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REPUBLIC OF SOUTH AFRICA



The Impact of COVID-19 on South African Municipalities

Survey Results

June 2020

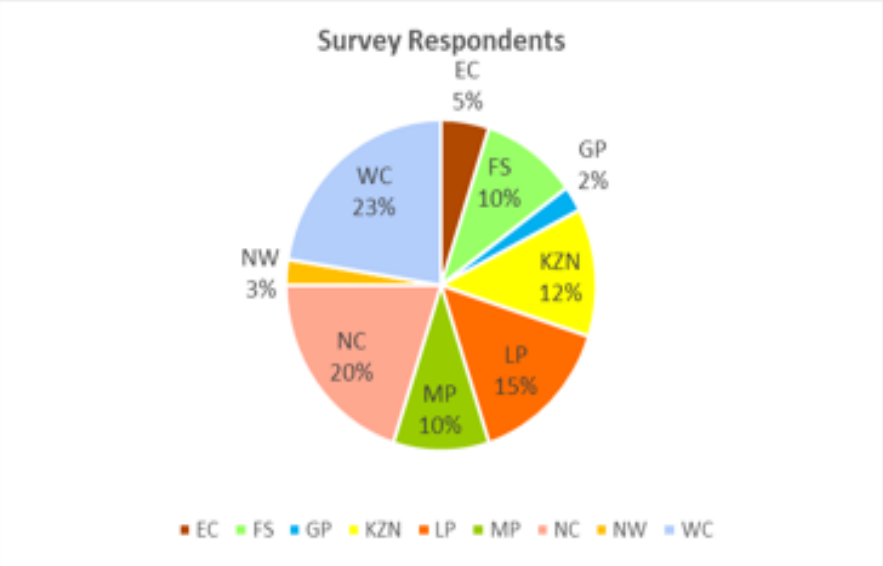
The Impact of COVID-19 on South African Municipalities

The COVID-19 pandemic is having a devastating impact on the economy of the country, and the health and livelihoods of its citizens. During this crisis, municipalities still need to function and provide essential services such as water, sanitation, electricity and solid waste removal. These survey results explore how they are coping.

During this unprecedented moment in time, it is more essential than ever that the municipal sector is able to carry out its duties towards local communities. In order to support municipalities and their communities, DPME developed a short survey to understand issues and challenges faced by South African municipalities as a result of the COVID-19 pandemic. Survey results will be used to understand the situation in municipalities and catalogue the potential support municipalities will require.

Participating Municipalities

The survey was launched in May 2020 and distributed to all 257 municipalities within South Africa. After a 3-week survey period, including necessary follow-ups as appropriate, **41 unique responses (16%)** were obtained. The geographical spread of municipalities participating is indicated below.



Most feedback was obtained from the Western Cape and Northern Cape, with 30% or more of municipalities in those provinces responding.

01 Impact on Municipal Revenue



This section explores municipal revenue trends and how this has been affected by COVID-19

78% are not well prepared to address periods of reduced revenue

68% noted a projected monthly revenue shortfall >20%



44% noted available cash reserves < 1 month

42% are assisting customers through delayed or reducing account payments

Current actions to assist customers

1. Temporary suspension of credit control and debt collection policies (i.e. do not cut off/disconnect services due to defaulting payments)
2. Temporary suspension of interest on arrears
3. Payment agreements to pay off debt
4. Temporary suspension of rates collection
5. Increased communication via Municipal website, SMS and social media

Many municipalities already have **strained cash flow**; COVID-19 will exacerbate current circumstance and have a **significant negative impact on municipal revenues**

Impact on Municipal Revenue

In the wake of COVID-19, municipalities are expected to provide additional services to communities during the lockdown.

As announced by the President, additional funding of R20 billion will be made available to municipalities to provide emergency water supply, to sanitize public transport facilities and to support vulnerable communities.

Additionally an estimated R1.5 billion in 2019/20 Municipal Infrastructure Grant funds are being redirected to urgent water supply projects.

But, considering how badly local government revenue collection has been affected by the sharp economic downturn, will this be enough to ensure the continuation of service delivery?

As the crisis unfolds, the impact on especially cities' bottom line will be driven not only by overall economic conditions but specifically the parts of the economy where revenue is generated: retail sales, income and wages, and real estate.

During its Annual Municipal Budget and Benchmark Engagement, with National Treasury (NT) held on 15 May 2020; City of Cape Town brought home the stark reality that with COVID-19, higher levels of unemployment and lower real disposable income is likely to increase levels of indebtedness and defaulting on payments for municipal services. At this stage already, Cape Town estimated a shortfall in the collection of revenue of R800m.

Over the May and June 2020 (2 month) period, Gauteng's metro's reported that in terms of uncollected revenue; The City of Johannesburg has lost at least R1.5bn, City of Tshwane lost approximately R1.2billion and Ekurhuleni lost about R800m. This trend may intensify over the peak of the pandemic, and will prevail for at least the foreseeable future.

A number of businesses may close down, resulting in a shrinking commercial rates base. Some of the largest sectoral impacts are in the manufacturing sector, averaging close to a 30% reduction in non-food related manufacturing. This is likely to result in reduced electricity and water consumption and resulting revenue collection from commercial power and water users.

Property rates and services revenue collection is highly vulnerable to defaulting by households as a result of income losses. Additionally the effect of COVID-19 may have a wide-ranging impact on the property market itself, which in turn will impact on property rates. The real estate industry is likely to be heavily affected (PwC estimate a 20% decline in the industry) which may translate into depressed property prices and lower valuations next year. To this end, the South African Local Government Association (SALGA) is warning that municipal revenue from rates could fall by 5% - an amount of about R14 billion - due to the lockdown. 13 May 2020.

The most effective solutions to this extraordinary challenge will need to take into account the uneven magnitude and timing of the fiscal impact that cities and smaller towns will experience across the country, to adopt also a differentiated approach, not only in terms of fiscal support and reprioritization being implemented in different municipal areas, but also how municipalities manage the impact of the pandemic on its revenue streams.

02 Impact of Mobilising Expanded Services



This section explores the impact of additional and expanded services required to deal with COVID-19 related challenges

83% have provided additional **water points**

54% have provided temporary shelter

44% require additional staff to carry out expanded services

85% have provided food parcels to needy constituents

Only **44%** have adjusted and approved their budget to include expanded services



66% have provided soap and other essential hygiene products

56% have adjusted O&M costs to mobilise expanded services

Perceived challenges

1. Defaulting rate payers
2. Increased registrations of indigents
3. Delayed financial assistance from Treasury
4. Emergence of other service related issues (e.g. illegal dumping, vandalism, invasion of public buildings and facilities)

Other noted challenges include: rising unemployment, non-payment by customers, lack of cash reserves - failure to pay salaries, failure to achieve targets, fatigue of essential staff, staff absenteeism, increased illegal connections, inability to plan and budget effectively, inadequate funding to deal with COVID-19

Impact of Mobilising Expanded Services

On 5 June 2020 News 24 reported that in just one month, the Covid-19 pandemic has put a R900-million dent in the revenue of The City of Tshwane.

The City of Tshwane has requested assistance from the national and Gauteng governments, as additional costs relating to food parcels and plans for the homeless were expected to amount to at least R850 million.

The City of Tshwane projects that it will need R290 million per month to provide food parcels for an estimated 500 000 households in need.

Participants in the survey have indicated that the majority of effort in respect of the delivery of expanded services is in providing additional water points, assistance with the distribution of food parcels to needy communities, as well as the provision of soap and other hygiene products albeit to a lesser extent.

In its briefing to the Parliamentary Committee on Cooperative Government and Traditional Affairs on 28 April 2020, the South African Local Government Association (SALGA) highlighted some of the challenges that municipalities face in executing regulations pertaining to expanded service delivery during the lockdown. These included the need to double if not triple the volume of water delivered to communities to maintain hygienic standards. Expanded services, specifically water tanks, and water tankers while costly are providing vital relief. Furthermore the extraordinary cleansing of public facilities, monitoring of social gatherings and availing accommodation for the homeless place additional pressure on municipal finances. According to Mr Mthobeli Kolisa, Chief Executive Officer (CEO) of SALGA:

“When a long-term solution was considered, the reality was that tanks were not cheap, and their running costs were currently estimated at R100 billion a month. This rate was particularly high in rural areas. The use of tanks placed a serious burden on municipalities through the logistical challenges, and a sense of expectation had been created, which had proved to go far beyond COVID-19. He asserted that the government would not be able to respond to these expectations.”

Since the establishment of the National Water Command Centre at Rand Water, an agency of the Department of Water and Sanitation, almost 19 000 water storage tanks and 1299 water delivery tankers have been delivered to mostly rural municipalities across the country where piped water has remained a challenge. One of the emerging problems that municipalities face is to keep the water tankers running and the tanks remain full. How to turn this investment into safe, reliable and importantly, an affordable service delivery mechanisms in future, however, remains a challenge.

While water tankers are a short-term intervention, there was a need to consider what would happen post-COVID-19, and provincial and national government would have to come together to shift the focus toward sustainable solutions.

A differentiated approach to municipal assistance is needed in that additional support should flow to municipalities that are faced with exceptionally high infection rates.

03 Impact on Municipal Expenditure



This section explores changes in municipal expenditure trends/priorities due to COVID-19 related issues

88% have redirected funds to assist with the COVID-19 pandemic

76% anticipate that redirecting funds will have a moderate to high impact on service delivery

Only **32%** have negotiated payment delay/reduction options with suppliers

Funds most often obtained from...

1. Road maintenance
2. Emergency preparedness & disaster response
3. Water
4. Sanitation
5. Electricity



Impact?

- Repairs, maintenance, construction & upgrade activities suspended or delayed
- Reduced operating capacity
- Inability to appoint staff/fill vacancies
- Inability to pay 3rd parties
- Non-essential projects delayed/redirected to next financial year
- Suspension of equipment purchases

Most of the regular services are suspended: it will be difficult to address the significant backlog in required activities

Impact on Municipal Expenditure

Balancing expenditure between the COVID-19 agenda and the Business-as-usual agenda will be one of the most significant challenges municipalities will confront the upcoming year.

Although it is difficult to see past the current crisis, leaders need to think about the future while managing day-to-day service delivery challenges.

In terms of the Regulations issued under the Disaster Management Act in March 2020 municipalities are required to revise their IDPs and budgets by prioritising programmes and projects aimed at containing the spread of COVID-19. These revised budgets had to be submitted to the national CoGTA before the end of May 2020. However, Lockdown regulations do not permit municipalities to convene any public meetings, including any IDP community and public consultation processes.

88% of survey participants reported redirecting funds towards their COVID-19 responses. As expected significant budget cuts to administrative functions and subsistence and travel occurred. However, funding has also been redirected away from municipal services functions such as road, electricity and water services, infrastructure operation and maintenance, solid waste management and emergency response services, such as fire fighting.

As early as 30 April 2020, Members of Parliament forming part of the National Assembly's Portfolio Committee on Co-operative Governance and Traditional Affairs raised concern about the lack of information provided on how and on what municipalities are allowed to spend the R20bn allocated to them to cushion the impact of Covid-19. There was agreement that there is an over emphasis on reduced venues as a result of COVID-19, but the impact of the expanded COVID19 service delivery obligations on day to day service delivery including new developments, spatial planning, etc. are not being considered systematically.

In its COVID-19 Response Plan, eThekweni Metro noted that costs incurred as a result of the crisis as at 30 April 2020 came to about R620 million, of which R565 million was unfunded expenditure alongside an estimated loss of revenue amounting to R1.5 billion. The metro furthermore noted that the increased interest rates resulting from the country's downgrade as well as the decreased revenue collection rates will impact on its ability to borrow.

Moody's noted that municipalities with strong liquidity profiles would be better placed to cope with short term reductions in cash flow while those with weak liquidity profiles will experience even greater liquidity challenges than before.

It is commonly known that one of the most significant challenges for South African municipalities are ageing infrastructure and the lack of proper operation and maintenance thereof. The redirection of funding from already poorly and underfunded O&M operations can be expected to increase service failures.

04 Impact on Service Delivery



This section explores changing or emerging basic service delivery challenges due to COVID-19

Services most often reported as not functioning effectively

1. Road maintenance
2. Emergency preparedness & disaster response
3. Water and waste water treatment
4. Solid waste
5. Sanitation
6. Environmental health services

Typical reasons for ineffective operations

- Not deemed an essential service
- Low cash flow/lack of funds due to low collection rate
- Unable to perform required maintenance
- Delays in projects; construction suspension
- Lack of spare parts; unable to conduct repairs
- Funds redirected to deal with COVID-19
- Limited staffing - only 33% of staff permitted to work
- Council meetings suspended
- Service providers not prepared to extend credit to municipality

46% agree that they have
sufficient stock of tools and
equipment

Top stock shortages

- Personal protective equipment (PPE), including gloves and masks
- Water and wastewater treatment chemicals
- Disinfectants and sanitizers

Additional safety precautions implemented

88% are sanitising public
spaces

56% are providing sanitation
stations

49% are sanitising commuter
transport facilities

Impact on Service Delivery

On May 27, 2020 it was reported that the eThekweni Municipality has revoked its Covid-19 lockdown relief scheme amid fears of a financial collapse. A report presented to the city's Executive Committee revealed that the municipality has R13 billion in arrears owing to it and if debt-collection processes did not resume, it would "be in serious financial trouble by year-end".

Voices of South Africa's Informal Settlement Residents during the COVID-19 Crisis reported for the week of 17 June 2020:

- The provision of sanitation in metropolitan informal settlements has not improved and remains at crisis levels everywhere except Ekurhuleni.
- Toilet cleaning and refuse removal in non-metro informal settlements are still extremely limited.

Several municipalities are starting to find it increasingly difficult to deliver water, sanitation and electricity to communities. This is, however, not only due to additional pressures brought about by the COVID-19 pandemic such as the additional strain on infrastructure due to homebound residents and increasing illegal connections to electricity networks but also pre-existing challenges such as failing aged infrastructure that has not been maintained. Over the past month, several service delivery failures were highlighted in the media; some examples include:

- A report on 25 May 2020 that residents in parts of Makhanda in the Eastern Cape have not had water for five days after the town's main water treatment works failed 20 May 2020;
- On 15 June 2020 a Marburg chip factory in the Port Shepstone area, KZN, was engulfed by a fire which took firefighters several hours to extinguish. This followed several other fires in the area including a residential house that burned down in the early hours of 2 May 2020, and several businesses that burned down in the main street of Umzinto on the morning of 5 May 2020. When questions on the weak response of the fire service were placed on the Council Agenda of May 27, the municipal manager stated that the fire chief was assigned additional duties.
- Eskom announced on 19 June 2020 that it will be implementing daily load reduction in Soweto, Vaal area and the West Rand from 5pm to 10pm to avoid network overloading. The power utility noted a significant rise in network overloading resulting from illegal connections across the high-density areas of Gauteng. This overloading was also persistent in areas with multiple backyard dwellings, bypassed meters, and vandalism of the electricity infrastructure resulting in damages to electrical infrastructure such as transformers, mini-substations and substations.
- Over the weekend of 20 and 21 June 2020 several regional newspapers reported on imminent and/or actual water service failures. These included the Mbombela Local municipality experiencing water losses of 25.2% due to illegal water connections and water leaks that are not timeously attended to, procurement procedures not followed and inflated contract amounts. The Mbombela municipality's spokesperson, indicated that in response to the Covid-19 regulations, and the priority to increase water supply has placed additional pressure on its infrastructure. Emalahleni Local Municipality's water distribution losses have reached 47% resulting in no further funding being available to upgrade the capacity of water treatment plants. As a result, the municipality is purchasing water from outside entities at escalated tariffs.
- In Gauteng, reports again surfaced of the Vaal's river/dam sewage pollution crisis. According to the report, many of the region's 44 pump stations remain dysfunctional, with the impact "...particularly noticeable in Vereeniging, with ongoing high sewage pollution levels in the Vaal River and in the streets."

COVID-19 has governments at all levels operating in a context of sweeping uncertainty, faced with difficult trade-offs given the health, economic and social challenges. Often the best organisational response to complex and ambiguous circumstances are to focus on doing the basics right while maintaining focus on core business.

05 Impact on **Municipal** **Staff**



This section explores the impacts of COVID-19 on the ability of municipal staff to perform required functions

90% of essential
on-site staff continue to
work effectively

63% indicate
that IT infrastructure
is suitable for the
home working
environment

98% of essential
office bound staff
continue to work
effectively



88% of essential municipal staff
are able to work remotely

78% provide safe transport to
essential workers

73% provide
appropriate internet
connectivity to essential
staff

Despite COVID-19 related challenges,
municipalities report that municipal staff
appear to be relatively **well-positioned to**
carry out their duties

Impact on Municipal Staff

National and provincial governments, as well as municipalities are required to adopt a variety of measures to mitigate employee health and safety risks.

These measures include the provision of materials or equipment necessary to prevent person-to-person transmission of COVID-19, the prioritisation of electronic handling of documents, and training of frontline and general staff on hygiene and sanitising of workspaces, as well as on COVID-19 risk identification and response protocols.

Since the onset of the COVID-19 pandemic, several infections and deaths of municipal workers have occurred. Unions have expressed their dissatisfaction with the health and safety precautions municipalities have been implementing to safeguard the health of its essential and frontline service employees. In Stellenbosch municipality 11 employees and councilors have tested positive for Covid-19 three municipal workers, three of whom have died. The Municipal and Allied Trade Union of South Africa (Matusa) are accusing municipalities of trying to keep all COVID-19 cases quiet to prevent numerous workers from going into self-isolation.

Solid waste management and refuse removal services seem to be an area of increasing contention for municipal staff. - For example, on 12 June 2020 refuse collection and sewage-related services in George, Western Cape have been severely affected by striking municipal workers demanding Covid-19 related danger compensation. . The motivation in favour of additional compensation is that COVID-19 infections present an extra financial burden for these workers as their salaries often do not permit them to be members of medical aid schemes.. Also on 17 June 2020, Unions warned of possible mass action by municipal workers in the City of Cape Town due to their members' frustration with late or non-payment of salaries. It is alleged that the City is placing solid waste workers on unpaid leave due to insufficient PPE.

Furthermore, municipal workers were due to receive a wage increase of 6.25% on July 1 2020 as part of the last leg of a three-year wage agreement signed at the SA Local Government Bargaining Council in 2018. As salaries represent a substantial portion of municipal expenditure the National Treasury has urged municipalities to apply for exemption from the multiyear wage agreement to offset some of the additional costs associated with COVID-19 pandemic.

Although the survey revealed that municipal staff appears to be relatively well-positioned to carry out their duties despite COVID-19 related challenges, this might only be true for a limited duration.

As infection rates increase and it becomes more difficult to avoid contact with COVID 19 positive individuals, absenteeism due to ill health is expected to increase substantially, hampering the effective delivery of municipal services.

Such a scenario could result in intensified labour action should workers and unions feel that the health and safety of the municipal labour force is not the main priority.

The current reality ...

Revenue collection	↓	Illegal connections	↑
Cash reserves	↓	Payment to creditors	↓
Defaulters/non-payment	↑	Refuse collection	↑
Indigent applications	↑	Facilities disinfection & PPE	↑
Account disputes	↑	Chemical toilets	↑
Payment extensions/exemptions	↑	Staff absenteeism	↑

What do we do if things continue this way for an **extended period of time?**

There are broader long-term impacts beyond the COVID-19 pandemic.

Municipalities need to think innovatively to adapt to uncertainty.

How will municipalities continue to deliver efficient and effective services in an even more financially constrained future?

Educate communities on social distancing, hygiene and safety measures	😊
Focus on provision of sustainable services through efficient technologies	😊
Consider long-term financial implications in planning & budgeting	😊
Investigate community-driven interventions and volunteer programmes	😊
Seek opportunities for public-private partnerships	😊
Facilitate shared responsibility for the health and safety of every citizen	😊

Do not lose sight of the future...

An article published on <https://www.plantemoran.com/> on the 23rd of April 2020, raises a very pertinent discussion about how a post-COVID-19 municipality will look like and how it will ensure continuous and sustained service delivery.

“Understanding the revenue picture will — across the board — be one of the greatest challenges in the upcoming year.”

For the 2020/21 financial year, it is projected that municipal collection ratios will continue to decline up until at least the end of June 2021. Electricity is anticipated to present a major challenge as electricity revenue is often used to cross-subsidise other non-revenue municipal functions, such as cemeteries, community swimming pools and police stations, these services will inevitably also be affected by declining electricity revenues.

Regarding property rates, the Municipal Finance Management Act (MFMA) does not make provision for special rebates. The anticipated reduction of income in specifically coastal cities and the hospitality industry will have a significant effect across all municipalities. Anticipated revenue from events hosted at e.g. municipal-owned stadiums and convention centres, as well as fines from traffic offences are also anticipated decrease markedly. .

The plantemoran.com article, recommends that local governments should view the required adaptation in three stages:

- **React:** This is the phase we are in currently – characterised by crisis management. The focus has been on immediate concerns: keeping residents safe while continuing to provide municipal services to the extent possible.
- **Adapt:** As municipalities move through the crisis management phase, the focus will need to shift to the upcoming year requiring them to address budgetary and operational challenges. Many municipalities had to finalise new budgets in May and June without a clear understanding of the full impact COVID-19 will have on their primary sources of revenue. Municipalities will therefore potentially start the new fiscal year with a budget that lacks clarity on key revenue assumptions and the necessary expenditure reductions to compensate for this scenario. More than ever, municipalities need to be prepared to make adjustments on the fly. In many situations, these decisions will be painful to municipalities and the communities they serve. National and Provincial Treasuries, CoGTA and sector departments will need to be ready to support as required.
- **New normal:** As a result of the pandemic, the municipality itself, the provided services, and the ways in which those services are delivered may need to change and adapt. Innovation and flexibility from all stakeholders will be a crucial requirement.

Leadership matters the most right now.

Municipalities should be guided through a post-COVID-19 transition to continue to serve their communities, minimise negative economic impacts, and maximise their economic recovery.

According to the UNCDF the additional local services provided should not place excessive financial demands on local budgets. The focus should instead be on efforts to increase and leverage citizen's collective responsibility for their cities and towns thereby taking advantage of inherent local societal resilience.



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