

19 May 2021

**Executive Mayor, Mr Xola Pakati**

Buffalo City Metropolitan Municipality

[ldp.budget@buffalocity.gov.za](mailto:ldp.budget@buffalocity.gov.za)

Dear EM Pakati

**RE: BUFFALO CITY METROPOLITAN MUNICIPALITY: COMMENTS ON THE 2021/22 DRAFT INTEGRATED DEVELOPMENT PLAN**

We thank you for the opportunity to comment on the Draft IDP and Budget on behalf of the members of the Border-Kei Chamber of Business.

Businesses within the city have always been a willing partner in the development of Buffalo City and have contributed many hours of in-kind service, proposals, put forward ideas and suggestions in the pursuit of reducing unemployment, growing our city and creating a more attractive working environment for all the city's residents.

## 1. INTRODUCTION

The Border-Kei Chamber of Business (BKCOB) was founded in 1877, and is the recognised "Voice of Business" in the region, working to create an enabling environment for economic activity and is a platform for business to flourish.

Headquartered in East London/Buffalo City with offices in Komani, the BKCOB is a not-for-profit, a-political, a-religious, membership-based organisation which counts over 580 businesses as members in good standing,

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representing R182 Billion in investment, 62 000 employees, R172 Billion turnover and R19 Billion in annual wages and salaries.

The latest report from the Auditor General (for the 2019/2020 financial year) has made many adverse findings regarding BCMM financials, which, without corrective action will eventually end in a poor investment image for the city and an increase in disinvestment. An unrelenting willingness to turn fortunes around is required from both the public and private sectors to stabilise our economy.

## 2. PREVAILING ECONOMIC CLIMATE AND GENERAL COMMENTS

The global economy has been severely impacted by the COVID-19 pandemic. South Africa has not been spared the negative health and financial effects of this pandemic. Many businesses have retrenched staff or closed down. This has resulted in a reduced product demand and supply of goods and services, further impacting our economy. Whilst there has been some marginal improvement in the economic climate, the effects of poor performance, caused by external events beyond business' control, linger on and will last beyond 2022, when a worldwide recovery has been forecasted.

South Africa's national response has been in many respects exemplary, from freezing salaries, to deferring salary increases and promotions and containing expenditure. Personal and income tax rates have also been frozen to facilitate the survival of private households who have experienced a reduction in disposable income. With this in mind, it would have been expected of Buffalo City to follow suit and defer increases in staff salaries for at least a year and to keep increases of municipal service to a bare minimum, so as not to exacerbate the already precarious position of businesses and ratepayers.

It is understood that the city cannot freeze all costs, as it has no control over the cost of the supply of electricity and in some cases, water. However, unjustifiable increases in rates and service costs, over and above those

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charged by suppliers, place further strain on our local economy and should be contained.

A more detailed analysis is provided in the commentary that follows and is premised on data available from STATS SA which forecasts headline inflation as follows:

- 2021: 3,88 %
- 2022: 4,30%

### 3. COLLECTIONS WRITE-OFFS AND BAD DEBTS

As per the draft IDP, bad debts and write-offs are projected to increase to 10.90% or R 978 Million in 2022. This could be as a result of over and under-billing queries remaining unresolved. As the BKCOB, our members have reported R3 Million in queries as at the 30th April 2021. The current collection rate is 62,95% (ref Par 2.3.1.4). We propose therefore that internal processes be streamlined i.e. upgrading the current debt management system as well as the upskilling and development of existing debt collection staff, in order to recoup revenue. This will result in a much higher revenue collection as opposed to the targeted 86% as stipulated in the draft IDP.

### 4. MTREF – REVENUE BY REVENUE SOURCE (TABLE 2)

Table 2 of the draft IDP, identifies alarming trends within the city's revenue streams. A decrease of over 30% in interest earned from external investments from the previous financial year, and indicates a continuing trend of depletion of capital reserves. BCMM is earning R80 Million less per annum since the 2017/18 financial year. For the same period, property rates have increased by more than R700 Million. This is indeed cause for concern as ratepayers, in this tough economic climate, can no-longer afford to be penalised by the city's lack of effective

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financial management. In addition, further land parcels should be opened for development so as to increase the city's rates base.

## 5. MTREF – WATER CHARGES (TABLE 7)

The 9.10% in water tariffs as a result of the 15.96% increase in the cost of bulk water by Amatola Water has reference. It should be noted that Amatola Water is not the sole supplier of water to the municipality. The municipal dams and treatment works account for much of the municipal supply to the city. Household expenditure is already under a lot of strain due to job losses, reduced working hours, etc., and increases above inflation will put a further strain on disposable income, which will have a ripple effect on an already strained economy.

As the BKCOB, we strongly object to any above-inflation increases, especially in this current economic climate and rather propose that alternative revenue streams be found to ensure the financial sustainability of this valuable resource. Since it is the City's constitutional obligation to supply water to its citizens, in the most cost effective and affordable manner, some of the interventions we propose, are the following:

Smart Metres or an alternative mechanism be found that will cut off water supply to Indigent communities, when they have reached their 6kl water allowance for the month and a prepaid system for water be implemented that will allow them to buy water should they reach or exceed their monthly 6kl allowance. This intervention will cause indigent communities to place a much higher value on this scarce resource.

Water-loss education or awareness campaigns should be rolled out to the general public at large. This could be implemented immediately.

All the proposed water saving projects/ interventions, as mentioned under 1.4.2 in the draft IDP, be expedited as a matter of urgency.

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## 6. MTREF – ELECTRICITY CHARGES AND LOSSES (Heading 1.4.3 - TABLE 8)

It has become imperative, now more than ever before, to find alternative and more cost effective energy solutions, so as not to rely on imposed increases by ESKOM.

The budgeted purchases of electricity are R2,010 Million versus a budgeted revenue from sales of R2,367 Million of which the city expects not to be able to collect approximately R300 Million (table SA8 - 22,2% of units purchased) leaving a very marginal surplus of R67 Million to cover operations and maintenance. This may result in the income from property rates being used to subsidise electricity users from indigent, poorer communities or to foot the bill for illegal connections or bad debts/ write offs.

As the BKCOB, we are pleased to see that the city is not adding any further percentages onto the 14.59% increase imposed by NERSA effective the 1st of July 2021. However, any shortfalls as a result of this, cannot and should not be recouped from property rates or from businesses who are already under strain.

We further propose the following:

- Smart metres be expedited to curb electricity losses and indigent communities be allowed to purchase electricity once they have reached the 50kWh monthly allowance.
- More effective controls or interventions created that would prevent illegal connections.
- Alternative sources of energy be investigated to reduce the over reliance on ESKOM.
- Internal processes and training of staff be streamlined to ensure accurate billing, revenue collection and to reduce the backlog of queries.

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## 7. MTREF – SANITATION AND REFUSE REMOVAL (TABLE 9; TABLE 10 & TABLE 17)

Once again, the proposed increase of Sanitation and Refuse Removal, is above inflation. As the BKCOB, we are aware that the city needs to ensure its own financial sustainability and will therefore need to increase rates and manage its various revenue streams. However, 100% increases above the inflation rate, in this tough economic climate is not justifiable. We propose, as rightly indicated in the draft IDP, that the City focuses on ensuring that all billable revenue is correctly charged, adequately collected and managed.

In addition, the general cleanliness and appearance of our city bears testament to the fact that the Refuse Removal department has to a large extent been inefficient. 100% above inflation increases in this department are therefore hardly justifiable. We also note with concern that the proposed budget for Waste management is only R12 596 755, despite a lot more being collected through the monthly refuse tariffs imposed on households. We also propose that Staff costs and fleet management of this department be managed more efficiently or outsourced, so as to contain increases to the bare minimum. An effective and modern Integrated Waste Management Plan also needs to be developed and implemented.

## 8. MTREF – DEBT IMPAIRMENT (TABLE A4)

Provisions for debt impairment have increased since 2017-2018 from R 321 Million to R 813 Million for the budget year 2021-2022, representing an increase of over 250% in the space of 5 years. The ripple effect of these increases over the years, is that ratepayers and businesses to a large extent have had to foot the bill for ineffective collection and poor revenue management. Whilst the municipality has no control of external factors such as the effects of Covid-19 on household income or lack thereof, smarter and more effective ways of increasing the collection rate, must be sourced or discussed. Effective budget management of over-resourced budgets to more under-resourced areas could also assist in this regard, so that departments do not have to return monies not spent in a particular financial year.

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## 9. MTREF – CAPITAL EXPENDITURE OWN FUNDING (TABLE 16 and Par 1.6)

Projects currently funded from own funding should promote revenue generation or long-term economic development. Once there is sufficient investment critical mass, the income from the additional revenue can be directed towards non-revenue generating projects.

There has been a long history of grant funding being returned to funding agencies, due to an inability of project implementation and poor planning. This results in the capital amounts being removed from the BCMM economic cycle. This is unacceptable and not in the interest of the city, where a much-needed overhaul in various departments is needed.

## 10. CONCLUSION

**As the BKCOB, we strongly object to any above-inflation increases, especially in this current economic climate.**

In addition, we propose the following:

- Improved execution of anti-fraud and corruption strategies, frameworks, policies and procedures as well as whistle blowing.
- Where staff requires upskilling or to be reskilled, business can assist in doing so.
- The following are focus areas where business can play an active role through Public Private Partnerships.

This will facilitate a more efficient city in the following areas:

- supply chain management
- waste management
- water and waste water infrastructure services
- roads and transport
- energy and energy management

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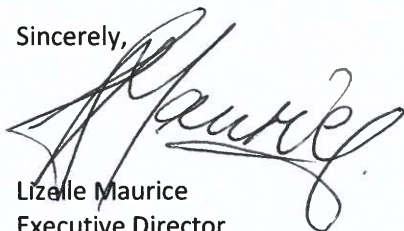
- IT and IT services
- marketing
- amenities for sport tourism and tourism

We acknowledge that, in these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality which is critical in terms of achieving the City's service delivery and economic objectives. The reality however, is that the City is faced with development backlogs that emanate from the historical background. Furthermore, economic circumstances, such as the increasing rates of unemployment and poverty impact the ability of households to pay their accounts.

We also acknowledge that cost containment measures are being implemented by the City in an effort to achieve operational efficiency and avoid budget deficit. The implementation of these initiatives over the MTREF period will ensure the financial sustainability of the municipality.

It must be stressed and made clear that business has no intention of supplanting or substituting BCMM in the delivery of its mandate. Business simply requires effective and efficient delivery of the said mandate in the interest of a growing city, reduction of unemployment and delivery of free basic services to those in need. We can turn current failures into future successes, but in order to do so, participation and an active role from the city and its management structures is required.

Sincerely,



Lizelle Maurice  
Executive Director  
Border-Kei Chamber of Business

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