipal service delivery by the municipal water services provider, mechanisms to ensure service delivery must be addressed promptly. The penalty regime, and dispute procedures, incentivise the parties to work together to find solutions to challenges.

### **5.6. Remuneration Model**

The Operator will be paid a fixed management fee to undertake operations and maintenance of the water and waste water treatment works. There will also be a variable portion based on volumes of water and waste water treated. The Operator will be paid an implementing agent fee for any non-routine maintenance and/ or infrastructure development it may be requested to undertake as agent of the Municipality.

Penalties to the payment mechanism will be imposed where the performance does not meet the key performance indicators.

Based on the competitive bids received, the cost of the Contract will not negatively impact the Municipality's current budget provisions for the operations and maintenance of the water and wastewater treatment works. Although there will not be a direct cost saving on the current operations and maintenance budget for the water and waste water treatment works, there will be other benefits inclusive of:

- Skills development and retention;
- Assurance of supply – as WSA with a duty to ensure service delivery, and as WSP with direct accountability to the community and mandate to deliver water services, it is important that the Works are operated and maintained optimally;
- Operations optimisation – focussed management must optimise operations in order to ensure on-going effectiveness and efficiency within the current budget;
- Asset preservation – the Municipality has invested significantly in the infrastructure and it requires focussed management to ensure that the use of the asset s can be optimised.

#### **5.7. Impacted employees**

The Municipality has identified the staff directly associated with the operations and maintenance of the water and waste water treatment works. The Municipality has undertaken that no jobs will be lost as result of the Contract. It is proposed that impacted staff will transfer to the operator for the duration of the Contract; alternatively employees will be re-deployed within the Municipal structures. Current benefits are protected in terms of law and will also be in terms of the contract. Engagements in this regard are ongoing.

#### **6. NEXT STEPS**

Members of the local community and other interested persons are invited to submit to the Municipality their comments or representations in respect of the proposed contract and the granting of the right to manage the asset as set out in 2 and 3 above.

The Municipality will finalise the contract with the preferred bidder and will solicit and receive the views and recommendations of stakeholders, including national and provincial Treasuries and the Department of Water and Sanitation and the national department responsible for local government. The contract and all comments and views received relevant to the contract will be presented to Council for the final decision as to whether to enter into the Contract.





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FIRST DRAFT

**WATER AND WASTE WATER  
TREATMENT WORKS CONTRACT:  
MFMA REPORT TO INFORM VIEWS AND  
RECOMMENDATIONS – 12 MARCH 2015**

27057KD0/R20 – Document Number

[March 2015]

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### PROJECT 27057KD0/R20 - OVERSTRAND MUNICIPALITY

REV	DESCRIPTION	ORIG	REVIEW	WORLEY-PARSONS APPROVAL	DATE	CLIENT APPROVAL	DATE
A	Issued for internal review	C Oosthuizen	JT Human	JCF Prins	2015-03-13		



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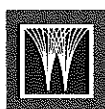
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**ABBREVIATIONS**

Contract	The contract to be concluded between the Municipality and the Operator in regard to the Works
DWS	Department of Water & Sanitation or its successor in title
HR	Human Resource
IA	Implementing Agent
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
LLF	Local Labour Forum
MFMA	Municipal Finance Management Act
Operator	the successful bidder to undertake the Project
O&M	Operation and Maintenance
Procurement	
Process	The process undertaken by the Municipality to procure the Operator
RFQ	Request for Qualification
RFP	Request for Proposal
Stakeholders	National and Provincial Treasury, Department of Water and Sanitation and national Department responsible for local government
S78	Section 78 of the Municipal Systems Act 2000
Technical Report	The report describing the Works attached to the RFP
WSA	Water Services Authority
Works	The WTW and WWTW in scope of the Project, as described in the Technical Report
WTW	Water Treatment Works
WWTW	Waste Water Treatment Works

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**1. INTRODUCTION****1.1 Background**

Overstrand Local Municipality is the water services authority and water services provider for its area of jurisdiction. To enable the Municipality to meet the growing demand for services, it has invested in upgrading infrastructure and technology associated with the bulk infrastructure.

The Municipality undertook an investigation in terms of s78 of the Local Government: Municipal Systems Act into the way in which it is structured to deliver water services to its community. Council took a s78(2) decision in January 2014 to continue to deliver water services by way of an internal mechanism. In other words, the water services provide (WSP) mechanism continues to vest directly in Overstrand Municipality, who will be directly accountable to the community.

The investigation did however reveal some potential long-term challenges with regard to the operations and maintenance of the bulk water and waste water treatment works, in particular, the need to sustain access to and affordability of the skills and expertise to operate the technology and bulk works.

**1.2 Council decision**

After considering a number of factors, including the views of organised Labour, Council resolved on 22 January 2014 and strategic direction was given – namely to remain an internal WSP, but to procure a support contract for the water and waste water treatment works.

See Council Resolution attached as Appendix 1.

**1.3 Impact of Council decision**

Water services delivery to the community will be delivered by a WSP mechanism structured as an internal Department within the Municipal structures. In other words from the community's perspective the municipal services delivery mechanism continues to be the Municipality. The s78(2) decision is thus the final decision in regard to the structuring of the WSP municipal services delivery mechanism and there is no need to proceed in terms of s78(3).

The Municipality must allocate sufficient capacity to deliver services by way of an internal WSP Mechanism.



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In its capacity as water services authority, the Council continues to set the policies, by-laws and tariffs in regard to the municipal services delivery.

The operations and maintenance of the Works is a function which supports municipal services delivery. In itself, the operation and maintenance of the bulk works is not a municipal service to the community. The Council has authorised that the feasibility of the proposed Contract for the O&M of the Works be tested. The Director: Infrastructure and Planning was delegated to undertake a study to inform the bid specifications; initiate the procurement process; and report back with regard to the implications of the Local Government: Municipal Finance Management Act, 2003 (MFMA).

In discussion, National and Provincial Treasury have confirmed that the transaction is not a public private partnership.

Nor would the transaction constitute privatisation as the assets remain with the Municipality and the Municipality remains accountable for the function. Privatisation would in effect divest the Municipality from any responsibility in regard to the assets or function. In this case the Municipality has a vested interest in that it owns the assets and in order to ensure service delivery, and it must take steps ensure that the bulk works are operated and maintained optimally, and that it has step in rights if the operator does not perform in accordance with the Contract.

#### **1.4 The Project**

The project is the contracting out of the function of operating and maintaining the Municipality's Bulk Works (as described in Annexure A to the RFP), to achieve the Technical Output Specifications (as stated in Annexure B to the RFP) referred to as the "Function".

## **2. PROGRESS**

This report is written as at 12 March 2015. In implementing the Council resolution, the following actions have been undertaken:

- The water and waste water treatment works were identified and a technical report was developed identifying the Works and subsidiary assets that will be in scope of the Contract.
- The Local Labour Forum (LLF) was engaged and a working group was constituted in March 2014. A terms of reference for the Working Group was agreed in June 2014 and regular engagement regarding the parallel process of addressing operational challenges and longer



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term institutional structuring. Feedback was given from the Working Group to the LLF. Communication was ongoing with potentially affected employees.

- Letters to stakeholders was sent out on 12 June 2014 informing stakeholders of the outcome of Council's decision and the proposed approach.
- A discussion was held with National and Provincial Treasury in July 2014.
- A request for pre-qualification was issued by the Municipality's Supply Chain Management Unit from 22 August 2014 and a compulsory bidders' briefing was held on 2 September 2014 at which all potential bidders registered on the attendance register. Closing date for submission is 26 September 2014. The purpose of the RFQ process was to establish the skills, experience, capacity and credentials of interested parties.
- On 25 August 2014 Overstrand Municipality invited bidders in a Request for Qualification document (RfQ) to submit an expression of interest to be pre-qualified. 8 Submissions were received.
- Of the bids received, 4 bidders were prequalified after assessment of their technical competencies and all four were considered as quite capable from a technical perspective to execute a project of this nature and extent.
- The 4 short listed bidders were issued with the Request for Proposal (RFP) on 3 December 2014.
- A bidders' briefing was held on 10 December 2014 where all four Bidders were present. A presentation was made and site visits were facilitated for all 4 bidders.
- The draft contract and a written responses to written clarification requests was circulated to them on 23 December 2014.
- The second bidders briefing was held on 14 January 2015. All 4 prequalified bidders were present.
- At close of tender on Friday 30 January 2015, 3 bids were received from Veolia Water Solutions & Technologies South Africa (Pty) Ltd (Veolia), Water and Sanitation Services South





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Africa (Pty) Ltd (WSSA) and Bosch Munitech (Pty) Ltd. Sembcorp did not submit its bid and indicated its board of directors decided that the tender does not fit their investment criteria.

- Clarification was requested in writing from Veolia and WSSA on 17 February 2015. Bidders responded to the request for clarification in writing on 19 February 2015.
- The Bid Evaluation Committee sat on 26 and 27 February 2015, with input from SCM and the technical team.
- The Bid Adjudication Committee sat on Friday 6 and Monday 9 March 2015.
- The Municipal Manager announced the preferred (Veolia) and second preferred (WSSA) bidders on or about 11 March 2015.
- The Municipality published its intention to enter into the contract to 12 March 2015. A notice will be published in local and national papers. The local community and other interested stakeholders are invited to submit to the Municipality comments or representations in respect of the proposed contract and granting of the right to an operator to operate and maintain the Municipality's water and waste treatment works.
- A working session will be facilitated on Thursday 19 March 2015 with Stakeholders to discuss and clarify issues arising.

**3. REPORT OBJECTIVE**

Duly authorised by Council resolution of 22 January 2014, the Municipality has made public its intention to enter into a long term support contract in regard to the operations and maintenance of its water and waste water treatment works.

Because the proposed Contract is for more than three years, and because the right to use, control and manage the Municipality's water and waste water treatment works will vest in an Operator, the Municipality must comply with S33 of the Local Government: Municipal Finance Management Act No. 56 of 2003; and with the Local Government: Municipal Finance Management Act Municipal Asset Transfer Regulations No. R. 878 published in Government Gazette No. 31346 on 22 August 2008.

This requires that the views and recommendations of National Treasury, Provincial Treasury, the national department responsible or local government (COGTA) and the department responsible for



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water and sanitation (Department of Water and Sanitation (DWS)). Department of Environmental Affairs has also be included because of the waste water treatment works. We refer to these parties as the "Stakeholders".

The objective of this report addressed to Stakeholders is to inform the Stakeholders of the proposed contract and granting of rights in regard to the operation and maintenance of the Municipality's water and waste water treatment works.

**4. INVITATION**

Stakeholders are invited to submit to the Municipality comments or representations in respect of the proposed contract and granting of the right to an operator to operate and maintain the Municipality's water and waste treatment works.

Written enquiries for clarification must be directed to Mr Hanre Blignaut e-mail: hblignaut@overstrand.gov.za.

**5. THE CONTRACT**

**5.1 Key Driver**

The key driver of the Contract is the need to:

- secure focussed management of the operations and maintenance of the bulk works for the medium term; and
- develop local skill in compliance with the regulatory requirements of the Works.

**5.2 Key Outcomes**

The key outcome sought is effective and efficient water services delivery by taking steps to ensure:

- on-going assurance of supply of water and treatment of sewerage at the right quality and quantity; and
- asset preservation over the longer term.

**5.3 Need**

The Municipality has identified the need to test the feasibility of the following:



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- The procurement of a contractor to operate and maintain Municipality's Works for a period of up to 15 years;
- The opportunity for the existing technical/ operational staff directly associated with the Works to transfer to the contractor for the contract term, and receive appropriate management, training and career development, and to remain with the Works on termination of the contact;
- The retention by the Municipality of technical and financial risk in regard to planning for and executing infrastructure development in regard to the Works; and
- The transfer of operational risk to the Operator, for which a fee will be paid.

**5.4 Scope**

The project is the contracting out of the function of operating and maintaining the Municipality's Bulk Works (as described in Annexure A to the RFP), to achieve the Technical Output Specifications (as stated in Annexure B to the RFP) referred to as the "Function".

The O&M of the Works to be included in the Contract, as more fully discussed in the Technical Report (Appendix to the RFP), include the following currently in the jurisdiction of the Municipality:

- Surface Water Resources
- Borehole Pumps
- Water Pump Stations
- Bulk Water Distribution Pipelines
- Water Treatment Works (WTWs)
- Reservoirs
- Sewer Pump Stations
- Waste water Treatment Works (WWTWs)

The Operator will report directly to the Municipality, and be paid by the Municipality.

The Operator will have no engagement with the community.



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The scope of work includes operations and routine maintenance of the Works. It excludes any capital infrastructure planning or development which will remain with the Municipality.

**5.5 Term**

The contract will be for a period of 15 years, considering that the contract has taken over 3 years to develop, it will take a period of three years to implement efficiencies, and it will then have 3 MTEF periods to operate effectively. The final three years will require a focussed hand back process to be managed by the Municipality, which will include the need of the Municipality to re-assess its options.

It is also taking into consideration the proposed risk transfer, the capital investment made by the Municipality and the desire to have local employees skilled and trained during the process.

It is anticipated that the Contract will become effective 1 July 2015, subject to procedural requirements.

The Contract provides for annual and three yearly reviews (s116 of the MFMA) and will provide or termination and step-in rights of the Municipality in the event of non-performance. Given the interface with municipal service delivery by the WSP, mechanisms to ensure service delivery must be addressed promptly.

The Municipality has the option to renew for a further 5 years.

**5.6 Risk Transfer**

The Municipality will transfer operational risk, including operations and routine maintenance of the Works to specified key performance indicators.

The Operator will be given the right of use and responsibility during the Contract period. It will also have the obligation to safeguard the asset.

Although there will be an interface with the WSP and for service delivery and the WSA for monitoring purposes, the Municipality will not require the Works during the period of the Contract. The Operator will not pay for the right of access to the Works as the Operator will not generate a revenue independent of the Municipality from operating and maintaining the Works. If the Municipality did want to charge for example a lease fee, the operator would simply claim it back in the management fee structure.



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The Municipality will retain technical and financial risk in regard to planning for and executing infrastructure development in regard to the Works.

The Municipality will remain the water services provider.

The Municipality will be required to execute its oversight functions and regulatory as the water service authority, including setting of tariffs and policies for water services delivery.

**5.7 Key Performance Areas**

The Contract sets out the key performance areas, and the measurable indicators which the Operator will report against and which the WSA will independently monitor.

Because of the importance of the interface and the direct impact on municipal service delivery of the O&M is not undertaken properly, contract and performance monitoring by the Municipality will be key. In our view the Water Services Authority has the capacity to monitor a contract of this nature.

The aim of the performance areas and indicators will be to focus on outcomes that the Operator has undertaken to achieve within the remuneration model. Unless there is persistent default, the WSA will not want to be getting involved in the day to day input activities and cists drivers of the Operator. That is for the Operator to manage to achieve the output.

**5.8 Interface in regard to service delivery**

The Municipality will interface with the Operator as the Water Services Authority and the Water Services Provider.

The Operator will interface directly with the WSP in delivery water from the WTW and receiving waste water at the WWTW.

The WSA will regulate the Contract with the Operator, and will integrate planning and other regulatory function of the WSA.

There will be on-going functions of the Municipality such as the Laboratory at Preekstoel and the monitoring functions.

**5.9 Remuneration Model**



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The Municipality will pay the Operator a fixed management fee to undertake operations and certain maintenance of the Works. There will also be a variable portion based on volumes treated. The Operator has bid a % mark up (6%) on any non-routine maintenance or maintenance above R50 000 (escalated) and/ or infrastructure development it may be requested to undertake as agent of the Municipality.

Penalties to the payment mechanism will be imposed where the performance does not meet the key performance indicators.

**6. FUTURE FINANCIAL COMMITMENT**

**6.1 Introduction**

This Section 6 provides information on the financial performance of the operations and maintenance of the Works. It assesses the affordability of the preferred bidder's response and highlights issues outside of the Contract which the Municipality will need to continue to potential contingencies for illustrates the potential impact of the proposed contract as well as the potential benefits.

**6.2 Historic O&M Financial Performance**

The Financial performance of the entire Water Services for the last 5 years was determined.

The budgets of the Works (WTW and the WWTW) for the last seven years were determined. These were used as an indicator of the reasonable cost of operating and maintaining the Works. The cost was not benchmarked due to the uniqueness of the Overstrand environment as they are using varying technologies in the operations of their Works.

The Municipality's Operational Budget for water and sanitation services for the last five years is summarised in the table below.

Table 4.3.1: Operational budget for water services for the last five years						
Description		Actual 12/13	Record : Prior			
Department	Vote		Actual 11/12	Actual 10/11	Audited 09/10	Audited 08/09
<b>EXPENDITURE</b>						
<b>Salaries</b>						
Admin & Demand Management	450, 451	R0	R0	R0	R0	R0
Treatment	456, 459, 462	R6 610 904-36	R6 220 385-77	R5 358 023-00	R3 829 101-52	R3 744 985-84
Distribution	480, 481, 482, 483, 484	R6 185 418-79	R6 129 837-74	R5 669 997-65	R4 802 312-70	R3 716 588-21
Overstrand Water	485	R0	R0	-	-	-
Connections	490, 491, 492,	R493 946-26	R444 246-15	R388 199-04	R260 703-94	R281 085-31


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Table 4.3.1: Operational budget for water services for the last five years						
Description		Actual 12/13	Record : Prior			
Department	Vote		Actual 11/12	Actual 10/11	Audited 09/10	Audited 08/09
	493					
Raw Dam	497	R0	R0	R0	R0	R0
<b>Sub-Total</b>		<b>R13 290 269-41</b>	<b>R12 794 469-66</b>	<b>R11 414 219-69</b>	<b>R8 892 118-16</b>	<b>R7 742 659-36</b>
<b>GENERAL</b>						
Admin & Demand Management	450, 451	R0	R0	R0	R2 219 320-00	R1 929 830-00
Treatment	456, 459, 462	R23 127 417-15	R26 352 092-51	R24 375 692-31	R20 012 551-57	R19 760 613-18
Distribution	480, 481, 482, 483, 484	R 12 136 688-27	R10 126 760-93	R10 464 471-00	R8 649 846-89	R8 518 062-13
Overstrand Water	485	R0	R0	-	-	-
Connections	490, 491, 492, 493	R481 926-85	R951 777-62	R963 880-10	R962 103-25	R848 664-07
Raw Dam	497	R289 582-00	R427 440-00	R395 770-00	R366 450-00	R318 650-00
<b>Sub-Total</b>		<b>R36 035 614-27</b>	<b>R37 858 071-06</b>	<b>R36 199 813-41</b>	<b>R32 210 271-71</b>	<b>R31 375 819-38</b>
<b>REPAIRS</b>						
Admin & Demand Management	450, 451	R0	R0	R0	R0	R0
Treatment	456, 459, 462	R1 954 358-02	R1 610 608-94	R1 737 993-91	R892 540-53	R850 133-42
Distribution	480, 481, 482, 483, 484	R1 650 904-95	R1 589 357-35	R1 772 004-38	R1 309 778-52	R1 362 070-93
Overstrand Water	485	R2 974 558-11	R3 443 735-34	-	-	-
Connections	490, 491, 492, 493	R136 642-29	R100 042-28	R38 275-61	R69 443-01	R32 132-89
Raw Dam	497	R75 768-62	R51 500-00	R93 545-47	R23 874-56	R33 069-39
<b>Sub-Total</b>		<b>R6 792 231-99</b>	<b>R6 795 243-91</b>	<b>R3 641 819-37</b>	<b>R2 295 636-62</b>	<b>R2 277 406-63</b>
<b>CAPITAL</b>						
Admin & Demand Management	450, 451	R0	R0	R0	R0	R0
Treatment	456, 459, 462	R12 608 679-84	R10 511 653-74	R7 469 597-24	R6 203 773-65	R1 588 446-89
Distribution	480, 481, 482, 483, 484	R16 436 617-06	R14 931 991-18	R14 234 549-67	R22 603 056-20	R4 730 204-94
Overstrand Water	485	R124 669-74	R0	-	-	-
Connections	490, 491, 492, 493	R833-06	R874-80	R1 388-38	R0	R8 666-67
Raw Dam	497	R209 605-06	R222 984-34	R359 985-32	R291 292-05	R317 288-49
<b>Sub-Total</b>		<b>R29 380 404-76</b>	<b>R25 667 504-06</b>	<b>R22 065 520-61</b>	<b>R29 098 121-90</b>	<b>R6 644 606-99</b>
<b>Total Expenditure</b>		<b>R85 498 520-43</b>	<b>R83 115 288-69</b>	<b>R73 321 373-08</b>	<b>R72 496 148-39</b>	<b>R48 040 492-36</b>
<b>INCOME</b>						
Water Treatment	456, 459, 462	R 9 907 352-22	R17 019 536-42	R857 510-00	R0	R13 152 000-00
Water Distribution	480, 481, 482, 483, 484	R0	R0	R593 212-00	R0	R0
Water Income	489	R86 275 174-32	R87 475 168-01	R77 771 263-95	R74 598 682-45	R53 419 194-44
Water Connections	490, 491, 492, 493	R396 393-59	R444 294-05	R366 714-07	R0	R427 547-96
<b>Total Income</b>		<b>R96 578 920-13</b>	<b>R104 938 998-48</b>	<b>R79 588 700-02</b>	<b>R74 598 682-45</b>	<b>R66 998 742-40</b>
<b>Total (Surplus) / Deficit</b>		<b>(R11 080 399-70)</b>	<b>(R21 823 709-79)</b>	<b>(R6 267 326-94)</b>	<b>(R2 102 534-06)</b>	<b>(R18 958 250-04)</b>


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The Municipality's Operational Budget for sanitation services for the last five financial years are summarised in the table below:

Table 4.3.2: Operational budget for sanitation services for the last five years						
Description		Actual 12/13	Record : Prior			
Department	Vote		Actual 11/12	Actual 10/11	Audited 09/10	Audited 08/09
<b>EXPENDITURE</b>						
<b>SALARIES</b>						
Public Toilets	320	R224 132-43	R187 934-01	-	-	-
Administration	370	R0	R0	R0	R0	R0
Distribution	375, 376, 377, 378	R2 812 598-98	R2 569 489-77	R2 097 316-12	R1 713 708-82	R1 308 873-10
Connections	386, 387, 388	R0	R0	R0	R0	R0
Sewerage Tankers	395, 396, 397, 398	R6 633 021-81	R5 893 824-65	R5 547 282-30	R4 498 821-04	R3 734 476-19
Treatment	405, 406, 407, 408, 409	R3 129 572-82	R2 728 055-67	R2 704 562-31	R2 423 110-55	R2 078 901-63
<b>Sub-Total</b>		<b>R12 799 326-04</b>	<b>R11 379 304-10</b>	<b>R10 349 160-73</b>	<b>R8 635 640-41</b>	<b>R7 122 250-92</b>
<b>GENERAL</b>						
Public Toilets	320	R66 044-68	R145 054-32	-	-	-
Administration	370	R0	R0	R0	R0	R0
Distribution	375, 376, 377, 378	R5 977 669-28	R4 437 814-86	R4 777 687-86	R3 604 142-08	R3 807 592-06
Connections	386, 387, 388	R182 187-00	R173 957-89	R214 384-97	R201 314-35	R159 282-27
Sewerage Tankers	395, 396, 397, 398	R4 939 481-56	R3 655 786-70	R3 300 285-89	R2 858 604-98	R3 149 786-22
Treatment	405, 406, 407, 408, 409	R2 928 887-58	R2 670 221-27	R2 880 323-43	R2 027 657-93	R1 754 880-25
<b>Sub-Total</b>		<b>R14 094 270-10</b>	<b>R11 082 835-04</b>	<b>R11 172 682-15</b>	<b>R8 691 719-34</b>	<b>R8 871 520-80</b>
<b>REPAIRS</b>						
Public Toilets	320	R99 974-03	R0	-	-	-
Administration	370	R0	R0	R0	R0	R0
Distribution	375, 376, 377, 378	R3 416 521-01	R2 625 441-86	R1 751 501-33	R1 500 596-54	R1 435 468-04
Connections	386, 387, 388	R0	R0	R0	R0	R0
Sewerage Tankers	395, 396, 397, 398	R1 045 607-25	R1 085 976-34	R910 307-87	R776 982-50	R936 636-51
Treatment	405, 406, 407, 408, 409	R847 533-51	R911 490-75	R902 355-56	R927 154-13	R1 125 338-01
<b>Sub-Total</b>		<b>R5 409 635-80</b>	<b>R4 622 908-95</b>	<b>R3 564 164-76</b>	<b>R3 204 733-17</b>	<b>R3 497 442-56</b>
<b>CAPITAL</b>						
Public Toilets	320	R0	R0	-	-	-
Administration	370	R0	R0	R0	R0	R0
Distribution	375, 376, 377, 378	R13 151 908-08	R11 615 803-27	R11 773 451-12	R11 239 854-83	R4 654 543-68
Connections	386, 387, 388	R0	R0	R0	R139 090-00	R103 828-48
Sewerage Tankers	395, 396, 397, 398	R303 283-18	R335 530-52	R318 695-72	R832 420-00	R348 381-12
Treatment	405, 406, 407, 408, 409	R5 848 619-11	R6 753 952-52	R3 488 779-00	R4 972 381-61	R572 378-20
<b>Sub-Total</b>		<b>R19 303 810-37</b>	<b>R18 705 286-31</b>	<b>R15 580 925-84</b>	<b>R17 183 746-44</b>	<b>R5 679 131-48</b>
<b>Total Expenditure</b>		<b>R51 607 042-31</b>	<b>R45 790 334-40</b>	<b>R40 666 933-48</b>	<b>R37 715 839-36</b>	<b>R25 170 345-76</b>
<b>INCOME</b>						
Distribution	375, 376, 377, 378	R0	R0	R0	R0	R0
Connections	386, 387, 388	R124 999-91	R63 116-83	R74 622-96	R89 137-63	R131 063-16
Sewerage Tankers	395, 396, 397, 398	R0	R17 169 339-50	R0	R0	R0
Treatment	405, 406, 407, 408, 409	R6 104 842-00	R0	R0	R0	R0




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Description		Actual 12/13	Record : Prior			
Department	Vote		Actual 11/12	Actual 10/11	Audited 09/10	Audited 08/09
Sewerage Income	410	R58 061 161-65	R57 391 202-29	R50 836 919-03	R36 071 030-75	R31 924 980-93
<b>Total Income</b>		<b>R64 291 003-56</b>	<b>R74 623 658-62</b>	<b>R50 911 541-99</b>	<b>R36 160 168-38</b>	<b>R32 056 044-09</b>
<b>TOTAL (Surplus) / Deficit</b>		<b>(R12 683 961-25)</b>	<b>(R28 833 324-22)</b>	<b>(R10 244 608-51)</b>	<b>R1 555 670-98</b>	<b>(R6 885 698-33)</b>

The Municipality's treatment and distribution cost per kl water sold, for the last seven years, is summarised in the table below:

Year	Treatment cost per Kl water sold <sup>(1)</sup>					Distribution cost per Kl water sold <sup>(2)</sup>				
	Kleinmond	Hermanus	Stanford	Gansbaal	Mun.	Kleinmond	Hermanus	Stanford	Gansbaal	Mun.
06/07	R2-79	R1-51	R0-00	R2-49	<b>R1-87</b>	R2-70	R1-66	R3-04	R3-72	<b>R2-32</b>
07/08	R3-05	R1-73	R0-00	R3-33	<b>R2-20</b>	R2-65	R2-06	R3-91	R3-43	<b>R2-51</b>
08/09	R6-86	R3-04	R0-00	R6-21	<b>R4-08</b>	R5-57	R1-62	R11-35	R3-25	<b>R2-99</b>
09/10	R8-18	R2-94	R0-00	R10-85	<b>R5-05</b>	R6-30	R6-25	R14-47	R3-72	<b>R6-17</b>
10/11	R10-44	R5-10	R0-00	R12-41	<b>R7-25</b>	R8-51	R3-41	R19-86	R9-06	<b>R6-11</b>
11/12	R11-47	R7-05	R0-00	R13-38	<b>R8-79</b>	R9-44	R3-21	R23-49	R10-05	<b>R7-31</b>
12/13	R10-06	R6-27	R0-00	R15-26	<b>R8-35</b>	R7-63	R4-26	R18-63	R12-87	<b>R7-55</b>

Notes: (1) Votes 456, 459, 462 and 497

(2) Votes 480 – 483, 485, 490-493

The Municipality's treatment and drainage cost per kl effluent received at the WWTW, for the last seven years is summarised in the table below:

Year	Treatment cost per Kl effluent received at the WWTW <sup>(1)</sup>						Drainage cost per Kl effluent received at the WWTW <sup>(2)</sup>				
	Kleinmond	Hermanus	Stanford	Gansbaal	Hawston	Mun.	Kleinmond	Hermanus	Stanford	Gansbaal & Hawston	Mun.
06/07	R1-50	R1-17	R6-68	R2-44	R4-07	<b>R1-73</b>	R16-37	R5-76	R1-56	R6-48	<b>R6-78</b>
07/08	R1-40	R1-20	R7-11	R2-79	R4-24	<b>R1-79</b>	R15-30	R6-26	R2-26	R8-56	<b>R7-36</b>
08/09	R1-19	R1-24	R7-43	R6-81	R3-27	<b>R2-12</b>	R14-60	R5-42	R4-57	R10-87	<b>R7-52</b>
09/10	R1-65	R1-59	R6-24	R18-05	R3-00	<b>R4-13</b>	R16-57	R10-26	R3-47	R9-03	<b>R10-93</b>
10/11	R2-19	R2-68	R8-40	R9-74	R6-46	<b>R4-33</b>	R22-11	R10-67	R6-39	R14-69	<b>R13-32</b>
11/12	R2-37	R4-89	R8-96	R7-76	R5-09	<b>R5-49</b>	R22-79	R10-95	R6-75	R14-72	<b>R13-62</b>
12/13	R3-17	R3-94	R9-38	R5-68	R5-47	<b>R4-70</b>	R23-64	R11-85	R8-41	R13-40	<b>R14-18</b>

Notes: (1) Votes 405 - 409

(2) Votes 375 – 378, 386, 395 - 398

From the above it is clear that the municipality has consistent expenditure patterns with regards to treatment of water and waste water Waste.

### 6.3 Current Financial Performance

For the 2013/14 financial year the actual **Bulk Treatment Cost** was as follows:


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<u>DEPARTMENT</u>	<u>Salaries</u>	<u>General</u>	<u>Repairs</u>	<u>Sub Total</u>
	R	R	R	R
Water Treat : KM	2 191 990	6 602 433	542 929	9 337 352
Water Treat De Bos	2 920 646	8 899 076	628 072	12 447 794
Water Treat SF	-	29 845	28 131	57 976
Water Treat : GB	1 857 241	10 080 691	956 389	12 894 321
Subtotal	6 969 876	25 612 046	2 155 521	34 737 443
Sewer Treat : KM	427 578	198 828	46 146	672 552
Sewer Treat Hston	276 700	209 092	160 747	646 539
Sewer Treat : HM	1 808 152	1 997 800	467 494	4 273 446
Sewer Treat : SF	184 762	524 084	273 787	982 633
Sewer Treat : GB	879 994	1 349 015	292 806	2 521 815
Subtotal	3 577 186	4 278 819	1 240 980	9 096 985
<b>Grand Total</b>	<b>10 547 062</b>	<b>29 890 865</b>	<b>3 396 501</b>	<b>43 834 428</b>

\*Source: Overstrand Local Municipality

It is expected that the above increased by at least 6% (CPI) for the 2014/15 financial year, bringing the total potential cost to approximately R46.5 million

The following is key to note in regard to the above:

- It is dependent on the volumes treated per annum and accordingly can fluctuate.
- It is exclusive of VAT.
- There are posts in the municipal structure which are vacant and are required to be filled in order to achieve regulatory compliance. These vacant post will increase the cost of undertaking the function and needs to be added to the budget. The estimated value of these positions could be in the region of R4 million per annum.

To compare the current treatment cost to that of the potential contract the salary bill was removed from bidder's pricing as this will remain consistent whether or not staff will transfer or not.

Accordingly the treatment cost of the municipality excluding salaries is summarised as follows:


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**Actual Financial Results 2013/2014**

V5-Q003Z ( 12 August 2014 )

<u>VOTE</u>	<u>DEPARTMENT</u>	<u>Salaries</u>	<u>General</u>	<u>Repairs</u>	<u>Capital</u>	<u>Contrib</u>	<u>Sub Total</u>
		R	R	R	R	R	R
456	Water Treat : KM		6 602 433.47	542 929.05		-	7 145 362.52
459	Water Treat De Bos		8 899 076.03	628 071.80		-	9 527 147.83
460	Water Treat SF		29 845.35	28 130.61		-	57 975.96
462	Water Treat : GB		10 080 691.05	956 389.46		-	11 037 080.51
	Subtotal	-	25 612 045.90	2 155 520.92		-	27 767 566.82
405	Sewer Treat : KM		198 828.44	46 145.53		-	244 973.97
406	Sewer Treat Hlston		209 091.52	160 747.48		-	369 839.00
407	Sewer Treat : HM		1 997 799.56	467 494.46		-	2 465 294.02
408	Sewer Treat : SF		524 084.14	273 786.65		-	797 870.79
409	Sewer Treat : GB		1 349 015.31	292 805.97		-	1 641 821.28
	Grand Total	-	29 890 864.87	3 396 501.01	-	-	33 287 365.88

From the above, the Municipality spent R 33 287 365.88 in the 2013/14 municipal financial year on treatment of water and wastewater. **Note that this excludes salaries as well as capital contribution in order to allow for comparison between the current costs and that of the tender.**

It is estimated that in 2014/15 the actual expenditures will increase by at least 6% which will bring the total operational budget, excluding VAT, salaries and capital, to approximately R35 million per annum.

#### 6.4 Findings

Based on the above information, the Municipality is spending in the order of at least R 46.5 million per annum on operating and maintaining the Works. This should however be increased by approximately R4 million for vacant position that is required to be legislatively complaint, this would bring the total cost to approximately R 50 million per annum for Bulk Treatment, excluding capital.

The portion of the cost exclusive of staff costs and exclusive of capital cost is approximately R 35 million.

#### 6.5 Bid Affordability Assessment

From the competitive proposals received from bidders it appears that the contracted cost would be in the region of R 21 972 871.36 excluding staff costs, non-routine maintenance and capital.