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**TRADING SERVICES REFORM PROGRAMME - BUFFALO CITY
METROPOLITAN MUNICIPALITY WATER & SANITATION AND ELECTRICITY
& ENERGY PERFORMANCE IMPROVEMENT ACTION PLANS (PIAP) AND
COUNCIL COMMITMENTS**

1. PURPOSE

The purpose of this report is to inform Council of the required minimum commitments that Council needs to make to be accepted to the National Treasury's Trading Services Reform Programme, access the Incentive Grant, and remain in the programme for the next six years of its implementation, for **APPROVAL**.

2. AUTHORITY

Buffalo City Metropolitan Council

3. LEGAL AND STATUTORY CONSIDERATIONS

- 3.1 Constitution of the Republic of South Africa, 1996
- 3.2 Municipal Systems Act No. 32 of 2000
- 3.3 Municipal Finance Management Act No. 56 of 2003
- 3.4 Municipal Supply Chain Management Regulations (2005)
- 3.5 National Water Act No. 36 of 1998
- 3.6 Water Services Act No. 108 of 1997
- 3.7 National Environmental Management Act No. 107 of 1998
- 3.8 National Health Act No. 61 of 2003
- 3.9 Environmental Conservation Act No. 73 of 1989
- 3.10 Electricity Regulation Act No. 4 of 2006
- 3.11 National Energy Regulator Act No. 40 of 2004
- 3.12 Eskom Conversion Act No. 13 of 2001
- 3.13 BCMM Supply Chain Management Policy (2020-2021)

- 3.14 Buffalo City Metropolitan Municipality Water Services By-law (2011)
- 3.15 National Treasury Trading Services Guidance Notes (including Guidance Note 4 and its Appendices)
- 3.16 National Development Plan 2030

4. BACKGROUND

Buffalo City Metropolitan Municipality (BCMM) Water and Sanitation (W&S) services face severe challenges, including aging infrastructure, persistent backlogs, deferred maintenance, underinvestment in infrastructure, low technical capacity, weak institutional performance, insufficient funding and poor revenue collection. High vandalism of water services infrastructure and increasing population, especially in townships and informal settlements, further exacerbates these challenges.

Similarly, the Electricity and Energy (E&E) trading services are hampered by a longstanding underinvestment in infrastructure and aging infrastructure, high maintenance backlogs, persistent theft of network assets, high electricity losses complicate and ineffective governance due to centralisation, poor support service performance, insufficient human and financial capacity, a high indigent customer base and the resulting negative impact on capital expenditure. As a result, the provision of E&E services in the municipality is not financially sustainable.

Despite past efforts to address these challenges, such as National Treasury's City Support Programme, there has not been lasting improvement in the delivery of W&S services.

In response, the National Treasury has introduced the Trading Services Reform Programme as an incentive-driven model to address trading service failures. The programme requires municipalities to develop turnaround strategies with clear goals, timelines, and capacity-building plans to enhance the financial and operational sustainability of trading services such as W&S and E&E. Implementation of the trading services reform is guided by four interrelated strategic documents:

- 4.1 The Trading Services Turnaround Strategy (Document A), which sets out the path to address service delivery failures;

- 4.2 The Institutional Road Map (Annexure A1), which establishes an autonomous and accountable Business Unit for the trading services and creates a Single Point of Management Accountability (SPoMA) within the framework of applicable municipal legislation, supported by governance reforms;
- 4.3 The Business & Investment Plan (Annexure A2) to ensure financial sustainability and alignment with municipal planning; and
- 4.4 The Performance Improvement Action Plan (Annexure A3), which anchors the strategy by outlining specific performance targets and actions to drive operational improvement and customer satisfaction.

BCMM has developed the above strategic documents for its W&S and E&E services, starting with the Council-adopted Water & Sanitation Turnaround Business Strategy approved in September 2024, and the Electricity and Energy Turnaround Strategy approved in January 2025. Working with National Treasury, the W&S and E&E Performance Improvement Action Plans (PIAPs) have been developed and reviewed and are now submitted for Council approval.

5. EXPOSITION OF FACTS

The PIAP is structured around eight Minimum Commitment Indicators (M1–M8), which BCMM must achieve by June 2026. These are described below.

5.1. M1: Develop a Service Compact to define roles between the municipality and the Water and Sanitation Business Unit

Under this indicator, BCMM commits to developing a Service Compact between itself and the W&S and E&E trading services confirming the decision to set up autonomous internal Business Units, stipulating the transfer of BCMM obligations and responsibilities to the Business Units, clarifying the role and responsibilities that the Units must play as its service provider, and defining the reporting and contractual obligations of the parties.

The activities required to achieve this reform include approval of the W&S and E&E Business Unit reform strategy, business and investment plan, and PAIP. This

includes development of the Service Compact, identification of any required policy changes, stakeholder engagements where necessary, and approval of the Service Compact by the Council. According to National Treasury, this is the most critical commitment by BCMM to join the Trading Services Reform Incentive Programme.

5.2. M2: Appoint a Head of the Business Unit with clear accountability

The appointment of the Head of the W&S and E&E Business Units as the SPoMA requires that BCMM develop a detailed job description that outlines delegated powers and responsibilities for the role, as well as a suitable performance contract that focuses on achieving specific targets related to trading services reform.

The role is essential for providing executive leadership within the trading service as the head of the trading service will oversee all aspects of the utility value chain, expanding beyond current infrastructure duties. A formal, open and transparent recruitment process will be necessary to fill this position to select a candidate with the required commercial, technical, and managerial expertise.

Key activities include developing Council-approved job descriptions and performance agreements for the SPoMA, carrying out the recruitment process and appointing a suitable candidate and the signing of a Performance Contract with the City Manager.

5.3. M3: Create a new organizational structure incorporating support services

This indicator assesses whether an appropriate organisational structure - integrating all components of the W&S and E&E infrastructure and commercial value chain, and the supporting services - has been established. This is necessary to ensure effective functioning of the Business Units under a SPoMA.

The organisational structures should be aligned with best practices for utility management and supported by professional leadership, sound business processes and governance systems. They should also include defined Key Performance Indicators (KPIs) to monitor accountability, financial sustainability, and operational performance.

The key activities to achieve this indicator include the design of a suitable organisational structure, design and approval of job descriptions, Council approval of the organisational structure, the signing of service level agreements (SLAs) with service departments and the migration, recruitment and appointment of full-time staff to the business unit.

5.4. M4: Delegate operational and financial authority to the Business Unit Head

The purpose of this indicator is to ensure that all operational, financial, and management responsibilities necessary for running the W&S and E&E Business Units are formally delegated to the respective SPoMAs by the City Manager. This will empower the SPoMA with full authority over key support functions such as HR, supply chain management, revenue, IT, fleet, customer service, and safety, so it can operate as an independent and accountable business unit.

These delegations also enable the SPoMA to manage the Business Unit in alignment with the service compact while remaining accountable to the municipal leadership. Key activities to achieve the indicator include mapping existing municipal delegations and recommending changes to the approved municipal delegation policy if necessary, designing appropriate delegations, stakeholder engagement, developing SLAs between shared services and the Business Unit, Council approval of the delegations and SLAs, and signing of the delegations and SLAs by the City Manager.

5.5. M5: Develop a multi-year financial model and Business & Investment Plan

This indicator seeks to ensure that the W&S and E&E Business Units submit an annual Business and Investment Plan which is informed by a multi-year financial model for the trading services. The financial model guides the strategic decisions of the Unit and is essential in the operational and financial turnaround and in ensuring long-term sustainability. Business and Investment Plans must reflect challenges specific to the service and guide short-term and long-term planning.

A supporting programme is also required to provide reliable financial and operational data for effective management and modelling. As such, the key activities in the operationalisation of the indicator include the development and validation of

the financial model, compilation of up-to-date operating and capital expenditure data, development of a multi-year Business & Investment Plan for W&S and E&E, Council approval of the financial model and Business & Investment Plans, monitoring their performance against the financial model targets, and annual revision of the model and business plans.

5.6. M6: Align MTREF budgeting to the Business & Investment Plan

This indicator seeks to ensure that the BCMM's budget fully supports the financial model and Business & Investment Plan for the W&S Business Unit. It requires the municipality to allocate adequate funding from its revenues, loans, grants, and other sources to support continued service delivery and the successful implementation of utility reforms.

The budget allocations should cover the capital expenditure, transition and change management costs, reinvestment of operational surpluses, and align with the strategic priorities. To achieve this requires the preparation of a budget for the W&S and E&E Business Units as independent units and incorporating these into the municipal budget, incorporation of IDP projects into the budgets, an annual budget workshop, and approval and adoption of the aligned budget.

5.7. M7: Prepare and publish separate Annual Financial Statements

This indicator requires BCMM to produce fully separate Annual Financial Statements (AFS) for each trading service, in this case W&S and E&E, in accordance with National Treasury's MFMA guidance. These statements must also be consolidated into the municipality's overall AFS. This ensures that there is full financial transparency to track the financial performance and sustainability of trading services, and that there is alignment with the Business & Investment Plans.

The AFS must include comprehensive financial data such as income, expenditure, cash flow, grants, internal cost allocations, and trading services balances to support reporting and oversight, and performance-based disbursements. Key activities include developing the W&S and E&E AFS aligned to the NT Circular, preparation of a full trial balance for the Business Unit, full costing of the Business Unit including the shared services costs, creation of mSCOA-compliant accounts for the business

unit, and the publication of separate Business Unit AFS including financial performance and position.

5.8. **M8: Implement change management and capacity-building support**

This indicator ensures that the municipality establishes additional capacity to support the organisational transformation and increased infrastructure investments required under the trading services reform. This includes the technical and project management capacity to oversee expanded capital expenditure, skilled personnel for managing change processes as well as managerial capacity to oversee the processes. The objective is to facilitate a smooth transition to the new SPoMA structure and ensure that the utility can deliver improved services effectively. Capacity may be built through recruitment or contracting, with a focus on filling critical vacancies and strengthening leadership and operational support.

Key activities include carrying out skills gap analyses and identifying the required technical, management, and change management skills for the Business Units, identification of required staff from service departments for staff secondment, stakeholder engagement, drafting and signing of SLAs with service departments for the secondment of staff, Council approval for recruitment, and the provision of change management and wellness support to the business unit.

The PIAP also requires that the municipality develop performance indicators across three other domains that include Accountability, Financial, and Operational indicators. These will be developed as per the National Treasury programme and as guided by the financial model.

6. **CHALLENGES**

The following challenges have been identified and will be managed as part of the rollout of the eight minimum indicators. Through the exercise of sound risk management practices, additional challenges will be identified and monitored as the programme is implemented.

#	CHALLENGES	PROPOSED SOLUTIONS
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6.1	Delays in securing Council approvals for the service compact, revised organisational structure, delegations or any other required Council approvals may stall implementation.	Development and implementation of a Stakeholder Communication and Engagement Plan that ensures effective consultation Council and other key stakeholders.
6.2	Lack of commitment and buy-in, and resistance to change from municipal staff at all levels, especially where there are new roles, responsibilities and reporting lines	Development and implementation of a Stakeholder Communication and Engagement Plan that ensures effective consultation Council and other key stakeholders.
6.3	External and/or political interference from stakeholders outside the municipality may slow down the reform programme.	Council should engage various stakeholders at intergovernmental and business community levels to ensure that they are all onboard on the proposed trading services reforms.
6.4	Lack of clarity between the separate roles of the BCMM and the business unit could lead to overlap, conflict, or lack of accountability.	The Service Compact should be developed such that it eliminates overlaps, conflicts, or grey areas that may lead to lack of accountability to the W&S business unit.
6.5	Lack of internal capacity and technical skills to take on identified roles in finance, project management, engineering, or customer service in the business unit.	Development of skills analysis and funding for recruitment of required critical skills to ensure effective operation of the W&S Business Unit.
6.6	Delays in recruitment processes and a lack of suitable candidates when appointing the SPoMA and other key technical and managerial vacancies.	Council to ensure that appropriate budget is allocated for key staff recruitment and monitor filling of vacancies with suitably qualified and experienced personnel.

6.7	Continued poor revenue collection or high levels of non-revenue water and electricity could strain operational sustainability.	Council to revenue collection and non-revenue water and support efforts geared towards improved revenue management and reduction of non-revenue water and electricity with appropriate resources for operational sustainability.
6.8	Over-reliance on grants or lack of access to borrowings or external investment could limit capital programme delivery.	Council to monitor, facilitate, and be at the forefront in driving improved revenue collection that influences financial performance and municipal credit rating.
6.9	Overly ambitious PIAP indicators and timelines to achieve these indicators could lead to underperformance and withdrawal of the incentive grant funding.	Council to ensure that Accountability, Financial, and Operational indicator targets set by the Administration in the PIAP are realistic and backed by development and funding of projects that will make the administration realise these targets.
6.10	Challenges in integrating shared services and their systems - for example, human resources, IT, customer relationships and finance - into the SPoMA unit may compromise operational and financial performance.	Council to ensure that quarterly reports are submitted to council on progress made and challenges experienced in ensuring that the Water and Sanitation Business Unit is fully capacitated to be autonomous and functional by June 2026.
	Lack of data or poor data systems may affect the accuracy of the financial model, thus affecting the proposed initiatives and targets under the reform programme.	Council to ensure that the Administration provides sufficient resources to the appointed financial modelling service provider to collect appropriate financial and technical data required for development of a financial model based on accurate input data.

	Poor data or poor data tracking systems could also hinder the ability of the business unit to track and assess indicator performance against the targets, leading to forfeiture of the incentive funding.	The municipality to ensure that appropriate processes and systems are developed and integrated into appropriate business systems that capture, track, and consolidate information on a database for easy abstraction and monitoring of business unit performance.
	Lack of clear communication amongst internal stakeholders can result in misalignment and conflict.	The Council to oversee implementation of the business unit and ensure that appropriate areas of misalignment and conflicts that may hinder performance of the business unit are identified and addressed and that the City Manager implement corrective measures established through Council Resolutions.
6.14	Poor audit performance because of non-business unit-related causes may result in audit disclaimers and the loss of incentive funding.	Council should take all measures necessary to ensure that the municipality continuously improve its audit outcomes and that the municipality never reaches an adverse or disclaimer audit opinion.

7. **STAFF IMPLICATIONS**

The implementation of the PIAP will have the following staff implications:

- 7.1 The recruitment of a Head of the W&S Business Unit and the E&E Business Unit.
- 7.2 The design and implementation of a new organogram for the W&S and E&E Business Units.
- 7.3 The secondment or redeployment of staff from shared services to the Business Units on a temporary and permanent basis.

- 7.4 There may be a need for existing personnel in shared services to allocate some of their time alongside their current workloads to support the establishment of the Business Units.
- 7.5 There will be a need for skills development and training, targeted capacity building and change management support.
- 7.6 The development of performance contracts for the SPOMA and other Business Unit staff, and ongoing monitoring against the signed performance contracts.

8. FINANCIAL IMPLICATIONS

While estimates for the implementation of the PIAP have not yet been developed, financial implications of implementing the above indicators on the BCMM can be expected from the following:

- 8.1 Organisational restructuring, job reviews and grading and benchmarking of positions.
- 8.2 Recruitment of new managerial and technical staff and internal reallocations of seconded staff, at rates likely above current rates.
- 8.3 Change management support and stakeholder engagement costs for staff and approved consultants.
- 8.4 Training and skills development to upskill seconded staff.
- 8.5 Internal and external communications to create awareness of the new Business Units.
- 8.6 Development and maintenance of a comprehensive financial model and Business & Investment Plan.
- 8.7 Redirecting municipal funds to fund Business & Investment Plan activities, especially as significant capital investments may be needed to upgrade or modernise infrastructure and reduce non-revenue water.

- 8.8 Development and maintenance of data systems, and changes to existing systems, e.g., for billing, asset management, and financial planning.
- 8.9 Preparation of standalone AFS may require investments in system changes, audit and accounting support, and asset unbundling and cost allocation.
- 8.10 Success in achieving targets will result in substantial additional funding from the incentive grant, while failure to meet targets or an adverse Auditor General opinion could result in forfeiture of the grant.

9. OTHER PARTIES CONSULTED

The following parties were consulted during the development of the Performance Improvement Action Plan:

- 9.1 National Treasury has been consulted throughout the development of this PIAP and the preceding A, A1 and A2 documents for guidance and inputs.
- 9.2 External service providers have also been engaged to assist with guidance and inputs.
- 9.3 Internal municipal departments (HR, Finance, Supply Chain, etc.) have been consulted and will continue to be consulted in rolling out of the business unit.

10. RECOMMENDATIONS

It is recommended that:

- 10.1 The Council **APPROVES** and ensures that by June 2026 BCMM will have implemented a Service Compact between the Municipality as a service authority and the Water & Sanitation Business Unit and the Electricity & Energy Business Units as the service providers, clarifying the separation of roles between the service authority and the service providers and defining accountabilities and authorities accordingly, **as per M1 (SPoMA Service Compact).**

- 10.2 The Council **APPROVES** and ensures that by June 2026 BCMM will have implemented a formal recruitment process to appoint the heads of the Water & Sanitation Business Unit and the Electricity & Energy Business Units with the requisite commercial and engineering skills and experience, formalised by a performance contract with performance targets that prioritise reform imperatives, **as per M2 (SPoMA Appointment)**.
- 10.3 The Council **APPROVES** and ensure that by June 2026 BCMM will have approved a macro-organisational structure which gives effect to and supports the mandate, responsibility and accountability of the heads of the Water & Sanitation Business Unit and the Electricity & Energy Business Units and ensures the Business Units are adequately resourced with all requisite internal capabilities to discharge their mandate across all operational and support value chains, **as per M3 (SPoMA Organisational Structure)**.
- 10.4 The Council **APPROVES** and ensures that by June 2026 BCMM will have finalised delegations which give effect to and support the mandate, responsibility and accountability of the heads of the Water & Sanitation Business Unit and the Electricity & Energy Business Units for all operational and supporting value chains **as per M4 (SPoMA Delegations)**.
- 10.5 The Council **APPROVES** and ensures that by June 2026 BCMM will have developed a multi-year utility financial model (i.e. reflecting utility characteristics and requirements) and use this to prioritise and generate a Business & Investment Plan to achieve long-term strategic objectives starting from 2026/27, according to the requirements set out **in M5 (Financial Model and Business & Investment Plan)**.
- 10.6 The Council **APPROVES** and ensures that by June 2026 the BCMM overall municipal budget for the 2026/27 MTREF accommodates, supports and funds the business and investment plans of its trading services, to the maximum extent possible, **as set out in M6 (Budget support of Trading Service Business & Investment Plan)**.

10.7 The Council **APPROVES** and ensures that by June 2026 BCMM will be able to provide full separate AFS per trading service (per specimen template provided in an MFMA circular of July 2024) for the 2026/27 financial year and thereafter, and the flows and balances statement, **as set out in M7 (Financial Transparency)**.

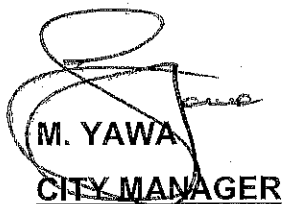
10.8 The Council **APPROVES** and ensures that by June 2026 BCMM will have in place effective:

- a) Additional capacity to support and manage the planned organisational change; and
- b) Additional capacity to support the planned increase in trading services capex,

As set out in M8 (Support for the management of organisational change and increased delivery).

10.9 Buffalo City Metropolitan Council **NOTES** and recognises that the minimum commitments must be maintained throughout the life of the programme, and that **any dismantling of these commitments will preclude further participation in the performance-based incentive grant programme** of the Urban Settlements Development Grant.

10.10 Buffalo City Metropolitan Council **NOTES** and further acknowledges that overall municipal audit performance is also an essential prerequisite for participation in the programme, **and that an adverse or disclaimed Auditor General audit opinion will preclude further participation by the BCMM in the incentive grant programme** until a satisfactory audit result is achieved.



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