

Maluti-a-Phofung

Maluti has consolidated the provision function previously undertaken by two water boards in previous homeland areas and towns into a new public utility wholly owned by the municipality. It has signed a management contract with a local company associated with the Suez Group of France. The case study provides important insights into the application of the public-public-private approach, first used in Johannesburg, to a municipality with less capacity serving a relatively remote area with significant rural challenges. This case is particularly interesting given the growing trend internationally toward management contracts. The case study is based on municipal, financial, and participatory community research.

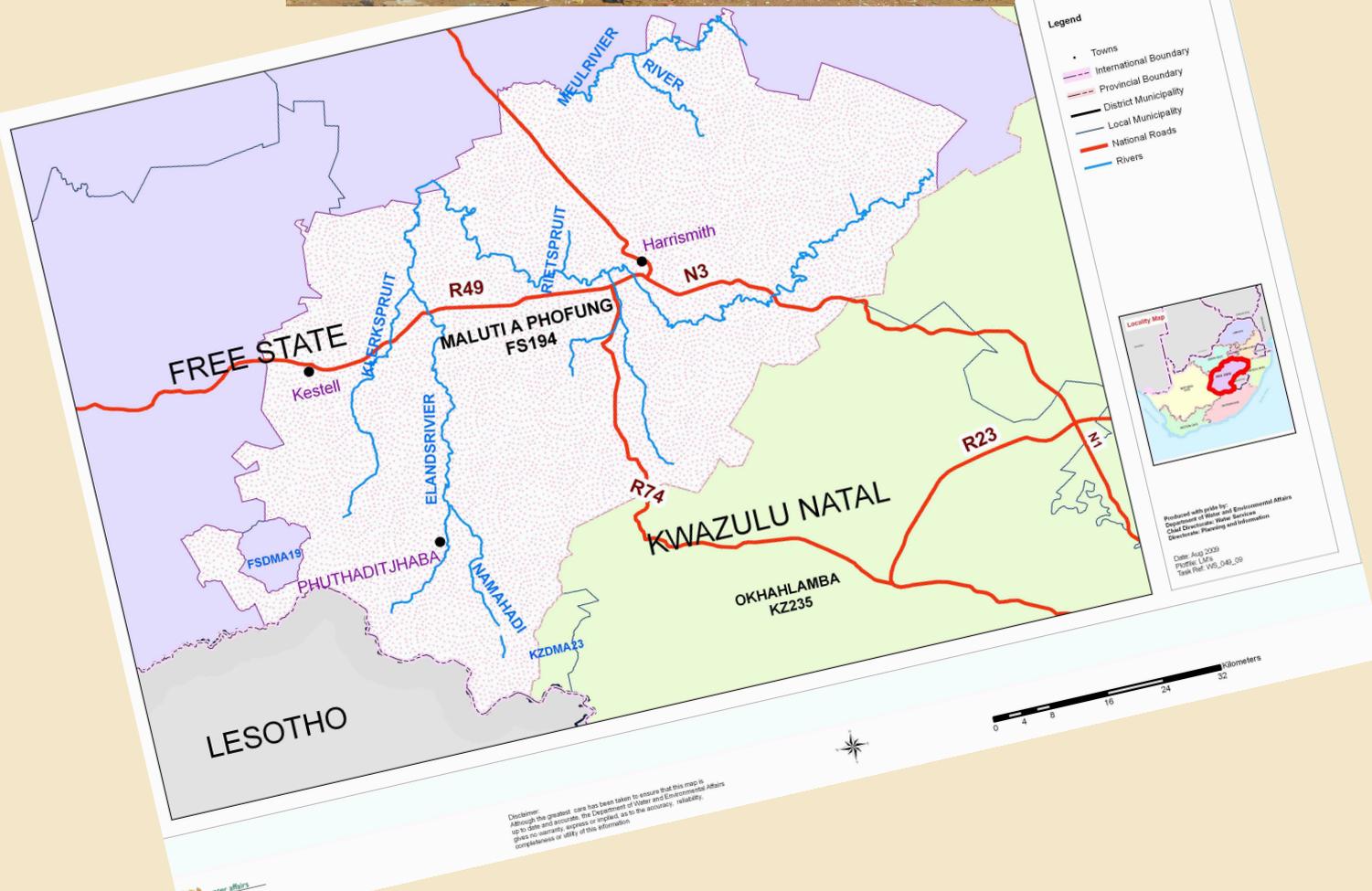
Editor: Anne Mayher and Glen Robbins

Community Researchers: Brand Nthako and Sibusiso Khanyile

Municipal Researcher: Anne Mayher

Financial Researcher: Cobus Oosthuizen





Context

Maluti-a-Phofung LM, one of five LMs within the Thabo Mofutsanyane DM, has one of the highest population densities in the Free State Province.¹ According to the 2001 census, 360,790 people live in Maluti-a-Phofung. The Harrismith area – including Intabazwe and the township Tshiame that is 18 kilometres away – accounts for about 15 percent of the total population of the area. In contrast, the residents of Kestell comprise only one percent of Maluti's population. The majority of people, 84 percent, live in the former QwaQwa. Phuthaditjaba, the urban centre of the former homeland administration of QwaQwa, is the site of the headquarters of Maluti-a-Phofung LM, as well as Thabo Mofutsanyane DM.

Maluti-a-Phofung is considered to be the most poverty-stricken LM in the Thabo Mofutsanyana District. Of the LMs in this district, Maluti has the highest population, but the lowest growth rate in terms of conventional economic growth measures. Furthermore, Maluti accounts for 54 percent of the population of Thabo Mofutsanyana, but holds only 16 percent of the land. Maluti's unemployment rate is double that of the rest of the district, and it accounts for 66 percent of the district's unemployment. QwaQwa's unemployment rate is 57 percent, Harrismith's is 49 percent, while Kestell's is 29 percent. Since 2000, when these estimates were made by the Demarcation Board, the Kestell abattoir has closed down, as well as other industries. As of the 2004/5 Water Services Development Plan, the unemployment rate in Maluti was estimated to be as high as 65 percent.²

Within the DM, the Agricultural and Government sectors are the biggest contributors to income. Nestle, N3 Abattoir, and Swiss Valley Farms Abattoir are some of the industries operating around Harrismith, while the Seotlong Abattoir is located in Witsieshoek, a small rural area within the QwaQwa region.

The area of QwaQwa is located in the Vaal River catchment and has two dams – Fika Patso and Metsi Matso. Eight percent of QwaQwa residents' water is provided by Fika Patso, with the other 20 percent provided by Metsi Matso. The other two primary water sources in Maluti are the Wilge River and Sterkfontein Dam – with Harrismith being the closest urban area to both. The Wilge River takes water from the Letabe Water Scheme in KwaZulu-Natal through Harrismith and into the Vaal Dam. The two most important rivers in Harrismith are the Wilge and Nuwejaarspruit Rivers. The Lesotho Highlands Water Project is also a critical water source as it supplies the Wilge River, which is one of the water sources within Maluti. Currently there is a project in the works to purify water from Sterkfontein Dam to serve some of the areas in Maluti.

The socio-economic disparity between former QwaQwa and Harrismith is extreme.³ QwaQwa was established in 1969 as a self-governing territory under the apartheid system. Though it was disbanded with the end of apartheid, the area is still referred to as QwaQwa. The service levels in Harrismith were much higher than those of Intabazwe. In turn, both of those areas had higher service levels than Tshiame. QwaQwa's service levels are the lowest in the region, even though 84 percent of the population of Maluti lives in QwaQwa.

As of the last Water Services Development Plan (2004/5), Maluti had the highest service backlogs of the five LMs in Thabo Mofutsanyana DM. The cost of resolving the backlog situation was also estimated to be the highest in the District.⁴

Maluti-a-Phofung was selected by the Presidency as one of 13 national priority areas, designated as needing significant socio-economic development interventions. Each identified area has a coordinator that liaises between the local government officials and the Office of the Presidency. Additional funds have also been allocated to supplement already designated funds, such as Equitable Share and the MIG.

Overview of findings

Alongside a series of interviews was scheduled with municipal officials and staff of the Uzinzo consortium, four communities were selected for in-depth participatory community research. Given that the majority of the population lives in the former QwaQwa, three communities were chosen there – Bolata, Thaba Bosiu and Riverside – and one was chosen from Harrismith – Intabazwe. Councillors from the Harrismith area were also interviewed to gather more information about Tshiame, Intabazwe and Harrismith.

The following section seeks to identify issues that were deemed by the research team to best reflect the institutional and operational challenges related to water and sanitation delivery in Maluti-a-Phofung.

Finding 1: Since 1994, the area that is today the Maluti-a-Phofung LM has experienced considerable institutional changes relating to water and sanitation service provision. This has resulted in a history of fragmented and uneven delivery, which has been difficult to overcome.

The following table presents the changes over time that have characterised the development of water and sanitation services in the area.

Figure 1: Timeline of institutional and governance history

	Legislation/Policy	waQwa (and later Kestell)	Harrismith, Tshame and Intabazwe
1994	Transitional post-apartheid local government arrangements are established.	DWAF begins process of taking over homeland scheme.	Harrismith Transitional Local Council takes over local schemes in surrounding areas (Tshame and Intabazwe).
1996	Interim local government arrangements are established (first democratic local government elections)		
1997	Water Services Act is passed, requiring all areas to formally name a WSA and WSP.		
1998		Sedibeng Water Board is contracted by DWAF as the WSP.	
1999			Harrismith begins exploring getting outside assistance.
2000	Municipal Systems and Structures Act. Maluti-a-Phofung LM is established within Thabo Mofutsanyane District.		Rand Water and Maluti-a-Phofung LM begin contract negotiations. Contract is signed between Rand Water Board and Maluti-a-Phofung LM.
2001		Sedibeng contract renewed by DWAF (in agreement with Maluti-a-Phofung LM), includes Kestell.	
2003	Section 78 process is triggered by upcoming contract expirations (of Sedibeng and Amanziwethu).	Sedibeng continues operating on short-term contract basis.	Amanziwethu continues operating on short-term contract basis.
2005		Sedibeng continues operating on short-term contract basis.	Amanziwethu continues operating on short-term contract basis.
2006	Maluti-a-Phofung Water (Pty) Ltd is established. Uzinzo is contracted on management contract.	Maluti-a-Phofung Water assumes WSP role.	Maluti-a-Phofung Water assumes WSP role.

The various entities that have delivered water and sanitation services to Maluti-a-Phofung LM were structured in different ways and had different operating strategies. Some aspects of these are presented in the table below:

Figure 2: Summary of previous and current water service providers

Indicator	Amanziwethu	Sedibeng	Maluti-a-Phofung Water
Area of coverage	Harrismith, Tshiame, Intabazwe	QwaQwa, and later, Kestell (after 2000)	Harrismith, Tshiame, Intabazwe, Kestell
Dates	2000–2006	1998–2006	2006–present
Contracted by:	Rand Water initially contracted by the former Harrismith Council and subsequently by Maluti-a-Phofung LM	Initially by DWAF and subsequently by Maluti-a-Phofung LM	Maluti-a-Phofung LM (WSA)
Institutional form	Business unit within LM; partnership between Rand Water and Harrismith Council	Contract between DWAF and Sedibeng; Sedibeng served as WSP, but no new entity was created. Municipal coordination with entity through DWAF	External corporation with Maluti LM as sole shareholder. Strategic Support Agreement (i.e. management contract) between Maluti LM and Uzinzo (WSSA + Amanz’abantu) for six years
Service model	Partially corporatised business unit within LM. Rand Water seconded some managers, while Harrismith seconded some staff	Service provider contract	Corporate entity, owned by LM. Private sector company (WSSA) provides management support.
Main activities of entity (i.e. finance and operations management, technical services, billing, maintenance, capital works)	Finance and operations management, technical services, billing, maintenance	Finance and operations management, technical services, capital projects, billing, maintenance	Finance and operations management, technical services, maintenance
Number of users/connections (Note: this data is from different sources using different measuring metrics)	8,909 residential connections 600 communal standpipes 0 water tanker access 0 unserved	39,328 residential connections 36,030 communal standpipe 1,350 water tanker service 3,292 unserved	85,934 residential connections 2,620 communal standpipes 0 water tanker service 16,500 unserved
Interaction with LM	Monthly meetings via Coordinating Committee with representatives from Maluti LM, Amanziwethu, Sedibeng, and the Independent Monitor	Monthly meetings via Coordinating Committee with representatives from Maluti LM, Amanziwethu, Sedibeng, and the Independent Monitor	Interactions at managerial level and on the Board of Maluti-a-Phofung Water

Institutional Roles and Performance

Municipality	WSA	MaP Water (Pty) Ltd	Uzinzo
<p>Roles: Section 78 process Policy direction WSA approvals and oversight Billing Operating and capital allocations Capital project implementation (bulk)</p>	<p>Roles: WSS planning (WSDP) WSS coordination WSS standards WSP contracting WSP oversight WSP M & E</p>	<p>Roles: Implementation and management of WSDP Programme including budgeting, administration, HR, strategic and technical capabilities Reticulation scheme Design, implementation & maintenance</p>	<p>Roles: Entity establishment & consolidation (systems, procedures, technology, knowledge transfer) Expert support Capacity building</p>
<p>Performance comment: Questions raised about quality of capital works, value for money and billing. Level of support to WSA function needs attention. Rigour of future section 78 processes needs attention. Funding shortfalls Lack of community consultation</p>	<p>Performance comment: First WSDP prepared (04/05) WSDP being updated Performance oversight of MaP Water and Uzinzo focused too narrowly Lack of community consultation Lack of innovative policy and innovation</p>	<p>Performance comment: Entity less than 24 months old with immediate focus on institutional consolidation Cost gains generated from reduced operator fee to municipality (efficiency gain) Retention of skills a problem Weak community interaction</p>	<p>Performance comment: Staff turnover a challenge Incentive system not functioning due to lack of billing effectiveness from Municipality Retention of skills a problem</p>

Finding 2: The Section 78 process which led to the creation of Maluti-a-Phofung Water Pty (Ltd) is seen by some observers as having been flawed.

In 2003, as the Sedibeng and Amanziwethu water service contracts were approaching expiration, a Section 78 process was undertaken to look at the best possible service mechanism. A key consideration for the LM was that they wanted to establish one service mechanism to harmonise service levels across Maluti-a-Phofung LM. Reasons for integrating the mechanisms into one service included the following:

- To standardise levels of water and sanitation services across Maluti-a-Phofung LM. This would involve addressing backlogs and differences in service pertaining to former QwaQwa and Harrismith;
- To improve financial sustainability by standardising revenue collection and the application of tariffs;
- To allow for some freedom in dealing with staff salaries by creating a separate entity. Previously, Sedibeng had paid much higher salaries than Amanziwethu. The LM has strict rules on salary grades, so according to interviewed sources, the separate entity would allow more flexibility in bringing all staff on to the same pay grade, as well as attracting qualified staff; and
- To ensure that revenue collected for water services feeds back into water service operations – rather than cross-subsidising other services – through financial “ring-fencing”.

The following advantages of utilising an internal mechanism were identified by the consulting team appointed to undertake the Section 78 investigation:

- improved flexibility in its approach to the provision of the service;
- a larger base of employees working directly under the control of the LM;
- the possibility of sharing resources between departments; and
- a softer approach to credit control and action taken against defaulters.

The consulting team identified the following disadvantages of an internal mechanism:

- The softer approach in respect of applying credit control actions could negatively impact on the financial sustainability of the service;
- There would be little incentive for staff to perform at best possible level;
- Detailed financial controls will slow down reaction time and reduce service levels;
- Extra responsibility would be placed on already hard worked senior officials;
- Efficiencies of in-house provider are generally lower than a focused ring-fenced provider.

The Section 78 team ultimately determined that the internal mechanism option was not optimal in the case of Maluti-a-Phofung LM. The main rationale given for this was that the LM did not have the internal capacity to provide the service. It was stated in the Section 78 report that: “The present capacity in both the infrastructure and finance directorates are already strained with existing workloads and it is unlikely that either directorate could, under present circumstances, assume the additional responsibilities that the provision of this service would bring.”⁵ This lack of sufficient capacity was echoed during the WD-SA research interviews of the independent monitor and Section 78 report writer, as well as municipal officials.

The specific recommendation made was that the best institutional mechanism to integrate services, including staff from the previous entities, would be to set up a municipal owned entity that would operate as a WSP under the control and direction of the LM. Such an arms-length entity would also allow for greater ring-fencing of assets and costs that would assist in making the provision of services more closely aligned with budget allocations. Additional reasons given in interviews for the creation of an external mechanism for water services were the following:

- The LM did not have the capacity to bring the two different water service operations together into one operation;
- Harmonisation of staff salary grades under the LM would mean that staff with higher levels than allowed under municipal policy would be transferred at a lower salary grade. Establishment of a separate entity would allow more freedom in assigning salary grades to transferred staff;
- A separate entity would have more freedom to attract qualified managers by offering higher salaries than the LM might be able to offer;
- Bureaucratic procedures that slow down operations could be avoided by having an arms-length entity;
- Support was provided by Development Bank of Southern Africa and Municipal Infrastructure Investment Unit for the setting up of such an entity.

Also as part of the Section 78 report, it was determined that having a strategic partner to provide management and operational support would be essential to establish the new entity and ensuring that it ran properly.

Some interviewees stated that communities were consulted as part of the Section 78 process. However, community representatives who were asked about the setting up of Maluti-a-Phofung Water reported that they were not consulted. Some did say they were *informed* that Maluti-a-Phofung Water would be established and they discussed it, but it appeared that the decision to establish the entity had already been made before this information was relayed and discussed by the communities. As the Section 78 internal assessment does not involve residents who are not municipal officials, a pre-decision consultation was not required by the municipal legislation. In the interviews no one stated that the internal mechanism possibility was adequately explored. Rather, it was assumed that a separate entity would be preferable. The shortcoming here is that rather than exploring how to address the concerns behind the internal option, the assumption was made that a separate entity run with the assistance of an outside provider would resolve the problems. It is not clear that the advantages of an internal option were seriously outweighed by the advantages of the external option.

Finding 3: Delivery performance has been uneven but has shown a recent trend of improvement as the LM has sought to integrate operations and has been able to draw on the expertise of the Uzinzo consortium. Some communities indicate that they have not experienced these improvements.

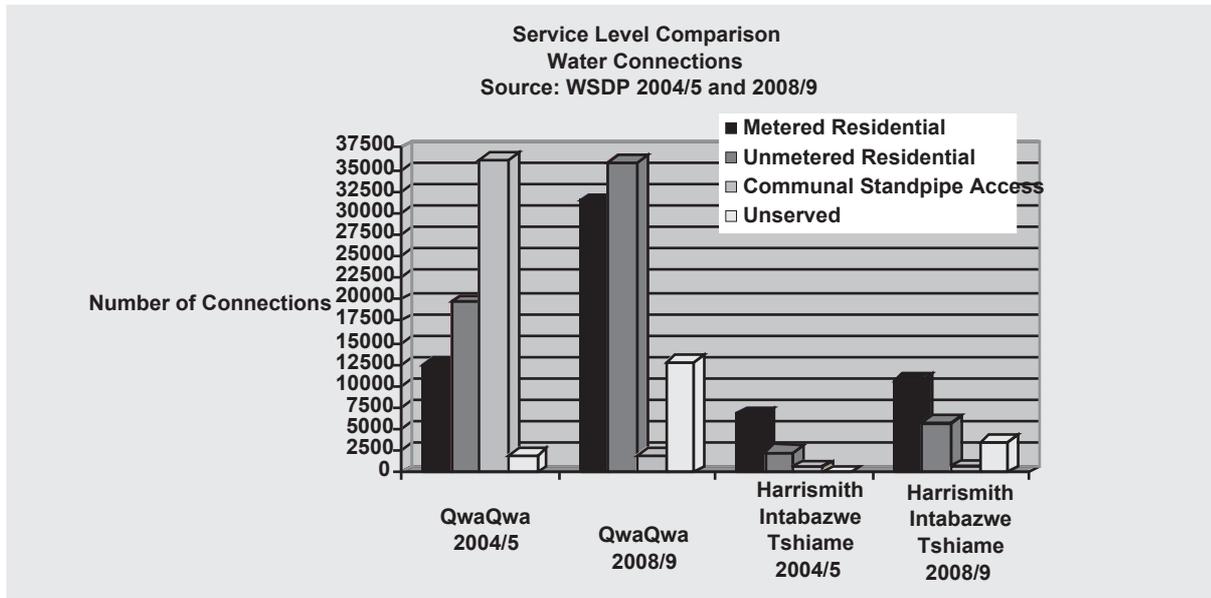
Publicly available figures on delivery demonstrate that there has been significant progress in delivery terms since 1994. However, in spatial terms, indicators are that the delivery has been relatively uneven and in some areas the quality of service would have probably not consistently have met DWAF-specified standards.

Water backlog by population

WSA	Total water backlog – April 1994	Total water backlog – Oct 2001	Total water backlog – April 2007
Maluti-a-Phofung LM – FS194	140,284	75,852	30,970

Source: www.dwaf.gov.za

Beyond backlogs, the following graph presents information about the nature of services provided in order to extend services. The graphs demonstrate that there has been a focus on former QwaQwa areas to provide residential connections. While many of these were initially un-metered, the intention is to extend metering for all users with household connections.



Despite these figures demonstrating improved services, concern remains about the consistent quality of services, response times, affordable service offerings above the basic and sanitation problems that have lagged in receiving attention.

Finding 4: Community criticism of the level of access to and quality of water and sanitation services is widespread.

Key concerns raised in the community workshops were the following:

- Residents in all areas raised concerns about the frequency of water outages and the lack of adequate warning associated with such failures. Where problems were unexpected, the concern was raised that residents could not easily establish what the problem was and when it would be attended to;
- Residents living in areas outside the main urban areas of the former QwaQwa complained of inadequate access to water and of the cost of connecting (legally or self-connections) to main supply pipes that might be some distance from homesteads;
- Residents in the former QwaQwa were not happy with the introduction of metered consumption, and raised a concern that billing could not be trusted. This was echoed by residents in Intabazwe formal settlement;
- Occupants of informal dwellings adjacent to Intabazwe were unhappy with the number of standpipes and the maintenance of these;
- All areas reflected a lack of clear delivery strategy by the present and past providers of sanitation services. The standards of sanitation provision seemed to be variable and there was a lack of attention to the servicing of such sanitation facilities;
- Users also raised concerns about the expected future delivery obligations of the WSP. They indicated that little was communicated about how services might be upgraded and what the expectations of users might be in such a process;
- Despite commitments to FBW, there was not a widespread understanding of the approach of the LM, and concerns were raised about the use of restrictors;
- General concerns were raised about roles and responsibilities, as well as concerns about failures in communication and consultation.

With the rolling out of additional metering and the related billing function, communities expressed considerable distress around the possibility of having to face high charges for water in future.

Finding 5: Maluti-a-Phofung Water Pty (Ltd) has faced some challenges but the municipal and service provider stakeholders are working to resolve technical issues. However, the depth and effectiveness of public engagement on this remains a concern.

It is important to note that the research conducted took place only 18 months after Maluti-a-Phofung Water Pty (Ltd) began to function as an entity. However, despite this limitation, there are some issues identified that would benefit from attention by the various institutional stakeholders involved in the provision of water and sanitation services in Maluti. It is critical that the LM, the WSA, Maluti-a-Phofung Water Board, the Uzinzo consortium and the management contract company find effective ways of collaborating to find solutions to these challenges and other issues. Whilst individual actions by one or other of the entities will assist in resolving some matters, the bulk of the issues do need a maturing of the governance relationship between the entities. Initial indications are that, despite some concern about slow progress early on, there has been a greater degree of focus and commitment by all parties. However, the degree to which such processes are opened up for input and engagement with broader community stakeholders remains somewhat unclear.

Issues such as the approach to rolling out metering and billing, options for service levels above the basic level that remain affordable and improved communication systems, all need some attention. Furthermore, effort needs to be made in generating improved confidence between the LM and the Uzinzo consortium with respect to capital programmes and the administration of the billing system which impact very directly on Maluti-a-Phofung Water (and therefore on Uzinzo and the LM) being able to meet their service delivery commitments. ■