

7.

**PROPOSED AMENDMENT OF LONG TERM CONTRACT NO. SC 1890/2018:  
WATER AND WASTE WATER BULK WORKS OPERATION AND MAINTENANCE****8/3/1/SC1890/2018****H Blignaut****Deputy Director : Engineering Services****14 October 2020****(028) 313 5047****1. Executive Summary**

The purpose of this report is to provide the necessary information and motivation with regard to the proposed second amendment of Contract SC1890/2018: Water and Waste Water Bulk Works Operations and Maintenance, in terms of the enabling provisions of sections 116(3) and 33 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA), to enable Council to make an informed decision whether to consent to the proposed amendment of the contract.

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

Directorate: Infrastructure & Planning  
Department: Engineering Planning (Bulk 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, 2003 (Act 56 of 2003) (MFMA)  
Water Services Act 108 of 1997  
Overstrand Municipality Supply Chain Management Policy  
Overstrand Municipality Contract Management Policy  
National Treasury MFMA Circular no. 73

**6. Background/Evaluation/Conclusion****Background**

A 15-year contract for the operation and maintenance of Overstrand Municipality's bulk water and waste water infrastructure was awarded to Veolia Water Solutions & Technologies South Africa (Pty) Ltd (Veolia) on

4 September 2018. The long term contract was approved by the Overstrand Council on 28 November 2018, and the contract commenced on 8 December 2018.

The contract makes provision in clause 6 (refer to Annexure G) for adjustment or variation of the scope of the contract during the contract period, as a result of issues arising after the effective date of the contract, which may include e.g.:

- a. Changes in regulatory provisions;
- b. Changes in the Bulk Works (either expansion or reduction), or
- c. Changes in raw water quality.

The impact of such a variation has to be agreed between the parties, provided that it is related to the Bulk Works as defined in the contract. The municipality has the right to test or benchmark value for money of Veolia's proposed pricing for the proposed variation against their competitively tendered rates, as escalated, or the market. The pricing schedule shall then be adjusted with Veolia's quoted rates as agreed for the proposed variation. All other terms and conditions of the contract will remain the same.

Overstrand Municipality currently has no internal capacity to operate and maintain bulk water and waste water infrastructure, following a Council decision of 22 January 2014 to outsource the function, and the subsequent transfer of municipal staff to the appointed private operator.

The reason for this proposed amendment is to include the operation and maintenance of the following new bulk water and waste water infrastructure in the contract, in accordance with clause 6 of the contract between the municipality and Veolia:

- (1) An additional treatment system at the Preekstoel Water Treatment Plant (WTP) for the separate removal of the high iron and manganese concentrations from the raw water abstracted from the Gateway Well Field in Hermanus;
- (2) Two new production boreholes at the Gateway Well Field, and 2 new monitoring boreholes in the Hermanus area;
- (3) Two new reservoirs, i.e. at Gansbaai and Pringle Bay;
- (4) Two new sewerage pump stations, i.e. at Masakhane and Blompark in Gansbaai respectively, as well as two additional standby generators, i.e. at the Kleinmond Palmiet and the Hermanus Medi-Clinic sewerage pump stations;
- (5) Two new rising main sewer pipelines from the above mentioned two sewerage pump stations to the existing Gansbaai gravity sewer system;
- (6) Increased security requirements at the upgraded Stanford Water Treatment Plant.

The proposed amendment of the contract served at the Bid Adjudication Committee on 9 October 2020 and was subsequently approved by the Municipal Manager on 14 October 2020 (refer to Annexure H).

The amendment will apply from the respective commissioning dates of the new facilities to the end date of the contract, i.e. 7 December 2033. Because

the proposed amendment to the existing contract is for more than three years, the Municipality had to comply with section 116(3) as well as section 33 of the MFMA.

### **Evaluation**

Section 116(3) of the MFMA provides as follows:

- (3) A contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties, but only after—
- (a) the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and
  - (b) the local community—
    - (i) has been given reasonable notice of the intention to amend the contract or agreement; and
    - (ii) has been invited to submit representations to the municipality or municipal entity.

Section 33 of the MFMA provides as follows:

- 33.** (1) A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if—
- (a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved—
    - (i) has, in accordance with section 21A of the Municipal Systems Act—
      - (aa) made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and
      - (bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and
    - (ii) has solicited the views and recommendations of—
      - (aa) the National Treasury and the relevant provincial treasury;
      - (bb) the national department responsible for local government; and
      - (cc) if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department;
  - (b) the municipal council has taken into account—
    - (i) the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
    - (ii) the impact of those financial obligations on the municipality's future municipal tariffs and revenue;
    - (iii) any comments or representations on the proposed contract received from the local community and other interested persons; and

- (iv) any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph (a)(ii)(cc); and
- (c) the municipal council has adopted a resolution in which—
  - (i) it determines that the municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
  - (ii) it approves the entire contract exactly as it is to be executed; and
  - (iii) it authorises the municipal manager to sign the contract on behalf of the municipality.
- (2) The process set out in subsection (1) does not apply to—
  - (a) contracts for long-term debt regulated in terms of section 46(3);
  - (b) employment contracts; or
  - (c) contracts—
    - (i) for categories of goods as may be prescribed; or
    - (ii) in terms of which the financial obligation on the municipality is below—
      - (aa) a prescribed value; or
      - (bb) a prescribed percentage of the municipality’s approved budget for the year in which the contract is concluded.
- (3) (a) All contracts referred to in subsection (1) and all other contracts that impose a financial obligation on a municipality—
  - (i) must be made available in their entirety to the municipal council; and
  - (ii) may not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).
- (b) Paragraph (a)(i) does not apply to contracts in respect of which the financial obligation on the municipality is below a prescribed value.
- (4) This section may not be read as exempting the municipality from the provisions of Chapter 11 to the extent that those provisions are applicable in a particular case.

Section 116(3) of the MFMA should be read together with MFMA Circular no. 73, issued by National Treasury in May 2013. In terms of the said circular, the following power/duty was conferred to Council, which is cited as follows (emphasis added):

*“Considering the reasons for the proposed amendment of a contract or agreement and any representations that may have been received regarding the proposed amendment of a contract or an agreement procured through the supply chain management policy of the municipality and deciding whether to consent to the amendment of the contract or agreement.”*

In terms of Sections 33 and 116(3) of the MFMA, due process has been followed, making provision for the contract having future budgetary implications.

The following activities were completed in accordance with Sections 33 and 116(3) of the MFMA:

- A public notice, inviting comments from the local community and other interested persons was placed in the local media on 25 August 2020 (i.e. more than 60 days before the Council meeting). Refer to Annexure B.

- An Information Statement with regard to the proposed amendment to the contract was made available to the public from 23 August 2020 on the Overstrand Municipality's web site. Refer to Annexure A.
- The views and recommendations of the following stakeholders have been solicited: National Treasury, Western Cape Provincial Treasury, Department of Co-operative Governance & Traditional Affairs, and the Department of Water & Sanitation. Refer to Annexure C.
- This submission to Council on 28 October 2020.
- The proposed amendment of the contract served before the Overstrand Bid Adjudication Committee on 9 October 2020, where it was recommended to the Accounting Officer for approval. The Accounting Officer approved the recommendation on 14 October 2020. Refer to Annexure I.

Only the Western Cape Provincial Treasury responded with comments before the closing date of 25 September 2020 (refer to Annexure D). Provincial Treasury concluded that they have no objection to the proposed amendment in principle, subject to the required Supply Chain Management processes being followed, and the requirements of especially sections 33 and 116(3) of the MFMA being adhered to. The municipality adhered to all the legal requirements.

National Treasury submitted a query after the closing date for comments (refer to Annexure E). They enquired whether the prescribed process in terms of section 33 of the MFMA has been followed with the original award and approval of the contract. The Municipal Manager responded to National Treasury with proof of the correct processes having been followed during the 2018 award of the original contract SC 1890/2018 (refer to Annexure F).

### **Conclusion**

All the processes required in terms of the MFMA for the amendment of the contract have been followed. No input opposing the proposed amendment of the contract was received from any stakeholder. The proposed amendment was recommended for approval by the Bid Adjudication Committee, and was approved by the Accounting Officer. The proposed amendment of the contract will not have a significant adverse effect on the municipality's future water and sewerage operational budgets, and will therefore not contribute to excessive annual increases in water and sewerage tariffs. It is recommended that Council consent to the proposed amendment of the contract.

## **7. Financial Implications**

Source of Funding: Operating Budget Provision

The estimated financial implications during the Medium Term Expenditure Framework are summarised in the following table.

**AGENDA OF THE MAYORAL COMMITTEE MEETING:****28 OCTOBER 2020**

The entire contract represents approximately 27.7% of the total expenditure for Water and 16.6% of the total expenditure for Sewerage Services.

<b>Water:</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>mSCOA Description</b>	Outsourced Services: Sewerage Servs: water	Outsourced Services: Sewerage Servs: water	Outsourced Services: Sewerage Servs: water
<b>mSCOA Cost Account</b>	12210200570000	12210200570000	12210200570000
<b>mSCOA Business Key</b>	201807059772	201807059772	201807059772
<b>Budget Provision</b>	R 39 191 738	R 42 124 560	R 45 058 380
<b>Balance Available</b>	<b>R 3 000 000</b>	R 42 124 560	R 45 058 380
<b>Total Estimated Expenditure on Proposed Amendment B (water)</b>	R 2 153 512	R 3 452 945	R 3 180 428

<b>Waste Water:</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>mSCOA Description</b>	Outsourced Services: Sewerage Servs: waste water	Outsourced Services: Sewerage Servs: waste water	Outsourced Services: Sewerage Servs: waste water
<b>mSCOA Cost Account</b>	12210200570000	12210200570000	12210200570000
<b>mSCOA Business Key</b>	202000630034768	202000630034768	202000630034768
<b>Budget Provision</b>	R 12 967 210	R 13 833 550	R 14 760 690
<b>Balance Available</b>	R 100 000	R 13 833 550	R 14 760 690
<b>Total Estimated Expenditure on Proposed Amendment B (waste water)</b>	R 31 836	R 66 282	R 68 999
<b>Escalation</b>	In accordance with Clause 20 of Contract SC 1890/2018		
<b>Escalation Date</b>	Annually on 1 July		

The projected financial implications of the amended long term contract over the remaining contract period are illustrated in the following table. The assumptions made to inform the calculations are described in Annexure A.2.

<b>Financial Year</b>	<b>Total Estimated Annual Expenditure</b>	<b>Estimated Annual Increase</b>	<b>Comments</b>
<b>2020/21</b>	R 52 129 926	n/a	Amendment implemented for last 6 Months only. Approved MTREF amount = R 52 158 948
<b>2021/22</b>	R 55 947 917	7.3%	Approved MTREF amount = R 55 958 110
<b>2022/23</b>	R 58 504 669	4.6%	Approved MTREF amount = R 59 819 070
<b>2023/24</b>	R 61 966 422	5.9%	
<b>2024/25</b>	R 65 626 562	5.9%	
<b>2025/26</b>	R 69 513 003	5.9%	
<b>2026/27</b>	R 73 628 081	5.9%	
<b>2027/28</b>	R 77 985 125	5.9%	
<b>2028/29</b>	R 82 610 787	5.9%	
<b>2029/30</b>	R 87 508 463	5.9%	
<b>2030/31</b>	R 92 693 997	5.9%	
<b>2031/32</b>	R 98 198 309	5.9%	
<b>2032/33</b>	R 104 026 129	5.9%	
<b>2033/34</b>	R 65 110 024	5 Months only	Contract period ends on 7 December 2033

**8. Staff Implications**

None

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

None

**10. Annexures**

- Annexure A: MFMA Section 33 Information Statement & Financial Impact
- Annexure B: MFMA Section 33 Public Notice
- Annexure C: MFMA Section 33 Letter to Stakeholders
- Annexure D: Comments received from Provincial Treasury
- Annexure E: Comments received from National Treasury
- Annexure F: Municipal Manager's response to National Treasury
- Annexure G: Bulk Water Services Operations Contract Clause 6
- Annexure H: Minutes of Bid Adjudication Committee of 9 October 2020

**RECOMMENDATION TO THE COUNCIL:**

1. that the reasons for and the estimated financial implications of the proposed amendment of Contract SC 1890/2018 between Overstrand Municipality and Veolia Water Solutions & Technologies South Africa (Pty) Ltd for the operation and maintenance of the bulk water and waste water infrastructure, in terms of the enabling provisions of Sections 33 and 116(3) of the Local Government: Municipal Finance Management Act 2003 (Act 56 of 2003), **be noted**;
2. that the comments received from the Western Cape Provincial Treasury in respect of the proposed amendment of long term Contract SC 1890/2018 between Overstrand Municipality and Veolia Water Solutions & Technologies South Africa (Pty) Ltd for the operation and maintenance of the bulk water and waste water infrastructure, in terms of the enabling provisions of Sections 33 and 116(3) of the Local Government: Municipal Finance Management Act 2003 (Act 56 of 2003), as well as the inquiry received from National Treasury and the Municipal Manager's response to National Treasury **be noted**; and
3. that the proposed amendment of Contract SC 1890/2018 between Overstrand Municipality and Veolia Water Solutions & Technologies South Africa (Pty) Ltd for the operation and maintenance of the bulk water and waste water infrastructure, **be consented to**.

**RESPONSIBLE OFFICIAL:**

**H BLIGNAUT**

**TARGET DATE FOR IMPLEMENTATION :**

**1 NOVEMBER 2020**



## **MFMA INFORMATION STATEMENT**

### **PROPOSED AMENDMENT 02 OF LONG TERM CONTRACT NO. SC 1890/2018 FOR THE OPERATION AND MAINTENANCE OF BULK WATER AND WASTE WATER WORKS**

#### **1. OBJECTIVE**

Overstrand Municipality has made public the proposed amendment of the municipality's existing long term contract with Veolia Water Solutions & Technologies South Africa (Pty) Ltd, to whom the contract has been awarded following a competitive bidding process, with respect to the operation and maintenance of the municipality's bulk water and waste water facilities.

The proposed amendment is subject to approval by the Municipal Council in terms of section 33 of the Municipal Finance Management Act, Act no 56 of 2003 (MFMA), as the actual implementation period of the proposed amendment of the long term contract exceeds three (3) years.

The objective of this Information Statement is to inform the community and other interested parties of the proposed amendment of the long term contract.

#### **2. INVITATION**

The local community and other interested parties are invited to submit comments or representations to the municipality in respect of the proposed amendment of the long term contract.

#### **3. PROCEDURE FOR SUBMISSION OF COMMENTS**

Comments or representations in respect of the amendment of the long term contract can be submitted to:

The Municipal Manager, Overstrand Municipality, before 12:00 on Friday, 25 September 2020, in a sealed envelope clearly endorsed "Proposed amendment of Contract SC 1890/2018: Water and Waste Water Bulk Works Operation and Maintenance" and be deposited in Tender Box no. 7.

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

Any person who wishes to submit comments or representations with regards to the proposed amendment of the long term contract, and who cannot write, will be assisted by the Director: Finance or a person designated by her at the Overstrand Civic Centre, Hermanus, up to 12:00 on Friday, 25 September 2020.

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

A 15 year contract for the operation and maintenance of Overstrand Municipality's bulk water and waste water facilities was awarded to Veolia Water Solutions & Technologies South Africa (Pty) Ltd on 4 September 2018. The long term contract was approved by the



Overstrand Council on 28 November 2018, and the contract commenced on 8 December 2018.

Clause 6 of the contract between the municipality and the contractor makes provision for adjustment or variation of the scope of the contract during the contract period, as a result of issues arising after the effective date of the contract, which may include any of the following:

- (1) Changes in regulatory provisions,
- (2) Changes in the Bulk Works (either expansion or reduction), or
- (3) Changes in raw water quality.

Clause 6 of the contract further requires that the impact of such a variation has to be agreed between the parties, provided that it is related to the Bulk Works as defined in the contract. The municipality has the right to test or benchmark value for money of the contractor's proposed pricing for the proposed variation against their competitively tendered rates, as escalated, or the market. The pricing schedule shall then be adjusted with the contractor's quoted rates as agreed for the proposed variation.

The reason for this proposed amendment is to include the operation and maintenance of newly completed bulk water and waste water facilities in the contract, in accordance with clause 6 of the contract.

Since the previous amendment of the contract in October 2019, the need arose to include the operation and maintenance of the following newly constructed infrastructure in the contract:

- (1) An additional treatment system at the Preekstoel Water Treatment Plant (WTP) for the separate removal of the high iron and manganese concentrations from the raw water abstracted from the Gateway Well Field in Hermanus;
- (2) Two new production boreholes at the Gateway Well Field and 2 new monitoring boreholes in Hermanus;
- (3) Two new reservoirs, i.e. at Gansbaai and Pringle Bay;
- (4) Two new sewerage pump stations, i.e. at Masakhane and Blompark in Gansbaai respectively, as well as two additional standby generators, i.e. at the Kleinmond Palmiet and the Hermanus Medi-Clinic Sewerage pump stations;
- (5) Two new rising main sewer pipelines from the above mentioned two sewerage pump stations to the existing sewer system;
- (6) Increased security requirements at the upgraded Stanford Water Treatment Plant.

## 5. DISCUSSION:

The following is a more detailed discussion of the rates quoted for each of the above items:

- (1) To date the Preekstoel WTP complex consisted of a conventional water treatment plant for the treatment of raw water from the De Bos Dam, and a separate bio-filtration plant for the treatment of groundwater from the 3 well fields in and around Hermanus.

In terms of the groundwater supply from the 3 well fields, the water use license for the Gateway Well Field allows for the abstraction of 1 600 Mega liters per year from the well field, while the current licensed abstraction volume for the Camphill and Volmoed Well Fields collectively is 1 200 Mega liters per annum.

The existing borehole infrastructure at the Gateway Well Field was not able to abstract the full licensed abstraction volume. Therefore 2 additional production boreholes were drilled and equipped and linked to the bulk water supply system recently.

The Gateway boreholes in general have higher yields than the boreholes in the Camphill and Volmoed well fields, but unfortunately also significantly higher iron and

manganese concentrations of up to 100 times the allowable limits for drinking water. This caused a very high iron and manganese load on the bio-filtration plant, leading to increased back wash frequencies, treatment losses and inefficiencies, and increased maintenance requirements.

This necessitated the re-instatement of the old chemical oxidation plant at Preekstoel, specifically to treat the increased volume of extremely high iron and manganese rich groundwater from the Gateway Well Field. An aeration system is being added to this plant, to improve oxidation efficiency, thereby optimizing chemical consumption.

This chemical dosing and aeration oxidation system was not in use at commencement of the contract, and as such not included in the initial pricing schedule. The contractor therefore had to provide rates for the operation and maintenance of this treatment facility, which the municipality could benchmark in terms of clause 6 of the contract.

After this amendment of the contract, the Preekstoel WTP complex will consist of 3 treatment plants, with a collective capacity of 38 Mega liters per day:

- a. The conventional plant for treating raw water from the De Bos Dam;
- b. The bio-filtration plant for treating raw groundwater from the Camphill and Volmoed Well Fields in the Hemel-en-Aarde Valley;
- c. The chemical and aeration oxidation plant for treating raw groundwater from the Gateway Well Field.

In terms of the National Water Act, Regulation 2834, the above mentioned plants will all be classified as class C by the Department of Water and Sanitation if classified separately. The contractor's quoted revised fixed cost rate for the entire Preekstoel WTP is 27% less than if they should have quoted it as the total for 3 class C plants, at their "standard" tendered rate for all the other class C plants in Overstrand. Furthermore, their quoted fixed rate for the 3 Preekstoel plants collectively is still 4% less than the initial second bidder's tendered fixed cost rate as escalated for only the conventional and bio-filtration plants.

The above is considered to be reasonable, taking into account the size, diversity and complexity of the 3 separate, yet integrated plants in the Preekstoel WTP complex. The second largest water treatment plant in Overstrand is the Franskraal conventional WTP, with a capacity of 6.5 Mega liters per day, compared to the combined 38 Mega liters per day of the 3 treatment plants at the Preekstoel WTP.

The contractor quoted the variable unit cost for the reinstated chemical dosing borehole treatment system with added aeration at an 18% lower rate compared to the Baardskeerdersbos WTP, which has the same purpose, i.e. removing iron and manganese from groundwater. The Baardskeerdersbos WTP also utilizes pH stabilization and aeration, although with membrane filtration instead of rapid sand filters. There is also no oxidation enhancer e.g. the potassium permanganate being used at Preekstoel. An opinion was also invited from a neutral industry expert, who confirmed that the order of magnitude of the quoted rate for this treatment system is reasonable.

It should also be noted that this is currently the most feasible augmentation option for the Hermanus bulk water supply, as the proven next most feasible option, seawater

desalination, will come at an estimated operation and maintenance cost of between 3 and 4 times the cost of treating groundwater from the Gateway Well Field.

- (2) The contractor's quoted fixed rate for the increased number of boreholes is aligned with his approved tendered rate for boreholes as escalated.
- (3) The fixed rate quoted by the contractor for the increased number of reservoirs is aligned with his approved tendered rate for reservoirs as escalated.
- (4) The contractor's quoted fixed rate for the increased number of sewerage pump stations and generators is aligned with his approved tendered rates for sewerage pump stations and generators as escalated.
- (5) The contractor's quoted fixed rate for the increased length of rising main sewer pipelines is aligned with his approved tendered rate for rising main sewer pipelines as escalated.
- (6) The contractor's quoted fixed rate for increased security requirements at the upgraded Stanford WTP is aligned with his approved tendered rates for security services as escalated. The Stanford WTP was recently upgraded from being only a chlorine disinfection system to a reverse osmosis water treatment plant, and because of the risks associated with its remote location, the security service at the site had to be upgraded from an alarm system with armed response to on-site security.

All the above mentioned quoted rates are lower than those of the second bidder during the initial open bidding process for this contract.

The commencement date of the additional components of this proposed amendment will be the commissioning dates of the respective new infrastructure projects, and the duration will be until 7 December 2033, the termination date of the contract.

The anticipated financial impact of the proposed amendment of the contract over the remaining contract period is included as Annexure A hereto.

## **6. LONG TERM SERVICE LEVEL AGREEMENT**

All the provisions of the existing long term contract between Overstrand Municipality and Veolia will apply to this proposed amendment of the contract.

## **7. 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 amendment of the long term contract as set out above.

The Municipality will also solicit the views and recommendations of stakeholders, including National Treasury, the Western Cape Provincial Treasury, and the national departments responsible for Co-operative Governance and Traditional Affairs and for Water and Sanitation.

The proposed amendment of the long term contract and all comments and views received will serve at the Municipal Council meeting which is scheduled for 28 October 2020.



## **ANNEXURE A: FINANCIAL IMPACT STATEMENT**

### **PROPOSED AMENDMENT 02 OF LONG TERM CONTRACT SC 1890/2018 FOR THE OPERATION AND MAINTENANCE OF BULK WATER AND WASTE WATER WORKS**

#### **1. OBJECTIVE**

Overstrand Municipality has made public its intention to amend its existing long term contract with Veolia Water Solutions and Technologies South Africa (Pty) Ltd, for the operation and maintenance of the bulk water and waste water infrastructure of the municipality. The main purpose of the intended amendment is to include the operation and maintenance of newly constructed bulk water and waste water infrastructure in the contract.

Because the actual period of the implementation of the amendment of the long term contract would be approximately thirteen (13) years, being the remaining contract period, which are more than three (3) years, the Municipality has to comply with section 33 of the Municipal Finance Management Act, in addition to section 116(3) which is relevant to the amendment of the contract.

The objective of this Financial Impact Statement is to quantify the financial implications of the proposed amendment of the contract to Overstrand Municipality over the full duration of the remaining contract period.

#### **2. ASSUMPTIONS**

The following assumptions have been made to inform the financial calculations. Any deviation from these assumptions may influence the actual financial implications over time:

- The amendment will be applicable to only the last six months of the 2020/21 financial year, and will apply for the remainder of the contract period.
- The annual escalation on the fixed and variable charges in the contract is based on the Consumer Price Index (CPI), and with regard to the Salary Contribution for the ex-municipal employees, escalation is aligned with the annual SALGBC wage agreements, both as required in terms of the contract.
- The escalation factors above were applied at a CPI of 4.1% and wage increases of 6% per year.
- A 2% annual growth in the volumes of water and waste water treated was applied to calculate the variable cost, to make provision for population growth and development.
- The use of the new chemical and aeration oxidation plant at the Preekstoel Water Treatment Works was phased in in such a way as to ensure the most cost-effective combined utilization of the 3 water sources available during the contract period.

The same escalation factors would have applied irrespective of the amendment of the contract.

### 3. FINANCIAL IMPLICATIONS OF AMENDMENT OF CONTRACT

Based on the above assumptions and the agreed rates for the operation and maintenance of the new infrastructure (proposed amendment), the following estimations were made of the total annual costs to be incurred annually for the remainder of the long term contract:

**Table 1: Estimated annual contract expenditure after amendment**

Financial Year	Total Estimated Annual Expenditure	Estimated Annual Increase	Comments
2020/21	R 52 129 926	n/a	Amendment only implemented for last 6 Months. Approved MTREF amount = R 52 158 948
2021/22	R 55 947 917	7.3%	Approved MTREF amount = R 55 958 110
2022/23	R 58 504 669	4.6%	Approved MTREF amount = R 59 819 070
2023/24	R 61 966 422	5.9%	
2024/25	R 65 626 562	5.9%	
2025/26	R 69 513 003	5.9%	
2026/27	R 73 628 081	5.9%	
2027/28	R 77 985 125	5.9%	
2028/29	R 82 610 787	5.9%	
2029/30	R 87 508 463	5.9%	
2030/31	R 92 693 997	5.9%	
2031/32	R 98 198 309	5.9%	
2032/33	R 104 026 129	5.9%	
2033/34	R 65 110 024	5 Months only	Contract period ends on 7 December 2033

The contract represents an estimated 26% of the total expenditure budget for Water, and 15% of the total expenditure budget for Sewerage Services of the Overstrand Municipality.

### 4. CONCLUSION

The above table therefore indicates that the amendment of the long term contract will not have a significant adverse effect on the Water and Sewerage operational budgets of the Overstrand Municipality, in spite of population growth and demand growth causing a need for additional infrastructure. It can therefore also be concluded that the contract will not contribute to excessive annual increases in water and sewerage tariffs.



## NOTICE/KENNISGEWING/ISAZISO

<p><b>Proposed amendment of long term contract no. SC1890/2018, Water and Waste Water Bulk Works Operation and Maintenance, giving effect to the Local Government: Municipal Finance Management Act, Act No. 56 of 2003: Section 116 (3) (a) and (b) and Section 33.</b></p>	<p><b>Voorgenome wysiging van langtermyn kontrak SC1890/2018 vir die Bedryf en Instandhouding van Grootmaat Water- en Rioldienste Fasiliteite, in nakoming van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, Wet Nr. 56 van 2003: Artikel 116 (3) (a) en (b) en Artikel 33.</b></p>	<p><b>Isiphakamiso sokuhlengahlengisa isivumelwano sexesha elide SC1890/2018 seenkonzo zamanzi nezenkunkuma, ngokugunyaziswa ngummiselo kaMasipala weNgingqi: Umthetho wokuLawula ezeMali kaMasipala onguNombolo 56 ka2003: ngokweCandelo-116(3) (a) no (b) iCandelo 33</b></p>
<p>The Overstrand Local Municipality, in terms of the provisions of Section 116(3)(a) and (b) and Section 33 of the Local Government: Municipal Finance Management Act, Act No. 56 of 2003, hereby makes it public that it intends to amend the existing long term contract for the operation and maintenance of bulk water services facilities by including the operation and maintenance of newly completed bulk water services facilities in the scope of work of the contract.</p>	<p>Overstrand Munisipaliteit, ooreenkomstig die bepalings van artikel 116(3)(a) en (b) en Artikel 33 van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, Wet Nr. 56 van 2003, gee hiermee kennis van sy voorneme om die bestaande langtermyn kontrak vir die bedryf en instandhouding van grootmaat waterdienste fasiliteite te wysig deur die bedryf en instandhouding van nuut tooitoe grootmaat waterdienste fasiliteite in te sluit by die kontrak se omvang van werk.</p>	<p>Umasipala waseOverstrand, ngokugunyaziswa liCandelo-116(3) (a) no (b) neCandelo 33 kaMasipala weNgingqi: Umthetho wokuLawula ezeMali kaMasipala onguNombolo 56 ka2003, upapasha injongo zawo zokuhlengahlengisa isivumelwano sakhe esimiyi seenkonzo zamanzi nezenkunkuma ngokwengeza amaziko eenkonzo samanzi nenkunkuma amatsha asandula ukwakhiwa kwinxalenye yesivumelwane simiyi.</p>
<p>The proposed contract amendment and an information statement summarising the Municipality's obligations in terms of the proposed amendment of the contract can be inspected during official office hours at the Municipality's head and satellite offices and libraries or on the Municipality's official web-site <a href="http://www.overstrand.gov.za">www.overstrand.gov.za</a>, from <b>27 August 2020</b>.</p>	<p>Die voorgename kontrak-wysiging en die inligtingstuk wat die Munisipaliteit se verpligtinge ten opsigte van die voorgename wysiging van kontrak saamvat, kan gedurende amptelike kantoorure by die munisipaliteit se hoof-en satellietkantore en biblioteke geïnspekteer word, of op die amptelike webblad van die Munisipaliteit by <a href="http://www.overstrand.gov.za">www.overstrand.gov.za</a>, vanaf <b>27 Augustus 2020</b>.</p>	<p>Esi sivumelwano siphakanyiswayo kunye nenkukacha ezishwankathela izibophelelo zikaMasipala singahlolwa kwi-ofisi eyintloko kaMasipala nakwi ofisi ezingamasetyena kwakunye namathala eencwadi ngeeyure zokusebenza zezi ofisi nala mathala eencwadi. Esi sivumelwano siphakanyiswayo kunye neenkukacha siyafumaneka kwi website esemthethweni yakwa Masipala engu- <a href="http://www.overstrand.gov.za">www.overstrand.gov.za</a> ukususela ngomhla <b>27 Agasti 2020</b>.</p>
<p>The proposed amendment of the contract will be considered by the Municipal Council of the Overstrand Local Municipality at its Council meeting to be held on <b>28 October 2020</b> at the Municipal Offices in Hermanus.</p>	<p>Die voorgename wysiging van die kontrak sal vir oorweging voor die Munisipale Raad van die Overstrand Plaaslike Munisipaliteit dien tydens die Raadsvergadering wat geskeduleer is vir <b>28 Oktober 2020</b> by die Munisipale Kantore in Hermanus.</p>	<p>Esi sivumelwano siphakanyisiweyo siya kuqwalaselwa liBhunga likaMasipala elikuMasipala weNgingqi iOverstrand ngexesha lentlanganiso yeBhunga eya kube ibanjelwe eHermanus <b>28 Okthobha 2020</b> kwiiOfisi zikaMasipala eHermanus.</p>
<p>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 amendment of the long term contract. Such comments or representations must be submitted by not later than <b>Friday, 25 September 2020 at 12h00</b>.</p>	<p>Kennis geskied hiermee 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 voorgename wysiging van die langtermyn kontrak in te dien. Hierdie kommentaar of vertoë moet teen nie later nie as <b>Vrydag, 25 September 2020 om 12h00</b> ingedien word.</p>	<p>Isaziso sinikwa ngokwemimiselo ye Candelo 21 no 21A kaMasipala weNgingqi: Umthetho wokuZiphatha koMasipala, 2000 (uMthetho 32 ka2000) ukuba abantu abasuka ekuhlaleni nabanye abantu abachaphazelekayo bayamenywa ukuba bathumele izimvo zabo okanye izinto abazibhalileyo kuMasipala mayelana nesivumelwano sexesha elide esiphakanyiswayo. Izimvo okanye izinto ezibhalileyo mazingeniswe <b>ngoMvula, umhla we 25 Septemba 2020</b> ngentsimbi yehlumi elinesibini emini.</p>
<p>Comments or representations must be submitted in a sealed envelope clearly endorsed "<b>Proposed amendment of Contract SC1890/2018: Water and Waste Water Bulk Works Operations and Maintenance</b>" and be deposited in <b>Tender box no.7</b>.</p>	<p>Kommentaar of vertoë moet ingedien word in 'n verseëelde koevert, duidelik gemerk "<b>Voorgestelde wysiging van Kontrak SC1890/2018 vir die Bedryf en Instandhouding van Grootmaat Water- en Rioldienste Fasiliteite</b>" en geplaas word in <b>Tenderbus nr.7</b>.</p>	<p>Izimvo ezibhalileyo mazifakwe kwimvulophu ebhalwe ngokucacileyo, etywiniweyo kubhalwe "<b>Isiphakamiso sokuhlengahlengisa isivumelwano sexesha elide SC1890/2018: Ukusetyenziswa kwenkonzo zamanzi nenkunkuma zifakwe kwi Bhokisi ye Ziniki-maxabiso no.7</b>."</p>
<p>All submissions must be addressed to: The Municipal Manager Tender box <b>no. 7</b> Overstrand Municipality Magnolia Avenue Hermanus 7200</p>	<p>Alle voorleggings moet geadresseer word aan: Die Munisipale Bestuurder Tenderbus <b>nr.7</b> Overstrand Munisipaliteit Magnolialaan Hermanus 7200</p>	<p>Zonke iziphakamiso mazithunyelwe ku: Umpathi kaMasipala Bhokisi yeZiniki-maxabiso <b>no. 7</b> UMasipala weNgingqi yase-Overstrand Magnolia Avenue Hermanus 7200</p>
<p>Enquiries can be directed to Mr. H Blignaut via e-mail: <a href="mailto:hblignaut@overstrand.gov.za">hblignaut@overstrand.gov.za</a>.</p>	<p>Navrae kan gerig word aan Mnr. H Blignaut per e-pos: <a href="mailto:hblignaut@overstrand.gov.za">hblignaut@overstrand.gov.za</a></p>	<p>Imibuzo ingathunyelwa ku Mnu. Nkzn. H Blignaut, Umnxeba: <a href="mailto:hblignaut@overstrand.gov.za">ne-imeyili: hblignaut@overstrand.gov.za</a>.</p>
<p>Persons who are physically disabled or who cannot read or write but wish to participate in the process, may visit the Municipal Offices, Magnolia Avenue, Hermanus, during office hours, where that person will be assisted by the Director: Finance or a person designated by her to transcribe that person's comments or representations.</p>	<p>Personne wat liggaamlik gestremd is of nie kan lees of skryf nie, maar aan die proses wil deelneem, kan gedurende kantoorure die Munisipale Kantore, Magnolialaan, Hermanus, besoek, waar die Direkteur: Finansies of 'n persoon soos deur haar aangewys daardie persoon sal help om die kommentaar of vertoë neer te skryf.</p>	<p>Nawuphi na umntu onqwenela ukuthumela izimvo zakhe okanye izinto abazibhalileyo, abe engakwazi ukubhala okanye ukufunda baya kuncedwa nguMlawuli wezoLawulo okanye ngumntu omiselwe nguye kwi-ofisi zikaMasipala eMagnolia Avenue, eHermanus.</p>
<p><b>C.Groenewald Municipal Manager</b></p>	<p><b>C.Groenewald Munisipale Bestuurder</b></p>	<p><b>C.Groenewald UManejala kaMasipala</b></p>



**Navrae:**  
**Enquiries:** H Blignaut

**Tel. No:** 028 313 5047

**Verwysing:**  
**Reference:** SC1890A/2018

**Datum:**  
**Date:** 27 August 2020

**KANTOOR VAN DIE MUNISIPALE BESTUURDER**  
**OFFICE OF THE MUNICIPAL MANAGER**

To: National Treasury – Mr M Sigabi & Mr K Makeneta (MFMA Implementation)  
 Provincial Treasury Western Cape – Mrs K Neethling & Mr S Jantjies  
 Department of Co-operative Governance and Traditional Affairs (COGTA)  
 Department of Water & Sanitation – Mr R Khan & Ms M Claassen

Dear Sir / Madam

**PROPOSED AMENDMENT OF LONG TERM CONTRACT FOR THE OPERATION AND MAINTENANCE OF THE WATER AND WASTE WATER BULK WORKS OF THE OVERSTRAND MUNICIPALITY: NOTICE IN TERMS OF SECTION 33 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003)**

In terms of Section 33(1)(a)(ii) of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA), you are hereby notified of the Overstrand Municipality's intention to amend Contract SC 1890/2018, which will impose a financial obligation beyond the three years covered in the budgets for the 2020/2021 to 2022/23 financial years.

As is required in terms of the MFMA, we hereby solicit your views and recommendations on the proposed amendment of the long term contract between Overstrand Local Municipality and Veolia Water Solutions and Technologies South Africa (Pty) Ltd, with regard to the operation and maintenance of the water and waste water treatment works of the municipality. The contract came into effect on 8 December 2018, for a contract period of 15 years, until 7 December 2033. Please find attached the following information pertaining to the proposed amendment of the contract:

1. Annexure A: Information Statement and Financial Impact Statement
2. Annexure B: Amendment to Contract (Letter of Intent)
3. Annexure C: Advertisement inviting the local community and interested stakeholders to submit representations on the draft long term contract.

Please express your views and recommendation(s), if any, to the undersigned on or before 25 September 2020, in order for my Council to take all representations into account for decision making, thereby giving effect to the provision of Section 33(1)(b)(i-iv) of the MFMA.

Yours sincerely

**CC GROENEWALD**  
**MUNICIPAL MANAGER**



Dean Lukas  
 Procurement Analyst: LGSCM Directorate  
 E-mail: Dean.Lukas@westerncape.gov.za  
 Tel: +27 21 483 6210 Fax: +27 21 483 0000

**Reference number:** 24/2/16/5

**Enquiries:** Dean Lukas

Overstrand Municipality  
 PO Box 20  
 Hermanus  
 7200

Tower Block Building,  
 2nd Floor,  
 4 Dorp Street,  
 Cape Town  
 8001

1 September 2020

Attention:

The Chief Financial Officer: Mrs. S Reyneke-Naude  
 The Deputy Director: Finance & SCM: Mr. C Le Roux  
 The Manager: Contracts & Logistics: Mr. Christo Roets

Dear Municipal Manager: Mr. C Groenewald

**RE: MUNICIPAL CONTRACTS IN TERMS OF SECTION 33 (1) AND 116 (3) OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, NO.56 OF 2003 FOR THE OPERATION AND MAINTENANCE OF THE BULK WATER AND WASTE WATER INFRASTRUCTURE OF HE MUNICIPALITY.**

**1. PURPOSE**

1.1 To provide comments to the Overstrand Municipality in respect of Section 33 and 116 (3) of the Municipal Finance Management Act (MFMA) in relation to **Tender Nr. 1890/2018** for the operation and maintenance of the bulk water and waste water infrastructure of the Municipality.

**2. BACKGROUND**

- 2.1 On the 27<sup>th</sup> of August 2020, the Overstrand Municipality sent a request to the Provincial Treasury, seeking comments in respect of Section 33 and 116 (3) for the operation and maintenance of the bulk water and waste water infrastructure of the Municipality.
- 2.2 As per the communication of the Municipality, the following information were made available to Provincial Treasury for perusal:
- a) **The Draft Contract;**
  - b) **The Bid Adjudication Committee Minutes;**
  - c) **Council Minutes;**
  - d) **Letter of intent – signed by Veolia & OM;**
  - e) **Notice placed in the local newspaper to invite the local community's comments and representations in terms of MFMA Section 33 and Section 116 (3) (a) and (b);**
  - f) **MFMA Information Statement; and**
  - g) **Future financial obligations of amendment of contract.**



- 2.3 A 15-year contract for the operation and maintenance of Overstrand Municipality's bulk water and waste water facilities was awarded to Veolia Water Solutions and Technologies South Africa (Pty) Ltd on 4 September 2018. The long-term contract was approved by the Overstrand Council on 28 November 2018, and the contract commenced on 8 December 2018.
- 2.4 The actual period of the implementation of the amendment for the long-term contract would be approximately thirteen (13) years. **being the remaining contract period, which is more than three (3) years, the Municipality must comply with Section 33 of the MFMA, and in addition to Section 116 (3) which is relevant to the amendment of the contract.**
- 2.5 Clause 6 of the contract between the Municipality and the contractor makes provision for adjustment of variation of the scope of the contract during the contract period, as a result of issues arising after the effective date of the contract, which may include any of the following:
- 1) Changes in regulatory provisions;
  - 2) Changes in the Bulk Works (either expansion or reduction), or
  - 3) Changes in raw water quality.
- 2.6 **The Overstrand Municipality has made public its intention to amend its existing long-term contract with Veolia Water Solutions and Technologies South Africa (Pty) Ltd, for the operation and maintenance of the bulk water and waste water infrastructure of the Municipality.** The main purpose of the intended amendment is to include the operating and maintenance of newly constructed bulk water and waste water infrastructure in the contract.
- 2.7 **The Municipality's estimated annual contract expenditure indicates that the amendment of the long-term contract will not have a significant adverse effect on the Water and Sewerage operational budget of the Overstrand Municipality and therefore it can be concluded that the contract will not contribute to excessive annual increases in water and sewerage tariffs.**
- 2.8 The Municipality invited the local community and other interest parties to submit comments or representations to the Municipality in respect of the proposed process which should reach the Municipality by **25 September 2020**. The Municipality also **made available the proposed amendment of the Municipality's existing long-term contract and related documentation for public comment.**
- 2.9 In addition to the information provided to the Provincial Treasury, reference was made to the Council Resolution dated 28 November 2018 and requested the Municipality to provide clarity on the following:
- a) THE RECOMMENDATION BY THE EXECUTIVE MAYOR WAS THUS CARRIED.  
  
Resolved (supported by 16 councillors)  
*"That cognizance be taken that no response was received from the public or other stakeholder following the invitation for comments, representations, views and recommendation in respect of the long-term contract and the right to use the water and waste water treatment works."*
  - b) In respect of the above statement, kindly indicate whether the Section 33 process was followed prior to this request?

- 2.10 In response to the above, the Municipality provided the following information and comments:
- a) **“Overstrand Municipality did indeed follow a Section 33 process and was advertised 60 days before the Council meeting held on 28 November 2018;**
  - b) Letter from Municipal Manager to the Provincial and National Treasury; and
  - c) Notice placed in the local newspaper to invite the local community's comments and representations in terms of MFMA Section 33.”

### 3. LEGISLATIVE PRESCRIPTS

- 3.1 **Section 217 of the Constitution and Section 112 of the MFMA** prescribe and addresses that the procurement of goods and services in the public service should be conducted through a system that is fair, equitable, transparent, competitive and cost-effective.
- 3.2 **Section 21 A of the Municipal System's Act** addresses all documents that must be made public by the Municipality.
- 3.3 **Section 33 of the MFMA** addresses the future budgetary implications for contracts that go beyond a period of 3 years.
- 3.4 **Section 116 (1 and (2) of the Municipal Finance Management Act No. 56 of 2003** stipulates the requirements of a contract or agreement procured through the Supply Chain Management system.
- 3.5 In terms of the requirements the legislation needs to be applied in this regard especially taking into account the fairness, equitability, transparency, competitiveness, and cost effectiveness aspects.

### 4. ISSUE

- 4.1 Whether or not the Provincial Treasury has any views and recommendations regarding the abovementioned Section 33 and 116 (3) processes and if the Municipality met the requirements of Section 33 (a) (ii) and 116 (3) of the MFMA.

### 5. COMMENTS

- 5.1 Section 33 of the MFMA requires that when a Municipality wants to enter into an agreement that will extend beyond the three years covered in the annual budget, it must embark on a process to invite comments from the local community, which needs to be considered. The Municipality would have to obtain the views and recommendations from both the National Treasury and Provincial Treasury.
- 5.2 Furthermore, extensions may not exceed 15% of the original contract amount or exceed the original contractual period as stipulated in Section 33 of the MFMA, unless the prescribed procedures were followed. All extensions must be attached to the original contract and form part thereof.
- 5.3 Section 217 of the Constitution requires the Municipality to procure the required services in a manner, which is fair, transparent, cost effectiveness, equitable and competitive.
- 5.4 Section 116 of the MFMA, a contract or agreement procured through the supply chain management system of the Municipality must be in writing, stipulate the terms and conditions of the contract or agreement, which must include provisions for the termination of the contract or agreement in the case of non- or underperformance and dispute resolution mechanisms. An ongoing periodic review of the contract or agreement must be performed for contracts of this nature.
- 5.5 Section 116 of the MFMA, a contract or agreement procured through the supply chain management policy of the Municipality may be amended by the parties, but only after the reasons for the proposed amendment have been tabled in the council of the Municipality, the local community has been given

reasonable notice of the intention to amend the contract or agreement and has been invited to submit representations to the Municipality.

- 5.6 Furthermore, the Accounting Officer must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the Municipality is properly enforced, monitored on a monthly basis based on performance of the contractor.
- 5.7 As a critical phase of the proposed contract, the Municipality needs to ensure that sufficient demand management and planning has been conducted, which includes;
- a) Identification of risks, categories and prioritisation of risks, and risk mitigation procedures;
  - b) Designing of specification, which is, clear, precise, measurable and speak to the goods and services needed by the Municipality to address the service delivery requirements and targets.
- 5.8 Compliance with the supply chain management policy and other applicable legislation, in respect of ensuring that the bid committees have applied its mind and exercised due diligence in all material aspects of the proposals and have provided recommendations on the propose contracts.

## 6. RECOMMENDATIONS

- 6.1 It must be noted that the procurement of the aforementioned services for all intents and purpose must give effect to the five pillars of procurement as entrenched in Section 217 of the Constitution. Furthermore, adherence to all of the requirements stipulated in the SCM regulations and Municipality's SCM policy, as well as taking into account Section 116 of the MFMA as far as contract management is concerned and that the Accounting Officer is satisfied that due processes was followed.
- 6.2 **Provincial Treasury has, in principle, no objections against the Municipality's intention to extend the contract, subject to the required Supply Chain Management processes being followed, the requirements of the MFMA (especially Section 33 and 116) being adhered to.**
- 6.3 The Municipality must ensure that the financial implications are carried through over the MTEF 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 MTEF years.
- 6.4 The impact on municipal tariffs should be considered against the back drop of the negative socio-economic challenges that may face rate payers as a result of COVID-19.
- 6.5 The Accounting Officer needs to be satisfied that all due processes and procedures stipulated in the legislative prescripts and in the Municipality's SCM policy have been followed.

*Please note that these comments deal specifically on the SCM requirements and the do not comment on the financial requirements which deals with the expenditure and budget aspects.*

Yours Sincerely,



Digitally signed  
by Letitia Sallies  
Date: 2020.09.01  
16:28:00 +02'00'

**MS. LETITIA SALLIES**

**DEPUTY DIRECTOR: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT**

**PROVINCIAL TREASURY**

**national treasury**Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

Annexure E 1/1

Private Bag x 115, Pretoria, 0001. Tel: 012 315 5850 Fax: 012 315 5230  
MFMA@treasury.gov.zaThe Municipal Manager  
Overstrand Municipality  
PO Box 20  
**HERMANUS**  
7200**For Attention: Mr C Groenewald****Fax: (028) 313 0030**

Dear Sir

**RE: MFMA SECTION 33 PROCESS OVERSTRAND MUNICIPALITY: PROPOSED AMENDMENT TO LONG TERM CONTRACT SC 1890A/2018: BULK WATER SERVICES OPERATION & MAINTENANCE)**

The communication received on 27 August 2020 requesting the National Treasury's comments on the municipality's intention to amend a long-term contract for the operation and maintenance of the waste water treatment, has reference. We also refer to our previous letter dated 30 September 2019, which is attached for ease of reference.

We have noted the contents of the letter, including the supporting documents. Our response in our previous letter dated 30 September 2019 also related to amendments made to this very same contract. In that response we raised concerns around whether or not the initial contract when concluded complied with the requirements in section 33 of the MFMA in relation to public and stakeholder consultation. We requested confirmation through the provision of documentary evidence that the municipality has complied with section 33 of the MFMA. To date we have not received the requested confirmation.

The municipality is requested to confirm compliance section 33 of the MFMA before the contract was entered into within 14 days of receipt of this letter. In the event that the municipality failed to comply with section 33 when the initial contract was concluded, will result in expenditure incurred to date being irregular. We trust that you be guided by the above and rectify any non-compliance.

Kind regards

**Karen Maree**  
**Acting Accountant-General**  
**Date: 2 October 2020**

Cc: Chief Financial Officer

Cc: MFMA Coordinator: Western Cape Provincial Treasury

**Navrae:**  
**Enquiries:** Mr Coenie Groenwald

**Verwysing:**  
**Reference:**

**Datum:**  
**Date:** 09 October 2020



**KANTOOR VAN DIE MUNISIPALE BESTUURDER**  
**OFFICE OF THE MUNICIPAL MANAGER**

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The Acting Accountant-General  
National Treasury  
Private Bag X115  
PRETORIA  
0001  
By E-mail: MFMA@treasury.gov.za

Sir / Madam,

**PROPOSED AMENDMENT TO LONG TERM CONTRACT FOR THE OPERATION AND MAINTENANCE OF THE WATER AND WASTE WATER TREATMENT WORKS OF THE OVERSTRAND MUNICIPALITY: NOTICE IN TERMS OF SECTION 33 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE ACT, 2003 (ACT NO. 56 OF 2003)**

I refer to your letter dated 02 October 2020 in the above regard.

Your information is unfortunately incorrect. We have fully complied with the provisions of MFMA and your attention is invited to the following attached documents:

- Annexure A Full item with annexures which served before Council on 28 November 2018.
- Annexure B Proof that inter alia National Treasury was consulted. (Kindly also see the third(3<sup>rd</sup>) bullet point on page 18 of Annexure A)
- Annexure C Letter in response to National Treasury letter dated 30 September 2019
- Annexure D Proof of response to National Treasury letter dated 30 September 2019

Yours sincerely,

CC GROENEWALD  
MUNICIPAL MANAGER

- 
- 5.2. During the first 3 months from the Effective Date the parties shall work closely together to ensure uninterrupted service delivery.
- 5.3. The Bulk Works and minor assets shall be identified and handed over to the Operator for the Operator to use for the duration of the Contract.
- 5.4. In the event that costs are incurred by either party on behalf of the other party during the hand-over period, these shall be reconciled, agreed, and set-off on the Operator's invoices.
6. **ADJUSTMENT & VARIATION**
- 6.1. The parties acknowledge that the scope of the Function will vary through the effluxion of time and accordingly the roles and responsibilities of the Parties will need to be adapted. This could be as a result of issues arising after the Effective Date including but not limited to:
- 6.1.1. Change in Regulatory Provisions directly impacting the Function;
  - 6.1.2. Change in Bulk Works (expansion or reduction as a result of change in water services provision requirements);
  - 6.1.3. Change in raw water quality and/or quantity.
- 6.2. Provided it is related to the Bulk Works and the Function, and subject to the Regulatory Provisions, the impact of the variation in scope of the Function must be determined and agreed to between the Parties.
- 6.3. In the event that the Municipality wishes to vary the scope of the Function –
- 6.3.1. the Municipality shall be obliged to give the Operator reasonable notice thereof, giving details of the proposed variation, the reason therefore, and the scope of Function the Operator would be required to render;
  - 6.3.2. the Municipality and the Operator will meet as soon as possible after the notice mentioned in clause 6.3.1 to discuss the variation proposed by the Municipality having regard to the following matters–
    - 6.3.2.1. the impact on water services delivery and the Municipal Plans;
    - 6.3.2.2. the impact on the existing Function and Bulk Works;
    - 6.3.2.3. the impact on roles and responsibilities of the Municipality and the Operator in terms of the Contract;
    - 6.3.2.4. the impact on the Technical Asset Register;

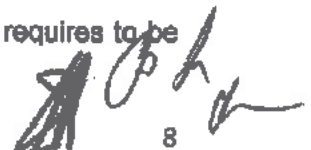


- 6.3.2.5. the impact on the KPIs and Penalties;
  - 6.3.2.6. the impact on the Organisational Plan;
  - 6.3.2.7. the consequential impact on the Pricing Schedule;
  - 6.3.2.8. any other issue which is relevant.
- 6.4. The Annual Plan shall be updated to address the impact of the change in scope of the Function agreed to between the parties.
- 6.5. The Pricing Schedule shall be adjusted at the Operator's tendered rates in the Pricing Schedule. The Municipality shall have the right to bench mark and or test value for money of the proposed pricing to the Operator's competitively tendered rates (as escalated) and the market, before accepting the Pricing Schedule.
- 6.6. Where no agreement can be reached, the parties shall continue to implement the then current Annual Plan.

## PART C: SCOPE

### 7. THE FUNCTION

- 7.1. The Operator shall, with effect from the Effective Date, be responsible for the Function.
- 7.2. The Function shall be undertaken by the Operator in accordance with the Annual Plan, so as to achieve the Technical Specifications.
- 7.3. The Operator is responsible for managing its own accounting, financial management and budgeting in relation to the undertaking of the Function in terms of this Contract.
- 7.4. The Function includes management, operations, monitoring, and maintenance as set out in the Technical Specifications.
- 7.5. Maintenance includes repair and maintenance, Maintenance Requests, Large Maintenance Repair Projects and Emergency Repairs:
- 7.5.1. Routine, scheduled and preventative repairs and maintenance is for the Operator's cost and covered in the Operator's Fixed Fee;
  - 7.5.2. Maintenance Requests from the Municipality to the Operator shall be requested in writing by the Municipality. These requests will be for maintenance issues related to the Bulk Works and Function that the Operator has not scheduled but which the Municipality requires to be



8

Minutes of the Proceedings of a meeting of the Bid Adjudication Committee held by means of a virtual platform Hermanus, on Friday, 9 October 2020 at 11:03.

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**Minutes of the Proceedings of a meeting of the  
Bid Adjudication Committee, held by means of a virtual platform, Hermanus  
11:03 on Friday, 9 October 2020.**

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**OFFICIALS PRESENT:**

**Committee Members:**

Mr. H Vorster	Acting Director: Finance (Chairperson)
Mr. S Madikane	Director: Economic & Social Development & Tourism
Mr. R Williams	Director: Community Services
Mr. S Müller	Director: Infrastructure and Planning
Mr. N Michaels	Director: Protection Services
Ms. D Arrison	Director: Management Services
Mr. C Le Roux	Deputy Director: Finance & SCM

**Technical Advisors:**

Mr. R de Jager	Senior Admin Officer: SCM
Ms. S Immelman	Principal Clerk: SCM
Mr. C Roets	Manager: Contracts & Logistics
Mr. H Blignaut	Deputy Director: Engineering Services
Ms. E Hooneberg	Senior Manager: Revenue

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Minutes of the Proceedings of a meeting of the Bid Adjudication Committee held by means of a virtual platform, Hermanus, on Friday, 9 October 2020 at 11:03.

**6.2 CONTRACT NO. SC 1890/2018: PROPOSED AMENDMENT: WATER AND WASTE WATER BULK WORKS OPERATION AND MAINTENANCE: ADDITION OF NEW BULK WATER SERVICES INFRASTRUCTURE**

The Director: Infrastructure & Planning: Mr. S Müller vacated his chair as committee member of the Bid Adjudication Committee for the duration of the adjudication of this item.

Upon a proposal by the Director: Management Services, Ms. D Arrison duly seconded by the Director: Protection Services, Mr. N Michaels it was

**RESOLVED TO RECOMMEND TO THE ACCOUNTING OFFICER:**

- 6.2.1 That it be noted that the only comments received from any stakeholder with regard to the intent to amend Contract SC 1890/2018, Water and Waste Water Bulk Works Operation and Maintenance, were those received from the Western Cape Provincial Treasury, and that they had no objection to the proposed amendment of the contract, provided that due process is followed and the applicable legislation is adhered to;
- 6.2.2 That the reasons provided for the proposed amendment of the contract be regarded as acceptable and valid, and it be recommended to Council to consent to the amendment of the contract;
- 6.2.3 That Contract SC 1890/2018, Water and Waste Water Bulk Works Operation and Maintenance, be amended in terms of Section 116(3) and Section 33 of the Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003), read together with Clause 53 of the Supply Chain Management Policy, as **Contract SC 1890B/2018**, as summarised in the schedule below:

<b>Service Provider / Supplier:</b>	Veolia Water Solutions & Technologies South Africa (Pty) Ltd	<b>SCM supplier database #</b>	927
<b>Service / Goods Provided:</b>	Water and Waste Water Bulk Works Operation and Maintenance		
<b>Cost Accounts:</b>	Outsourced Services: Sewerage Servs: Water	12210200570000	
	Outsourced Services: Sewerage Servs: Waste Water	12210200570000	
<b>Business Keys:</b>		20180705059772	20200630034768
<b>Extension Amount (Excl. VAT):</b>	Amended rates as per schedule below (all rates are exclusive of VAT)		
<b>Extension Amount in words</b>	Amended rates as per schedule below (all rates are exclusive of VAT)		
<b>Escalation:</b>	As per clause 20 of original Contract SC 1890/2018	<b>Escalation Date:</b>	Annually on 1 July
<b>Contract Director:</b>	S Müller	<b>Contract Owner:</b>	H Bignaut
<b>CONTRACT PERIOD:</b>			
<b>Implementation date (Amendment):</b>	Respective commissioning dates of new infrastructure	<b>End date:</b>	7 December 2033
		<b>Period:</b>	14 Years or part thereof

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Ref.	ITEM	
<b>A</b>	<b>FIXED CHARGES</b>	2020/21 amended Fixed rate per Month
<b>A.2</b>	<b>FIXED CHARGES WATER TREATMENT WORKS</b>	
	Contractual Requirements (includes all costs required to undertake the Function as per Technical Specifications)	
A.2.1.a	Preekstoel WTW Conventional Plant: O&M	R 0
A.2.1.b	Preekstoel WTW Bio-filtration Plant: O&M	R 0
A.2.1.	Preekstoel WTW Conventional & Bio-filtration & KMnO4 Plants: O&M	R 242 726.77
<b>A.4</b>	<b>FIXED CHARGES BOREHOLE PUMPS</b>	2020/21 amended Fixed rate per Month
	Contractual Requirements (includes all costs required to undertake the Function as per Technical Specifications)	
A.4.1.	Monthly charges for all borehole pumps combined	R 30 897.21
<b>A.7</b>	<b>FIXED CHARGES RESERVOIRS</b>	2020/21 amended Fixed rate per Month
	Contractual Requirements (includes all costs required to undertake the Function as per Technical Specifications)	
A.7.1.	Monthly charges for all reservoirs combined	R 14 223.78
<b>A.8</b>	<b>FIXED CHARGES SEWERAGE PUMP STATIONS</b>	2020/21 amended Fixed rate per Month
	Contractual Requirements (includes all costs required to undertake the Function as per Technical Specifications)	
A.8.1.	Monthly charges for all sewerage pump stations combined	R 59 431.69
<b>A.9</b>	<b>FIXED CHARGES BULK SEWER PIPELINES</b>	2020/21 amended Fixed rate per Month
	Contractual Requirements (includes all costs required to undertake the Function as per Technical Specifications)	
A.9.1.	Monthly charges for all bulk sewer pipelines combined	R 14 029.91
<b>A.11</b>	<b>OUTSOURCES SECURITY SERVICES – WATER FACILITIES</b>	2020/21 amended Fixed rate per Month
	Contractual Requirements for security of all assets, the grounds and employees as per Technical Specifications	
A.11.1.	Outsources security – on-site security guard services with armed response at bulk water facilities	R 54 392.25
A.11.2.	Outsources security – alarm systems with armed response at bulk water facilities	R 18 357.38
<b>B</b>	<b>VARIABLE CHARGES BASED ON CHEMICAL TREATMENT</b>	2020/21 amended rate per KI received by Overstrand (Outflow from WWTW)
<b>B.1</b>	<b>VARIABLE CHARGES WATER TREATMENT WORKS</b>	
	Contractual Requirements (includes all chemical costs required to deliver the Function as per Technical Specifications)	
B.2.1.c	Preekstoel WTW – Gateway Well Field KMnO <sub>4</sub> & Aeration Plant	R 4.55

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Certified as correct by:



Mr. C Le Roux

**Deputy Director: Finance & SCM**

12 October 2020

Date



Mr. H Vorster

**Acting Director: Finance (Chairperson)**

12 October 2020

Date

**RECOMMENDATION APPROVED / ~~NOT APPROVED~~**



Mr. C Groenewald

**Accounting Officer**

14 October 2020

Date