

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

At the end of 2011, the Municipality's bulk water and wastewater infrastructure comprised of the following:

Water Sources

- 5 Dams
- 1 river abstraction
- 17 Boreholes
- 3 Springs

Bulk Water Infrastructure

- 9 Treatment Plants
- 19 Pump Stations
- 78km bulk pipelines
- 44 Reservoirs

Bulk Wastewater Infrastructure

- 5 Treatment Plants
- 36 Pump Stations
- 45km bulk pipelines

6.2 The Municipal Systems Act (MSA)

The MSA requires municipalities to review and decide on the appropriate mechanism to provide a municipal service when an existing municipal service is significantly upgraded, extended or improved.

On 28 June 2011, the Council resolved (ito MSA Section 77) to review its water services delivery mechanism due to the substantial investments made in water- and wastewater infrastructure. A transaction advisor was appointed, supported by a team of technical, legal, human resources and financial experts, to investigate as contemplated in Section 78 of the MSA.

MSA Section 78 process findings

The MSA Section 78(1) investigation found the following:

- The development and expansion of internal capacity has not kept up with the expansion of infrastructure and advancements in new technology. Accordingly, staff found it difficult to operate and maintain the infrastructure and does not necessarily have the skills to operate the infrastructure optimally.

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

- There is a shortage of qualified Process Controllers at the Water- and Wastewater Treatment Works.
- Supply Chain Management frustrates the processes and operations from time to time.
- In some instance personnel are not performing their duties and disciplinary actions are not producing the required results.
- Large amounts were spent on overtime, further complicated by lack of skills to operate efficiently.
- There is a concern that assets and resources are not used optimally including human resources, chemicals and electricity.
- There is limited pro-active maintenance, and
- There is a concern that the municipal bulk water assets are not adequately operated, maintained and preserved.

Overall, the investigation found that the Municipality has day-to-day operational challenges but has the capacity to continue rendering water services by way of an internal mechanism. However, it identified that a key challenge is acquiring and retaining the skills and expertise to operate the bulk services sustainably over the longer term, which leads to the deterioration of the municipality's water and wastewater assets.

The investigation concluded that an internal Water Services Provider support contract will best address the specific needs of the Municipality.

MSA Section 78 process outcome

The Municipal Council resolved in January 2014, ito s78(2), that the internal mechanism of service delivery be retained, but that a suitably qualified and experienced operator be contracted to operate and maintain the bulk infrastructure.

6.3 The Procurement Process

The Procurement Process consisted of two stages namely a Request for Qualification (RfQ) and a Request for Proposals (RfP).

The RfQ was issued in August 2014 and eight submissions were received. Four submissions were shortlisted for the RfP process.

In January 2015, the following three proposals were received.

Bidder	Price per year (excl VAT)
Veolia	R22,0m
WSSA	R26,3m
Bosch Munitech	R54,8m

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

After recommendations from the Bid Evaluation- and Bid Adjudication Committees, the Municipal Manager awarded the contract to Veolia in July 2015. (The amounts in the table above excluded the salary component in the contract related to the ex-municipal staff, which was the same amount for all the bidders).

6.4 Municipal Finance Management Act (MFMA) Section 33 Process

Section 33 of the MFMA requires that contracts exceeding three years have to be approved by Council in its final form, after considering:

- The long term financial implications of the contract,
- The impact of the proposed contract on future tariffs,
- The views of National and Provincial Treasuries and the relevant sector departments (DLG and DWS), and
- The views of the public.

Council concluded that it will secure a significant financial economic benefit from the contract and Council authorised the MM to sign the contract.

The final report served before Council and was approved on 29 July 2015.

6.5 Consultation process

Consultations with Organised Labour [MSA s78(1)]

- The views of organised labour were solicited during the MSA s.78(1) process from August to October 2011.
- A Local Labour Forum Working group was established including SAMWU, IMATU and the Municipality to deal with implementation of the Council resolution mentioned in paragraph 6.4 above.

Consultation with National and Provincial Treasuries, Department of Local Government and Department of Water and Sanitation [MFMA s33]

- They were advised of the MSA s78(2) Council decision and the municipality's proposed approach in June 2014.
- Meetings were held with National and Provincial Treasury on 3 July 2014 and 19 March 2015 respectively.
- Only the Provincial Treasury responded with a formal submission, indicating their support of the process.

Consultation with the Community [MFMA s33]

- Public Notice was placed in the local newspaper on 12 March 2015.
- Information Statement was made available.

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

- Comments period closed 13 April 2015.
- No formal submissions were received.

6.6 Labour Relations Act (LRA) Section 197 process

The LRA specifies that if a part of any business or service is transferred by one employer ('the old employer') to another employer ('the new employer') as a going concern:

- a) the new employer is automatically substituted in the place of the old employer in respect of all contracts of employment in existence immediately before the date of transfer, and
- b) all the rights and obligations between the old employer and an employee at the time of the transfer continue in force as if they had been rights and obligations between the new employer and the employee.

The business associated with the bulk works transferred as a going concern and therefor:

- All municipal staff directly involved with the bulk works transferred to the operator automatically by law.
- No agreement was required of the employees because there was no change in the terms and conditions of their employment.
- The existing terms and conditions of employment and length of employment are protected by law.
- The LRA principle of conditions of employment "in the whole no less favourable" applied.

6.7. The Contract

- The contract period started on 1 November 2015 and is 15 years with an option to extend it with 5 years.
- The main purposes are to effectively and efficiently operate and maintain the bulk water services with emphasis on driving efficiencies and provide appropriate skills and expertise.
- The Municipality remains the Water Services Authority and the Water Services Provider, with direct accountability to the community.
- The Operator is accountable to the Municipality.
- The Operator must comply with Regulations 2834 or 17 of the Water Act within 3 years.
- Affordability: a comprehensive O&M management fee is payable as determined through a competitive bidding process.

The Management Fee includes:

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

- a Fixed Fee as per the tendered Pricing Schedule, for the treatment plants, pump stations, reservoirs and bulk pipelines,
 - a Variable Fee (volume based) for the treatment plants, and
 - a Salary Contribution for the Municipal staff transferred to the Operator.
- The Operator can be appointed i.t.o. the contract as Implementing Agent for projects related to the function. This was required to cater for unplanned maintenance requests, large maintenance repair projects and emergency repairs required by the municipality.
 - Performance will be measured and remunerated or penalized with reference to predetermined KPI's, including water quality, training, downtime, blue/green drop evaluations, etc.
 - The estimated contract value at time of award was R830m (including escalation and contingencies but excluding VAT and the implications of any potential future infrastructure upgrades) over the 15 year contract period.
 - Escalation was capped at CPI for the fixed and variable fees and the SALGBC agreements for the salary contribution.
 - Transfer of Staff would take place in compliance with the Labour Relations Act.

6.8 The Appeal process

The second highest bidder in the tender process appealed the decision to award the tender. The final appeal was heard during March 2018 by the Supreme Court of Appeal. The Court instructed the Municipality to conduct a full new tender process.

As a result, a new tender process was initiated, and the following four bids were received:

Bidder	Price per year
Veolia Water Solutions & Technologies South Africa (Pty) Ltd	R45,9m
Zana Manzi – WSSA JV	R47,6m
Improchem (Pty) Ltd	R90,6m
Indigenous Management (Pty) Ltd	R121,0m

The new contract was awarded on 4 September 2018 to Veolia Water Solutions & Technologies South Africa (Pty) Ltd. (The above amounts included the salary component related to the ex-municipal staff).

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

6.9 Implementation

Since the start of the second contract the Municipality continued to upgrade and expand the bulk water and wastewater infrastructure. This was done mainly to accommodate rapid urbanisation, growth and development in the municipal area, regulatory requirements, and increased levels of vandalism and theft.

As contemplated in Clause 6 of the contract, the following operation and maintenance additions were made to the contract:

Amendment 1 - November 2019

- Stanford: Upgraded Wastewater Treatment Plant from 0.5 to 1.2 Ml/day.
- Stanford: New Reverse Osmosis Water Treatment Plant.

Amendment 2 - November 2020

- Hermanus: New separate aeration and chemical dosing treatment plant at the Preekstoel Water Treatment Plant for groundwater from the Gateway Wellfield.
- Hermanus: Two new high yielding production boreholes and two groundwater monitoring boreholes in Hermanus.
- Gansbaai: New water reservoir and associated infrastructure.
- Pringle Bay: New water reservoir and associated infrastructure.
- Masakhane: New sewerage pumpstation and associated rising main pipeline and infrastructure.
- Blompark: New sewerage pumpstation and associated rising main pipeline and infrastructure.

Amendment 3 - January 2023

- Masakhane: New water pumpstation.
- Hermanus: New Archimedes Screw inlet pumpstation and screening sump at Hermanus Wastewater Treatment Works.
- Three new standby diesel generators.
- Kleinmond, Franskraal and Buffelsrivier: Introduction of 2nd shifts at the Water Treatment Works due to growing water demands and regulatory requirements.

Amendment 4 - July 2024

- Eleven new standby diesel generators.
- Masakhane: New water booster pumpstation.
- Higher technology security measures at various installations including cameras, alarms, armed responses and tactical teams;

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

- Additional telemetry systems at various water and wastewater installations to improve monitoring and reaction time;
- An additional artisan and vehicle for the maintenance teams due to the growing portfolio of aging assets;
- An additional process controller for remote treatment plants due to changed regulatory requirements.

6.10 Expenditure to date

The expenditure on the contract from December 2018 to June 2024 is as follows:

Year	Contract	
2018/19	R 23 807 129	7 months
2019/20	R 45 202 604	
2020/21	R 50 780 639	
2021/22	R 55 552 846	
2022/23	R 64 875 889	
2023/24	R 82 551 596	

The total operational expenditure on the Water and Wastewater function for 2023/24 was R324.5m. The R82.6m spent on the Bulk Water Services contract accounted for 25.5% of total expenditure.

In addition, the following was expended on unplanned maintenance requests, large maintenance repair projects and emergency repairs requested by the municipality:

Year	Unplanned, large and emergency repairs	Loadshedding	
2018/19	R 2 689 378	R 191 833	7 months
2019/20	R 5 235 785	R 925 371	
2020/21	R 4 244 706	R 741 921	
2021/22	R 7 258 444	R 2 068 804	
2022/23	R 8 012 148	R 16 149 777	
2023/24	R 8 110 162	R 13 556 020	

Expenditure related to Eskom loadshedding is indicated separately in the table above to illustrate the impact of the severe loadshedding during the 2022/23 and 2023/24 financial years.

6.11 Market relatedness of the contract

In the procurement of the tender, a competitive process was followed twice. In the first tender process (2015), Veolia's offer was 19,5% lower than the second bidder. In the second tender process (2018), Veolia's offer was 3,7% lower than the second bidder.

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

The market relatedness of amendments are ensured through application of Clause 6 of the contract, where the approved rates in the contract, as escalated i.t.o. the contract over time, are applied as far as possible. If not comparable to existing approved rates, the guidelines from SALGA and the Water Research Commission have been used to negotiate realistic and fair rates. The municipality also has the right in terms of the contract to benchmark the operator's proposed rates with market rates.

All amendments of the contract have been subject to public participation before approval, including soliciting comments and inputs from Provincial and National Treasury and the Department of Water & Sanitation, based on a comprehensive information statement explaining the details and financial implications over time. At no stage have alarms been raised by any party about the proposed amendments.

External factors out of the control of the municipality which contributed to higher costs during the contract period to date included:

- the Covid-19 pandemic, which affected global supply chains negatively, resulting in scarcity of specific products and high escalation in e.g. the cost of treatment chemicals, equipment and fuel,
- intensified frequency and intensity of Eskom load shedding, resulting in major additional unplanned costs to keep infrastructure operational during and after power outages, including more equipment failures, suction tankers, rental generators and security, and refuelling costs including diesel, staff, overtime and vehicles related to the increased number of standby generators,
- the major damage to bulk infrastructure as well as long term changes in raw surface water quality caused by the September 2023 floods,
- increased levels of vandalism and theft over time, and
- rapid urbanisation resulting in the higher demand for water and wastewater services.

Future growth in cost will most probably be influenced by:

- increased usage of groundwater in Hermanus after completion of the augmentation of the Hemel-en-Aarde wellfields in 2024/25. Groundwater treatment costs are substantially higher than the cost of treating water from the De Bos dam. The municipality is restricted from using more water from the De Bos dam by a limited allocation from the Department of Water and Sanitation, and
- future seawater desalination (albeit not necessarily under this contract, depending on availability of capital grants and the contract model selected eventually).

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

6.12 Conclusion

Since the appointment of the Operator, the Municipality's bulk water services are operated and maintained more effectively and efficiently than before. Some of the advantages are:

- the bulk water infrastructure is maintained in a better condition, and in some cases even improved,
- the productivity of the treatment plants has improved due to optimisation of chemical and electricity usage,
- delays caused by the municipal supply chain processes have been eliminated,
- Twenty additional permanent jobs were created in the Overstrand by the Operator,
- Training and development of staff is done continuously by the Operator, including NQF2 and NQF3 training for process controllers,
- Staff disciplinary process are managed more effectively by the Operator,
- The operator offers several internships and practical training opportunities to students,
- Monitoring, risk management and emergency response have improved, e.g. limiting sewerage pumpstation malfunction and spillages. Dedicated maintenance teams were appointed for scheduled preventative maintenance at these facilities.
- The resilience of the service has improved due to the operator's access to international supply chains and their ability to respond quickly to faults, breakages and emergencies.
- The Operator invested in several Social Responsibility initiatives in the Overstrand Municipal area. They have a R500 000 project currently in progress for the development of small local companies. The Operator makes use of emerging and small subcontractors for portions of the contract.

As a direct result of the above, the Municipality achieved the following results at the latest **Blue Drop Assessment** by the Department of Water and Sanitation:

- the **top position nationally** in the last Blue Drop assessment of drinking water management (with a score of 99.99%).
- Six of the eight Overstrand water schemes shared the top position for "best water supply system" in the country out of 958 water schemes assessed for Blue Drop, all with scores of 99.99%.
- Another Overstrand water scheme was in 2nd position nationally at 99.7%.
- Overstrand also achieved the best risk position for a water scheme nationally in the Blue Drop assessment.

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

- The National Department of Water and Sanitation stated the following in the 2023 national Blue Drop report:

*“The regulator would like to applaud Overstrand LM for their commitment to a high standard of service delivery by taking the initiative in appointing Veolia for the operation of their treatment plants. During the assessment it was clear that the relationship between Veolia and Overstrand is built on trust and mutual respect, with continuous communication between the entities being key. With very low risk ratings and excellent compliance for both microbiological and chemical acute health across all their systems, **the value added by this appointment is plain to see**”.*

The Municipality also achieved the top position nationally in the latest No Drop assessment of water conservation and demand management, with a score of 101%.

The Municipality was placed in joint third position nationally in the last Green Drop assessment of wastewater management, with a score of 89%.

In a recent publication of the Water Institute of Southern Africa the following was stated:

“Overstrand LM has set a benchmark in water services that other municipalities can aspire to. Their approach not only ensures high-quality water for their community but also positions them as a model for effective water service delivery in South Africa”

Based on the above it can be concluded that the decision by Council to outsource the operation and maintenance of its bulk water services infrastructure resulted in significant improvements in water service delivery and benefits for the municipality and all its residents.

7. Financial Implications

None

8. Staff Implications

None

**AGENDA of the
Portfolio Committee : Infrastructure Services
2 October 2024
(Also the agenda for the Mayoral Committee Meeting : 16 October 2024)**

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

None

RECOMMENDATION:

that the report **be noted**.

RESPONSIBLE OFFICIAL :

S MULLER

TARGET DATE FOR IMPLEMENTATION :

N/A

