

THE IMPACT OF THE COVID-19 PANDEMIC ON DISTRICT MUNICIPALITIES IN THE WESTERN CAPE

This fact sheet is based on a research study on the impact of the Covid-19 pandemic on municipal fiscal sustainability in the Western Cape (WC), which was completed in April 2021. The study was commissioned by the Department of Local Government in the Western Cape, and was conducted by the School for Public Leadership at Stellenbosch University in partnership with the Hanns Seidel Foundation.

The district municipalities (DMs) in the sample included Central Karoo DM, West Coast DM and Cape Winelands. This fact sheet summarises the key findings relating to DMs from that study.

What is the role of DMs?

The Municipal Structures Act, 1998 envisages that a DM should fulfil a co-ordinating and supporting role with respect to the local municipalities in that district, to:

“achieve the integrated, sustainable and equitable social and economic development of its area as a whole by -

(a) Ensuring integrated development planning for the district as a whole;

(b) Promoting bulk infrastructural development and services for the district as a whole;

(c) building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking; and

(d) promoting the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area.”

DM core functions include: Integrated development planning, potable water supply systems, bulk supply of electricity domestic waste-water and sewage disposal systems, solid waste disposal sites, municipal roads which are part of the road transport system for the district, regulation of passenger transport services, municipal airports serving the district, municipal health services, fire-fighting services serving the district, fresh produce markets and abattoirs serving a major proportion of the local municipalities, cemeteries and crematoria serving a major proportion of the local municipalities, promotion of local tourism for the district, and municipal public works.

The responsibility for municipal health (which was not an original function of DMs but conferred later) encompasses: water quality monitoring, food safety control, industrial and domestic solid waste management (including health care risk waste, hazardous waste and effluents), vector/pest control, disposal of the dead, chemical and pollution control (water, air, soil and noise). Interestingly from the perspective of the coronavirus pandemic, the municipal health function also includes surveillance of communicable diseases, aimed at prevention of disease outbreaks in communities.

The functions performed by DMs vary in practice differ across provinces and even across districts: DMs may offer value-adding services which are non-core e.g. affordable municipal resorts and camp sites, rural social and cultural activities and infrastructure. West Coast, Overberg and Eden DMs have resorts which generate some income, which are seen as cost recovery assets rather than profit centres. In general, maintenance has not been adequate and significant upgrade is required.

Environmental protection is also a relatively new function of DMs: Norms and standards for biodiversity, coastal management, air quality and waste management are embedded in various pieces of environmental management legislation.

- » These include: preparation of a state of the environment report (by DMs and Metros), a strategic environmental assessment as part of the Municipal Spatial Development Framework under Spatial Planning and Land Use Management Act, 2013, development of a coastal management programme with enforcement and compliance dimensions, an invasive alien species control plan.
- » The issuing of air quality licenses for listed activities in the district, along with other planning, coordinating and reporting requirements related to air quality and ensuring the National Environmental Management Act, 1998 principles are applied across municipal operations, and general alignment with an number of provincial and national plans.

Rural social development has emerged as a key priority in DMs: LM gravitate towards an urban focus, given their focus on infrastructure services. DMs have also had to assume increased responsibilities in terms of national department sector legislation, which have not always been accompanied by commensurate increases in funding.

Unlike LMs which have access to service charges and property rates revenue, DMs are largely reliant on intergovernmental transfers. They therefore have virtually no control over their revenue sources. The only portion of the Equitable Share grant received by DMs is for providing municipal health services. These amounts are also offset against fiscal capacity of the municipality to raise own revenues so that the more affluent DMS (such as Cape Winelands) receive negligible amounts. In the sample, only the Central Karoo DM is eligible to receive the councillor support grant.

How has the Covid-19 pandemic impacted on the financial sustainability of WC DMs?

- **The sampled DMs were harder hit than LMs in the first quarter of the pandemic 2019/2020 Q4** in terms of the operating balances, but then showed somewhat of recovery as they intensified expenditure control measures and road agency functions picked up.
- **DMs are highly dependent on the RSC replacement grant, especially those DM's without property portfolios.** Exception: West Coast's water concession and resort income makes this DM less grant dependent than the other two DMs.
- In the past, DM's income from intergovernmental transfers were limited but stable, as SARS's performance backstopped the fiscal framework and created predictability.
- For the first 15 years after democracy, subnational grants (especially the Equitable Share) were protected over the MTREF period, which no longer seems the case. With fiscal consolidation at national level resulting in declines or slow growth of intergovernmental transfers, the tax collapse as a result of the pandemic and an imminent national debt consolidation crisis, the fiscal framework is far less stable.
 - » **The DM's prime income source is therefore likely to be both smaller over the medium term, and more uncertain.**
- **Similar to LM's the largest negative repercussion of the pandemic relates to constrained capital budgets** with repairs and maintenance falling below the norm (except in West Coast DM).
- Despite this, due to the responses of DM's, short term liquidity and solvency impaired slightly but still satisfactory.
 - » **The depletion of DM internal reserves and consequently lower interest income will impact on own revenues over the medium term.**
- **There are immense short term pressures from cost of employment budgets and longer term pressures from drivers such as national minimum standards in functions such as environmental health, fire-fighting etc.:** Agency service agreements appear to be ad hoc and do not create funding certainty over the MTREF but create pressures for expansion of roads function employment (e.g. Central Karoo).
- Despite not formally being mandated to perform this function, DMs play an important social development role in rural areas, as their responses to COVID-19 pandemic clearly illustrated.