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COVID-19 AND REVENUE RISKS

Introduction

We are now over two weeks since the declaration of a national disaster in South Africa, following worldwide trends to deal effectively with the Corona Virus Disease. Now 12 days into the lockdown municipalities can start to see the potential impact on cash flows and how this crisis will impact the long-term sustainability. While Disaster Recovery Plans (DRP) are in place, it is almost certain that no Municipality has planned for a disaster like the one currently being faced whereby staff are prevented from gathering together to work off site at another site. The requirement in lock-down is to work offsite in an isolated manner without the support of the municipal infrastructure, which puts a high level of strain on the capacity of each municipality.

This significant challenge is further impacted by the downgrading of the sovereign credit rating by Moody's when the South African economy is already in depression. This creates the risk of slow recovery of lost income by municipalities because the repercussions of the depressed economy is exacerbated by the impact of this downgrade in a period where most businesses are not even able to operate due to the current lock-down.

CIGFARO, through this document, will endeavour to provide some assistance to members and municipalities to consider their revenue streams, planning ahead during the period of lockdown so as to take the necessary actions after the lockdown in order to retain or restore a financially sustainable path.

Disaster Preparedness:

Each municipality has its own financial system which is the backbone and driver to manage the raising of revenue and the related collections. Collections are usually done internally by the municipality. In exceptional cases the collection of revenue is done through external service providers, but this is not readily recommended. Municipalities should deal with their own credit control and debt collection processes to retain customer centricity, only outsourcing the final debt collection procedures when debt has to be handed over for legal collection procedures to take place. The main reason for managing the collection of revenue through the municipal administration is the ability of the Municipality to apply legislation to its benefit during the collection processes. The municipal DRP should provide for channels of payment in times of disaster and the related reconciliation of receipts. In this regard the following is paramount:



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1. Identification of Critical Staff

The DRP should clearly identify the critical staff in the event of a disaster, irrespective of the type of disaster. These staff members must have a clear line of command to the Joint Operations Centre (JOC). They must also have clear mandates of the roles they have to play during the disaster. In the Finance Directorate, their operations will focus on the sustainability of the municipality through the collection and management of cash. These staff members must be issued with the necessarily resources to operate remotely from their base and the issuing of relevant computer equipment, and cell phone dongles (3G/4G) or the creation of Virtual Private Networks (VPN) is part thereof, unless the municipality has the capability through a radio or other internal networks.

Remote access to key staff is important. Logistics regarding the use and payment of data and cell phone contact systems must be in place. It could either be through direct cost to the Municipality and or allowance to the staff member. However, this second arrangement requires careful management and should only persist during a disaster period. The cell phone dongles should be collected and stored at a safe place after the period of the disaster with the monthly costs of retaining such access in case of emergency or disaster being carefully considered.

2. Receipting of Cash

Cashiers internal to the Municipality will not be operational but third-party collection cashiers external to the municipality, like 'Pick'n Pay' are working at this time. The receipting system, if it is not part of the billing system and so is a stand-alone system, should be up and running. This requires that the IT department/Unit is working as an essential service during this period. The reason for this is to ensure that the CFO is always aware of the payments coming in.

3. IT Department/Unit

As indicated above the IT department in a Municipality is the backbone of operations during a disaster and the reliability of network communication and operations is utmost importance. The DRP of a municipality should therefor make provision for these requirements and budgets should be allocated in the period of a disaster to ensure resources are always available to sustain the provision of essential services.

4. Billing Procedures

The DRP of the Municipality should indicate the ongoing billing for services rendered irrespective of the type of disaster, whether it is a destruction of the base or the kind of crisis situation that we are currently in. The financial sustainability and ongoing provision of essential services requires ongoing billing procedures. Municipal finance personnel should therefor ensure that billing processes continue in order to keep revenue raising as current as possible.

5. Posting of bills

The DRP of the Municipality should express the processes to be used during the dispatching of bills. This should deal with the standard postal services and electronic postal of bills such as email and MMS or SMS notification of the total amount due to the municipality.

6. Reading of Meters

Reading of meters should be done as far as possible in order to be able to bill customers on accurate usage of services. Where meter reading is not possible then estimations based on historical usage should be performed to determine the probable consumption for billing purposes.



7. **Communication plan**

A Municipal DRP has to be supported with a communication plan which will provide the local community with critical information regarding the municipal operations during the disaster period. The communication plan should inform the local community of payment options available during the disaster period. Any variations in standard municipal services should also be clearly communicated and the availability and means of accessing any disaster relief support must also be clearly spelt out with the relevant qualifying criteria where necessary.

Disaster Period

This is the period we are currently in while in lock-down. Critical staff should have invoked the municipal DRP to ensure the sustainability of the municipality and municipal services. It was always planned that a new office centre would be created in the likelihood of a disaster - it was never envisaged that staff would be forced to stay at home. This is undoubtedly an exceptional and unprecedented circumstance which needs innovation and flexibility to manage and ensure productivity, particularly in critical operations, is maintained.

The DRP will spell out the operations of the JOC and how and when will the Rules of Order be invoked to take certain critical decisions as and when required. It should be mentioned that the sustainability of the municipality should still be the main driver for any decision taken. It is prudent, in the current circumstances in South Africa, to raise the following points that should be considered by municipalities during this period.

1. **Staff and operations**

Critical staff should be issued with travel permits to be able to be called into the office to attend to certain critical operations. These administrative tasks are not limited to cash balancing and receipting certain direct payments into the bank accounts.

2. **Billing**

Billing should continue with consumption based on historical use. Customers should be allowed to email and SMS meter readings that could be capture by critical staff, if this functionality exists.

3. **Rates & Services Holidays**

Any form of rates and services holiday is discouraged (refer to MFMA Section 164 (1) (c) (iii)) and any municipality embarking on deferred payment opportunities should only do so within the confines of the Credit Control and Debt Collection Policy provisions after careful analysis of the impact of such decision and the longer term recovery period required. It is estimated that to recover from any payment arrangements could take between two and three years depending the aggressiveness of the collections and the economic climate. The current economic climate doesn't pose an optimistic outlook hence the view to rather reconsider the 2020/21 Budget and determine the expenditure that could be cut, service offerings that could be minimised and other services that could be eliminated in order to reduce the rates and tariff charges. What could be considered by municipalities is the suspension of interest on arrear accounts due to the fact that interest raised could be seen as non-planned income and therefor it should not have a huge impact on the budget.



4. Postage

The standard postal services are also in a lockdown resulting in the non-delivery of bills during the lockdown period. This might not have such a big impact on smaller municipalities, but it certainly has a huge impact on Metro's and larger cities who bill more than one day in the month. This could however have a direct impact to all municipalities if the period of lockdown is extended into a longer period. This eventuality should be considered and the necessarily plans implemented to provide customers with a bill through some alternative mechanism.

Municipalities could have a facility on their websites where customers can query their bills, bills could be sent via email to customers with the option for customers to register their e-mail addresses where those are not held by the municipality. Further, the balance on the bill could be sent out via SMS where cell phone numbers are available or, as a last resort, municipalities could advise through their communication that customers pay their average bill amount until the bills can be posted.

5. 4IR

The implementation of fourth industrial revolution (4IR) techniques has become more and more important to assist municipalities in disasters like the one we are currently experiencing. It would require that all municipalities start by adopting a virtual office concept whereby critical functions could be performed by BOT's. This, amongst others, could include the answering of queries, emailing of bills, accepting meter readings and processing them. The use of technology to conduct meetings should be explored and here ZOOM, Microsoft Teams and Skype for Business are some options readily available.

Post lock down

All municipalities, irrespective of size, should during and post the lockdown period assess the adequacy of the DRP and risk registers. This is a prudent period to identify areas where planning is lacking and or where risk registers are lacking adequate identification of risks with mitigation plans.

All municipalities are facing the risk to remain financially sustainable amidst this lockdown period whereby local economies have come to a standstill with the potential of many citizens to either lose their jobs and or only receive a portion of their salaries over the foreseeable future, making it extremely difficult for municipalities to collect their revenues.

Municipalities have to look into post lockdown at certain essential issues such as productivity and Recovery Plans must incorporate ways and means to catch up lost productive working time without payment of overtime; cost effective spending strategies and, in some instances, the suspension of certain non-essential expenditure which is not directly linked to service delivery, such as travelling, events, etc.

As CIGFARO we request each and every member to stay safe, apply the necessarily caution when you have to go outdoors and also to remember that we have a duty towards our local communities in keeping our municipalities financially viable. If you have any questions you are encouraged to contact the office for assistance by emailing ceo@cigfaro.co.za.

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