

THE IMPACT OF THE COVID-19 PANDEMIC ON LOCAL 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 local municipalities (LMs) in the sample included Stellenbosch, Drakenstein (large municipalities), Bergrivier, Hessequa (medium sized municipalities) and Swellendam, Kannaland and Laingsburg (small municipalities). This fact sheet summarises the key findings from that study.

What factors influence the financial resilience of WC LMs to the pandemic?

While the pandemic has exerted short term financial and operational sustainability pressures, sampled WC municipalities on the whole have been more resilient under the circumstances than would have been expected.

- 1. Size and diversity of the revenue base is an important factor for resilience:** larger municipalities with more buoyant and diversified rates and service user charge bases fared better than their smaller counter parts. The composition of the local economy also played a major role: those dependent on agriculture where the drought had broken fared better than those reliant on the tourism and hospitality sector. Similarly, those municipalities with a higher proportion of industries designated as essential (such as financial services) and with more skilled residents who could take advantage of working from home arrangements. Smaller municipalities, such as Laingsburg, were placed under severe cashflow pressure with unspent conditional grants virtually the only funds in their bank accounts.
- 2. If there were challenges prior to the pandemic, these were magnified during the pandemic.** But municipalities with the systems maturity, governance stability, business continuity risk management and financial management capacity in place prior to the pandemic were better placed to respond agilely during the pandemic. Proactive strategies included: working from home, opening revenue offices early in the lockdown, intensifying pre-pandemic revenue enhancement strategies (e.g prepaid meters, e-billing, changes to tariff structures to include flat rate connection fees) and existing cost containment measures.
- 3. Hardest hit were the capital budgets of LMs.** The uncertainty occasioned by the pandemic cause LM's to adopt more conservative borrowing strategies with increased reliance on internal funds and capital transfers, some ceasing long term borrowing altogether. Drawing down of internal funds will have operational consequences in future, as well as additional pressure to raise tariffs to engender future operating surpluses to replenish capital reserves since borrowing for that purpose is not permitted.
- 4. Rates and user charges were not as strongly undermined as they could have been.** Smaller own revenue sources from fines, penalties, licences, rental of municipal properties etc. were, however, hard hit by the lockdown. The pandemic has made it more difficult to balance sustainability and affordability of tradeable services in the face of large scale loss of jobs and livelihoods. Debt impairment is expected to increase.

5. **Long term sustainability factors appear to be more important than COVID-19 in the near term, although this could change, should the pandemic drag on.** These include LGES increases, employment increases and bulk service increases, eroding electricity surpluses. Most significant expenditure pressures largely driven by systemic factors, not pandemic costs primarily, including unaffordable national minimum norms and standards, increased costs of landfill services, increase incidence of land invasion.
6. **Personnel budgets have the most significant scope for savings.** Cost containment strategies have been stringently applied and there is decreasing scope for savings as expenditure is pared to the bone.
7. **There has been an increased reporting compliance burden during the pandemic.** This is due to the special reporting requirements by National Treasury as well as the Auditor-General.
8. **The transition to Municipal Standard Chart of Accounts (MSCOA) remains a challenge.** This is, for example, evidenced by the number of negative balances in the Section 71 quarterly reports where correcting journal entries have been processed.

» *The interviews conducted as part of the research study reflect that MSCOA is not seen as a value add by high capacity municipalities and there are perceptions of insufficient support by the lower capacity municipalities.*

9. **The pandemic has also led to innovation on municipal level.** This was shown for example by Drakenstein municipality's small scale yet rapid and flexible emergency food security programme through partnering with an NGO, where e-vouchers were sent to recipient's mobile phones for redemption at local shops. The municipality's response turned out to be safer and more creative than the Department of Social Development's slower food parcel response which exposed recipients to infection by the virus in long queues.

Conclusion:

- **Overall impact of the pandemic on the short term sustainability in WC LMs until April 2021:**

The research revealed that Western Cape municipalities have shown remarkable short term resilience up until April 2021, even after the devastating drought and amidst the most devastating pandemic and concomitant lockdown restrictions.

- » This is partly attributable to strong and resilient financial and service delivery positions prior to the pandemic, and the competence, cohesion, continuity and experience of their management teams.
- » In addition, the most resilient municipalities also ascribed their favourable financial and operational sustainability to executive maturity and stability and good working relationships between the officials and politicians.

- **Longer term sustainability challenges to WC municipalities:**

There are serious concerns about longer term operational and financial sustainability, mostly as a result of factors outside the control of the municipalities.

- » The generally positive financial and operational sustainable position of most sampled municipalities cannot be interpreted as an indication that they will always cope (and complain) and therefore the status quo can be maintained.

The pandemic may have just accelerated the inevitable: a fundamental reconfiguration may be required of the current basket of services by local and district municipalities and arrangements between them, the business models by which these baskets are delivered, current grant allocation models, the arrangements around agency services and even possibly the current demarcation of boundaries, especially in the case of small municipalities.

For recommendations on how to enhance the fiscal and operational sustainability in Western Cape local municipalities see the fact sheet:

**ENHANCING FISCAL AND OPERATIONAL SUSTAINABILITY IN
WESTERN CAPE LOCAL MUNICIPALITIES**