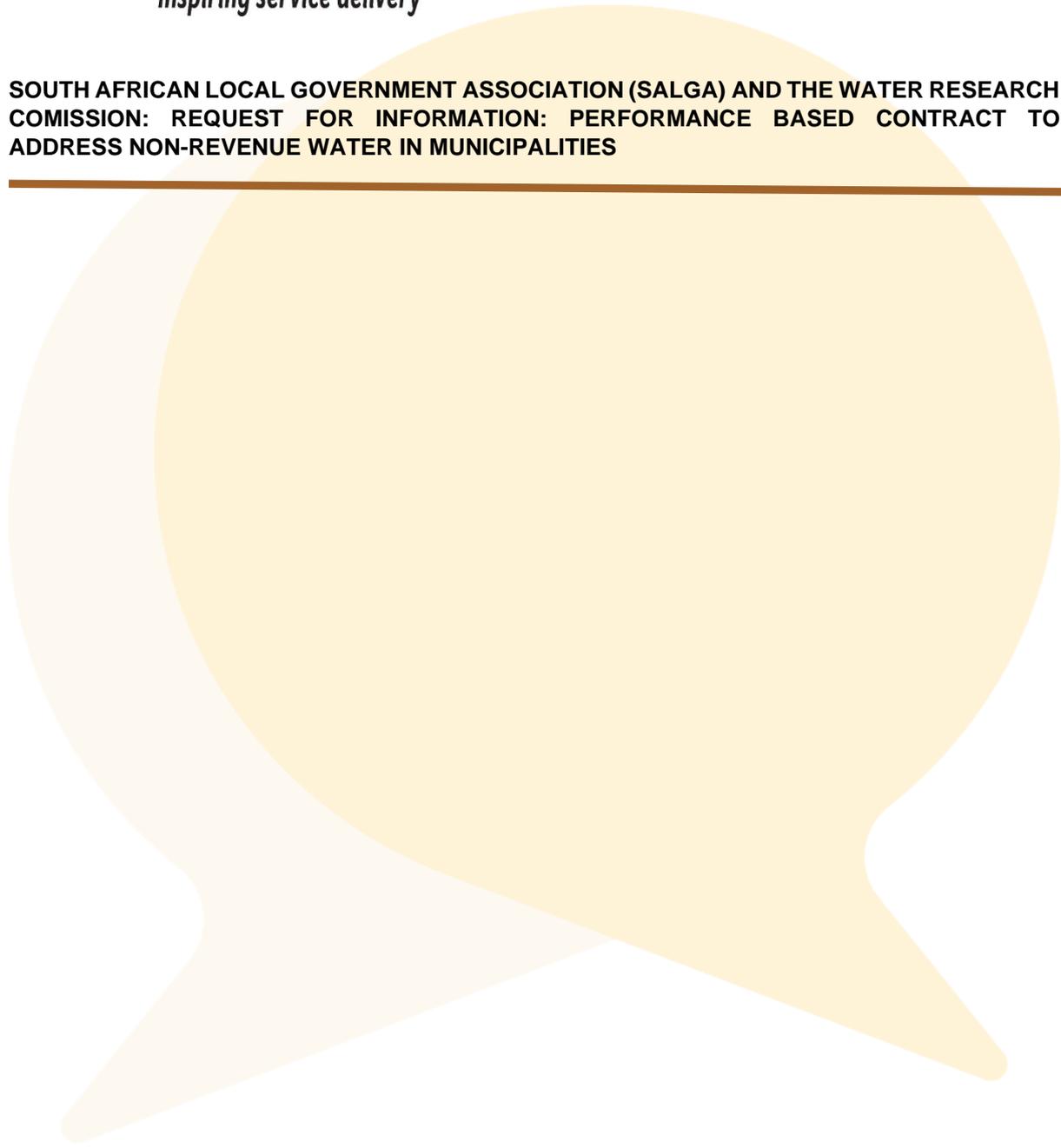




SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION (SALGA) AND THE WATER RESEARCH COMMISSION: REQUEST FOR INFORMATION: PERFORMANCE BASED CONTRACT TO ADDRESS NON-REVENUE WATER IN MUNICIPALITIES



1. INTRODUCTION

The South African Local Government Association (SALGA) is a public entity established by the Organised Local Government Act (Act 52 of 1997) to assist in the comprehensive transformation of local government in South Africa. SALGA is managed within the framework of the Public Finance Management Act (Act 1 of 1999) and is listed as a schedule 3A public entity. Its main objectives are to:

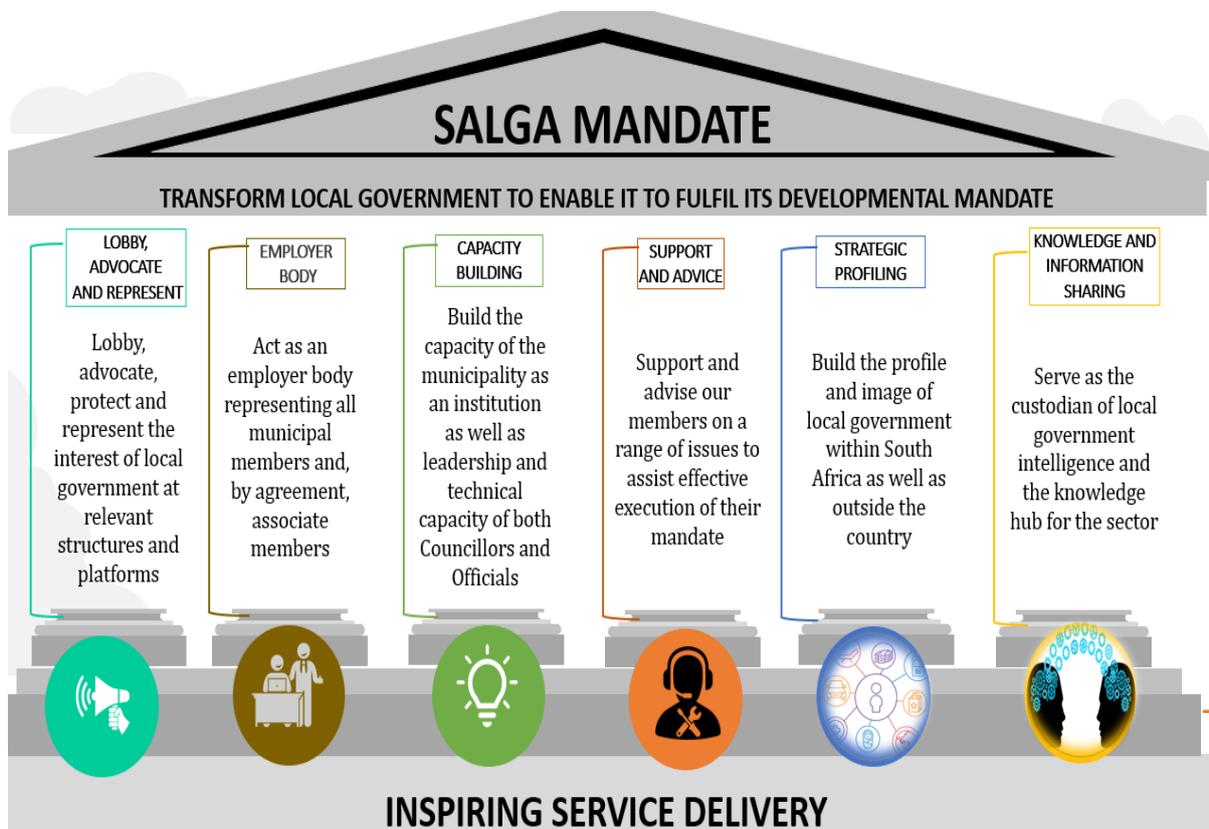
- Represent, promote and protect the interests of local government;
- Transform local government to enable it to fulfil its developmental role;
- Enhance the role and status of its members as provincial representatives and consultative bodies of local government;
- Enhance the role and status of municipalities;
- Be recognised by national and provincial governments to be the representative and consultative body in respect of all matters concerning local government and to make representations to both provincial and national governments in respect of any matter concerning local government;
- Ensure the full participation of women in organised local government;
- Be the National Employers' Association representing all municipal members and, by agreement, associate members.

2. SALGA MANDATE

Developmental Local Government is an essential component of the machinery of government. In accordance with its constitutional mandate, SALGA is obliged to transform the local government sector to one that has the required capacity to make a meaningful contribution to poverty alleviation, economic development and all socio-economic opportunities that the state has geared itself to provide for its people.

SALGA also serves as the representative voice of all 257 municipalities in the country. For the past 21 years, since its establishment, SALGA has endeavoured to bring focus to its mandate of supporting local government transformation in a complex environment, characterised by a highly diverse and diffuse membership-base of municipalities. In terms of its amended Constitution, SALGA is a unitary body that consists of a national association and nine provincial offices. Its mandate rests on six primary pillars:

Diagrammatically the mandate is depicted as follows:



3. PURPOSE

The purpose of this document is to request for information from National and International service providers to signal the eagerness and or desire to be part of a Performance Based Contract database in which municipalities can access as one of the mechanisms(s) in addressing non-revenue water.

4. LOCAL GOVERNMENT CONTEXT

The Constitution of the Republic of South Africa (1996) established three distinctive, interdependent and interrelated spheres of government. Section 152 of the Constitution of the Republic of South Africa, 1996 calls for national and provincial government to support local government, while Section 163 recognises Organised Local Government (OLG) as the legitimate voice of local government. The Constitution further outlines the following objectives of Local Government:

- Provide local communities with democratic and accountable government
- Ensure the provision of services to communities in a sustainable manner
- Promote social and economic development
- Promote a safe and healthy environment

- e) Encourage the involvement of communities and community organisations in the matters of local government.

Resulting from the OLG Act, 52 of 1997, the White Paper on Local Government was written and adopted as a new policy for local government. This White Paper lay the foundation for a post-apartheid system of local government as one of the most important policy statements on the role of local government. Adopted before promulgation of any local government legislation, the White Paper built on the objectives of local government and recognised SALGA as the body established by the OLG Act. According to the White Paper, SALGA is required to:

- Make provision of specialised services to strengthen capacity of LG;
- Research and information dissemination;
- Facilitate shared learning between municipalities.

Further, the Municipal Systems Act, 2000 (Section 3), provides that SALGA must seek to:-

- Develop common approaches for local government as a distinct sphere,
- Find solutions for problems that relate to local government generally,
- Enhance co-operation; mutual assistance & sharing of resources between municipalities, and
- Facilitate compliance with the principles of cooperative governance & intergovernmental relations.

SALGA, as the fully recognised Organised Local Government Association, fulfils six mandates towards the transformation of local government. The most popular of these mandates, directed by the largest number of key performance indicators in the SALGA Annual Performance Plans, is that of providing support and advice to local government.

The environment within which local government operates is dynamic and determined by both internal and external factors. Added to such dynamic challenges, local government continues to be plagued by fundamental issues that impact on its ability to operate efficiently and effectively. Some of these fundamental pressures are internal to municipalities, such as institutional capacity constraints while others are external. The external factors include amongst others, economic pressures and changes in the policy environment.

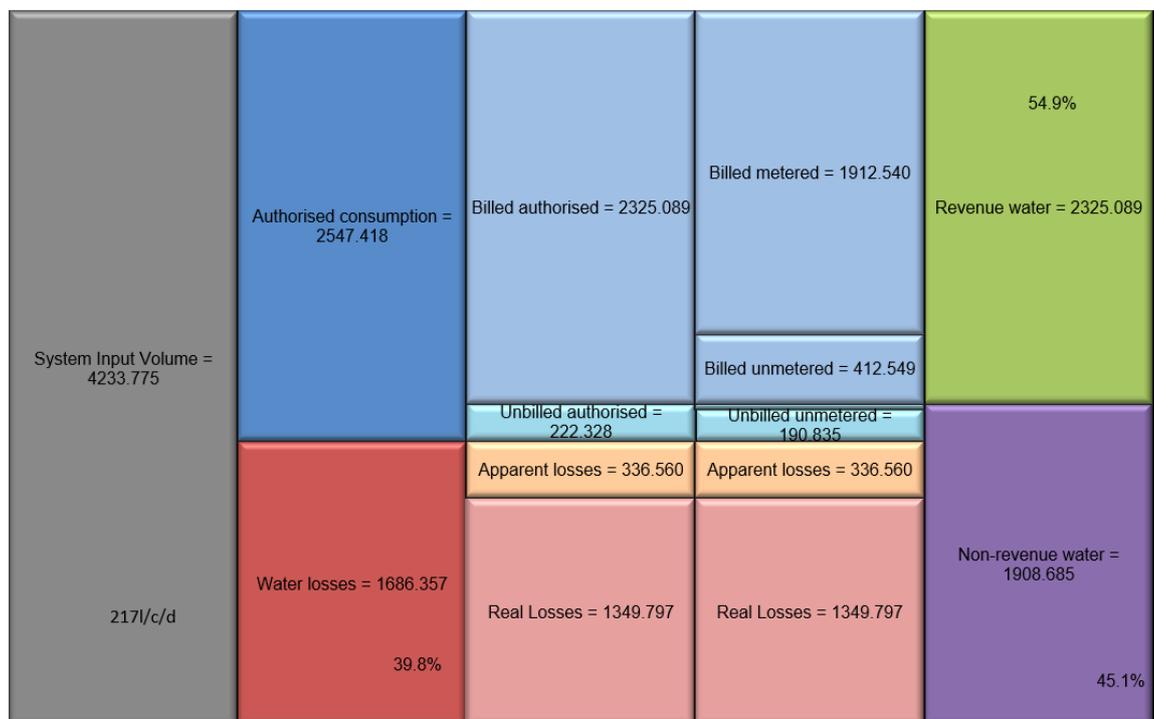
In line with its mandate, SALGA is required to be responsive to the dynamic challenges and requirements faced by its members, at the same time understanding and tackling key fundamental pressures faced by local government and provide solutions, generally to solve the sectors challenges. Business Development, a newly established function with focus on commercialized activities/solutions, is a fundamental component of SALGA's strategy adopted to achieve its abovementioned objectives. SALGA seeks to explore opportunities of extending the current package of service offerings beyond its core mandate areas with commercial services that are service-delivery orientated. The provision of value-added services is therefore intended to improve service delivery at municipalities as a primary objective, and secondarily offering innovative products and solutions that would generate alternative sources of funding for the organisation.

5. LOCAL GOVERNMENT CHALLENGES

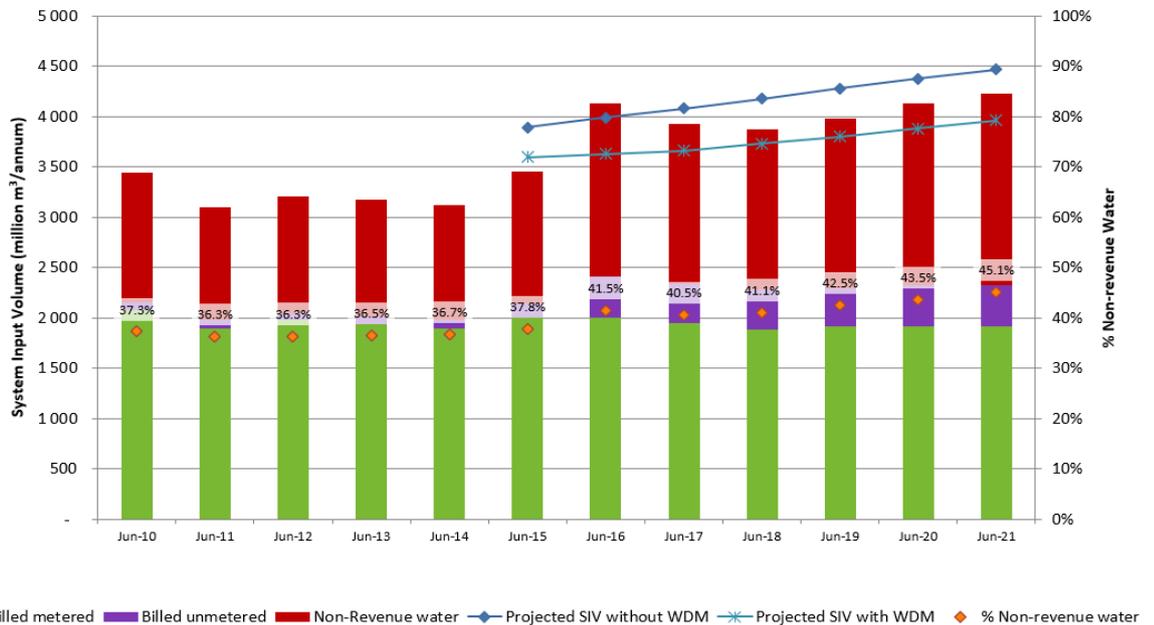
SALGA's objective and thrust is to become a Centre of Excellence and Innovation in the sector. To achieve this strategic thrust the organisation ought to improve its value proposition to its members. Municipalities are faced with various challenges in the water sector has depicted in the image below.

One of the major challenges faced by municipalities in South Africa compared to other Countries in the management of non-revenue water (NRW). The current state of NRW as published by Department of Water and Sanitation in March 2022 is at 45% as per the National Water Balance depicted below:

2020/2021 IWA Water balance

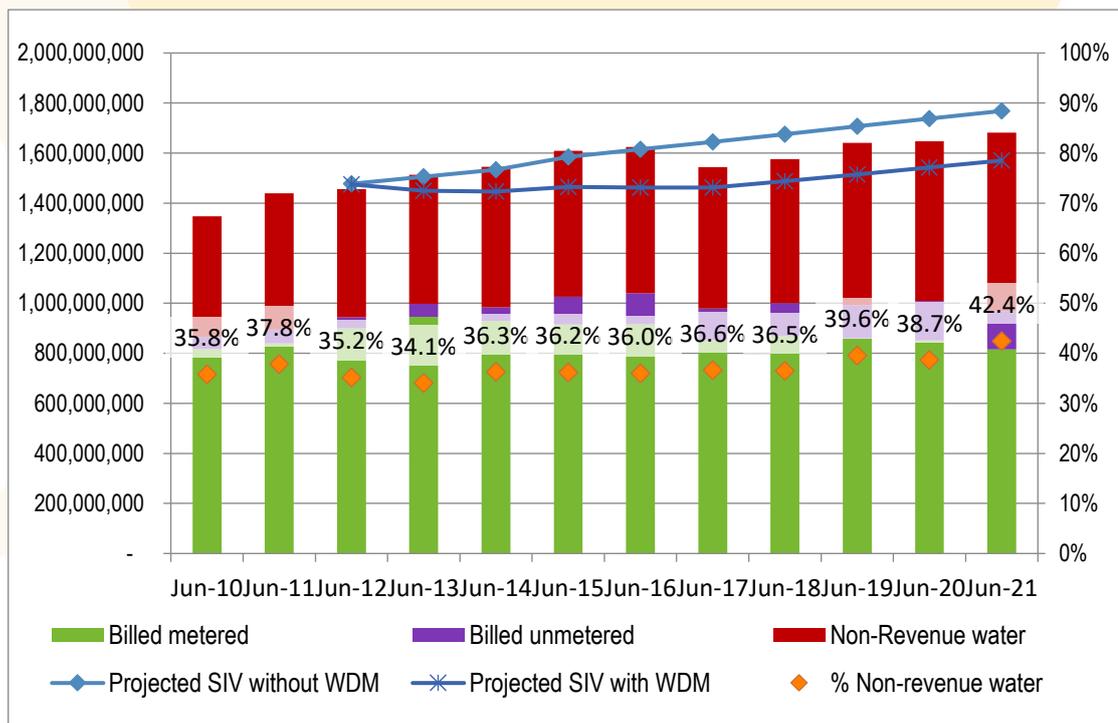


System Input Volume and NRW Trend

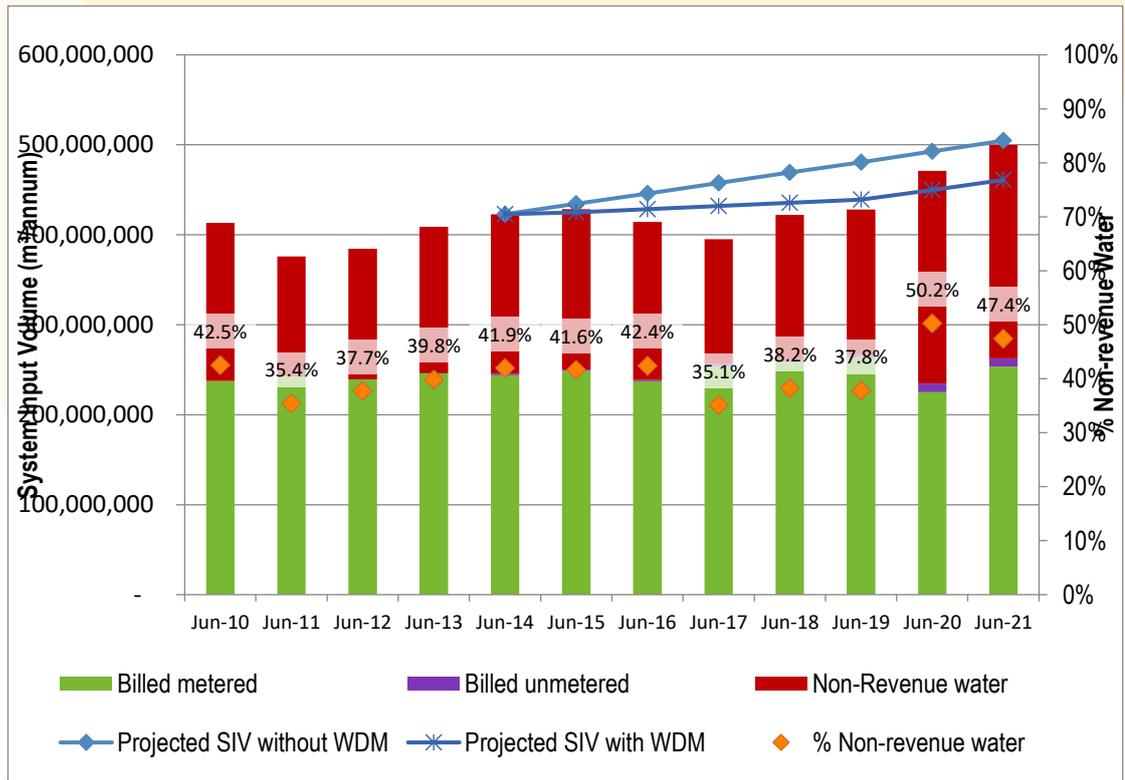
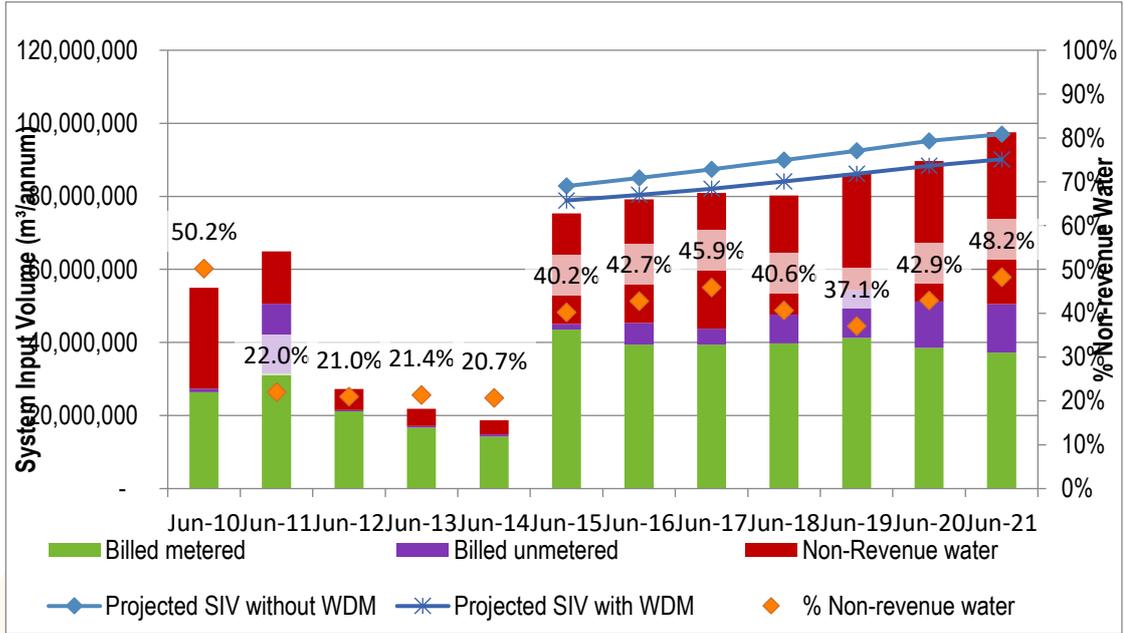


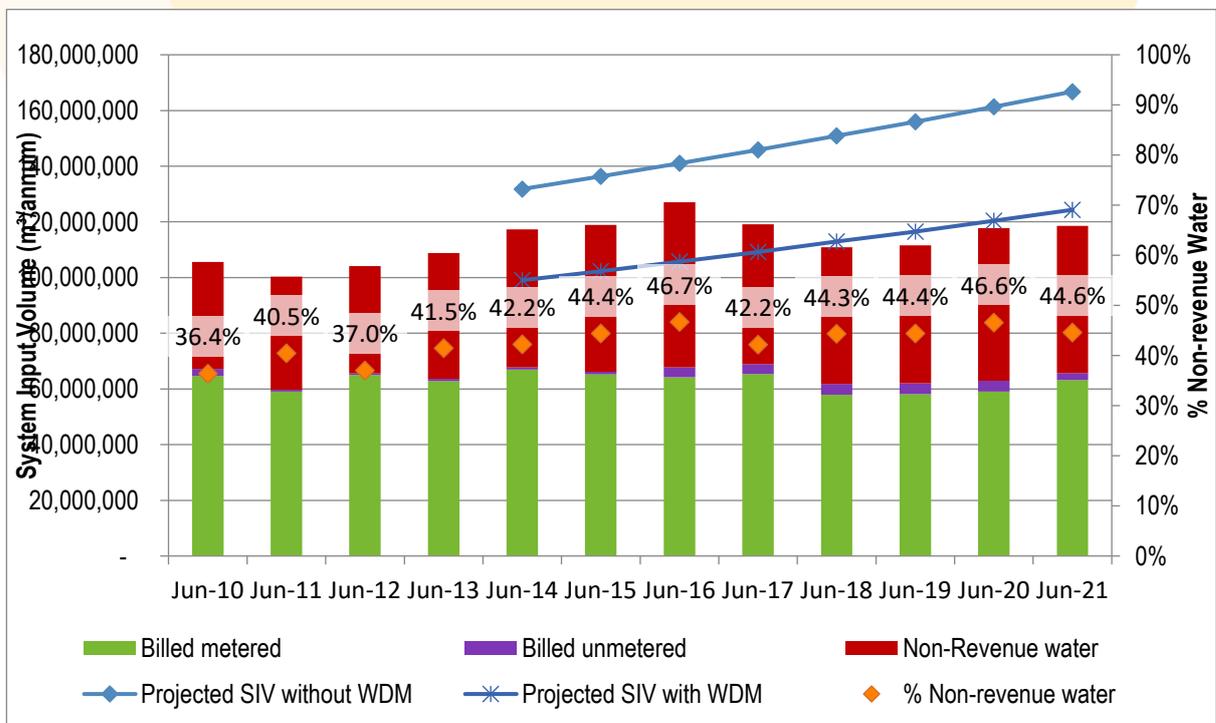
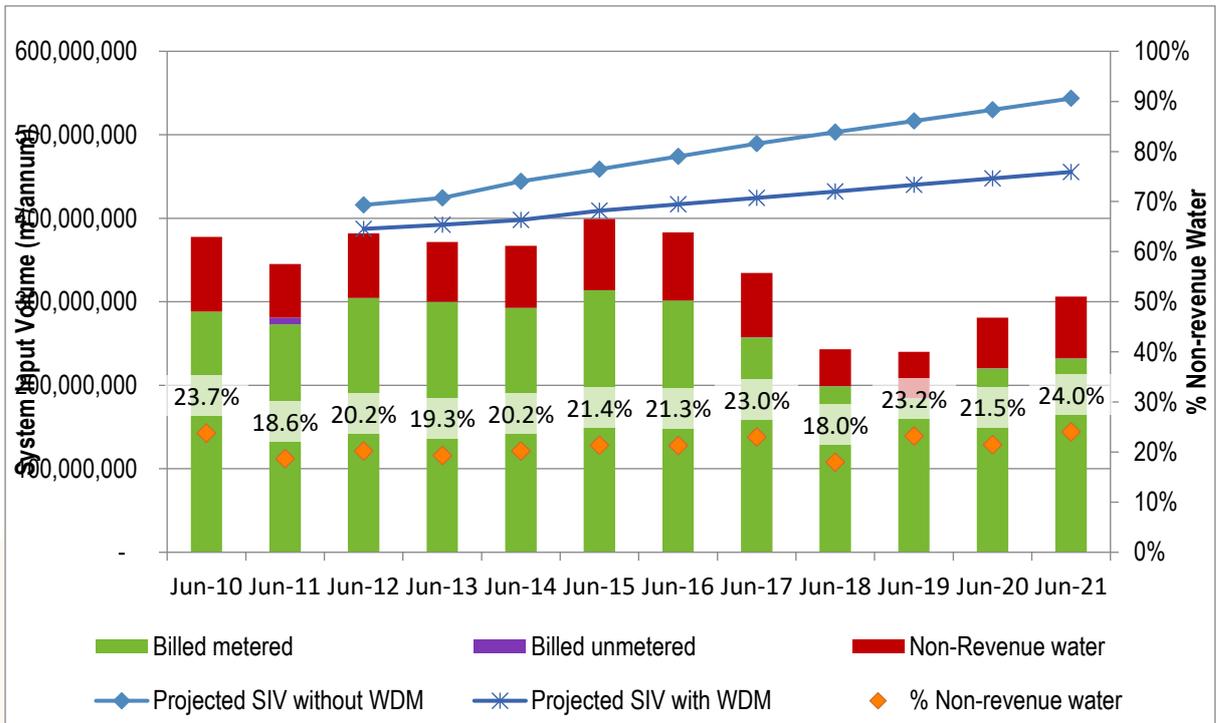
The scale of the challenge can be summarised as follows:

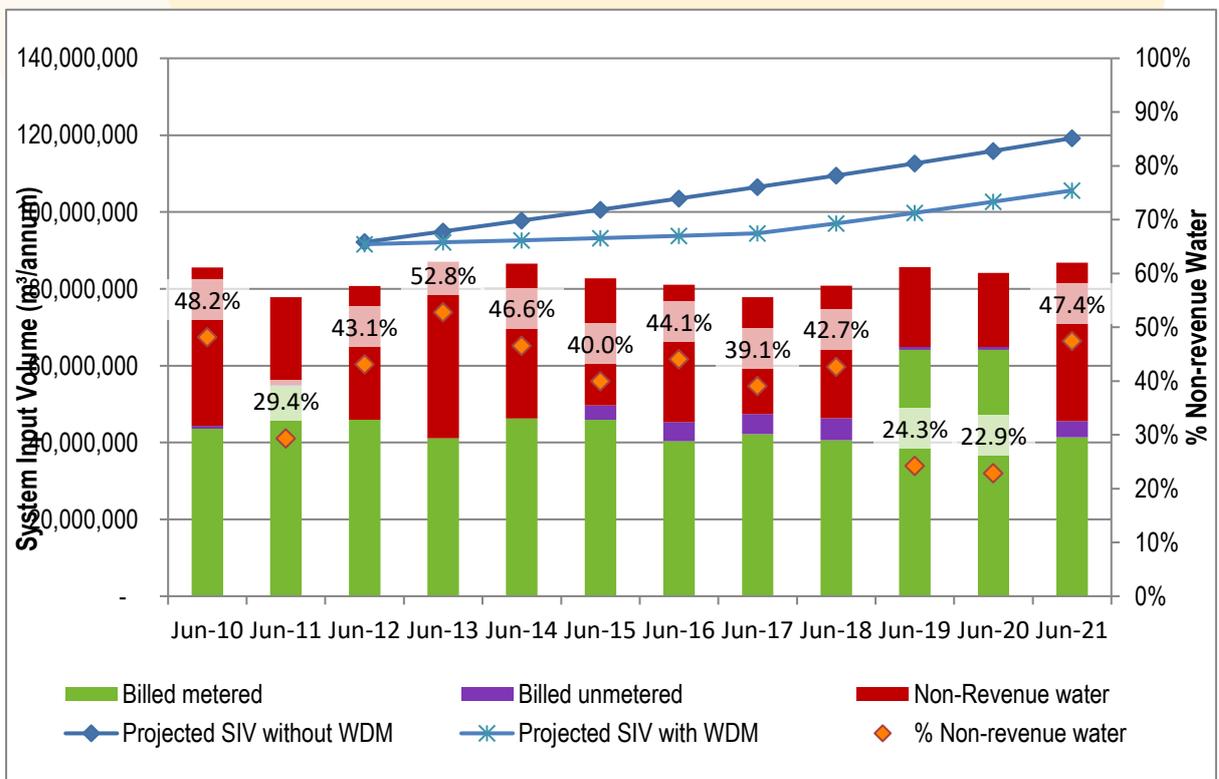
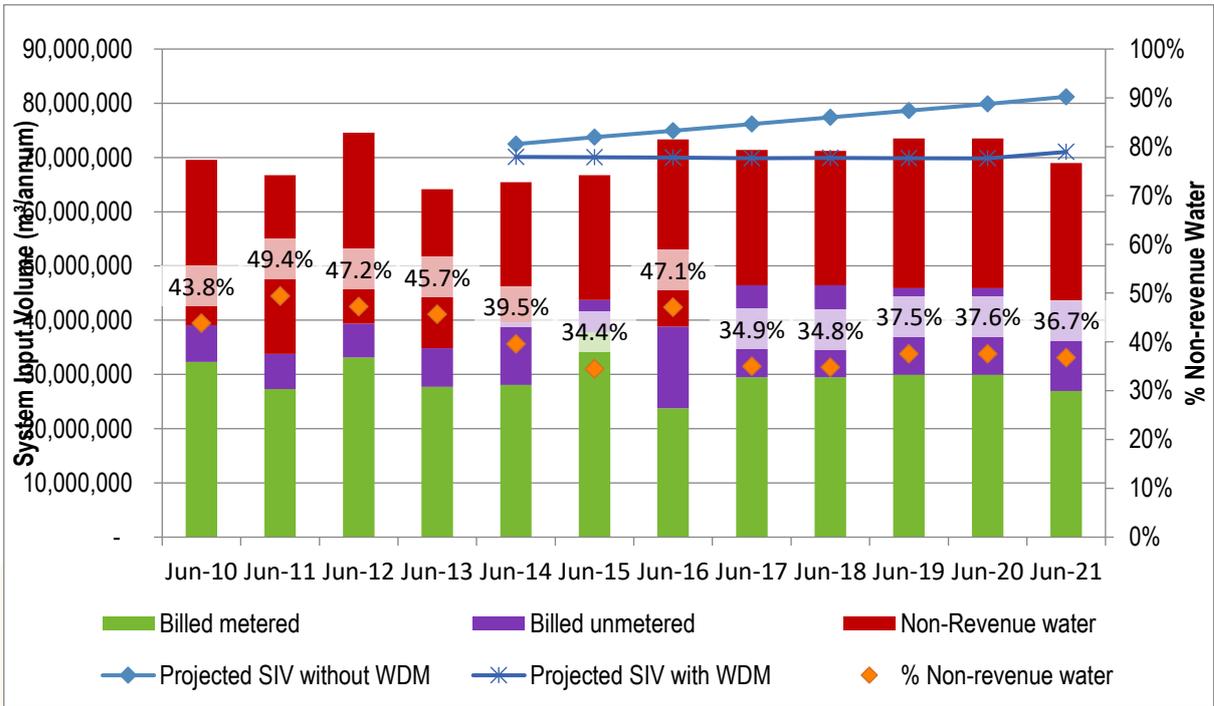
1. The 8 large water systems in South Africa with the biggest % of NRW are depicted below. These are suggested as systems that requires interventions.

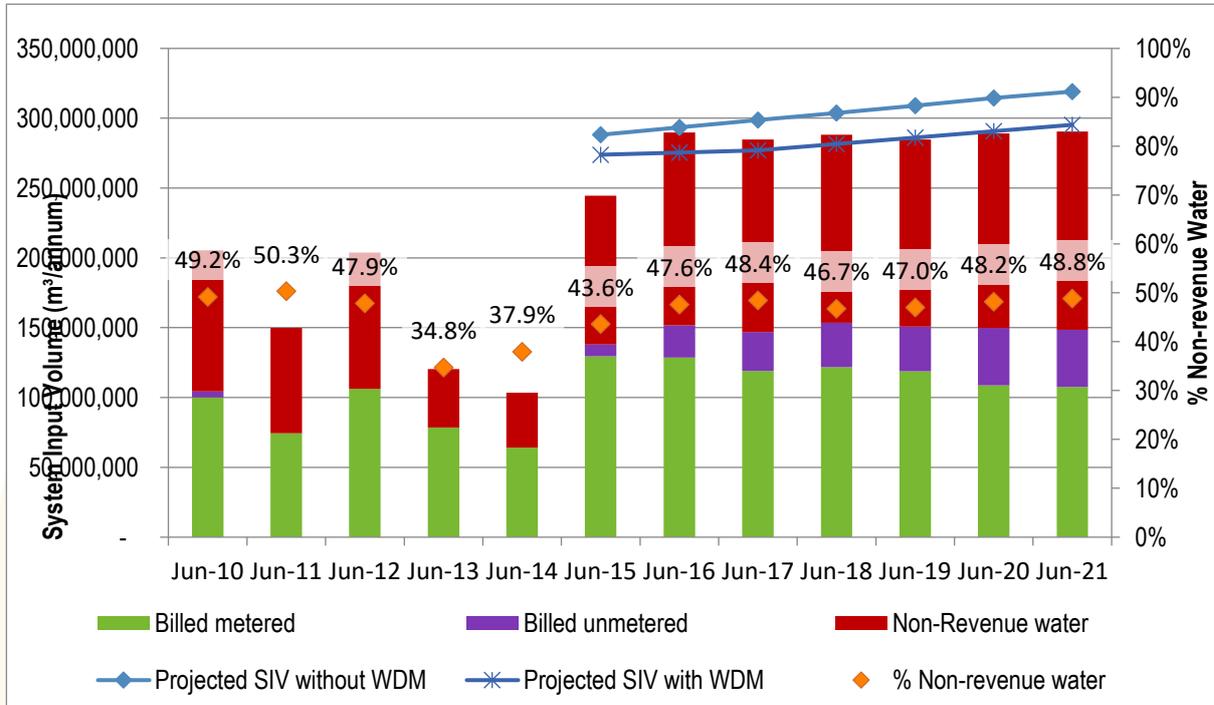


Source DWS



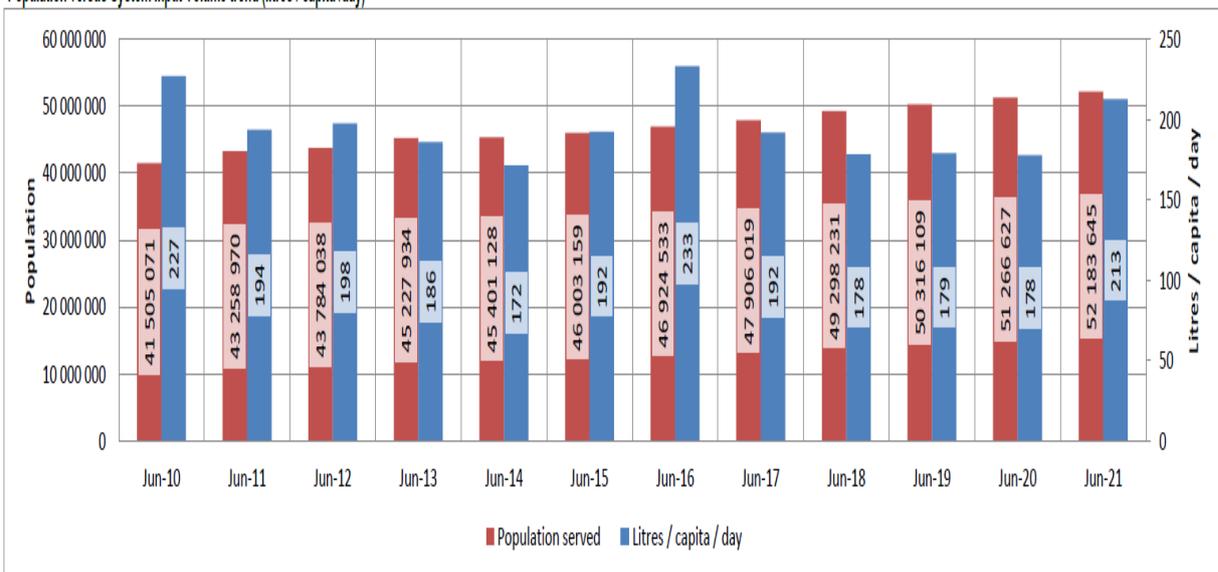






2. Consumption per capita is above international benchmarking as depicted below:

Population versus System Input Volume trend (litres / capita / day)



6. Debt Owed

According to National Treasury's local government revenue and expenditure fourth quarter section 71 report for the period 1 April – June 2022. Aggregate municipal consumer debts amounted to R255.4 billion (compared to R232.8 billion reported in the fourth quarter of 2020/21) as at 30 June 2022. Government debt accounts for 6.7 per cent, or R17.1 billion (R16.7 billion reported in the fourth quarter of 2021/22) of the total outstanding debtors. The largest component of this debt relates to households which account for 71.2 per cent or R181.8 billion (72.6 per cent or R168.9 billion in the fourth quarter of the current financial year).

The above situation is exacerbated by the unmanageable state of NRW of 45% indicated above that is way above World Average.

7. Funding to address NRW is limited in the sector

Municipalities utilise a number of funding instruments to fund NRW initiatives. These range from Regional and Water Services Infrastructure Grants administered by Department of Water and Sanitation respectively, Urban Settlements Development Grant, own source(s). However, these funding instruments have been positively responses to addressing NRW hence the idea to consider alternative funding instruments and alternative mechanisms such as the Performance Based Contract.

8. WHY PERFORMANCE BASED CONTRACT(S)

The World Bank's 2018 Manual on the use of Performance-Based Contracts for Nonrevenue Water Reduction defines an NRW PBC "as performance-based contract for outsourcing technical, commercial, and construction activities related to nonrevenue water reduction, while providing the contractor with incentives to achieve the desired results. Unlike conventional NRW reduction contracts in which contractors are paid based on inputs (for example, number of connections replaced), NRW-PBCs pay the contractor for outputs, such as amount of water saved, number of illegal connections detected, or number of customers receiving 24/7 service".

It would seem that Performance Based Contract(s) are regarded as one of the alternative mechanisms(s) to address Non-Revenue Water in municipalities and or utilities.

The World Bank has illustrated through case studies that PBC can be considered as an alternative. Case Studies illustrated at SALGA's webinars on the management of NRW through PBCs includes amongst other:

- 8.1 The case of HoChiMinhCity: Vietman
- 8.2 Emfuleni Municipality: South Africa
- 8.3 Bangkok: Thailand
- 8.4 Kuala Lumpur: Malaysia

9. INVITATION FOR INNOVATION AND SOLUTIONS FOR SALGA AND LOCAL GOVERNMENT

SALGA seeks to explore the opportunities of service providers, public and private sector entities in supporting municipalities in addressing and or supplementing their efforts and or initiatives in curbing non-revenue water. The primary objective is to create a database and or one stop in which municipalities can access solutions of potential service providers in addressing NRW through Performance Based Contract(s). It is envisioned that the PBC could be one of the interventions(s) municipalities can utilise with private or public sector entities to address NRW spin offs to improve service delivery at municipalities.

10. INITIATIVES UNDERTAKEN BY MUNICIPALITIES AND WATER SECTOR PARTNERS

It is to be noted that Municipalities are addressing NRW through a number of intervention(s). These interventions include amongst other pipe replacements, water savings consumer awareness campaign, pressure management, repairs and maintenance , use of drone technology etc. Furthermore, stakeholders such as water boards, SALGA and MISA are also support municipalities with a number of interventions. Some of the interventions includes training of municipal officials in the management of non-revenue water with the support of expertise from Japan International Cooperation Agency, deployment of Water Use Efficiency Model, pressure management, GIS Integrated Vaal River Dashboard (dam and reservoir levels). Essentially, it's all hand on deck by the sector to ensure NRW is being addressed.

11. SUBMISSION OF EXPRESSION OF INTERESTS

The service provider proposal(s) should illustrate and demonstrate the following

- i. Illustrates an understanding of South Africa's challenges in relations to NRW in municipalities
- ii. Illustrates through a case study the work undertaken in reducing NRW in a particular site(s), performance indicators measured, and the benefits derived over the contract(s) period
- iii. Illustrate the funding and implementation model used in the execution of the assignment

- iv. Indicate job opportunities that could be created as a result of implementation of Performance based contract
- v. Illustrate sustainability processes and plans to be put in place to ensure the results gained through the intervention are not reserved.
- vi. Indicate the value of a project(s) that would be eligible to be considered for PBC
- vii. Make proposal(s) on incentives payment calculations based on good practices

12. BIDDER REQUIREMENTS

The bidder will be expected to demonstrate technical ability and capacity to undertake an assignment of this complexity.

Minimum requirements

The following requirements are crucial -under the above scope of service:

- a) Comprehensive Company profile with emphasis on the solution that is being proposed