# A RETROSPECTIVE FINANCIAL SUSTAINABILITY ASSESSMENT OF LOCAL MUNICIPALITIES IN OVERBERG DISTRICT (2009 - 2019).


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**A thesis submitted in fulfilment of the requirements for the degree**

## DOCTOR OF PHILOSOPHY

**(PUBLIC ADMINISTRATION)**


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# DECLARATION

I, **Dean Gabriël Ian O'Neill**, declare that the current study, *A financial sustainability assessment of the four local municipalities in the Overberg District* is my own work. It has not been submitted before for any degree or examination in any university, and all sources have been duly indicated and acknowledged by means of references.

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**Dean Gabriël Ian O'Neill** **Date of Submission**

# DEDICATION

This thesis is dedicated to my late parents, Charles and Mary O'Neill, who through their hard work, integrity, and dedication to their children, have inspired me to always do the right thing, even if no one is watching. Thank you for shaping me into the human being I am today.

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# ABSTRACT

The future existence of municipalities will be determined by their ability to remain financially sustainable in an increasingly constrained economic and politically volatile environment in their quest to provide and maintain quality and affordable services to all the residents within their jurisdiction. The State of Local Government Report (SLGR) as far back as 2009, states that financial management in municipalities is extremely challenging. It identifies poor governance, a weak skills base, inadequate provincial support, abuse of power, fraudulent activities, and weak revenue bases as well as the increasing reliance on government grants and poor debt collection as issues that negatively influence sustainable service delivery. The above statement remains true about sustainability within most municipalities currently in South Africa, taking the findings of the latest report on the State of Local Government Finances and Financial Management (SoLGF) into account.

The main purpose of this study was to do a financial assessment with specific reference to the sustainability of the four local municipalities within the Overberg District Municipality (ODM), namely Cape Agulhas (CAM), Overstrand (OM), Swellendam, and Theewaterskloof (TWK) from 2012 to 2019. This was done by measuring the actual performance of these municipalities against the financial health measures identified by National Treasury (NT) for municipalities over the period under review. The results of this assessment together with that of the financial ratios used by the Auditor-General of South Africa (AGSA) and NT in their assessment of municipal finances allowed the researcher to reach a cognisant conclusion. The study was augmented with the analysis of the information gained from the interviews conducted with the political and administrative leadership of each municipality.

The study is significant as municipalities need to guarantee that they are financially sustainable to carry on providing much-needed basic services. Analysing the financial performance of the municipalities produced information that serve as an early-warning system to alleviate the further regression of the financial situation and inform future decisions in terms thereof. The findings may further assist in contributing towards the effective management of municipal finances as well as the financial sustainability within municipalities.

The primary objective of the study was to assess the financial performance of the local municipalities within the Overberg District Municipality over an extended period. A secondary objective was to ascertain factors that limit or facilitate improved financial management within municipalities that may have an influence on their sustainability.

The researcher performed a literature review of the relevant legislation and analysis of the financial data for the period under review, together with an evaluation of the annual financial statements and annual reports to determine the performance of the municipalities in terms of financial performance, financial position, and cash flow for the period under review.

The study used mixed research methods. The qualitative research methods used in this study were structured interviews while quantitative methods were limited to the evaluation and analysis of the historical financial data over the study period.

On a high level, the study found that the Overstrand Municipality is the strongest in the district followed by Theewaterskloof, Cape Agulhas, and Swellendam Municipalities. This trend was evident in all items but most noticeably in assets, cash, and cash equivalents as well as revenue and capital expenditure. Overstrand's financial superiority to the other municipalities is further reflected in the cash coverage ratio of 11.52 in comparison with the 2.54 for Swellendam and 1.71 for both TWK and CAM. The cash surplus of OM is even more prominent with a healthy R248.58 million realized at the end of 2019, compared to that of Swellendam and TWK disclosing a surplus of roughly 10% of OM's disclosure and CAM at R12.70 million. Further to the above, the financial health of OM is also obviously reflected in its liquidity ratio of 3.10 followed by Swellendam (2.12), CAM (2.03) and TWK (1.68).

Keywords: financial management, performance management, financial sustainability, financial ratios, municipal budget, annual report, annual performance report, annual financial statements, basic services, financial viability and management, performance objectives, integrated development planning

# LIST OF ABBREVIATIONS AND ACRONYMS

| | | |
|---|---|---|
| AFS | - | Annual Financial Statements |
| AG | - | Auditor-General |
| AGSA | - | Auditor-General of South Africa |
| AO | - | Accounting Officer |
| ASB | - | Accounting Standards Board |
| CAM | - | Cape Agulhas Municipality |
| CoGTA | - | Department of Co-operative Governance and Traditional Affairs |
| CPA | - | Classic Public Administration |
| CPI | - | Consumer Price Index |
| CRR | - | Capital Replacement Reserve |
| DMP | - | Demand Management Plan |
| DoRA | - | Division of Revenue Act |
| EAP | - | economically active people |
| FFC | - | Finance and Fiscal Commission |
| GASB | - | Government Accounting Standards Board |
| GDPR | - | Gross Domestic Product Rate |
| GRAP | - | Generally Recognised Accounting Practice |
| GVA | - | Gross Value Add |
| IASC | - | International Accounting Standards Committee |
| ICT | - | Information and Communication Technologies |
| IDP | - | Integrated Development Plan |
| LGA | - | Local Government Australia |
| LTFP | - | Long-Term Financial Plan |

| | | |
|---|---|---|
| MDB | - | Municipal Demarcation Board |
| MFMA | - | Municipal Finance Management Act |
| MIG | - | Municipal Infrastructure Grant |
| MSA | - | Municipal Structures Act (1998) |
| MSA | - | Municipal Systems Act (2000) |
| mSCOA | - | Municipal Standard Chart of Accounts |
| MTREF | - | Medium-Term Revenue and Expenditure Framework |
| NERSA | - | National Energy Regulator South Africa |
| NPFM | - | New Public Financial Management |
| NPM | - | New Public Management |
| NT | - | National Treasury |
| ODM | - | Overberg District Municipality |
| OM | - | Overstrand Municipality |
| OPCAR | - | Operation Clean Audit Report |
| PFM | - | Public Finance Management |
| PP | - | Public Protector |
| PPE | - | Property, Plant and Equipment |
| PPP | - | Public Private Partnerships |
| SCM | - | supply-chain management |
| SDBIP | - | Service Delivery and Budget Implementation Plan |
| UK | - | United Kingdom |
| USA | - | United States of America |
| WC | - | Western Cape (province) |

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# Chapter One: Overview and Introduction of the Study

## 1.1 Introduction

The future existence of municipalities will be determined by their ability to remain financially sustainable in an environment of economic uncertainty and political instability. Financial sustainability is crucial to ensure the continued provision and maintenance of quality and affordable services to all the residents within their area of jurisdiction. In terms of Section 1 of the Local Government: Municipal Systems Act, 2000, "financially sustainable" regarding the provision of a municipal service, means the provision thereof in a manner aimed at ensuring that the financing thereof is sufficient to cover the costs of building, operating, and maintaining the service.

According to the State of Local Government Report (SLGR) (2009:69-70), financial management in municipalities is extremely challenging. The report identifies a weak skills base, inadequate provincial support, abuse of power, fraudulent activities, and weak revenue bases as well as the increasing reliance on government grants and poor debt collection as issues that negatively influence sustainable service delivery. The most recent publication by the National Treasury (NT) on the state of municipal finances and financial management (SoLGF) concludes that municipalities in financial distress are symptomatic of mediocre cash flow management and an upsurge in outstanding debtors and creditors based on their financial health indicators (SoLGF, 2017:8).

The Auditor-General of South Africa (AGSA, 2014:71) echoes some, if not all the above-mentioned findings in his general report on the audit outcomes of local government for the 2012/13 financial year. During this audit, the AGSA found that there was an increase in consumer debtors, underspending of the capital budgets and grants, and overspending on the operational budgets. The Auditor-General (AG) also found that 25% of the auditees, meaning municipalities and their entities, either disclosed in their financial statements that material uncertainty exists regarding their ability to operate as a going concern or were qualified due to the non-disclosure thereof. These include nine district municipalities, 52 local municipalities, and 19 municipal entities. In the 2019 Consolidated General Report on the Audit Outcomes for Local Government (2019:8-9), the AG focused on accountability and stated that the key message from this audit (2017/18 financial year) was that the various role players have been slow in implementing their recommendations and disregarded them in most instances.

This resulted in the continuous deterioration of accountability for financial and performance management. The main indicators of this are an overall regression in audit outcomes and a continued increase in irregular expenditure, a lack of consequences management for transgressions and irregularities, and an increasingly difficult environment for auditors and other role players in accountability, for example, internal audit committees. The fact that the SLGR was released in 2009 and updated in 2016, and with municipalities still struggling with the same challenges at present, as was found by the AG, confirms that municipalities are struggling to manage their financial sustainability. Thus, this calls into question the effectiveness of the legislative interventions and in some instances hands-on support from the national and provincial government and specifically the treasury departments in the latter two spheres.

The Local Government: Municipal Finance Management Act (MFMA) (RSA, Act 56 of 2003), which came into effect on 01 July 2004, was a calculated attempt by the national government to transform, standardise, and tighten the control of municipal finances. This was done to ensure that public money is spent only on the mandated municipal services provided for in the Constitution of the Republic of South Africa (RSA, 1996) to make officials responsible and accountable for managing municipal finances comprehensively. The MFMA further allows for measures to curb corrupt activities, thus legislating the importance of sound financial management for municipalities and in return enhancing financial performance and sustainability.

The Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers (RSA, 2006) (Performance Regulations) were promulgated effective August 2006 to regulate performance management in the local government sphere. These regulations identified five Key Performance Areas (KPAs): Basic Service Delivery; Municipal Institutional Development and Transformation; Local Economic Development; Municipal Financial Viability and Management; and Good Governance and Public Participation. Municipal Financial Viability and Management is one of the regulated KPAs and municipalities are obliged to include it in their own performance management systems, thus emphasising the importance of ensuring financially viable and sustainable municipalities.

With this legislative framework in place and in an ideal setting, one could assume that, at least the foundation was laid to ensure that municipalities become viable economic entities, thus ensuring financial sustainability. However, this seems not to be the case in most municipalities as the 2019/20 financial year findings of the AGSA of local government show that, in general, the financial management in most municipalities in South Africa is weak. The AG states further that the financial position of more than a quarter of municipalities is so alarming that substantial doubt exists that these municipalities will be able to remain operating as a going concern soon. This means that effectively such a municipality is unable to cover its expenditure and owes more money than it has. Up to half of the other municipalities are demonstrating signs of financial stress, which includes low debt recovery, the failure to pay creditors, and shortfalls (AGSA, 2021:8). The AGSA thus established a link between poor financial management and poor financial performance doubting a municipality's ability to remain operating as a going concern in future should this be the case. Hence, as the study unfolds, there will be frequent referrals to financial management as the two (financial management and performance) are intrinsically linked.

The focus of this study is on how to ensure or improve financial sustainability using a longitudinal study of the local municipalities in the Overberg district. The study was done by measuring the actual financial performance of these municipalities against the financial health measures identified by NT for municipalities over the study period. It was further augmented by analysing the information obtained from the interviews conducted with the political and administrative leadership of each local municipality within the Overberg region. The result of this assessment, together with that of the financial ratios used by the AGSA and NT in their assessment of municipal finances, as well as data obtained from the interviews were used to make certain findings.

This chapter is organised in eight sections. Section 1.1 is the introduction above; section 1.2 presents a background and context to the study. In section 1.3 the problem statement is discussed while section 1.4 gives effect to the research objectives and describes the research questions. Section 1.5 provides the rationale for the study. Sections 1.6 and 1.7 discuss the research methodology, define the scope, delimitation, and research design. Section 1.8 presents a framework of how the rest of the chapters in the study will be organised, and section 1.9 provides an ethics statement.

## 1.2 Background and Context

The transformation of local government within a democratic South Africa started in 1993 with the promulgation of the Interim Constitution of 1993 (Act 200) (RSA, 1993a). This was followed by the Local Government Transition Act (RSA, 1993b), which provided for provisional transformational structures and systems. The Constitution (RSA, 1996) envisages three spheres of government (national, provincial, and local) which are distinctive, interrelated, and interdependent. This was followed by the Municipal Demarcation Act 27 of 1998 (MDA) (RSA, 1998a) that allowed for the redetermination of municipal boundaries as well as the Local Government: Municipal Structures Act (MSA) (RSA, 1998b) that provided for the categorisation and defining of the political structures and municipal office-bearers.

The most significant outcome of the MDA (RSA, 1998a) was the amalgamation of municipalities, thus reducing the number of municipalities from 834 to 278 initially and then to the current 257. Municipalities during the apartheid era pre-1994 were demarcated in a manner that advantaged the white minority to the disadvantage of the black majority. The MDA made allowance for criteria to take the above abnormality of the unequal distribution of critical resources, into account and effectively amalgamated the previously racially segregated black and white town councils. With reference to finance and financial viability, the MDA demarcation objective was to determine municipal boundaries to establish an area that would enable the municipality to fulfil its constitutional obligations, including having a tax base as inclusive as possible of users of municipal services in the municipality.

The intent was to create wall-to-wall municipalities, which eliminated the need for the previous regional services councils that largely served the interests of the farms and rural communities outside the traditional urban areas. The effect of the initial demarcation, which came into operation after the local government elections in 2000 was that the number of municipalities were significantly reduced. Subsequent demarcations have led to further amalgamations, resulting in the current 257 municipalities in South Africa.

The Municipal Systems Act (MSA) (RSA, Act 32 of 2000) institutionalised the transformation of municipalities by providing for the appointment of a municipal manager and other senior managers, the integration of development planning, performance management, approval of staff establishments, and other systems and methods to improve municipal governance, to name a few. It also provides for the development of an Integrated Development Plan (IDP) that is the sole, inclusive, and strategic plan for development in a municipality. The budget of a municipality must be informed by the IDP as a means of establishing and strengthening the link between the finances of a municipality and sustainable development.

Municipalities must allocate resources from their budgets in accordance with the objectives and priorities identified in the IDP. The IDP is developed with inputs from the public, this means that objectives and projects are identified in consultation with the public. Then the municipality is obliged to report to the council, the community, and to provincial and national government on the implementation of its IDP and budget. Officials and councils are held responsible and accountable for the implementation of their budgets and IDPs through the publication of the audited annual reports, which include performance reports and audited financial statements.

While the MSA (RSA, 2000) seeks to provide a legislative framework towards addressing the service delivery inequalities of the past and allows for the social and economic upliftment of communities, the government also works towards the transformation of the financial management system within local government. The MFMA (RSA, 2003) was assented to on 09 February 2004, with a commencement date of 01 July 2004. Before this, municipal finances were regulated by the Local Government Transition Act (RSA, 1993b), which as alluded to earlier, focused on transitional structures and systems. The MFMA was specifically formulated to focus on municipal finances.

The aim of the MFMA (RSA, 2003), as stated in the preamble thereto, is to "secure sound and sustainable management of the financial affairs of municipalities…, establish treasury norms and standards…" among others. There is a close link and alignment between the MFMA and the MSA. Both Acts deal with internal and public consultative processes, performance systems, and accountability mechanisms. The above integration is given effect to in Section 21(a) of the

MFMA (RSA, 2003), which states that processes for the preparation of the annual budget and the revision of the IDP must be coordinated by the mayor.

Relating to performance, Section 68(3)(a) of the MFMA (RSA, 2003) instructs the accounting officer (municipal manager) to submit a draft Service Delivery Budget Implementation Plan (SDBIP) and draft performance contracts to the mayor within 14 days after the annual budget has been approved by council. The SDBIP is developed considering the objectives of council as stated in the IDP and the approved annual budget and specifies the actions and times on how the budget would be implemented. As indicated earlier, one of the KPAs that was regulated in the Performance Regulations, is that of financial viability and management. Municipalities are thus obliged to measure and evaluate their performance in terms of this KPA, further emphasising the importance of sound financial management and viability.

The MFMA further obliges municipalities to prepare and submit annual financial statements to the AGSA, who must audit the financial statements and produce a report on them for submission to council within three months of receiving them. In terms of Section 121 of the MFMA (RSA, 2003), every municipality must prepare and adopt an annual report for each financial year, which must provide a record of the activities performed during the financial year, a report on performance against the approved budget, and promote accountability to the local community on decisions taken by the council. Section 46 of the MSA (RSA, 2000) instructs municipalities to prepare annual performance reports for each financial year reflecting the performance of the municipality during that financial year. This report must also compare performances in the year under review against targets set for the previous financial year and must include measures taken to improve performance. The annual performance report must form part of the annual report of a municipality, as mentioned earlier.

The annual report, which also includes the financial statements, is audited by the AGSA as part of their constitutional mandate to provide external auditing services to all public entities and spheres of government. The AGSA is a state institution supporting constitutional democracy, established in terms of Chapter 9 and specifically Section 188 of the Constitution (RSA, 1996). As an independent external auditor, the AGSA thus provides assurance and enables oversight, accountability, and governance in the public sector. It has become common knowledge that the

AGSA's reports on municipalities over the last few years, indeed, paint a very bleak picture on the financial state of municipalities in South Africa.

In his foreword in the Consolidated General Report on the Audit Outcomes of Local Government, 2011/12, former AG, Mr Terence Nombembe, states that only 5% of auditees received a clean audit. He states further that the rest had material findings on either the usefulness or reliability of their annual performance reports, or non-compliance with legislation, or both. The previous AG, Mr Kimi Makwetu, in a media briefing dated 23 May 2018, where he made the findings for the 2016/17 municipal audits public, states the following.

> When we released the 2011/12 municipal audit outcomes in August 2013, we highlighted, amongst others, a lack of decisive leadership to address the lack of accountability by ensuring consequences against those who flouted basic processes that hampered effective municipal governance. We reported weaknesses in internal controls and the risks that needed attention in local government by providing root causes for audit findings and recommendations to remedy these underlying causes. It is now five years later, and we are still faced with the same accountability and governance challenges we had flagged throughout these years. There has been no significant positive change towards credible results; instead, we are witnessing a reversal in audit outcomes (AGSA, 2018).

These findings by the AG and specifically the ones pertaining to the usefulness and reliability of the information in the annual performance reports, which include the financial performance, of municipalities, are linked directly to performance management and are indicative of the effectiveness, or the lack of financial performance management within municipalities.

Moynihan (2008:5) defines performance management as a "system that generates performance information through strategic planning and performance measurement routines and that connects this information to decision venues, where, ideally, the information influences a range of possible decisions." Cayer (2004:110) agrees with this to some extent by stating that performance management involves various activities to advance the efficiency and effectiveness of organisations. Bouckaert and Halligan (2008:100), encapsulate both views above as they argue that performance management puts a programme of performance management in place where it may be considered as a continuing process that regulates the planning, managing, reviewing, rewarding, and development of performance.

These principles are also evident in the implementation of performance management in municipalities. As explained earlier, there must be a defined link between the municipal strategy and a fully funded budget; hence, it must be supported by the MSA and the MFMA. After this, regular measurement, reporting and if necessary, changes in previous decisions will follow. However, one needs to define what needs to be measured and how the information resulting from the measurement will then be used to influence future decision-making. For the purposes of this study regarding performance management, it will be limited to the financial performance of the relevant municipalities.

Mc Kinney (2004:2) defines public financial management as the process by which government uses the means to gather and allocate resources or funds centred on specific priorities and utilises methods and controls to effectively reach objectives determined by the public. Brigham (1998:1), on the other hand, cites definitions by Howard and Upton, 2002, "[Financial management] is the application of general managerial principles to the area of financial decision-making" and Joseph and Massie, 2003, "Financial management is the operational activity of a business that is responsible for obtaining and effectively utilising the funds necessary for efficient operations." Although there is general agreement with all these definitions relating to the local government context in some way or another, Mc Kinney's definition is the most appropriate for the study. The study objective was to determine if the diligent application of financial management principles, and more specifically, financial performance measures, supported by political decisions over the period of the study did indeed contribute towards the future sustainability of the municipalities.

The NT provided guidance in terms of what needs to be measured to determine municipal financial health. The NT, in the State of Local Government Finances and Financial Management Report (National Treasury, 2013) states that there is no single measure that can be used to assess the financial health of a municipality. The NT identified eight key measures that they use to evaluate the state of a municipality's finances:

(a) cash as a percentage of operating expenditure;
(b) persistence of negative cash balances;

(c) over- or underspending of original operating budgets;
(d) underspending of original capital budgets;
(e) debtors as a percentage of own revenue;
(f) year-on-year growth in debtors;
(g) creditors as a percentage of cash and investments; and
(h) reliance on national and provincial transfers.

The National Treasury (2014) has also issued several standardised ratios to be considered by all municipalities in terms of MFMA Circular 71 of January 2014. However, the most common financial ratios used by the AGSA in municipalities are the following.

(a) collection rate;
(b) net debtor days;
(c) current ratio;
(d) level of cash-backed reserves;
(e) net operating surplus margin; and
(f) creditors payment period.

The financial health measures and the above ratios were used to assess the financial performance of the Cape Agulhas, Overstrand, Swellendam and Theewaterskloof Municipalities for the period of study. This information together with that generated from the interviews and questionnaires of the officials and politicians of these municipalities was utilised in the assessment.

The Overberg District (OBD) is well known for its pristine coastline and vast and rolling farmlands. The district municipal area covers roughly12,000 square kilometres located to the south-east of Cape Town in the Western Cape province of South Africa. It spreads from the Hottentots-Holland mountains in the west to the Breede River mouth in the east, and in the north as far as the Riviersonderend Mountains. The OBD includes Cape Agulhas, the southernmost point in Africa, and has coastline on both the Atlantic Ocean and the Indian Ocean.

According to the Municipal Economic Review and Outlook, (MERO) (2018:281) the Overberg District Municipality (ODM) is the second smallest economy in the Western Cape and contributed 3.5% to the provincial Gross Domestic Product per Region (GDPR) in 2016. The municipalities within the region are typically rural and although they are large in geographical size, it has a population size of just more than 284,272 people and a growth rate of 3.0% according to the Municipal Economic Review Outlook (MERO) (2018: 340). The population growth rate is 1% higher than the GDPR growth rate since 2015 which does not bode well for future positive employment figures.

The Western Cape Socio-Economic Profile (SEP) 2017 for the OBD estimates an unemployment rate of 13.5% for the district, which is lower than the estimated 18.7% for the Western Cape. The unemployment rate for the OBD has however, increased steadily year-on-year since 2010, which is an indication that the number of employment seekers are growing at a faster rate than employment creating opportunities in the district. This trend is supported by the population growth rate that is higher than the GDPR growth rate.

These findings are also supportive of the fact that there has been a steady increase in the number of indigents relying on municipal support and that most of the housing developments over the period of study exclusively catered for low-income housing. This situation that is thus created is that of increasing indigent support and a declining tax base resulting in a decline in cash reserves, increasing reliance on grants and ultimately, financial instability. The AGSA, however, only reports on a one-year period, meaning the financial year past, and include the corresponding figures on the year preceding the year that is reported on, thus only giving a two-year perspective at most on the financial position, performance, and cash flow data of a municipality. There is thus a gap in the literature regarding the absence of a medium- to long-term financial sustainability review of municipalities. The research attempts to fill this gap in the academic discourse. It is important as this would give a medium- to long-term perspective of the financial status of the municipalities in the study.

## 1.3 Problem Statement

Municipalities are constitutionally obliged to provide basic services such as water, sanitation, electricity, solid waste, and roads in terms of Schedules 4b and 5b of the Constitution (RSA, 1996). The sustainable provision of these services must be ordinarily financed by a municipality, from revenue generated by itself, and to a lesser extent funding that is received for the exclusive purpose of providing services to the indigents living within the municipal area, co-funded from the national fiscus in the form of grants.

According to the SLGR (2009:31), an increase in the number of service delivery protests in the country is observed and, in most cases, it is attributed to the perceived inefficient delivery of basic services and declining citizen confidence and trust in the system. The SLGR (2009:13) identifies several priority areas that impact negatively on service delivery and governance in local government, but for the purposes of this study the focus would be on those areas that are linked to financial performance, which include the following:

(a) huge service delivery and backlog challenges;
(b) problems with the political administrative interface;
(c) corruption and fraud;
(d) poor financial management;
(e) weak civil society formations;
(f) intra- and inter-political issues negatively affecting governance and delivery;
(g) insufficient municipal capacity due to scarce skills;
(h) increasing trend in consumer debtors; and
(i) growing dependency on grants.

The increase in outstanding consumer debtors, which points to possible governance problems as well as a growing dependency on grants are highlighted as issues that might indicate future unsustainability. The inability of a municipality to collect all revenue due to it has a serious effect on the ability to fund future capital projects as well as to provide for sufficient funding to maintain existing infrastructure. Then there are issues relating to accountability, or the lack thereof, like corruption and fraud, political interference in the administration as well as weak civil society formations.

These factors have a direct impact on ensuring positive financial performance and it is thus no surprise that poor financial management was also identified as an area for concern. These factors and the general and genuine demand of communities for immediate service delivery may be an indication that all is not well in local government service delivery, thus, leading to the service delivery protests, as mentioned above. Managing the finances of a municipality effectively to improve financial sustainability will assist to address the most pressing needs of the communities and may impact positively on regaining the loss in trust, as mentioned above. As far as can be determined, the 2009 SLGR is still the latest report and has not been updated. Nevertheless, the truth is that the situation in municipalities is still the same as stated in this report, if not worse.

As mentioned earlier, in South Africa municipalities are compelled by legislation to adopt an IDP, which must be a single, inclusive, and strategic plan for development of the municipality. The core components of the plan are the municipality's vision, long-term development strategies, critical developmental and institutional needs, assessment of the availability of basic services, or lack thereof, spatial development and disaster management plans as well as key performance indicators, to name a few. It is further of critical importance that resources need to be identified to address these needs and that the plan is supported by a fully funded budget.

In an ideal situation, this should then lead to improved service delivery with outcomes that are measurable against the objectives as stated in the IDP. This is however, just one side of the coin. The question that comes to mind is even if a municipality can effectively address the needs of the communities within its jurisdictional area, given the current realities of global economic deterioration, national fiscal constraints as well as the local municipality's ability to generate its own revenue, how long will that municipality be able to do so and still guarantee future financial sustainability. Taken the latter statement into account, it then becomes vitally important that municipal finances are managed meticulously, with the purpose to become and remain sustainable, in an increasingly challenging economic environment.

Both the MFMA and the MSA are based on the adoption of a performance system by the municipality. As stated earlier and in terms of Section 17 of the MFMA, a municipal budget must contain performance targets and measurable objectives that are set at the start of a financial year. The development and adoption of the SDBIP, which must include a KPA for measuring financial viability and management is a further legislative requirement. The framework to enable municipalities to conform to the object of the MFMA, which is to secure the sound and sustainable management of its fiscal and financial affairs is therefore firmly grounded within the local government legislation. Thus, government has introduced an array of legislation to transform the local government sector and to improve financial sustainability; however, based on the AG reports over the period of the study, the situation has not improved.

## 1.4 Research Question

The primary research question is:

- What are the challenges that prevent or impede a municipality from becoming financially sustainable?

The secondary research question is:

- What are the factors that a municipality should consider, enabling future financial performance to become and remain sustainable?

## 1.5 Research Objectives

The primary objective of the study is:

- to identify and discuss the challenges impeding the financial sustainability of municipalities.

The secondary objective is:

- to identify the factors that constrain or facilitate financial performance by using a longitudinal study over a period of nine years.

To achieve the primary objective, the study is divided into more specific secondary objectives. These include:

(a) to perform a literature and legislative review;
(b) to analyse financial data of the Cape Agulhas, Overstrand, Swellendam, and Theewaterskloof municipalities from 2012 to 2019;
(c) to identify factors that constrain or facilitate the financial performance and viability of these municipalities; and
(d) to draw conclusions and make recommendations regarding the impact for financing service delivery.

## 1.6 Methodology and Research Design

### 1.6.1 Scope and delimitation

The study focuses on the period from 2012 to 2019 and was chosen to support a longer period to observe financial trends. The period is also the period in which the financial and performance management reforms, after being legislated in the late 1990s and early 2000s, should have been entrenched in the operations of these municipalities and implemented accordingly. The researcher specifically chose this study period, as this was the period when municipalities were required to produce Generally Recognised Accounting Practice (GRAP) compliant Annual Financial Statements (AFS) and before the global COVID-19 pandemic. Additionally, all four municipalities already adjusted and aligned their accounting practices in accordance with the GRAP, thus ensuring that financial reporting and the preparation of the financial statements of all municipalities are aligned and consistent.

As alluded to earlier, a further reason for the specified period was that the COVID-19 pandemic reached the shores of South Africa in early 2020 and had a significant impact on the financial performance of municipalities. As this was an anomaly outside of the control of municipalities, and it would artificially impact negatively on the financial ratios, the researcher decided that the period of study must end in the 2019/20 financial year, ending 30 June 2020.

The geographical scope is limited to that of the jurisdictional areas of the four local municipalities within the Overberg District Municipality. The study focused on the financial performance aspects of these municipalities and was conducted at a macro level – the executive level – and did not drill down into the different departments within the municipality. The reason for this decision was to understand the influence of politics on the financial decisions on the one hand, and that of the senior officials, who are required to advise politicians, on the other.



### 1.6.2 Research design

The research design answers the question of what type of study will be undertaken to provide answers to the research problem. According to Mouton (2001:55), “a research design is a plan or blueprint of how you intend conducting the research.” In the same manner that the research problem, aim, and objectives of the research steer the research in a particular direction, an appropriate, well-planned research design will also steer the research process.

### 1.6.3 Type of research

The research study used a mixed-methods approach. According to Creswell (2014:14-15), mixed methods involve the combination or integration of quantitative and qualitative research and data in a research study. Furthermore, qualitative data tends to be open-ended without predetermined responses, while quantitative data usually includes close-ended responses found on questionnaires or psychological instruments. The reason for using mixed methods was that open-ended, semi-structured questionnaires were used to gain a deeper understanding of what informs financial decisions by politicians and senior officials in the municipalities. On the other hand, an evaluation and analysis of the annual financial statements and reports as well as the findings of the AG Reports for the nine-year period were done to produce financial ratios and establish trends that assisted in determining the magnitude of the financial problems within the municipalities and inform the questions to be answered in the questionnaires.

Since all research methods, both quantitative and qualitative, have limitations, by triangulating data sources, researchers could pursue convergence across qualitative and quantitative methods. The mixed-methods approach was found to be suitable, since two methods could be combined to maximise the strengths and minimise the weaknesses of each method. There was a sense that one method could help develop or inform the other (Creswell, 2005; Finn et al., 2000; Guba and Lincoln, 1994). A mixed-methods approach employs the advantages of both quantitative and qualitative models.

Qualitative research employs research methods such as focus groups, observations, case studies, interviews, and questionnaires to gain insight into the activities and implementation of specific programmes, projects, and sectors (Mouton, 2001:161-162). Quantitative research in this study involved the analysis of secondary data (Mouton, 2001:164-165) as the existing financial data of the four municipalities was used. Explanatory sequential mixed methods were used in this study as the quantitative research was first conducted and the results were analysed. These results were further built on to explain them in more detail alongside the results of the qualitative research. This is considered exploratory research as the initial quantitative data is explained further with the qualitative data.

### 1.6.4 Data gathering

The researcher gathered primary data from the Executive Mayors and senior officials including the Chief Financial Officers (CFOs) and Internal Auditors (IAs). Semi-structured questionnaires proved to be a more acceptable method of research for councillors and officials. The researcher chose the Executive Mayors, who are responsible for the IDP and budget process and approve the SDBIP of a municipality, to get a political perspective on the implementation of financial performance management within the municipality as well as their understanding of the relationship between strategy, budget and if and how decisions are influenced by financial ratios and trends. The IAs and CFOs were chosen to get an administrative perspective on the same issues, as they have expert and contextual knowledge on the subject of financial management.

The secondary data comprised the AGSA reports on the municipalities as well as annual financial statements and reports generated by the municipalities over the period of the study. This information is readily available and was easily accessible from the archives of each municipality. The sampling method was purposive and could not be random, as the study analysed only data from 2011/12 to 2019/20. The data generated related to financial ratios, percentage change rates from year to year and identifying trends.

The researcher established the reliability of the data by cross-checking the data generated by both the quantitative and qualitative methods; this could be easily verified as the annual financial statements are audited by the AGSA who also audits the information in the annual reports. The AGSA makes specific findings as to the reliability and completeness of information provided. The analysis of quantitative data was based on the ratios generated. The ratios were used to inform the interview questions, which generated the qualitative data.

A potential limitation to the research was bias that could occur due to the researchers' position within his own municipality; all efforts were made to ensure independence and to avoid any conflict of interest. The research was also limited to the period of the study and no comments could be made on any other municipalities, as it is limited the local municipalities within the ODM. A further limitation was that the research focused on the macro level within the municipalities and did not drill down to departmental levels. However, this was done deliberately as decisions taken at a strategic level with the approval of the IDPs determine the actual expenditure of the municipal budgets.

## 1.7 Significance of the Study

The National Treasury (2004:9) is of the opinion that sustainable local government is constructed on a base of balanced budgets, as unfunded deficits are not permitted. Furthermore, the NT states that service-delivery levels should be prioritised so that costs are affordable, and that the continuation of routine maintenance will assure the sustainability of services offered by a municipality. The MFMA thus established the basis for improved financial management, and this is essential to enhance service delivery and sustainable municipal service delivery. Sound financial management is thus important, not only because it is a legislative obligation, but it has a direct impact on effective and efficient current and future service delivery and, more importantly, its contribution to the municipality remaining a going concern, thus improving financial performance and sustainability.

The study is significant in the sense that municipalities need to ensure that they are or become financially viable to generate sufficient revenue to meet their current needs and financial obligations as well as provide for future growth. This is vital to allow municipalities to improve and sustain the delivery of basic services. Managing financial performance will produce information that can be used as an early-warning system to mitigate further deterioration of the financial situation and inform future decisions in terms thereof.

The study is of further significance, as the knowledge generated from the medium- to long-term assessment may contribute to improved management of the financial performance of municipalities that could contribute to financial viability. As far as could be established, a study of this nature had not been undertaken and thus the study addresses a gap in the body of knowledge on the financial sustainability of local government.

## 1.8 Contribution to the Body of Knowledge

This study makes numerous contributions to theory and practice as outlined below.

This study contributes towards the public finance management theory, particularly relating to the municipal sphere of government by providing insight into:

(a) the conceptualisation of municipal financial sustainability in relation to citizens' needs in the context of sustainable budget theory;
(b) the provision of a basis in which municipal fiscal sustainability research in South Africa can be situated;
(c) the provision to municipal councils and senior staff of an indicator framework to measure and guide decision-making on municipal financial health.

In addition to making a theoretical contribution, this study also contributes to the following practical applications:

(a) the provision of a base for identifying and using historical trends to inform future financial decisions;
(b) the contribution to increasing the ability of citizens to understand complex accounting and financial reporting documentation;
(c) the enhanced awareness of the importance of citizen-entrenched planning and budgeting and the impact thereof on future financial sustainability.

## 1.9 Ethical Considerations

The researcher confirms that he observed the regulations and guidelines of the University of the Western Cape (UWC) Research Ethics Committee to protect probable negative effects on the study's participants. This study obtained ethics clearance from the Economic and Management Sciences Faculty's Humanities and Social Science Research Committee, under Ethics Reference Number: HS 21/3/24. The researcher requested permission to conduct the research in the Cape Agulhas, Overstrand, Swellendam, and Theewaterskloof municipalities. The request was for the Mayors, Municipal Managers, Chief Financial Officers, and Chief Internal Auditors to participate in the research; written permission was granted.

Nevertheless, the responsibility to ensure ethical behaviour involves a great deal more than permission from institutions. Ethics in public administration is related to principles, discipline, morality, and truthfulness. In research, ethics is an essential requirement and hallmark of responsible and respectable research (Agunloye, 2019). It focuses on the disciplines of standards of conduct and academic research should be subjected to ethical discipline (Roberts, 2017) and (Vanclay, Baines, and Taylor, 2013). Basically, the discipline should be applicable to every step of the research process. Resnik (2020) emphasises that the discipline must be used for research activities, including the planning and execution of studies. To maintain the accuracy of academic work and the integrity of the researcher-scholar, ethics disciplines conduct and demands adherence to ethical norms (Agunloye, 2019). According to Aluwihare-Samaranayake (2012: 77), "autonomy, confidentiality, respect, beneficence, non-maleficence, and justice" are among the ethical values that must be upheld when doing research. Below is a summary of how these ethical guidelines were used in this study.

Respect for participants: It is the duty of a researcher to uphold the dignity of participants. The participants' personal life, time, autonomy, decisions, rights, values, beliefs, and knowledge must be respected by the researcher (Barrow and Khandhar, 2021; Bhandari, 2021). In the research context, autonomy refers to the participants' freedom of choice and their capacity to make decisions based on the options that were offered to them, free from both internal and external constraints (Agunloye, 2019).

Participants in this study were made aware of the objective of the study, the level of expected engagement, and their opportunity to decline participation. Additionally, participants were informed that they had the freedom to decide whether to take part in the study or not. They were advised that doing so would not violate their right to object to taking part in the interviews. Participants were also made aware of their right to refuse to answer any questions that made them feel uncomfortable.

Beneficence and non-maleficence: These are fundamental ethical principles that require researchers to operate in the participants' best interests (Agunloye, 2019). Doing no harm to participants or others is the core of this guideline (Vanclay et al., 2013). In this regard, the researcher is expected to make both the study's possible advantages and disadvantages public.

Simply expressed, the study should strive not just to do good but also to avoid inflicting any harm (Bhandari, 2021). This includes the research methods used in this study.

Participants in this study were informed that the study could potentially have valuable benefits for municipalities. The participation in this study would indeed substantially benefit not only the participant municipalities but all local government in South Africa. The participants were made aware of their role in potentially contributing towards a better, more resilient, and sustainable local government sphere.

Justice is seen as another method to demonstrate respect. To be just, everyone must be treated fairly and equitably. Both quantitative and qualitative research have problems with the power dynamics between the researcher and the participant (Agunloye, 2019; Vanclay et al., 2013). Justice is "ensuring reasonable, non-exploitative, carefully considered procedures with fair distribution of costs and benefits," according to Vanclay et al. (2013:245).

In this study, the participants comprised of senior municipal councillors and officials, men and women, from the four local municipalities. The researcher made all efforts to treat everyone with respect and dignity regardless of race, gender, or political affiliation. As the questionnaires in this study were completed online, the participants were able to complete them within their own spaces of comfort and could provide their responses without feeling that they were treated unfairly and inequitably.

Informed consent: Consent involves the voluntary expression of permission for something to occur. In research, the voluntary expression of the consent by an informed participant is essential (McAreavey, 2011). Husband (2020:3) states that informed consent is an assurance that participants are neither deceived nor coerced and that "considerations for research interviews, attention is given to the principles related to ensuring no harm or loss of standing comes to the respondent and a critical part of this is the notion of informed consent." Informed consent is essential for participants to exercise autonomy in a research process. Vanclay et al. (2013) regard it as the foundational principles behind other principles. Informed consent requires the researcher to provide comprehensive information to the participants, including purpose of the research, methods used, possible outcomes, benefits, and potential risks. In exercising the principles of informed consent, participants of this study were informed about the research problem, research questions, and the study's aim and objectives. In addition, all participants were informed of their rights to participate, or not to participate and the researcher's commitment and assurance to maintain confidentiality and anonymity if requested.

Confidentiality and data protection: A close relationship exists between respect, consent, and confidentiality. According to Agunloye (2019:171), confidentiality refers to the extent or degree of prudence to be exercised to guard against the leakage of information or data obtained from the participants. Vanclay et al. (2013:247) are of the opinion that confidentiality of "personal matters must be respected, and that non-disclosure of information should be accorded to all private or personal matters or views, or when any such undertaking is given." This means that participants' preferences regarding anonymity for their participation, information and personal data must be respected.

Participants of this study were senior political and public officials, and the nature and topic of the research are situated within the local sphere of government. Hence, much of the information shared was dependent on public scrutiny already. Where participants specifically requested confidentiality and anonymity, the researcher reassured them that their request will be respected and maintained. Accordingly, the protection of the anonymity and confidentiality of the participants' information and any information that they requested not to be disclosed, was guaranteed.

Integrity is defined as the honesty, accuracy, or correctness of one's activities. People who behave willingly and morally, regardless of the situation or the results, are said to have integrity. Integrity in the context of ethics refers to the consistent upholding of moral standards, especially sincerity. Integrity should be upheld, in particular, in data collection, accurate data recording, analysis, interpretation, and research conclusion (Agunloye, 2019).

Integrity was upheld throughout the study's data collection, recording, analysis, and interpretation processes. The researcher maintained strict standards throughout these phases to guarantee the accuracy of the information collected from the participants. The researcher affirms that there is no evidence of fabrication, falsification, or plagiarism in this study and that he has worked diligently to present an accurate portrayal of the information supplied by participants. Participants' replies were properly and honestly recorded in cases when they were unable to respond or provide the necessary information.

The researcher ensured adherence to ethical standards by seeking the permission and consent from all relevant authorities and participants involved in the research. The researcher made the declarations below to adhere to the ethical standards:

- Questionnaires will be structured in such a way that they do not offend or infringe on the constitutional rights of the respondents.
- Information acquired from the respondents will be treated confidentially and no names will be linked to the findings.
- Respondents will be assured that their participation is entirely voluntary and that they have the right to withdraw at any time.
- The study will not be used for self-gain.
- Attention will be paid to the accuracy of findings, and it will not be influenced by the opinion of the researcher.

The researcher maintained ethical standards throughout the research, and he stated his awareness and understanding of the relevant prescripts relating to plagiarism, citation, and referencing. The researcher agreed that plagiarism is an offence and that disciplinary actions will be taken, if required. The researcher ensured that the sources used are appropriately acknowledged. Finally, this research meets the requirements of the philosophical principles of ethical research, as the participants have voluntarily given informed consent to participate in the research (Terre Blanche, Durrheim and Painter, 2006:67-68).

## 1.10 Thesis Structure



This thesis comprises eight chapters.

Chapter One provides an introduction, background, and context, which serve as the foundation of the study. It further introduces the research question, objectives, and methodology and provides a brief outline of the contribution to the body of knowledge as well as the scope and limitations of the study.

Chapter Two provides the theoretical framework used in explaining and understanding the relationship between politicians and administrators as the main players within local government. It introduces the classic administration theory and discusses the evolution of public management and concludes with an in-depth discussion of financial management principles guiding financial sustainability.

Chapter Three provides the legislative framework and policy documents in support of accountable governance supporting financial sustainability in South Africa, related to the study. This chapter also introduces the significant role of the public as a critical partner of municipalities in identifying needs to inform future planning and budgeting as well as its role in keeping government accountable.

Chapter Four offers a detailed discussion of the research methodology used in the study. It provides a complete explanation of the process undertaken to lead the research and discusses the research activities, design, sampling, and data collection processes.

Chapter Five comprises an analysis of the data collected on each municipality in terms of the research. It analyses the annual financial statements per municipality in relation to the financial performance, financial position, and cash flow.

Chapter Six provides an analysis of the data collected from the semi-structured questionnaires.

Chapter Seven discusses the findings per individual municipality.

Chapter Eight provides conclusions and recommendations as well as the relationship to other research and suggests areas for further research.

## 1.11 Concluding Remarks

In this chapter the research topic was introduced followed by a discussion on the background and context of the study. The problem statement was then identified and discussed, followed by a discussion on the research question and objectives. The research methodology and design were then identified and discussed briefly as it will be fully explored in Chapter 4. The significance of the study as well as its contribution to the body of knowledge were then elaborated on and the ethical considerations discussed. The chapter concludes with a description of the outline of the thesis structure.

## Chapter Two: Theoretical Framework

### 2.1 Introduction

Effective financial management is key in ensuring financial sustainability in municipalities or any other entity, public or private. Since the focus of this study is to do a long-term financial assessment with specific reference to the sustainability of the local municipalities in the Overberg District, there is a specific focus on financial management and the components thereof that impact on sustainability.

The Local Government: Municipal Systems Act 32 of 2000 (MSA) (RSA, 2000:14) defines financial sustainability in relation to the provision of municipal services as follows:

> The provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants, and subsidies for the service, is sufficient to cover the costs of –
>
> (a) the initial capital expenditure required for the service;
>
> (b) operating the service; and
>
> (c) maintaining, repairing, and replacing the physical assets used in the provision of the service.

This means that, for a municipality to provide services sustainably, it must ensure that the assets needed for the provision of the service must be financed sufficiently to cover the initial capital costs, the costs of operating the service, as well as those for the maintenance and repair of the asset for the full duration of its useful life.

The asset replacement costs must also be covered; therefore, sufficient capital should be provided in the Capital Replacement Reserve (CRR) to ensure future replacement.

The Local Government Australia (LGA, 2012:2) quotes the Commonwealth definition of financial sustainability:

> … a government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers

> do not face an unmanageable bill for government services provided to the current generation.

The LGA then formulated its own definition of the term (LGA 2012:3):

> A council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

The major difference between these two definitions and that of the MSA (RSA, 2000), is that the South African definition lacks a specific reference to long-term financing although it is implicated by the reference to "future costs of maintaining, repairing and replacing the assets" used for the delivery of a service. There are, however, other shortcomings in the South African legislation regarding long-term planning in general and for that matter, financial planning. As mentioned earlier, the IDP, the principal planning document of a municipality, has a medium-term planning range – Section 26(h) of the MSA (RSA, 2000) refers to a five-year plan. The same section also refers to a financial plan including budget projections for three years – the so-called Medium-Term Expenditure and Revenue Framework (MTREF). Therefore, up to 2009, municipalities were not statutorily required to effect long-term planning; and even thereafter, the instruction was ambiguous, to say the least.

The MFMA (RSA, 2003), and specifically the Municipal Budget and Reporting Regulations, 2009 (Footnote 1 to Regulation 7(1)) makes specific reference to a policy related to long-term financial planning. Long-term financial planning is not generally the norm among municipalities and almost all the municipalities in this study adopted long-term financial plans only with their 2015/16 budgets. This lack of long-term or longer-term budget planning can have a negative impact on the financial stability of a municipality, which is the purpose of this paper. However, long-term planning is not the only enabler of financial sustainability, as can be seen from the ensuing discussion; municipalities need to ensure effective and efficient financial management as an integral part of their day-to-day business.

As municipalities by their nature are civil service bureaucracies, in this study the author contextualises local government within the contemporary public administration theory. This chapter starts with a discussion on the Principal-Agent Model as a theory of bureaucracy and then moves on to the Classic Public Administration (CPA) theory followed by an analysis of New Public Management (NPM). This is done to establish if there are any relationships between the theory of NPM and public financial management in municipalities in South Africa. There have certainly been many changes to the legislation governing local government in the country that started in the 1990s and continued into the first decade of the new millennium. Although it is later than the NPM changes in the developed countries in Europe and Australia, New Zealand, and the United States of America (USA), this study asserts that the legislation that was promulgated by the South African democratic government since 1994 was influenced by NPM principles, as shown in the discussion in this chapter.

However, as the focus of this study is on financial sustainability, this chapter explores the notion of the New Public Financial Management (NPFM) in relation to specific reforms in public financial management, in the context of the financial reforms in South Africa. Financial management is an enabler for local government to plan, mobilise, and use financial resources effectively and efficiently to fulfil its obligation of accountability to the citizens it serves. Farvacque-Vitkovic and Mihaly (2014:93) state that public financial management has four components: budgeting, accounting, auditing, and reporting. This chapter discusses these components in more detail to show their importance in enabling financial sustainability. It is important to understand the link between effective and sustainable budgeting, standardised accounting practices, and providing credible financial records for auditing purposes to provide credible reports to the public and higher governmental institutions. For purposes of this study, this chapter presents a more comprehensive discussion on auditing and the ratios and norms that can be generated from the information in the financial statements. The information produced from these ratios and norms over the study period can then be used to ascertain the financial health of the respective municipalities herein.

## 2.2 Principal-Agent Theory (PAT)

Waterman and Meier (1998:174) state that the principal-agent model as applied in the disciplines of sociology, political science, and public administration is a theory about contractual relationships between buyers and sellers. Charles Perrow (1986:224), describes it as follows:

> In its simplest form, agency theory assumes that social life is a series of contracts. Conventionally, one member, the "buyer" of goods or services is designated the "principal," and the other, who provides the goods or service is the "agent" – hence the term "agency theory." The principal-agent relationship is governed by a contract specifying what the agent should do and what the principal must do in return.

In a municipal environment, the politicians are the principals and the administrators the agents. At the most basic level, politicians as principals set goals and directions, and approve policies, the IDP, and budgets. Section 160(1)(a) of the Constitution (RSA, 1996) states that a municipal council makes decisions concerning the exercise of all the powers and the performance of all the functions of the municipality. The administration is responsible for implementing the policies and budgets to reach the goals as set by the politicians. Hence, there is a contractual relationship between the politicians and the administration.

According to Waterman and Meier (1998:177), the two key elements of the principal-agent model as applied to the bureaucracy are goal conflict and information asymmetry, and that these are the "spark plugs" that power the theory. Since there is a goal conflict between principals and agents, the latter have the incentive to shirk or take part in other non-sanctioned actions. For example, a newly elected council may have vastly different goals than its predecessor. The administration might not support these goals for various reasons, and hence, as goals are not shared between the principal and the agent, goal conflict will transpire, or as Mitnick (1986:04) calls it, "have potential differing preferences…"

As politicians and political coalitions change over time and bureaucracies develop separate interests through institutionalisation and changing external relationships, a potential conflict occurs when the goals and objectives of principals and agents are at odds (Waterman and Meier, 1998:176). In this event, Mitnick (1986:4) notes that principals (council) are forced to "expend resources both in trying to instruct the agent what to do and in monitoring and policing the agent's behaviour."

The SDBIP can be regarded as a means to ensure that the goal of the principal finds space in a contract between the principal and the agent. For example, council approves the budget and in terms of Section 53(1)(c)(ii) of the MFMA (RSA, 2003), the mayor must approve the SDBIP within 28 days after the approval of the budget. The SDBIP is a detailed plan for implementing the municipality's services and the annual budget. Section 57(1)(b) of the MSA (RSA, 2000) instructs councils to enter into performance agreements with their senior managers. In this case, as already mentioned, the council as principal approves the budget and sets goals, which must find a space in a detailed implementation plan, which, in turn, informs the performance agreements of senior managers. In this way, the principal ensures that the agent agrees to its goals and monitors the implementation of these goals in terms of performance agreements with senior managers.

The second element in the principal-agent theory in a bureaucracy is information asymmetry. According to Waterman and Meier, agency theory suggests a dynamic process of interaction between principals and agents (1998:176). During this process, bureaucrats are assumed to have distinct information and expertise advantages over politicians. Agents understand the policy and the organisational procedures that are needed to implement them better. Waterman and Meier (1998:177, citing Niskanen, 1971; Miller and Moe, 1983) state that agents have both the opportunity and the incentive to manipulate politicians and processes for political gain. Furthermore, for some policies, specifically those of a technical nature, bureaucracies are more knowledgeable about organisational needs than politicians, and hence politicians are reluctant to intervene.

The key question for the agency theory is, "How can politicians prevail over these uncertainties and the bureaucracy's propensity to shirk?" In this regard, Perrow (1986:224) observed, "The principal-agent model is fraught with the problems of cheating, limited information and bounded rationality in general." The probability of shirking rises if the preferences of principals and agents separate, if there are high levels of uncertainty, or if the agent has a distinct information advantage. When this occurs, principals must reduce the uncertainty by obtaining offsetting information, usually at a cost.

Regarding how principals can achieve their goal of controlling bureaucratic agents according to the agency theory, Waterman and Meier (1998:177) suggest the following: firstly, principal control is possible as elected officials can create bureaucracies and can design them with various incentive structures to facilitate control; and secondly, political principals monitor the activities of their bureaucratic agents. Should they deviate from the principal's preferences, policymakers can apply sanctions or rewards to bring agents back in line.

In South Africa, municipal councils are compelled to adopt a staff establishment after such establishment has been developed by the municipal manager in terms of Section 66 of the MSA (RSA, 2000). Hence, a municipal council, who is the principal in terms of the principal-agent theory, does have direct control over the design of a staff establishment. In terms of Sections 54 and 57 of the MSA (RSA, 2000), municipal councils have also been tasked with the appointment of the municipal manager and managers reporting directly to the municipal manager. These appointments are subject to the signing of an annual performance agreement; and lastly, municipal councils may pay a performance bonus to these officials after their performance has been assessed. The discipline of senior managers is also regulated in terms of the Local Government: Disciplinary Regulations for Senior Managers (RSA, 2010), specifying misconduct, disciplinary procedures, and sanctions. Thus, in the case of South Africa, principals do have the means to control and monitor the activities of bureaucratic agents and can apply rewards and sanctions to bring agents back in line.

It must be noted that the purpose of this discussion on the principal-agent theory is to ground the theory into the practice within municipalities in South Africa at a basic level and not to analyse it. Bureaucracies are much more complex than the simple contract between one principal and one agent. Within a council, specifically when it is a coalition council with different political parties, there may be more than one principal. Hence, conflict may exist in terms of goal-setting and implementation between principals. Then there is the issue of agents aligning themselves with the different principals and disagreement between agents on, for example, policy implementation. This makes the dyadic relationship explained above much more complex.



## 2.3 Classic Administration Theory (CAT)

According to Bourgon (2007:9), civil bureaucracies emerged in the late nineteenth century. This period was characterised by rapid change linked to the Industrial Revolution. Bresser-Pereira (2005) maintains that a meritorious, well-trained public service is a powerful instrument for promoting economic development and building a modern state, which contributes greatly to the success of countries undergoing industrialisation. The CAT was based upon several conventions, which included a strict separation of political and professional activities, public anonymity, and political neutrality. The public service was regulated by precisely prescribed rules and accountable to elected officials and was thus expected to use minimum discretion in executing tasks. Power structures at that time were vertical and hierarchical, and compliance, impartiality and predictability were valued.

Bourgon (2007:9) is of the view that the public service as known today, owes a great deal to the public service theory that prevailed at the start of the twentieth century, including respect for the rule of the law, a commitment to serving the public good and an expectation that public servants will show integrity, probity, and impartiality in serving the public trust.

Although the model was clear and simple, it failed to address an increasing number of issues that reflect the contemporary reality like the need for flexibility, the interactions between politics and policies and new forms of accountability. The early twentieth-century public administration theory was well suited to repetitive and predictable tasks to guarantee equality of treatment to citizens under the law.

However, as society became more complex and the nature of services provided more varied, a need for greater flexibility began to grow. Hence, issues like delegation of powers to increase discretion, the use of knowledge-based information to inform decisions, and taking calculated risks began to emerge, requiring a different framework to guide effective implementation of the above.

Regarding politics and policies, Bourgon (2007:11) asserts that the public policy role of government is of fundamental importance to the performance of countries and the well-being of citizens. She states further that the policy advisory role is one of the most complex and challenging functions to be performed by a professional, non-partisan public service and concludes that a New Public Administration theory is needed to guide the necessary interactions among citizens, civil society, public servants, and elected officials. "Such a theory should help us to advance harmoniously from a concept of 'separation 'to one of 'democratic interaction' and greater integration, rooted in greater understanding of and respect for the respective roles of elected officials and administrators" (Bourgon, 2007:11).

In terms of accountability, Bourgon (2007:12) observes that citizens today expect more from governments and want to have a more active role in governance, in other words, more than a chance for a limited say every four of five years at the election box. Complex legal, constitutional, and democratic principles are involved in accountability and a balance between political accountability for the exercise of power and creating common public goods as well as enhancing citizenship should be sought at the most basic level.

In conclusion, CPA theory has provided a strong foundation and even though NPM takes its intellectual foundations from Public Choice theory (Bourgon, 2007:13), the latter theory guides the public administration space that was founded on the first.

## 2.4 New Public Management (NPM)

Public management scholars maintain that NPM started in the 1950s after the Second World War. Pollitt and Bouchaert (2011:5) use the analogy of waves to describe the changes in public management since the first wave in the 1950s. Reform then was generally of a technical and legal nature with a focus on organisational and procedural changes and limited to national and sectoral government. Reforms were also country-specific. "Germans made their reforms in the light of German circumstances and history, as did the French, British, the Americans, and so on" (Pollitt and Bouchaert, 2011:5). This meant that there was little international cooperation or debate, and the first wave of change was happening exclusively in the USA, United Kingdom (UK) and France (Pollitt, 1984; Pollitt and Bouchaert, 2011; Premchaud, 1983; Wildavsky, 1979). It is interesting to note that these countries, except for Russia, were the victors of the Second World War and the business of rebuilding Europe after the war may have been the catalyst to reform in the public sector.

The second wave (early 1970s and early 1980s) took place in a period of rapid advances in science and technology and seems to be linked to the international economic disturbances of the 1970s and the widening belief that governments have become bloated, unaffordable, and ineffective (Pollitt and Bouchaert, 2011:6). There was thus a need for government to conduct itself in a more business-like manner, requiring it to institute moneysaving measures, operate efficiently, and become more responsible towards the citizens that it serves. This time, the reform trend spread to countries like Australia, Canada, New Zealand, Sweden, USA, and the UK. This impetus for improved efficiency and service quality dissipated to more countries and was evident through the 1980s and lasted well into the 1990s. However, according to Pollitt and Bouchaert (2011:7), further into the 1990s the reform "personality" began to change. Even though the initial reforms remained a priority on the political agendas, they moved to issues of governance, partnerships, one-government and then to trust and transparency. Efficiency and quality remained as drivers of change, but they just became overshadowed by these new issues.

Another catalyst to public change was the rapid development of information technologies during the late 1990s and early in the new millennium, giving effect to the notion of e-government. The developments in the Information and Communication Technologies (ICT) sector have the potential to transform productivity in the public sector, provide good information at a faster pace to the citizens, provide better access to services, and could improve participatory democracy due to its virtual and informal nature. This is important, as the opinion is held that local government, as the sphere of government closest to the communities, should explore all opportunities to increase citizen participation, specifically relating to engaging and receiving feedback on the quality-of-service delivery, budget prioritisation, audit outcomes, and performance, which are all elements of this study.

Municipalities in South Africa are currently obliged to develop and maintain a website in terms of Section 21B of the MSA (RSA, 2000). The genesis of social media platforms like Facebook and Twitter also provides easy and affordable access to government, politicians, and administrators. In recent times we have seen the Presidency of South Africa, premiers of provinces and municipalities having Facebook or Twitter pages besides the statutory websites. However, the efficacy of these platforms may be compromised by the fact that they can be highjacked by individuals who may use these platforms to further their own cause with posts that are not supported by facts and are negative in general. Hence, it defeats the purpose of constructive engagement and dialogue and ends up as a mud-slinging contest either between the owner of the platform and its visitors or between the different visitors to the platform. The public expects that these pages are managed properly with diligence and be unbiased to limit the possibility of the above-mentioned happening. Otherwise, they can be a good source of sharing and responding to information and opinions that would be helpful in promoting effective participation.

To counter this phenomenon, several municipalities have in recent times developed their customised citizen applications that can be downloaded on any smartphone and allow several actions, like uploading complaints and photos, account enquiries, service delivery failures, and the like, in real-time to the municipality's servers. The complainant or enquirer immediately receives a reference number and feedback on the progress of their complaint. Although this is a step in the right direction, where using technology improves service delivery efficiency, it is limited to customers owning smartphones and who have access to data. In South Africa, the reality is that, with most of the poorer members of the population not having access to smartphones and the high cost of data, they are effectively excluded from using this technology. However, as cellular phones and data become more affordable in future, municipalities will do well in investing in citizen applications that will contribute towards improving service delivery efficiency and effectiveness.

Globalisation is another issue that became more pronounced during this period. Vujakovic (2010:4, citing Caselli, 2006) claims that globalisation has three dimensions that are commonly accepted in contemporary theory namely, economic, political, and cultural, and then defines globalisation as “a process of growing interaction between economies, societies and nations across large distances.” The implications of this phenomenon on public administrations relates to the development of local capacity for the representation of government internationally and how national government decisions, in terms of its economy, can either sustain or hamper its economic competitiveness. These external pressures or catalysts often require compulsory changes in the operations of government and may even, for example, in the case of new technologies and their ability to quickly analyse and evaluate similar municipalities' accounting systems, put the spotlight more on the ineffectiveness of one municipality compared to that of another.

Another event that prompted government reform internationally was the global economic meltdown in 2008. Politicians spoke about austerity measures once again. Remembering that downsizing, money-saving measures, and efficient operations were already measures of reform in the second wave, implementing austerity measures currently was not that easily achievable. Governments were required to become even more efficient. However, due to the sheer magnitude of the economic and financial crisis, these savings measures were not sufficient to render any meaningful impact. This meant that for budget cuts on government spending to be effective, it would actually require cutting funding for actual service delivery as so-called wastage was already sufficiently addressed in previous reforms of this nature. Pollitt and Bouchaert (2011:9) state that due to the above, “real cuts in real services were unavoidable” and that this led to widespread demonstrations against the reality of cuts in the public service domain, all over Europe, starting in the autumn of 2010.

Since the so-called first wave of reform, public management has evolved from the staunch, unyielding, legal, and technical reforms of the past to an internationally recognised set of models and approaches of a competitive nature. However, scholars in NPM seem to be divided on a specific definition thereof. Pollitt and Bouchaert (2011:10) assume that it is a "two-level phenomenon," stating that it is a broad theory indicating that improvement in the public sector can be achieved by cloning "business concepts, techniques and values." On a secondary level, NPM is a package of specific concepts and practices. These include a more pronounced focus on performance, preference to organisational downsizing and professionalism, performance-related remuneration, competitive bidding, and a customer focus instead of seeing them only as consumers of services.

Aucoin (1990:134) in Osborne (2002:26) argues that NPM comprises of a mixture of ideas obtained from both corporate management and institutional economics or from public choice. Hood (1989:349) is of the opinion that the main themes of NPM are moving from policy emphasis to performance measurement emphasis, from reliance on old bureaucracies to more flexible autonomous organisations and a pronounced move towards competitive bidding. There is also a move towards cost effectiveness, more decision-making powers to managers and self-regulation, thus agreeing with some of the principles of corporate, general, and financial management shared in Aucoin's definition above.

Lynn (2006:107) cites Toonen's analytical model of NPM and the themes are intricately linked to that of Hood and Aucoin, as discussed above. They include a business management approach to government, improved quality and performance, less bureaucracy, market focus, competitive tendering as well as contracting and quality management that have also been identified by Pollitt and Bouchaert. Lynn (2006:108) observes that when one looks at the commonalities in the practices of NPM, there is a strong suggestion of convergence of practices and principles internationally, and therefore, by implication, "the national sovereignty of administrative reform has been shattered by globalisation in its many guises."

NPM in its simplest form can then at best be described as the adoption and the application of private business concepts and practices to that of public management to provide effective and efficient services. However, as the focus of this study is on financial sustainability, the notion of NPFM as it relates to specific reforms in public financial management is discussed next to provide a more focused context.

## 2.5 New Public Financial Management (NPFM)

NPFM can be regarded as the reforms and changes in public financial management that fall within the general reforms related to NPM. This view is supported by Guthrie et al. (2005:2) where they identified five key elements of financial reform that include changes to financial reporting systems, developing market-based and market-oriented management systems and structures to deal with public-service pricing and provision, developing a performance measurement approach, developing delegations of powers in terms of budgets, and changes to internal and external audits in the public service. NPFM specifically highlights the significant increase in the financial and accounting dimensions of public-sector management reform and the provision of services and will continue relentlessly in future, according to Guthrie et al. (2005:3,17).

NPFM has further progressed from its historic focus on compliance and control to providing information for the purposes of financial analysis and future policymaking to ensure future financial sustainability. The presence of unsuitable and incorrect budgetary procedures and directives may lead to expenditure increases that are unsustainable and overspending due to unbudgeted liabilities. The lack of good and available financial information also impacted negatively on the sustainability of government finances.

Cangiano, Curristine and Lazare (2013:1,2) observe that Public Financial Management (PFM) in its most basic and traditional sense is concerned with the manner in which governments manage their budgets within the common phases of formulation, adoption, and implementation. PFM also deals with procedures and processes that include all aspects of expenditure management. However, their recent observation is that there is a significant shift from expenditure management to financial management. This shift indicates a widening scope from that of a narrowly defined budget to all aspects of public-resource management that includes resource allocation, debt management, risk management, and a focus on medium- to long-term budget planning.

Cangiano et al. (2013:2) further point out that this connection between policy and process highlights the significance of PFM and stimulates current innovations about PFM practice. This reflects the reality of PFM in the local-government sphere in South Africa since the promulgation of the MFMA (RSA, 2003) and the subsequent regulations related thereto. Financial reforms in South Africa are driven by legislation and this relatively new legislation was informed by the NPM and NPFM principles as shown later in the discussion on the applicable South African legislation in the next chapter.

Nevertheless, judging by the AG's audit findings in recent times, most municipalities are still battling with compliance and control issues and resultantly are not yet able to produce information that conforms to the four principle qualitative characteristics of understandability, relevance, reliability, and comparability, as prescribed by the Accounting Standards Board (ASB) of South Africa (AGSA, 2020:16-17).

The following section focuses on financial management and specifically the four pillars of PFM – budgeting, accounting, reporting, and auditing.

## 2.6 Financial Management

Good financial management is a critical element of municipal management, as it enables municipalities to plan, organise, and allocate financial resources effectively and efficiently while also giving effect to their responsibility to remain accountable for their decisions to the people they serve. This section discusses the four essential components of PFM – budgeting, accounting, reporting, and auditing, including their applications for municipalities. These components are discussed in this specific order as it will then be easy to show the linkages and interactions of the one to the other.



### 2.6.1 Budgeting

Schiavo-Campo (2017:1) asserts that "nothing is more fundamental to an organised society than the budget of its government." It is expected of a government to fulfil the various roles assigned to it by society. In the South African context, this assignment for local government is in schedules 4(b) and 5(b) of the Constitution (RSA, 1996). Municipalities require resources to give effect to these assignments funded from its own revenue (rates, taxes, and tariffs) as well as grants from the national and provincial fiscus. Hence, the municipal budget should provide the bridge between intentions and realisations as well as between policy and implementation.

A budget is the operational and financial plan for the subsequent financial year that municipalities must develop annually to realize local government goals and objectives using both financial and non-financial information. Financial information contains estimations of available financial resources while non-financial information pertains to community needs, policy, and political concerns. Budgets are developed in terms of a process, the budget process, which commonly starts several months before the start of a financial year. This process is important to map a municipality's choice of expenditure priorities as well as to identify the revenue resources needed to realize planned expenditures.

Visser and Erasmus (2002:9) explain that a budget may be regarded as a framework linking spending objectives with their relevant costs and it underpins government's financial activities. They identify a budget's four dimensions, as: (a) a political tool that allocates limited available resources based on the needs of the citizens of the state; (b) a managerial and administrative tool that specifies the ways and means of providing public programmes and services; (c) a financial instrument that can channel a nation's growth and development; and (d) an accounting instrument or financial management system that enables public servants to be held accountable for the funds within their control.

Mikesell and Mullins (2011) state that "The budget process provides the medium for determining what government services will be provided and how they will be financed". Budgeting in local government is thus the process of allocating limited resources in an environment of unlimited demand and need for a specific financial year, and since the inception of the MFMA in July 2004, for multiple financial years. A budget includes the information regarding types and amounts of expenditure as well as the proposed revenue streams to finance the expenditures.

A budget can be used as an instrument to improve planning. As stated previously, a budget is a financial plan, which implies that a certain amount of planning must go into the development of the plan. With the adoption of the budget, decisions were made based on a planning process in terms of how a municipality plans to achieve its goals and objectives. The function of planning is thus of major importance in any government institution to ensure that decisions to provide goods and services are for the good of and in the interest of the public. Also, those decisions are informed by considering the vast scope and diversity of government activities, and planning and decision-making are participatory; it should therefore be implemented in consultation with the community it serves.

Budgets are also instruments of financial control. They should be used by councils and by the executive and administrative branches of government. An example of this would be that the mayor or municipal manager can apply the budget to monitor actual expenditure against that planned at the beginning of the financial year. In the same vein, and perhaps more importantly, directors and line managers within the different departments in a municipality can use the budget to monitor and control expenditures and revenues. This can improve operational efficiency and accountability as council, who has oversight over the implementation of the budget, can use the information generated from actual implementation against planned implementation to monitor if resources are applied efficiently to address the priorities that were identified in the budget planning process. On the other hand, the control function in budgeting not only includes the curbing of expenditures within the limits of available funding but also ensures that the approved budget is implemented and that financial reports generated from the budgetary information are accurate. This function also allows for the documentation of information for cost estimates that can be used in the preparation of subsequent budgets.

Budgets for municipalities commonly combine two types budgets: an operating budget and a capital budget. Operational budgets are usually larger and contain more detail than a capital budget and include income/revenues from current-year transactions as well as provide for expenditures during the same financial year. Capital budgets contain income from capital transactions (sale of property, loans, and capital grants) as well as the expenditure for infrastructure and goods whose useful life extend beyond one year.

Farvacque-Vitkovic and Mihaly (2014:95) propose the following principles of a good budget that should be kept in mind when preparing local government budgets: (a) broad goals to guide government decision-making should be established; (b) it should be followed by credible approaches for achieving goals that have been set by the development of appropriate programmes and strategies; (c) the local government should be equipped with a budget that is consistent with the goals and approaches that have been decided upon; and (d) the local government should be enabled to monitor and evaluate its performance and to adjust meeting the contingencies and changing circumstances.

There are some commonalities between these principles and the current legislation governing budget planning and subsequent adoption for local government in South Africa. Both the MSA (RSA, 2000) (Section 23(b)) and the MFMA (RSA, 2003) (Section 21(a)) allow for the establishment of objectives and goals that must guide decisions in terms of the budget. Credible approaches to achieving these objectives and goals find execution in terms of the Service Delivery Budget Implementation Plan, MFMA (RSA, 2003) (Section 53(1)(c)(ii)), which the mayor must approve 28 days after the adoption of the budget. The IDP, the principal planning document of a municipality that identifies the objectives, goals, and development programmes and projects in the medium to long term must be supported by a credible budget. The above legislated practices and approaches find relevance in budget principles 1 and 2, as proposed by Farvacque-Vitkovic and Mihaly (2014) in the preceding paragraph.

In practice, this means that no project or programme can be supported or allowed in the municipal budget if it was not identified and approved in the municipality's IDP, once again finding common ground with budget principle 1, above. Finally, Chapter 6 of the MSA (RSA, 2000) compels municipalities to approve and adopt a performance management system. Section 41(c) of the MSA (RSA, 2000) allows for the monitoring of performance as well as the measurement and review of performance. Adjustments can be made within the financial year if the performance evaluation shows that they are necessary due to circumstances outside the control of the executive or council administration. The budget may also be adjusted if the key performance indicators that were adjusted are linked to it. This is most certainly linked to the third budget principle above.

### 2.6.2 Accounting

The basic accounting concepts are discussed in this section and specifically the part that accounting plays as the basis for the documentation, classification, and organisation of financial information in a methodical manner. This is followed by a brief discussion on the different types of accounting, including their relationship to the auditing function as well as the current prevailing accounting standards.

The role of accounting is to provide accurate, timely, and complete information regarding revenues, expenditures, as well as assets and liabilities. In a municipality, this information may include billed amounts for municipal services provided, payments received as well as payments to employees, vendors, and contractors. Information generated from accounting systems informs council, management, and any external stakeholders about the financial resources, the efficiency of financial management and the financial position of a municipality, during and at the end of a financial year. The identification of the way transactions and proceedings are described in financial reports and the design of systems that enables the easy production of meaningful reports as well as operational control systems are all key elements of accounting.

Several types of accounting exist that fulfil a specific role in the financial management of entities and organisations. Farvacque-Vitkovic and Mihaly (2014:110) point out that accounting types include financial accounting, management accounting, cost accounting, and public sector or commercial accounting.

Financial accounting uses financial information to generate reports on the financial transactions and financial position of an entity. Cost accounting generates information on the cost of operations and assists with the measurement and control of the costs of individual services and functions. Management accounting uses the statistics and information generated from cost accounting to produce reports that assist management in decision-making. This is done by using several different analytical and presentation methods. Public sector and commercial accounting are similar regarding their elementary principles. The differences emerge when specific accounting practices are preferred and suited for either government or commercial organisations.

However, this difference has become less pronounced in recent times in South Africa, as municipalities have moved from cash-based accounting to accrual-based accounting, for more than a decade. In June 2004, the ASB of South Africa issued a framework for the preparation of financial statements for entities within the public sector, which includes municipalities. This is similar, for example, to the practice in the United States where the Government Accounting Standards Board (GASB) sets standards for government accounting. In March 2009, the ASB also issued a framework determining the GRAP reporting standards. Accounting standards are an enabler for accountants to apply a common method of how financial transactions are treated and reported on to ensure the comparability of financial reports.

The accounting of financial transactions differs subject to the basis of accounting, which refers to the actual timing or when the transaction is recorded – if it is recorded at the time of its occurrence or when cash is exchanged. With cash-based accounting, financial transactions are only recorded with the exchange of money. Income is recorded when cash is received and expenditure when it is actually paid. Accrual-based accounting does not take the exchange of cash into account. Revenue is recorded when earned and expenditure when incurred and not necessarily when the actual cash has been received or paid. It is also recorded as such in the financial statements.

Bac (2013:xiii) states that as governments continuously develop over time and their functions grow in number and size, government activities should be performed in an efficient manner and managed in a more business-like manner. Furthermore, as the role of governments changed, at the end of the last and the beginning of the new millennia, as well as due to the fiscal stress most countries experienced at this time, the interest in accrual accounting increased.

The above statement is shared by Farvacque-Vitkovic and Mihaly (2014:127), who observe that as local governments progressed into distinct and autonomous organisations, the need existed to adopt and implement accounting systems and procedures more suited to their business requirements. This view is supported by the changes in accounting types, basis of accounting and reporting standards that emerged as the MFMA (RSA, 2003) was implemented by municipalities in South Africa, since July 2004. Traditionally local governments in South Africa used cash-based accounting, but with the implementation of the MFMA (RSA, 2003) as well as the changes to the reporting systems and standards as described above, the change was made to accrual-based accounting.

The ultimate purpose of accounting systems is to allow for the efficient recording of financial data and to use this data to compile financial reports. Typically, the financial report for municipalities is made up of the following financial statements: Statement of Financial Performance (Income Statement), Statement of Financial Position (Balance Sheet) and the Cash Flow Statement.

- Statement of Financial Performance

This financial statement reports on total revenues and total expenditures. In other words, showing how much income was earned and what the municipality has spent during a particular financial year. This statement provides a sense of how well a municipality is functioning.

- Statement of Financial Position

This statement, also called the balance sheet, depicts the financial position of a municipality at any given date, or in the case of annual financial statements at the end of the financial year. The statement has three main components, namely assets, liabilities, and equity. In the case of municipalities, the balance sheet comprises of only two components namely, assets and liabilities. The Statement of Financial Position assists in the assessment of financial security of the municipality in terms of liquidity as well as financial and credit risk.

- Cash Flow Statement

The Statement of Cash Flow depicts a presentation of the movement of cash flows over the financial year and is classified under operating, investing, and financing activities. It gives the user a significant understanding of the liquidity and growth of the municipality, as it shows the net increase or decrease in cash and cash equivalents over a specific period. This information can assist analysts, especially if historic information is analysed over several years, to project future cash flows to provide input into future economic decisions. When the main changes in the financial position over a period are summarised, this statement can highlight certain priorities for management. For example, if a municipality decides to increase capital expenditure to provide new infrastructure, it may indicate a higher future revenue stream to fund the operations and maintenance of the infrastructure within the future operational budgets of a municipality.

The key function of municipalities is to provide quality services to the citizens in an efficient and effective manner, as prescribed in the Constitution (RSA, 1996). As the financial and human resources required to provide these services are becoming increasingly scarce, it becomes more important for councils and senior management to have intimate knowledge of the finances of the municipality. Accounting and the establishment of accounting systems that enable the efficient recording and gathering of financial data as well as the analysis and structured presentation of this data will make it useful for councils and management to make well-informed future decisions.

### 2.6.3 Financial reporting

Financial reports comprise of a combined set of financial information. They provide information to the users thereof to make choices and decisions on how the limited resources in local government need to be applied. These reports may also be used for financial performance monitoring, which is discussed later. Potential users of financial reports in local government include investors, employees, creditors, suppliers, and perhaps more importantly, the citizens; other users include other spheres of government like the provincial and national treasuries as well as other sector departments within government in general. A municipal council and government departments, specifically the treasuries, must use these financial reports to inform future budget and grant-funding decisions. The public, on the other hand, should use them to track revenue and spending in terms of the approved budgets. This study endeavours to prove or disprove the above linkages.

The ASB initially issued a framework for the preparation and presentation of financial statements in June 2004, which was subsequently amended in 2014 and once again in June 2017 to specifically allow for the phased implementation of certain GRAP standards. The purpose of the framework is to set out principles on which standards of GRAP will be based for the public sector. The specific significance of these standards, for the purposes of this study are the qualitative characteristics of financial statements that are required for good financial reporting and attribute to make the information provided in them useful to the users.

According to the ASB (2017:23), the qualitative characteristics of information in the financial statements are relevance, materiality, faithful representation, understandability, timeliness, comparability, and verifiability; these are discussed below.

*Relevance*

According to the ASB (2017:23) financial and non-financial information is relevant if it can influence the achievement of the objectives of financial reporting. This information is further able to have an influence when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users decide not to take advantage of it or are aware of it already.

Financial and non-financial information has confirmatory value if it confirms or changes past or present expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative, and other requirements.

Financial statements or reports could present information about an organisation's anticipated future service-delivery activities, objectives and costs, and the number and sources of the possible resources to be allocated to providing services in the future. Future-oriented information, such as this, will have predictive value and be relevant for accountability and decision-making purposes.

Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

The confirmatory and predictive roles of information are interrelated; for example, information about the current level and structure of an entity's resources and claims to those resources help users to confirm the outcome of resource-management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous financial reports.

*Materiality*

Information relevance is affected by its nature and materiality. In some cases, the nature of information alone is adequate to determine its relevance. For example, the reporting of a new programme or service segment may affect the assessment of the risks and opportunities facing the entity, irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important; for example, the number of inventories held in each of the main categories that are appropriate to the entity.

Information is material if its omission or misstatement could influence the discharge of accountability by the organisation, or the decisions that users make based on the organisation's financial reports prepared for that specific reporting period. Materiality depends on both the nature and quantity of the item judged in the circumstances of each organisation. Financial reports may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Accordingly, it is impossible to stipulate a uniform quantitative threshold at which a particular type of information becomes material.

Calculations of materiality are made in the context of the legislative, institutional, and operating environment within which the organisation operates and, in respect of prospective financial and non-financial information, the knowledge and expectations of the preparer of the report about the future. The disclosure of information about compliance or non-compliance with legislation and supporting regulations or similar means may be material because of its nature, irrespective of the scale of any amounts involved. In determining whether an item is material in these circumstances, consideration is given to such matters as the nature, legality, sensitivity, and consequences of past or anticipated transactions and events, the parties involved in any such transactions, and the circumstances giving rise to them.

*Faithful representation*

For information to be useful in financial reporting, it must be a faithful representation of the economic and other singularities that it claims to represent. Faithful representation is achieved when the depiction of the singularity is complete, neutral, and free from material error. Information that faithfully corresponds to an economic or other singularity illustrates the substance of the underlying transaction, other event, activity, or circumstance and may not necessarily always be the same as its legal form.

In practice, it may not be possible to know or confirm whether information presented in the financial reports is complete, neutral, and free from material error, but it should be as complete, neutral, and free from material error as possible.

The omission of some information can cause the representation of an economic or other singularity to be false or misleading, and thus not be useful to users of financial reports. The ASB (2017:25) refers to the following example: A complete depiction of the item “plant and equipment” in financial reports will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive, and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non- financial information and information about the achievement of service-delivery objectives and outcomes included in financial reports will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.

Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result; for example, to influence in a particular way users' assessment of the discharge of accountability by the organisation or a decision or judgement that is to be made, or to induce behaviour.

Neutral information faithfully represents the economic and other singularities that it claims to represent. However, to require information included in financial reports to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information can influence users' assessments and decisions.

The economic and other singularities represented in financial reports occur under conditions of uncertainty. Information included in these reports will therefore often include estimates that incorporate management's judgement. To faithfully represent an economic or other singularity, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other singularities.

However, free from material error does not mean complete accuracy in all respects, it means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in the financial report; for example, the amount of a cash transfer to another level of government, the volume of services delivered, or the price paid for the acquisition of plant and equipment. However, in other cases it may not like the accuracy of an estimate of the value or cost of an item, or the effectiveness of a service-delivery programme may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

*Understandability*

Understandability is the quality of information that allows the user to comprehend its meaning. Financial reports and statement of municipalities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. The ASB (2017:26) is of the opinion that explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language and presented in a manner that is readily understandable by users. Understandability is reinforced when information is classified, characterised, and presented clearly and concisely. Comparability also can enhance understandability.

Users of financial reports are assumed to have a reasonable knowledge of the municipality's activities and the environment in which it operates, to be able and prepared to read these reports, and to review and analyse the information presented with reasonable diligence. Some economic and other related singularities are particularly complex and difficult to represent in the financial statements, and some users may find the need to seek the aid of an adviser to assist in their understanding of these statements. All efforts should be undertaken to represent economic and other phenomena included in the AFS in a manner that is understandable to a wide range of users. However, information should not be excluded solely because it may be too complex or difficult for some users to understand without assistance.

*Timeliness*

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful. However, some items of information may continue to be useful long after the reporting period or reporting date. An example would be, for accountability and decision-making purposes, users of AFS and financial reports may need to assess trends in the financial and service delivery performance of the municipality and its compliance with budgets over several reporting periods. In addition, the outcome and effects of some service delivery programmes may not be determinable until future periods. This may occur in respect of programmes intended to enhance the economic well-being of constituents, reduce the incidence of illegal land occupation, or increase the provision of basic services to informal settlements.

*Comparability*

Comparability is the quality of information which allows users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather of the relationship between two or more items of information. Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an organisation or in a single period across more than one organisation. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by a municipality may be revised to better represent a particular transaction or event in financial statements and reports. In these cases, the inclusion of additional disclosures or explanations may be necessary to satisfy the characteristics of comparability.

Comparability also differs from uniformity. Similar things must look alike, and different things must look different for information to be comparable. An over-emphasis on uniformity may reduce comparability by making different things look alike. Comparability of information in financial statements and reports not enhanced by making dissimilar things look alike, any more than it is by making similar things look different.

Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future is necessary for accountability purposes and useful as input for decision-making purposes.

The usefulness of such information is enhanced if it can be compared with, for example:

(a) prospective financial and non-financial information previously presented for that reporting period or reporting date;
(b) similar information about the same municipality for some other period or some other point in time; and
(c) similar information about other municipalities for the same reporting period.

Consistent application of accounting principles, policies, and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other municipalities may be less significant for explanations of management's perception or opinion of the factors underlying a municipality's current performance.

*Verifiability*

Verifiability is the quality of information that helps assure users that information in financial statements and reports faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied with respect of explanatory information and prospective financial and non-financial quantitative information disclosed in financial statements and reports; for example, the quality of information that helps assure users that explanatory or prospective financial and non- financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that either:

(a) the information represents the economic and other phenomena that it purports to represent without material error or bias; or
(b) an appropriate recognition, measurement, or representation method has been applied without material error or bias.

To be verifiable, information does not have to be a single-point estimate. A range of possible amounts and the related probabilities also can be verified. Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified.

With indirect verification, the amount or other representations are verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs, like quantities and costs, and recalculating the ending inventory applying the same cost flow assumption, for instance, average cost or first-in-first-out.

The quality of verifiability is not absolute; some information may be more capable of verification than other information. However, the more verifiable the information included in financial statements and reports is, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

Financial statements and reports of public-sector entities may include financial and other quantitative information and explanations about key influences on the entity's performance during the period, the anticipated future effects or outcomes of service delivery programmes undertaken during the reporting period, and prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

To assist in assuring users that prospective financial and non-financial quantitative information and explanations included in financial statements and reports faithfully represent the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation, and interpretation of the information.

Financial reporting is a legislative requirement for municipalities in South Africa and should contribute towards ensuring transparency and accountability in municipal governance. Accounting standards and the framework for the preparation and presentation of financial statements issued by the ASB are linked to international best practice. The development of the Conceptual Framework for General Purpose Financial Reporting was informed by the Handbook of International Public Accounting Pronouncements of the International Public Sector Accounting Standards Boards (IPSASB), published by the International Federation of Accountants (IFAC) (ASB, 2017:2).

The principles of accountability and transparency also discussed above in the section on NPM theory, means that in terms of financial management, municipalities must be held accountable for the decisions taken and financial reporting to predetermined standards and within a set framework, as well as the publication of these reports; these assist with transparency. One should, however, be aware that even if municipalities comply with the qualitative characteristics of financial statements, these reports, in their current form, are still highly technical in nature and the users thereof should have a certain level of education and skills to firstly, understand the information and secondly, make sense of the information.

The inability of most users to understand and interpret financial reports, impacts negatively on transparency and accountability and in this study, specifically, financial accountability. In its simplest form, financial accountability can be defined as the duty or liability to give account on financial matters. Scott (2000:40) explains that accountability is "a liability to reveal, to explain, and to justify what one does, how one discharges responsibilities, financial or others, whose several origins may be political, constitutional, hierarchical, or contractual." While Brinkerhoff, (2001:10) states that financial accountability comprises of tracking and reporting on allocation, disbursement, utilisation of financial resources by using the tools of auditing, budgeting, and accounting, Redlynch, (2001:15) simply defines it as the "responsible stewardship for use of public money."

The above definitions support the notion stated earlier that financial records are highly technical by their nature and require a higher level of skills to understand and interpret them. It is common knowledge that most of the population in South Africa are not highly trained or skilled in general, let alone possessing the skills to read and interpret technical financial reports, thus, contributing to the inability to effectively exercise holding government accountable. The statement is further supported by the reality that input solicited from the public on the annual reports, which includes the annual financial statements, is either non-existent or truly little in most municipalities across the country. On the positive side, the AGSA made a concerted effort to make its reports more user friendly by summarising the content of the report and making use of graphics to simplify data (see AGSA 2018/19 Consolidated General Report on Local Government Audit Outcomes).

### 2.6.4 Auditing

Auditing assists in ensuring that funds are not subjected to fraud, waste, and abuse as well as identifying and correcting mistakes in reporting. In the public sector, auditing can contribute towards ensuring that an entity conducts its business in compliance with specific rules, procedures, and legislation.

Auditing can be described as a systematic process of objectively getting and evaluating evidence regarding assertions about economic actions and events (American Accounting Association,1973: 7). An audit consists of a series of steps, done sequentially, which include internal controls and substance testing of transactions and balances. The outcome of an audit is an audit report, which the auditor produces for the benefit of users. The auditor expresses a finding in the form of an opinion regarding the fairness with which the financial statements reflect the auditees' financial position, financial performance, and cash flows. For municipalities, other objectives such as compliance to legislation, for example the MFMA and its regulations as well as rules and standards (GRAP), are equally important to highlight the misuse or misappropriation of public funds.

The Auditor-General (AG) who has the constitutional obligation to audit the public sector in South Africa, audits the annual financial statements of government and its entities, which includes municipalities. The audits for municipalities are usually a financial and compliance audit. A financial audit is historical in nature (for the financial year past) and the AG performs an independent evaluation to certify the fairness, accuracy, and reliability of the financial information. The focus of this type of audit is to verify whether the financial statements prepared by the municipality reflect the true financial position thereof. The AG examines the accounting treatment of the different transactions in the municipality's financial statements and ascertains if the disclosed information reflects the principal transactions.

A compliance audit focuses on the municipality's compliance with the relevant legislation, regulations, and procedures regarding the treatment of public funding. The AG expresses its findings by means of an audit report, which includes its opinion on the completed audit. There are several types of audit opinions. An unqualified audit opinion conveys the auditor's belief that the financial statements is a true and fair representation of the municipality's financial position. This is the so-called clean audit.

Yet an auditor may also issue an unqualified audit opinion, with findings on other matters. This means that the audit is unqualified but not "clean" as there are matters of material concern that the auditor wants to bring to the attention of the users. For example, in the 2012/13 financial year, the Cape Agulhas Municipality had an unqualified audit with material misstatements, which were corrected during the audit process. These findings were because of significant uncertainties regarding litigation and the wage curve agreements, material impairments and losses as well as material inconsistencies in information included in the annual report (AG Report CAM, 2013:33).

Then there are also qualified opinions with findings, which means that a municipality submitted statements to the AG with material misstatements that could not be rectified before the finalisation of the audit report. The worst finding the AG can produce is that of an adverse or disclaimed nature. An adverse finding results when financial statements are submitted that include so many material misstatements that the AG disagrees with almost all the amounts and disclosures as stated. In the case of a disclaimed finding, the auditee could not provide the AG with evidence for most of the amounts and disclosures in the financial statements resulting in the inability of the AG to express an opinion on the credibility of the financial statements.

Farvaque-Vitkovic and Mihaly (2014:143) note that external audits fulfil a key role in improving the accountability of municipal governments and provide valuable feedback to councils and management regarding the quality of their financial management. They do, however, state that the experience in most developing countries shows that audits do not always fulfil the critical role as expected due to various reasons, including late audits, capacity shortages, and the fact that audits are limited to compliance to legislation only.

These objectives of improving accountability and providing feedback are shared by the Auditor-General of South Africa (AGSA), who states that as the supreme audit institution in South Africa, it "exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence." (AG LG Report, 2013/14:11). The 2013/14 audit outcomes showed that although there had been a steady increase in the number of municipalities achieving clean audits and unqualified audits with findings, 39% for both 2007/08 to 58% in 2013/14, there are still numerous municipalities who received qualified and adverse opinions, 22% and 1% respectively and 16% disclaimed with findings (AG LG Report, 2013/14:24).

The AG contended that those results could be improved if there is true political will to effect change and when those in leadership actively strive for quality and sustainability in fulfilling their duties. To improve or maintain the current audit outcomes, the AG proposed that attention be paid to the following three root causes: (a) slow response by management or leadership to address the previous years' root causes of poor audit outcomes; (b) key positions vacant or key officials lacking appropriate competencies; and (c) lack of consequences for poor performance and transgressions (AG LG Report, 2013/14:6).

The Consolidated General Report on the Local Government Audit Outcomes: MFMA 2018/19 (AG LG Report, 2019) was released on 01 July 2020 by then AG, Mr Kimi Makwetu and titled "Not much to go around, yet not the right hand at the till." The Executive Summary states that "safe and clean hands that can be relied upon to look after the public's finances in local government are few and far between" (AG LG Report, 2019:8). The AG emphasises this statement by reasoning that those mandated to oversee and monitor compliance with financial management legislation failed to do so, or that the measures implemented to turn the situation around, were not effective. This reality is supported by the fact that finances allocated for the delivery of certain specified outcomes are no longer available, as cash was misspent, and hence no services were delivered, and the outcomes were not achieved.

The AG also identified a growing trend of established businesses, individuals, and households not paying for services already provided, thereby contributing negatively to the year-on-year growth in debtors. Efforts to recoup this money by municipalities have been largely unsuccessful. A further serious concern, adding to the financial woes of most municipalities in the country, is that external service providers continue to receive their payment from revenue received as national grants. National and provincial grants are provided for a specific purpose and may not be used for any expenditure other than what they were intended for. Thus, this means that operational functions and related services are irregularly funded from national and provincial grants intended for the provision of services to the public.

Furthermore, even though permanent staff are employed for specific functions, municipalities contract external consultants to provide the same functions at an additional cost. "The common consequence of this is that those that provide goods and services with a promise to be paid in future have to wait for new money to be allocated for future spending before they can be paid for past deliverables" (AG LG Report, 2019:8). The AG states that these findings are not surprising, as municipalities inevitably find themselves in a downward spiral to a financial dead-end, as is the current scenario for many local and district municipalities, with few exceptions. There was an overall regression in audit findings in the 2018/19 audit year with 20 municipalities receiving unqualified audits, 105 unqualified with findings, 83 qualified with findings, two adverse findings, and 33 disclaimers. A further 28 audits were still outstanding (AG LG, 2019:146).

The AG further noted that the aim of the 2018/19 report was no longer merely to reach a specific audit conclusion but also to determine if municipalities were indeed participating in qualitative and preventative controls to avert the methodical relegation in financial position within such an important sphere of government. That was the situation at national level.

As the four municipalities in this study are situated within the Western Cape it would be prudent to consider the municipal audit outcomes in the province. With the conclusion of the 2018/19 audit, 93% of the province's municipalities achieved unqualified opinions on their financial statements, with eight retaining their clean audit status of which six kept this status for the past five years or longer (AG LG Report, 2019:16). Sustainable clean audit outcomes are characterised by institutional control environments that are preventative in nature, supported by strong and decisive leadership. There is a limited tolerance by management for negative audit findings and a high level of accountability underpinned by knowledgeable assurance providers that understand their roles and effectively exercise their functions within the control environment. This, together with a focus on own processes with the inclusion of strong risk analysis into its action plans creates an enabling environment for favourable audit outcomes. Three of the four municipalities in this study received clean audits for the 2018/19 audit cycle – Cape Agulhas, Overstrand, and Theewaterskloof. Overstrand and Cape Agulhas sustained their clean audit status for seven and five consecutive years, respectively.

The AG reports are tabled annually to both Parliament, all Provincial Legislatures and by means of inclusion in an annual report to all councils as well as the public, who are primarily the users, as discussed earlier in this chapter. Chapter 12 of the MFMA (RSA, 2003) instructs a municipality to prepare an annual report for each financial year. The annual report must include the annual financial statements, AG audit report, and the annual performance report. Section 126(a) of the MFMA (RSA, 2003) further states that annual financial statements must be submitted to the AG two months after the end of a financial year.

These reports assist national and provincial government departments to develop support plans for the municipality. For example, the national and provincial treasuries as well as CoGTA assess the audit action plans of municipalities quarterly by measuring adherence to the activities as identified. The audit action plan or OPCAR (Operation Clean Audit Report) is an initiative pronounced by the Minister of CoGTA on 22 September 2009 (AG WC Report, 2013:11) to reach 100% clean audits for all provincial departments and municipalities by 2014. With regular engagements between the relevant municipalities and the departments on their progress on the OPCAR, these departments can then provide specific support.

This support can be in the form of actual assistance from provincial officials to local officials by means of knowledge sharing or by providing grants, like the Municipal Systems Improvement Grant (MSIG), to obtain specialist support through consultants, as well as the procurement of electronic financial systems to assist in accounting. Although considerable progress has been noted as alluded to here, 2014 has passed and CoGTA's goal of 100% clean audits has not been met.

It may be argued that this goal was too ambitious to start off with, given the reality of the number of municipalities with clean audits in 2009, but the fact that there has been a change in ministers several times since the elections in 2009, may also have had a negative effect on the achievement of this goal due to the lack of continuity. According to the Department of Government Communication and Information System GCIS) annual yearbook publications, this department (CoGTA) has had six different ministers since 2009, which has negatively influenced sound governance and administration. The department itself did not receive a clean audit report for the 2008/09 financial year but its audit outcome for 2009/10 improved to financially unqualified with findings (AGSA, 2011:30). So, the department's ability to successfully reach its own goals, in terms of political will and leading by example can thus become questionable. This assertion is supported by the actual audit results mentioned previously.

However, this trend of instability seemed to have continued, as the 2014 to 2019 tenure of government has also seen ministers come and go. Pravin Gordhan led the department after the general elections held on 07 May 2014 for approximately 18 months, followed by Des van Rooyen who held the office for just over two years; he was succeeded by Zweli Mkhize, who held the position until the general elections in May 2019, whereafter the current minister, Nkosazana Dlamini-Zuma was appointed.

## 2.7 Ratio Analysis

The audited information from the financial statements can be used to calculate ratios. The National Treasury (NT) has determined that there are more than 200 financial ratios, with different results, used by municipalities to determine their financial status (NT, 2014:1). This manner of assessment resulted in differences in interpretation, unreliable submission, and a general misinterpretation of a municipality's financial status. This often led to the improper diagnosis of the challenges and thus unsuitable responses to correct these challenges.

The aim of the 2014 circular was an attempt to bring consistency in interpreting and applying specific financial information by making use of standardised financial ratios. The NT also cautions against the use of ratios and norms in isolation and advises that several interrelated ratios should be analysed together to obtain a wider view of a municipality's financial performance. The analysis of different ratios in a combined manner will provide council and officials as well as the public with a better sense of the financial status of the municipality as it will assist in identifying the areas of financial management that need to be monitored and improved.

The ratios and norms used in this study and their meanings (for example, liquidity ratios, net debtor days, and collection rates) are discussed in further detail in Chapter Four.

## 2.8 Summary and Concluding Remarks

From the discussion in this chapter, the importance of reporting on the four components of PFM can contribute towards effective and efficient government institutions. This discussion also highlights that these components cannot be regarded as stand-alone items operating in silos. They are intrinsically linked and dependent on each other to achieve a desired outcome. For example, if the budget of a municipality is not fully funded and structured in terms of legislative requirements, this could lead to difficulties in correctly accounting for revenue and expenditures, which would have an impact on the auditing of the financial information, that can lead to a negative audit opinion. All these components and the actions emanating from them, must be done, in terms of the prescripts of almost all local government legislation, in such a manner that enable the input and participation of the citizens that government serves.

Public participation or the ability to actively solicit useful input and comment from the public is a challenge. Municipalities need to be aware of the way participation is solicited, the educational level of citizens in a specific constituency, different languages, and sufficient time, human and financial resources to enhance participation. This is important to give effect to transparent decision-making and reporting which would, in an ideal situation, contribute towards keeping public representatives and officials accountable for past and future decisions.

However, even though the issues of accountability and transparency have been on the South African political agenda for more than a decade already, the general perception is that fraud and corruption are still rife within all spheres of government. While one can argue that this situation is a consequence of a transparent government, where fraudulent and corrupt activities are exposed due to transparency, on the flipside, it can also mean that there is a general and growing disregard for ensuring a government free of fraud and corruption.

This then begs the question, if there is a real political will to address the issue effectively and if that is so, does the so-called punishment fit the crime? There have been various reported cases in government of the perpetrators of fraudulent and corrupt activities either being deployed to other positions or being suspended with pay without the actual conclusion of the disciplinary processes. The reality is that these disciplinary cases drag on for months, sometimes years, while the guilty party continues to receive full pay. While the guilty party is on suspension, another person needs to act in their position, thus resulting in double expenditures on the salaries budget of the specific municipality or government department. According to BusinessTech (2022), the Department of Public Service and Administration (DPSA) reported that as of 30 June 2022, 305 government officials were suspended with full pay at a total cost of R131 million to the taxpayer; 57 of these employees are senior managers.

Then there is the disregard of the statutory watchdogs against fraud and corruption, like the Office of the Public Protector (PP), where even the former president refuses to give effect to the recommendations of the PP reports. A case in point is the “Nkandla issue,” where the PP, Thuli Madonsela, found in her “Secure in Comfort” report that former President Jacob Zuma and his family unduly benefitted from the R243 million upgrade of his homestead at Nkandla in KwaZulu Natal. The PP recommended that the president must pay for the non-security upgrades (PP, 2014:437).

However, he refused to comply and instead appointed committee after committee to contest the PPs findings, which ended in these committees determining that he does not need to repay any money and that, in fact, more upgrades are needed to ensure the security of him and his family. This recommendation was adopted by parliament due to the majority votes of the ruling party, who diverted the focus to the relevant officials responsible for the project. All these irregularities only fuel the suspicions of fraud and corruption and are not conducive to transparency and good governance.

Another case in point is the way the previous parliament handled the “State of Capture” report (PP, 2016), also released by the PP, Thuli Madonsela on 14 October 2016. In essence,

> [It] relates to an investigation into complaints of alleged improper and unethical conduct by the president and other state functionaries relating to alleged improper relationships and involvement of the Gupta family in the removal and appointment of ministers and

directors of State-Owned Entities (SOEs) resulting in improper and possibly corrupt award of state contracts and benefits to the Gupta family's businesses (PP, 2016:4).

The findings of the PP were damning, to say the least. The PP stated that the investigation had proven that, given the extent of the issues it needs to traverse and the resources necessary to execute the recommendations, it is incapable of being executed fully by a single entity. The PP therefore identified several remedial actions to be implemented by the president. One of these was the president's appointment of a commission of inquiry, headed by a judge nominated solely by the Chief Justice, within 30 days of the report's release.

In both the above cases the president only gave effect to the remedial actions after challenging them in High Court, and losing, then appealing to the Supreme Court of Appeal and in the matter of Nkandla, even taking it to the Constitutional Court, where the ruling was also not in his favour (*Economic Freedom Fighters v Speaker of the National Assembly and Others*; *Democratic Alliance v Speaker of the National Assembly and Others [2016] ZACC 11*). Thus, the former president effectively used the legal system to delay the implementation of the PP's remedial actions and in doing so, denied justice to be done.

These actions, or inaction in government, make a mockery of the notions of accountability, transparency, and good governance, thus resulting in the loss of public confidence in government; but it also creates a general mood that these practices are condoned which, in turn, exacerbates the prevalence thereof. This is important, as it demonstrates that local political leaders take their cue from their national and provincial counterparts, specifically in the party-political environment. The legislative framework will be discussed in the next chapter, specifically focussing on the legislative reforms post-apartheid and how these reforms are linked to the theories discussed in this chapter.

## Chapter Three: Legislative Framework

### 3.1 Introduction

The post-apartheid transformation of the local sphere of government – at the coalface of service delivery – was necessitated due to the disproportionate and unequal way it was governed and managed by the previous apartheid regime. The levels of services between the so-called white suburbs and the black townships differed vastly. A high level of service was provided in the white suburbs while that in the black townships was inferior, thus creating a situation that resulted in huge service delivery backlogs in these areas after the advent of democracy. To redress these imbalances, a focused effort was needed by all spheres of government, as the local government simply did not, and in some instances still does not have, the skills, competencies, abilities, and perhaps most importantly for this study, the finances, to address this matter effectively and efficiently.

The local sphere of government was the last sphere of government to be reformed post-apartheid. This statement is verified by the timeline of promulgation of legislation specifically related to local government (Constitution, 1996; MDA, 1998; Structures Act, 1998; MSA, 2000; MFMA, 2003; MPRA, 2004, MFPFFA, 2007). This particular suite of legislation emanated from the White Paper on Local Government (RSA, 1998c) and was promulgated to transform and establish a new system of local government. In some way, restructuring national and provincial spheres first, makes sense due to the constitutional interdependency of government and the fact that these two spheres render a supporting function to local government.

This chapter begins with a discussion of the Local Government Transition Act (RSA, 1993b), then the Constitution (RSA, 1996), which is the supreme act guiding the development of subsequent legislation; it moves onto the White Paper (RSA, 1998c), which can be seen as the "gateway" for local government reform, and ends off with the MFPFA (RSA, 2007), focusing specifically on the relevance of the different legislation to municipal financial management.

### 3.2 Local Government Transition Act, No. 2009 of 1993

The Local Government Transition Act (RSA, 1993), (LGTA) paved the way for the promulgation of a plethora of legislation regarding local government that would span almost two decades since the start of democracy in 1994. The LGTA, 1993 provided for revised interim measures to promote the restructuring of local government, the establishment of provincial committees for local government, the establishment of negotiation forums, the establishment of appointed transitional councils, the delimitation of jurisdictional areas, and the election of transitional councils.

It further allowed for issuing of proclamations by the administrators of the various provinces and the establishment of Local Government Demarcation Boards in those provinces. Lastly, it made provision for the repeal of certain laws and any other matters connected therewith. This was the pre-interim phase leading up to the first democratic local government elections held between 01 November 1995 and 29 May 1996 in the Western Cape and 26 June 1996 in Kwazulu-Natal, after the first national democratic elections on 29 May 1994. Although the LGTA, 1993 provided some direction with regards to the fundamental changes that were yet to come, it was promulgated with the specific objective of regulating the transition from the old to the new dispensation. A case in point: it made provision for the provincial Member of the Executive Council (MEC) of Finance to approve over- and unauthorised expenditures. Municipalities thus had limited powers in financial management at that point in time.

## 3.3 Constitution of the Republic of South Africa, 1996

The Constitution (RSA, 1996), however, ensured that local government not only became a tier of government as it used to be, but an equal sphere thereof. It allowed for three spheres, namely national, provincial and local government, which are distinctive, interrelated, and interdependent. Chapter Seven in particular, deals with local government. According to De Vos (2014:258), the design of the constitutional system is an integrated multi-sphere system of government or an integrated model of federalism. This means that these three spheres function interdependently and interrelatedly to each other, but each must preserve their own individual characteristics and duties.

The controversial issue of powers and functions for each sphere of government was also addressed by the Constitution, allowing for the exclusivity of certain powers and functions to specific spheres. Likewise, to express the interrelations and interdependence envisaged, other powers and functions are either shared or are concurrent between all spheres. It must, however, be noted that there are still some ambiguities regarding the functions and powers with specific reference to that of libraries and museums that are a provincial function, but has always been provided by the municipalities, giving rise to the notion of so-called "unfunded mandates" that may have negative effects on the budgets of municipalities.

The Constitution made specific reference to the revenue-generating power of municipalities. In terms of municipal fiscal powers and functions, Section 229, (Chapter13) of the Constitution, municipalities may levy property taxes and surcharges on fees for services provided by the municipality. Section 230A empowers a municipality to raise loans for capital or current expenditure in accordance with national legislation, while Section 214 allows for the equitable division of revenue raised at a national level among the three spheres of government. Municipalities thus have a constitutional right to raise their own funding and raise loans but similarly have the right to an equitable share of nationally raised income. These income streams are the main sources of revenue reflected in a municipal budget, although it is not limited to them only. The Constitution thus provides the basic framework within which municipalities can access revenue for the provision of services.

The Constitution further allows for the establishment of a National Treasury with the powers to regulate financial management in and distribute grants to municipalities. The establishment of an independent national Auditor-General was also allowed for in the Constitution (Section 181, Chapter 9). The Auditor-General has the specific task to audit, make findings and provide an audit opinion on the financial statements of all spheres of government.

## 3.4 Intergovernmental Fiscal Relations Act, No. 97 of 1997

The Intergovernmental Fiscal Relations Act (RSA, 1997), (IFRA) was assented to on 26 November 1997 with a commencement date of 01 January 1998. The IFRA, 1997 was developed to give effect to Section 214 of the Constitution (RSA, 1996), which envisioned an Act of Parliament that would allow for the equitable division of revenue raised nationally to all three spheres of government.

Thus, the aim of the IFRA, 1997 is to promote cooperation between all three spheres of government on fiscal, budgetary, and financial matters and to describe a process for the determination of the equitable sharing of nationally raised revenue. The Act allowed for the establishment of a Budget Council and a Local Government Budget Forum with their respective functions and meeting requirements, as well as the process for revenue-sharing among the spheres of government.

The equitable share allocation to municipalities is an unconditional grant, which has become an important income source for municipalities. The main purpose of this grant is to assist municipalities in the provision of basic services to indigent consumers. All grants and allocations from national government to local government are promulgated annually by means of the Division of Revenue Act (DoRA) and municipalities can only include grants in their budgets once it has been made public in this manner. The DoRA is published annually after the submission of the budget to Parliament.

## 3.5 White Paper on Local Government, 1998

The aim of the White Paper on Local Government (RSA, 1998c) (White Paper) was to facilitate the transformation of local government as well as to ensure the realisation of a developmental local government. This policy, together with the Constitution, was the catalyst for the generation of the suite of legislation on local government that followed. In terms of institutional transformation, the most important pieces of legislation were the Municipal Structures Act (RSA, 1998b) and the Municipal Systems Act (RSA, 2000) (MSA).

Developmental local government in the White Paper, 1998 is described as a local government that is committed to partnering or working together with citizens and community groups to find sustainable means to meet the socio-economic and physical needs of the community with the goal of improving the quality of their lives. This intent is effected with the advent of the Integrated Development Plan (IDP) allowed for as a legislative requirement for planning in the MSA (RSA, 2000).

Section 3 of the White Paper (RSA, 1998c) is dedicated to cooperative government and intergovernmental relations, as envisaged in Chapter 3 of the Constitution (RSA, 1996), but it also provides further clarity about the roles and responsibilities of national and provincial government. These issues are important to the financial management and sustainability of local government as they have an impact on the prioritisation of projects within the budget in terms of expenditure. As municipalities become more reliant on the revenue transfers from national and provincial governments in the form of grants, good intergovernmental relationships are needed to ensure the efficient and effective expenditure of these grants.

This is critical, otherwise municipalities may just function as extensions of national and provincial government where the expenditure priorities in its budgets are determined by the criteria of conditional grants received from national and provincial departments. Other than the obvious issues of future sustainability and public participation, the real issue here, is that of an autonomous local government, which could be seriously compromised if there is too much reliance on grants and transfers. Municipalities should guard against this and constantly seek ways to enhance their own revenue-raising powers, as envisioned in the Constitution.

## 3.6 Municipal Demarcation Act, No. 27 of 1998

The Constitution (RSA, 1996) further dictates that an independent authority must determine municipal boundaries and delimit wards within the municipal area (Section 155(2) (b)). This gave rise to the promulgation of the Municipal Demarcation Act (RSA, 1998a) (DMA), which is the key Act that directs the demarcation processes in the country. The DMA, 1998 provides for the establishment of a Municipal Demarcation Board (MDB), which has the primary functions of demarcating municipal boundaries, as well as delimiting the areas within the boundaries into municipal wards.

The significance of the DMA, 1998 for the purposes of this study, was that as municipalities were demarcated to be larger in size and demographics, this means that as the size grows to include more people, the tax base also grows, thus allowing for improved future financial sustainability. Although in an ideal situation this would make sense, it was common knowledge that the inherited black local government structures were mainly technically bankrupt with huge service delivery backlogs and low service levels. The White Paper on Local Government (RSA, 1998c:23) recognises that,

> … financial shortfalls were built into local government for black areas. Apartheid regulations barred most retail and industrial developments in black areas. This limited the tax base and forced residents and retailers to spend most of their money in white areas. Municipalities in black areas were therefore deprived of the means to meet the needs of local residents.

It further states that discrimination and segregation were equally harsh in rural areas where water and electricity were supplied to white residents in rural areas at exorbitant cost with little regard for the needs of the black rural communities.

Since the end of the apartheid regime, the number of municipal structures has decreased significantly after the local government elections in 1995 when some 1,262 municipal structures were amalgamated into 843 municipalities.

After the MDB was established in 1999, the number of municipalities was reduced before the municipal elections – to 284 in 2000, 283 in 2006, 278 in 2011, and 257 in 2016.

The Finance and Fiscal Commission (FFC) (2015:308) contends that concerns have been raised by various stakeholders on the effect of the demarcation on municipal financial and fiscal performance to the extent that it may have contributed to the establishment of municipalities that are not financially viable or sustainable. According to the FFC (2015:310) empirical evidence on the impact of the consolidation of municipalities is at best mixed. The reality is also that most of the studies were done in municipalities in the Global North, like the United States of America and Europe, which would not necessarily compare well with those in South Africa. However, a study that was commissioned by the FFC using four South African and two international municipalities, surprisingly, yielded the same results.

The FFC (2015:325) concludes that demarcation processes are costly, sometimes disruptive, and may result in a municipality losing focus in terms of its core business. It states that the case studies and econometric models show that the demarcation process can actually "result in unintended economic consequences and significant transaction costs, especially during the transition phase." Factors that are usually negatively affected are own revenue and human resources. Revenue is affected, as disruptions in billing systems are common when the different systems of the previous municipalities are merged into one system, while human resources will definitely be affected with the shifting of staff between one municipality and another, within the newly demarcated municipal area.

Other issues relating to financial sustainability that, especially during the transition phase, may render negative consequences are those of supply chain, long-term service-delivery contracts, information systems, asset registers, and maintenance and repairs. The FFC maintains that the redefinition of boundaries obfuscates upcoming projections and budgeting, as these processes rely on historical trends and data and that IDPs are also compromised. As already alluded to earlier, an IDP is the principal planning document of a municipality and for it to be credible and implementable, it must be linked to a fully funded budget.

The FFC thus recommends that to minimise the effects of amalgamation, stakeholders should compare the costs of amalgamation to the costs of alternative reforms and that certain conditions be met before the amalgamation takes effect. It further mentions that the two-year period between the decision to demarcate and the implementation thereof should be used more effectively to allow stakeholders enough time to plan and put measures in place to enable a smooth process of transition. However, it is the view of the author that these recommendations by the FFC which they regard as their input into the 2015/16 DoRA that annually informs the division of nationally raised revenue to provincial and local government, are too late as most demarcations were already affected and that these proposed measures are of little value currently for the affected municipalities. However, there is agreement that the recommendations should be implemented for any new decisions to demarcate by the MDB.

## 3.7 Local Government: Municipal Structures Act, No. 117 of 1998

Section 155 of the Constitution (RSA, 1996) allows for the categorisation of municipalities; for example, metropolitan (Category A), district (Category B), and local (Category C) municipalities. A Category A municipality has exclusive municipal executive and legislative authority in its area while a Category B municipality shares municipal executive and legislative authority in its area with a Category C municipality within which area it falls, and a Category B municipality has municipal executive and legislative authority in an area that includes more than one municipality. Category C municipalities are further divided into different wards represented by a ward councillor in the municipal council.

This is important, as the powers and functions delegated to municipalities are conferred to municipalities in terms of this categorisation, which then give effect to what services the budget of a specific category of municipality may be spent on. This section also directs that national legislation must define the different types of municipalities that may be established within each category, giving effect not only to the promulgation of the MDA (RSA, 1998a), referred to above, but also to the Local Government: Municipal Structures Act (RSA, 1998b) (Structures Act).

In the preamble to the Structures Act the purpose of the Act is described as follows:

> To provide for the establishment of municipalities in accordance with the requirements relating to categories and types of municipality; to establish criteria for determining the category of municipality to be established in an area; to define the types of municipality that may be established within each category; to provide for an appropriate division of functions and powers between categories of municipality; to regulate the internal systems, structures and office-bearers of municipalities; to provide for appropriate electoral systems; and to provide for matters in connection therewith (RSA, 1998b).

All four municipalities in this study are designated Category C and were established as municipalities with an executive mayoral system, combined with a ward participatory system coming into effect after the local government elections in December 2000. Table 3.1 depicts the number of councillors and wards for each municipality.

**TABLE 3.1: NUMBER OF COUNCILLORS AND WARDS**

| Name of Council | Number of Wards | Number of Councillors |
|---|---|---|
| **Cape Agulhas** | 6 | 11 |
| **Overstrand** | 14 | 27 |
| **Swellendam** | 6 | 11 |
| **Theewaterskloof** | 14 | 27 |

The Executive Mayor, Executive Deputy Mayor, Speaker, and the members of the mayoral committee were determined as full-time councillors. It is thus no coincidence that both the DMA and the Structures Act were promulgated in 1998, as the former legislated the processes for the spatial establishment and the latter the processes for the executive and functional establishment of municipalities in South Africa.

Other than the issues already explored earlier in this chapter regarding the impact of the legislation on the finances of a municipality, another burden that municipalities had to deal with was that of the salaries of councillors. Before the elections in December 2000, a councillor received a small allowance, but after December 2000, the remuneration package of a councillor was restructured to include both a basic salary and allowances. The remuneration of councillors is now regulated by the Remuneration of Public Office-Bearers Act, 1998, and is determined annually by the minister responsible for local government in terms of Sections 7(1), 8(5) (a) and 9(5) (a), thereof and can only be implemented by a council after a council decision on the matter and the concurrence of the MEC in a province responsible for local government.

## 3.8 Local Government: Municipal Systems Act, No. 32 of 2000

The next Act that was promulgated as an integral part of a suite of legislation to give effect to transformation of local government into a new system was the Local Government: Municipal Systems Act (RSA, 2000) (MSA). The purpose of the MSA, 2000 and the subsequent amendments thereto is stated as follows before the preamble:

> To provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all; to define the legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures; to provide for the manner in which municipal powers and functions are exercised and performed; to provide for community participation; to establish a simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change which underpin the notion of developmental local government; to provide a framework for local public administration and human resource development; to empower the poor and ensure that municipalities put in place service tariffs and credit control policies that take their needs into account by providing a framework for the provision of services, service delivery agreements

> and municipal service districts; to provide for credit control and debt collection; to establish a framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment; to provide for legal matters pertaining to local government; and to provide for matters incidental thereto (RSA, 2000:2).

The MSA, 2000 is the first Act, up to this point, in the so-called suite of local government Acts that references ensuring financially and economically viable municipalities. The significance of this statement is further emphasised by its inclusion in the preamble to the Act. Financial sustainability is also defined in Chapter One in relation to the provision of municipal services:

> … the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants, and subsidies for the service, is sufficient to cover the costs of –
>
> (d) the initial capital expenditure required for the service;
> (e) operating the service; and
> (f) maintaining, repairing, and replacing the physical assets used in the provision of the service (RSA, 2000:15).

Chapter 2 of the MSA, 2000 focuses on the legal nature of a municipality as well as the rights and duties of both the municipal council and the local community. It also spells out the duties of the municipal administration, who must exercise them within the legal boundaries of the Constitution (RSA, 1996) and any other applicable legislation. However, in the view of the author, Chapters 4 and 5 relating to community participation and integrated development planning set the scene for the implementation of developmental-oriented governance. Municipalities are required to encourage and create conditions for the local community to participate in the affairs of the municipality with the preparation, implementation, and review of its IDP, performance management system and the monitoring and review of its performance.

The Act prescribes the involvement of the community in the preparation of the budget and in any strategic decisions related to the provision of municipal services. As a financial plan, which must include a budget for at least the next three years, it is a core component of the IDP; thus, the community can influence the budget and has a right to be informed of the financial status of a municipality.

However, experience has shown that the opposite is closer to reality than what is expected. IDP and budget meetings are very poorly attended, thus resulting in limited community input to these important instruments, specifically regarding the finances of a municipality. It is also true that a municipality's IDP and budgetary documents can be highly technical and thus not that easily understood by the public at large to ensure meaningful engagement and interrogation thereof, which could result in expressive and valuable community input.

Chapter 6 of the MSA (RSA, 2000) is dedicated to performance management. It mandates municipalities to adopt a performance management system that is aligned to its resources, best suited to its circumstances, and in line with the municipality's priorities, objectives, indicators, and targets, as stated in the IDP. Performance agreements must be concluded with the senior management and all other municipal staff whose performance must be measured and assessed regularly. Finally, a performance report must be included in the annual report.

Section 38(c) of Chapter 6 states that a municipality must administer its affairs in an economical, effective, efficient, and accountable manner. The so-called "3Es," a common thread, are referred to in all local government legislation (Section 25 of MDA; Constitution Section 152; Structures Act preamble; MSA). The rest of the MSA (RSA, 2000) is dedicated to local public administration, human resources, municipal entities, provincial and national monitoring, and legal matters.

## 3.9 Local Government: Municipal Finance Management Act, No. 56 of 2003

The MFMA (RSA, 2003) was implemented on 01 July 2004. However, the NT recognised that not all municipalities were able to implement the Act in its entirety, and therefore municipalities were categorised into high-, medium-, and low-capacity municipalities, with different implementation dates and exemptions for municipalities and municipal entities to apply specific provisions in the Act with the same implementation date.

According to the NT, the MFMA is supported by five principles that form the bedrock of the key reforms envisioned therein and that are consistent with other local government legislation. The anticipation was that these principles and the subsequent specific reforms will encourage a "stronger, better managed and more accountable local government" (NT, 2004:5). This means a local government that is better positioned to meet the future needs of the communities within its authority by providing services in a consistent and sustainable manner. The five principles are discussed next.

### 3.9.1 Promoting sound financial governance

A key objective that supports the MFMA (RSA, 2003) is the development of sound financial governance in all municipalities. This means that a system to clarify the roles and responsibilities of the mayor, councillors, and officials must be developed, including the separation of these responsibilities. It needs to be done to enable an environment of accountability and oversight supported by a culture of transparency and consistent reporting within the municipality. The Executive Mayor, in collaboration with the mayoral committee must provide political leadership, recommend policy, and exercise oversight of the implementation thereof. The responsibility of council is to approve policy and exercise oversight over the mayor and the administration through the mayor. The officials remain responsible for implementation and to offer professional advice to the Executive Mayor and the mayoral committee. Table 3.2 contains a summary of the financial governance framework.

**TABLE 3.2: FINANCIAL GOVERNANCE FRAMEWORK**

| | **Responsible for** | **Oversight over** | **Accountable to** |
|---|---|---|---|
| **Council** | Approving policy and budget | Mayor | Community |
| **Executive Mayor** | Policy, budgets, outcomes, management of and oversight over Municipal Manager | Municipal Manager | Council; public |
| **Municipal Manager** | Outputs and implementation | Administration | Mayor, council, public |

| CFO | Outputs | Financial management | Municipal Manager |
|---|---|---|---|

Source: NT (2004:6)

### 3.9.2 Devising a more strategic approach to budgeting and financial management

Before the promulgation and implementation of the MFMA (RSA, 2003), the municipal budgets were incremental or only for one year and were compiled using past financial information. Budgeting and planning processes did not run concurrently, and budgets were presented in a significantly detailed manner. According to the NT (2004:6), this manner of budgeting hampered processes for effective policy and planning and was not conducive to participation. As capital and revenue estimates were unrealistic, the results were poor service delivery performance and unfulfilled community expectations. Limited linkage was evident between the budget and a broadly defined long-term financial strategy.

One of the major reforms introduced by the MSA (RSA, 2000) was the requirement to develop an IDP, which must be developed with the assistance and concurrence of the communities in a municipality. Municipalities were then required, in terms of the MFMA reforms, to adopt new methods in the preparation, monitoring, and implementation of budgets and ensure that there is alignment between the budget and the IDP to address the challenges, as discussed above. The statutory span of the IDP is a five-year period, but the ultimate goal is that municipalities must have a long-term vision and plan informed by realistic revenue and expenditure projections. This plan is important, as it will assist the municipality in determining what revenue is needed for continued service delivery and how, if necessary, service standards need to be adjusted, to remain financially sustainable in future.



Municipalities are also required to table three-year budgets and to manage their finances over the medium term through constant rounds of forecasting, implementation, and review. It is the view of the NT (2004:7) that this approach will promote a culture of performance management and together with the SDBIP inculcate performance-driven and accountable service delivery. The objective is for municipalities to approach budgeting and financial management strategically, to consider the impact of their longer-term decisions.

### 3.9.3 Modernising financial management

In terms of financial management system improvements, the MFMA (RSA, 2003) sets national norms and standards specifically related to local government and not nationally prescribed rules and procedures, thus allowing municipalities to set their own internal procedures, processes, and mechanisms, and therefore allowing for autonomy for approval thereof. However, municipalities are required to take the nationally prescribed norms and standards into consideration when developing and approving their own.

The standards assist in facilitating improved performance, measurable outcomes, accounting-practice reform, better disclosure and reporting, and best-practice management procedures. Asset and liability management actions are also prescribed. The reforms aimed at constructing the internal structure of a municipality are emphasised by the encouragement of a disciplined approach to financial management and service delivery, the assignment of resources aligned to strategic priorities, and the encouragement of operational efficiency.

### 3.9.4 Promoting cooperative government

Chapter 5 of the MFMA (RSA, 2003) is dedicated to cooperative government and seeks to promote cooperative methods of fiscal and financial management within the different sectors and forge links with other spheres of government and organs of state like the Department of Water Affairs and the National Energy Regulator South Africa (NERSA). This chapter also sets a procedural framework for financial dispute resolution between organs of state.

According to the NT (2004:8), the framework for cooperative government envisioned by the MFMA can be summarised, as provided in Table 3.3.

**TABLE 3.3: COOPERATIVE GOVERNMENT**

| National Government | Provincial Government | Local Government |
|---|---|---|
| • Supports and assists municipalities with compliance, if necessary. | • Performs coordinating function in rollout of MFMA. | • Provides the other spheres with financial and service delivery information. |

| | | |
|---|---|---|
| • Assists with capacity-building by providing financial and technical assistance.<br>• Issues guides, manuals, and regulations and provides grant allocation details. | • Assists and supports municipalities where needed.<br>• Intervenes when financial problems become evident in a municipality. | • Liaises with other municipalities and districts on strategic budgetary issues.<br>• Provides national and provincial government with financial and budgeting information. |

Source: NT, 2004

### 3.9.5 Promoting sustainability

The NT (2004:8) views the purpose of the MFMA (RSA, 2003) as the establishment of a basis for improved financial management, which is essential for the improvement and sustainability of municipal services in the future. The MFMA reforms should not impede or compromise a municipality's right to exercise its powers or perform its constitutional functions but should regulate matters using an approach that creates a more sustainable sphere of local government. Budgets that are fully funded must be passed and borrowing is only allowed for current-year and capital expenditure, thus ensuring that municipalities can only spend what has been collected by them; current expenditure loans or overdrafts cannot be carried over to the next financial year.

Since it is a requirement of the MFMA (RSA, 2003) to report on a more regular basis (monthly budget statements, mid-year performance reports, and annual reports) in a format determined by the NT to improve accuracy, it could facilitate an environment where impending and real financial problems can be detected early and allow council to respond accordingly with possible remedies. Councils must use realistic revenue and expenditure estimates to develop and adopt credible budgets while the budgets for capital projects must consider the future projected operational costs. Finally, councils must ensure that robust internal control systems are established and that their financial management systems are continuously reviewed to improve the effectiveness and efficiency of these processes.

Finally, councillors must realise that as part of their general oversight responsibility, these reforms place a greater responsibility on them to use the financial information available to them in monthly, quarterly, bi-annual, and annual reports to inform the decisions taken. They need to be more disciplined when taking decisions regarding the spending of public funds and accounting to the communities that they serve.

## 3.10 Municipal Property Rates Act, No. 6 of 2004

The Constitution (RSA, 1996) envisions a local government that is developmental in nature when addressing the service delivery needs in the country while also promoting the economic and financial sustainability of municipalities. To deliver on this mandate, it is important that local government be provided with access to sufficient revenue sources. Income from property rates is a significant source of revenue for municipalities to fulfil and achieve their constitutional objectives, specifically with regards to service backlogs in the so-called previously disadvantaged areas.

It is therefore critical for municipalities to exercise this right to impose property taxes within a legal framework that augments certainty, uniformity, and simplicity across the country and considers the imbalances of the past and the ability of the poor to pay property taxes. The Municipal Property Rates Act (RSA, 2004) (MPRA) was enacted on 17 May 2004 with a commencement date of 02 July 2005. However, due to complexity of the reforms, specifically the way valuations were done before enactment and the fact that the MPRA (RSA, 2004) required actual market values on the full property, implementation was phased in, as was the case with the implementation of the MFMA (RSA, 2004). The other major reforms were those pertaining to the appeal procedures, promulgation of rate levies, and the adoption of rates policies.

Before the enactment of the MPRA (RSA, 2004), local municipalities levied property rates only on residential properties within their jurisdiction. This changed when municipalities became so-called wall-to-wall municipalities, that include all the properties within their jurisdiction, according to Section 2(1). These properties include farms, state-owned property, and that owned by other state agencies; however, the Act requires that exemptions and rebates be granted on state property and those used for agricultural purposes. This must, however, be regulated by a policy to be adopted by council.

All four municipalities in this study implemented the MPRA (RSA, 2004) between 2007 and 2009 and have been using their third or fourth general valuation rolls after the implementation to levy taxes.

## 3.11 Municipal Fiscal Powers and Functions Act, No. 12 of 2007

The Municipal Fiscal Powers and Functions Act (RSA, 2007) (MFPFA) was enacted on 07 September 2007. The specific aim of the Act is to regulate the exercise by municipalities of their power to impose surcharges on fees for services provided under Section 229(1) (a) of the Constitution. It further provides for the authorisation of taxes, levies, and duties that municipalities may impose in terms of Section 229(1) (b). These taxes and surcharges exclude those that municipalities are already empowered to charge for trading services and property tax. However, the reality is that even though this Act allows municipalities to explore other sources of revenue, it is in fact extremely limited, as it excludes taxes and levies already charged by municipalities at its enactment. It also excludes the imposition of income tax, value added tax, general sales tax, or customs duty, as this is a national competence. It may include for instance, fuel levies, but the application process is tedious, and it can only be imposed with the approval of the Minister of Finance.

## 3.12 Summary and Concluding Remarks

As can be seen from the above discussion, the earlier pieces of legislation, Constitution, MDA, Structures and MSA, were enacted to specifically regulate the powers and functions of local government, the geographical and spatial footprint, the structural composition of its councils, as well as the institutional arrangements of its administration. This suite of legislation also regulated the importance of development and budget planning as well as public participation and the appointment of senior managers.

The notions of performance management, delegation systems, contract employment, service utilities, and outsourcing, which are all linked to NPM, as discussed earlier in this chapter, have all been legislative requirements for local government since the promulgation of the MSA (RSA, 2000). Even though some of these elements of NPM are not all linked to PFM and sustainability, they are important to show how the "personality" of reforms has changed over time from the legal and organisational to that of accountable, transparent, and participatory governance.

The MFMA (RSA, 2003) heralded PFM reforms in South Africa from 01 July 2004. This statement was affirmed in 2004 by then Minister of Finance, Trevor Manual, where he states that the aim of the MFMA (RSA, 2003) is to modernise budget and financial management practices in local government to increase the capacity of municipalities in service delivery to all residents, customers, and users (NT, 2004.) It further aims to establish a sound financial governance framework to provide clarity and separation of the roles and responsibilities of the Executive Mayor or mayoral committee, non-executive councillors, and officials.

The MFMA (RSA, 2003) also regulates specific responsibilities and delegations of the accounting officer, other senior managers, and specifically officials working with supply-chain management functions. It specifies the establishment of a budget and treasury office as well as a supply chain management unit. These reforms are specific to the organisation. The main budget and reporting reforms that came into being with the promulgation of the Act were those of multi-year budgeting and planning, in-year reporting, annual reports, supply-chain management, and Public Private Partnerships, (PPPs) as well as the development of unit standards and training. These elements of PFM are linked to NFPM principles discussed previously and are more specific to the purpose of this paper.

The implementation of the legislated reforms in the South African local government sphere certainly was not easy. Due to the complexity of the legislation, the obvious capacity constraints in government in general at the time of promulgation, the cost of compliance, and in some cases political unwillingness, municipalities are still struggling with the implementation of reforms. The unintended consequences are a dependence on consultants, malicious compliance, other spheres of government support, and a focus on compliance rather than service delivery. However, these issues are not the focus of this study, but it is the view of the author that they provide a context to the implementation reality of financial management reforms in South Africa and specifically its impact on sustainability issues. Legislation defines the legal framework in which municipalities must operate and it is important to have this in mind when deciding on the research methodology. In the next chapter the methodological framework that steered the research process will be fully discussed.

# Chapter Four: Research Methodology

## 4.1 Introduction

This chapter defines the methodological framework that steered the research process to explore the perceptions, understanding, and experiences of senior municipal councillors and officials on financial management tools, financial reports, and budgeting principles that enhance or support financial sustainability in a municipality. The chapter starts with a discussion on research design and then provides a detailed outline of the systematic research process, which included: qualitative and quantitative research strategies, including the research paradigm; the data collection methods, including the selection of participants as well as that collected from the financial reports and the process of data analysis used in this study. A brief discussion on the quantitative approach follows, as the approach focuses only on the gathering and processing of the information from the annual financial statements.

## 4.2 Research Design

Yin (2011:75) explains that research design is "logical blueprints" that involve the relations among research questions, the data to be collected, and the strategies for data analysis for the findings of the study to address the envisioned research questions. This logic also assists in strengthening the validity and accuracy of the study. This view is supported by Babbie and Mouton (2001:74) who assert that research design focuses on the product and outlines the type of study and results that are sought. The focus of research design is thus on the logic of the research and reflects on the evidence required to address the research question.

However, Yin (2011:77) states that the design process is recursive – elements of the design can be decided upon or put into place during the progression of the study, and the researcher may at a later stage during the study do exactly that if the need arises. Maxwell (2009) agrees that the process is interactive – the purpose, research questions, conceptual context, methods, and unease for validity are interacting continuously in qualitative studies. Figure 4.1 represents the research design process graphically and shows the above stated interactivity of different elements in the process.

**FIGURE 4.1: RESEARCH DESIGN PROCESS**


Source: Adapted from Leedy (1989:9).

This is a longitudinal study that used a mixed-research approach including both qualitative and quantitative methodologies. The researcher employed a case-study method to undertake the research. The study used four municipalities to answer the research questions and to collect data to inform the findings and recommendations. The researcher used both primary and secondary data sources and collected qualitative primary data collected through semi-structured questionnaires. These questionnaires were done online in Google Forms format and the researcher stored them on the cloud. The researcher sourced quantitative secondary data from the annual reports of the four municipalities over the period of the study. Additionally, the researcher reviewed other secondary data sources, such as academic literature, relevant legislation, government policy documents, and research reports to inform the study.

## 4.3 Methodological Framework

Research methodology focuses on the research process and the kind of tools and procedures to be used. The point of departure is characterised by specific tasks such as data collection techniques or sampling questionnaires. According to Babbie and Mouton (2001:75), research methodology focuses on the individual steps in the research process and the most objective procedures to be used. Leedy (1997:5) outlines the process of research methodology in the following eight steps:

(a) Research starts with a question or problem.
(b) Research requires a clear articulation of the goal or goals.
(c) Research follows a specific plan or procedure.
(d) Research usually splits the principal problem into more manageable sub-problems.
(e) Research is guided by a specific research problem, question, or hypothesis.
(f) Research accepts certain critical assumptions.
(g) Research requires the collection and interpretation of data in attempting to resolve the problem that initiated the research.
(h) Research is cyclical, or more exactly, helical.

From the above, Leedy (1997:9) concludes that research methodology controls the study, dictates the acquisition of data, and arranges them into logical relationships. The raw data is then processed with appropriate approaches to derive meaning from it, culminating in drawing conclusions and thus adding to the expansion of knowledge. Consequently, Leedy (1997:9) summarises the two main functions of research methodology as being, (a) controlling and dictating the acquisition of data; and (b) allowing for the grouping of acquired data followed by meaningful extractions.

Remenyi (1996:22) posits that when research is undertaken, "three major philosophical questions" must be addressed when starting a research project. These are: "Why research? What to research? How to research?" The previous chapters addressed the questions of "why" and "what." Brynard and Hanekom (2006:35) describe research methodology as the "how" of collecting and processing data within the research process framework. The purpose of this chapter is thus to address the "how" question in the study.

### 4.3.1 Qualitative Approach

As stated earlier, the researcher used both qualitative and quantitative research methods for the collection of data in this study. According to Maree (2009:51), qualitative research methodology is concerned with understanding the process as well as the social and cultural context underlying different patterns of behaviour. Qualitative research can be used to record and analyse information that is expressed using language and behaviour by providing a way of understanding beliefs, values, and feelings (Berkwits and Inui, 1998). Additionally, this research approach aims to understand people's experiences and the factors that affect them; it is well suited to the social sciences and the various interventions used in these disciplines (Toews et al., 2016).

Qualitative research provides a means of exploring and understanding the meaning ascribed to a social problem (Creswell, 2014). Thus, it provides a complex, detailed understanding of the issue, which can only be established by talking directly with people, going to their homes or places of work, and allowing them to tell their stories (Creswell, 2013:40). It allows participants to share their lived experiences and facilitates the exploration and discovery of issues about the problem at hand, especially if very little is known about the problem.

According to Myers (2009), qualitative research is designed to help researchers understand people and the social and cultural contexts within which they live. It allows the complexities and dynamics of worlds-under-study to be explored and represented. Qualitative researchers are interested in understanding the meaning people have constructed; that is, how people make sense of their world and the experiences they have in the world (Merriam, 2009). Qualitative research data collection is conducted to provide evidence for the experience that is being explored (Sutton and Austin, 2015). Struwig and Stead (2010:12) caution that qualitative research methodology can be overly broad, and the researcher must be specific in describing how it will be used in the research project. Yin (2011:7) agrees that qualitative research has a broad area of inquiry as it has relevance to many differing disciplines and professions.

Scholars in research methodology agree that the qualitative research method involves the collection of data from people in a specific situation under real-world conditions (Maree, 2009:257; Maxwell 1996:17; Yin, 2011:7). It is also an inductive approach involving people with an emphasis on "words" rather than "numbers." Yin (2011:7-8) argues that instead of trying to find a singular definition of qualitative research, five features thereof need to be considered:

(a) "Studying the meaning of peoples' lives; under real-world conditions." People will carry on with the business of living their lives irrespective of the fact that a research study is performed or not. People will also interact socially with minimum interruption by "artificial" research procedures. They will also have their individual opinions and may voice these opinions, not necessarily limited to a research questionnaire, for example, and they will not be confined by the research setting, for example, a laboratory. This study observed the actions and behaviours of the councillors and officials in terms of the decisions they have taken regarding financial management against the information obtained from the financial ratios and norms.

(b) "Representing the views and perspectives of people in a study." Qualitative research can enable the representation of the views and perspectives of people who participate in a study. This can be one of the main purposes of a qualitative study and therefore, the actions and notions that result from this type of study can embody meaning assigned to real-life events, by the people who live them, instead of the researcher's values, prejudices, or meanings. The views and perspectives of the people in this study were obtained from the online questionnaires. These are discussed fully in Chapter Six.

(c) "Covering the contextual conditions within which people live." Qualitative research is concerned with the contextual conditions (social, institutional, and environmental) within which people live their lives. These conditions may reasonably impact or influence human events. For example, researchers need to be aware of the strong paternalistic traditions in some rural villages in South Africa, where the chief needs to approve any interactions with the people in the village. Politicians from different political parties in a municipality make choices and decisions that not only influence the lives of the people that they serve but also how these decisions are to be implemented by the officials. On the other hand, the administration of a municipality is represented by officials who must advise council. The contextual conditions of these parties, politicians, and officials might differ, causing conflict on matters such as goal-setting and budget allocations. This manner of working creates specific contextual conditions only relevant in a specific municipality.

(d) "Contributing insights into existing or emerging concepts that may assist in explaining human social behaviour." Qualitative research is more than just a journal or account of the daily lives of people who are subjected to a study. Yin (2011:8) states that if this were not the case, it would be "a rather mundane version of real-world events." It is research propelled by the need for the explanation of events through current and developing concepts. For the purposes of this study, the concepts that are explored are those of financial sustainability, financial management, and financial accountability. These might not be new or emerging concepts internationally but are necessarily ones that many municipalities are still grappling with in South Africa.

(e) Striving to use “multiple sources of evidence” instead of reliance on a single source. This feature of qualitative research relates to the collection, integration, and presentation of data from an array of sources of evidence to form part of any study. This variety of sources will be dependent on the study of a particular setting in the real world as well as the people who live in it. The difficulty of the setting and the assortment of the people in the study will determine what instruments to use to produce the evidence source. These instruments can include interviews, observations, and the inspection of documents and objects.

To conclude the study, it was necessary to triangulate the data from different sources to add to the credibility and trustworthiness thereof. As explained earlier, the study used questionnaires to collect evidence, but this was augmented by the quantitative information in the annual financial statements, AGSA reports, and reports from the NT that were used to give effect to the qualitative research feature of the use of multiple sources of evidence. The researcher applied triangulation of the data over the period of study together with the data obtained from the different interviews to test its credibility and trustworthiness to arrive at a more informed conclusion.

### 4.3.2 Quantitative Approach

Quantitative research explains phenomena by collecting numerical data that is analysed using mathematically based methods, in particular statistics (Sandelowski, 2000:338). Essentially, quantitative research uses data to explain a particular phenomenon, the results which are typically presented using statistics, tables, and graphs. The use of quantitative techniques in this study was useful as it allowed the researcher to discuss the responses generated from the qualitative research referencing descriptive statistics.

The quantitative approach was used with the financial information in the annual reports to generate financial ratios related to the financial position, financial performance, and the cash flow of municipalities, using a longitudinal study. According to Babbie (1998:100-101), longitudinal studies are designed to permit observations over an extended period. Hakim (2000:109) agrees that a longitudinal study takes samples and follows these up over a long period of time, with repeated data collections. In this study, the generated ratios were reviewed against the norms and standards from the NT as a baseline to assess the financial health of the municipalities and then make determinations on the financial sustainability.

### 4.3.3 Research Paradigm

The research paradigm implemented in this study is interpretivism with an exploratory approach. Interpretivism espouses the approach that reality can be studied through people's subjective experiences. This view is consistent with an interpretive paradigm that perceives knowledge as shaped by those councillors and officials influencing financial decisions that will affect the future financial sustainability of the municipality within their own particular administrative and political context. Similarly important and discernible from the interpretive paradigm is that it seeks to explore perceptions, understandings, and shared meanings and interpretations of people being researched (Ritchie et al., 2013).

The perspectives of the municipal councillors and officials as those responsible for advising, directing, and approving annual budgets had a significant influence on the problem being researched. The researcher's understanding of this influence required an interpretivist approach to the research. Interpretivists adhere to a subjectivist view and thereby focus on the subjective meanings and subjective interpretations (Thanh and Thanh, 2015).

Pham et al. (2018) point out that some of the advantages of using an interpretivist paradigm include a diversity of views on a phenomenon that allows researchers to describe and understand humans or events within a social context. The diversity of views between the councillors, driven by politics and the officials as professional administrators, allowed the researcher to develop a deeper understanding of their perceptions and experiences of the complex financial management and budgetary processes guiding municipalities.

The interpretive paradigm was consequently considered relevant and appropriate for this study. The objective of understanding the perception and experiences of the participants in this study, was to interpret, create, and express their understanding of the problem. Finally, an interpretive approach was also deemed relevant and suitable to petition the information and knowledge of the participants.

The exploratory approach explored the understanding and experiences of senior municipal councillors and officials of factors that constrain or facilitate the financial performance and viability of the municipalities in this study. An exploratory research design was deemed appropriate for this study as exploratory research is primarily and commonly used to examine and discover a problem or a research question that has not been studied before, or to gain a better understanding of an existing problem (Reiter, 2017) purposively and systematically. Chapter One of this study clearly stated that municipalities must be financially sustainable to improve and sustain the delivery of basic services. Existing research on municipal financial sustainability at a local municipal level is limited; hence, this study endeavoured to gain a better understanding of financial sustainability at municipalities and provides practical recommendations for improvement.

Exploratory qualitative research is considered to have the necessary flexibility to study human behaviour from the perspective of the social actors themselves (Babbie and Mouton, 2016; O'Brien et al., 2014). Exploratory qualitative design adds quality and insightful information useful to understanding issues, dynamics, and factors that have yet to be clearly understood concerning the political and professional insights of the participants regarding financial viability in this study. Hence, an exploratory qualitative design was suitable for this study; it facilitated the exploration of the unarticulated views of municipal councillors and officials regarding the research questions.

## 4.4 Sampling

Huysamen (1994:26) and Punch (2005:103) agree that a research problem usually has a bearing on some population. Population, as defined by Wiersma (1986:455), is the totality of all members who possess a special set of one or more common characteristics that define it. Consequently, it is often not practically and economically feasible to involve all its members in a research project. Thus, researchers must rely on the data obtained from a sample of the population.

Yin (2011:87) notes that sampling is the selection of specific data collection units, including the number of them, to be incorporated in the study. Brynard and Hanekom (2006:54) describe sampling as a technique used to select a smaller group to determine the characteristics of a larger group, while Maree (2009:79) refers to it as the process employed to select a portion of the population in a study. Sampling is thus a selection process, using specific sampling tools (random, purposive, snowballing) that the researcher uses to determine the specific number of participants in a study.

In this study, purposive sampling was used to select a sample. In this study the sample was purposely limited to the Mayors, Municipal Managers, CFO's and CAE'S of each of the four local municipalities within the Overberg District. These senior politicians and officials are responsible for policy direction and approval, as well as overseeing the implementation and control of municipal budgets. As shown later in the study, there is a direct link between budget decisions and financial sustainability which supports the sampling decision. The sample represented 10.4% of the total population of 43 senior politicians and officials. According to Yin (2011:88), purposive sampling is most likely to be used in qualitative research, as the purpose is to select a specific sample that will produce data that is most relevant, and plenteous, related to the topic of study. Maree (2009:79) observes that qualitative research is based on non-probability and purposive sampling in general, as the selected participants possess characteristics specific to them as holders of data that is needed for the study. Struwig and Stead (2010:121) state that as qualitative research is focused on the "depth and richness" of the data, purposive sampling would be chosen above others by researchers using this research methodology. The decision to choose purposive sampling in this study was therefore made with to identify and obtain sources that would provide the most relevant and plentiful information in answering the research questions from practitioners and people with expertise.

## 4.5 Data Collection and Analysis

This study used semi-structured questionnaires to allow the researcher a deeper understanding of the problem being explored and address the challenges of representativeness. Also, for the researcher to conduct a thorough exploration of what factors constrain or facilitate the financial performance and viability of the four identified municipalities. According to Sandelowski (2000:336), data collection in qualitative research studies is typically directed towards discovering the who, what and where of experiences or their basic nature. Following the review of the related literature, the next step in the research process is to design and collect the empirical data with to use it to confirm or reject the proposed hypothesis as an answer to the problem.

Data collection is followed by data analysis. The purpose of data analysis in qualitative research is to "explore themes, patterns, stories, narrative structure and language within research texts in order to interpret meanings and to generate rich depictions of research settings" (Cousin, 2009:31). This involves reducing the large amount of data collected so that it makes sense to the researcher. It should be noted that during this process, three things typically take place: data is organised; it is then reduced through summarisation and then themes and patterns are identified (Kawulichi, 2004). The way data is analysed will depend on the theoretical framework used by the qualitative researcher (Thorne, 2000).

The secondary data sources used in this study, with specific reference to financial sustainability, were informed by the legislative framework that grounded the establishment of municipalities as well as the importance of financial management and reporting requirements. The theoretical framework attempted to establish the different theories that informed the study and finally, the researcher used the financial information from the annual reports, annual financial statements, and performance reports of the four municipalities. The latter sources were of specific significance, as they allowed for measurement against the norms and standards from NT policy directions.

## 4.6 Validity

According to Yin (2011:78), the validity of a study is influenced by the proper collection and interpretation of its data to produce conclusions that accurately reflect and represent the real world studied. Additionally, validity is a researcher's correct interpretation of the data obtained from research participants and the application and transferability of the research results and conclusions to other similar situations (Morse, 2015). In this study, the validity of the data generated from the information collected was easily validated, as the audited financial statements were used to generate trends and ratios. The financial information was already verified as true by the Auditor-General and public documents, which were readily available for verification.

The financial ratios and the trends identified were also easily validated as they were produced using internationally and nationally recognised methods of calculation. This data was generated from financial information spanning over a nine-year period giving a long-term perspective of the financial situation in the municipalities. Quasi-statistics – the use of actual numbers instead of adjectives – were generated and these were compared with the national norms.

Validity of the data generated from the interviews was more difficult to substantiate as it was related to the perceptions and views of the interviewees. However, in this case, the researcher endeavoured to include a mix of politicians, represented by the mayor, as well as senior financial officials and the internal auditor in his sample. The mix of participants generated detailed and varied data. Validation was thus supported by triangulation as converging evidence from different sources was collected. The questionnaires were completed online in the Google Forms format and were stored in the cloud, thus providing a valid record of the information.

Maxwell (2009:244-245) compiled "Seven Strategies for Combating Threats to Validity in Qualitative Research":

(a) Intense long-term involvement – to provide for a comprehensive and in-depth understanding of the research environment.
(b) "Rich" data – field observations and interviews must be covered fully with comprehensive and diverse data.
(c) Respondent validation – feedback must be obtained from study participants to lessen the possibility of misinterpretation on their reported behaviours and views.
(d) Search for discrepant evidence and negative cases – to test opposing or competitive explanations.
(e) Triangulation – collecting converging evidence from dissimilar sources.
(f) Quasi-statistics – using actual numbers instead of adjectives.
(g) Comparison – to explicitly compare the results across different settings, groups, or events.

Struwig and Stead (2010:143) suggest additional measures for the confirmation or validation of qualitative data; these are summarised below.

### Descriptive validity

This has bearing on information that is factually accurate and comprehensive, or it was omitted partially or distorted. The input from research participants or fellow researchers after examining the data will assist in improving the descriptive validity thereof.

### Interpretive validity

This refers to whether the meaning and perspectives of the participants are reported accurately. The perspectives and language of the participants are emphasised instead of the researcher's interpretation and terminology.

### Theoretical validity

This refers to whether common agreement has been reached between researchers and participants regarding the concepts and theories that were used regarding the description of the phenomena. The researcher's discussion of the interpretation of the data with the participants regarding the concepts used and the theory developed from the data will enhance validity.

### Triangulation

This is applied to ascertain whether independent measures confirm or contradict the findings of the researcher. Several methods like observation, interviews, quantitative measures, or documents can be used to analyse the data.

### Researcher effects

This refers to the extent to which researcher bias influences the reporting and interpretation of findings. Any bias or prejudices need to be declared at the outset.

There are some commonalities between Maxwell's (2009) seven strategies and Struwig and Stead's (2010) validation methods. This study used these strategies and means of validating the qualitative data obtained in the research design to support the validity.

## 4.7 Scope

The scope of the study was limited to the four local municipalities within the Overberg District namely, Cape Agulhas, Overstrand, Swellendam, and Theewaterskloof. The selected members of the population representing these municipalities were the Executive Mayors (EMs), who are senior politicians and responsible for the strategic direction and budgets of each municipality. On an implementation level, the selected members were the CFOs and Internal Auditors (IAs). The researcher distributed semi-structured questionnaires online to all these participants. The EM is responsible for the budget processes, budget control and the identification of financial problems in terms of Chapter 7 of the MFMA (RSA, 2003). The CFO assists the Accounting Officer (AO) in managing and coordinating the financial administration of the municipality, as mandated by Section 77(2) of the MFMA (RSA, 2003). The IA has an advisory role to the AO in matters relating to internal audit, internal control, accounting procedures and practices and compliance with legislation, in accordance with Section 165(2) (b) of the MFMA (RSA, 2003).

All these participants were, in some way or the other, linked to the financial management and financial reporting functions within the municipality. The politicians are responsible for directing, approval, and oversight; the financial officials are the custodians and the implementers; and the IA is responsible for controls, procedures, and compliance – they should all work together to maximise efficiency. That was the reason for purposefully choosing them as a sample to represent the municipality.

## 4.8 Summary and Concluding Remarks

This chapter discussed the research design and the theory used to undertake the research. The researcher chose qualitative research methods and specifically semi-structured interviews as the best method to gather information from the respondents as they allow for the gathering of specific information but also have room for further probing of issues. The respondents participated voluntarily and were allowed to give input freely and to bring any matter that they felt necessary to the attention of the researcher. The sampling was purposive, as these respondents were either practitioners or people with expertise who were directly involved in the financial affairs of the municipality.

The researcher collected financial data from the annual audited financial statements as included in the annual reports over the period of study. The researcher used this information to generate the ratios which, in turn, were measured against the norms as identified by the NT for municipalities to determine the financial status of the municipalities in the study. As mentioned previously, the validity of the financial data was strengthened by the fact that it had already been audited by the AGSA. The chapter also highlighted issues of validity and reliability and discussed strategies and measures to improve valid and reliable qualitative information. Finally, the chapter considered the sampling and scope of the research. In the next chapter an analysis of the financial assessments of the individual municipalities will be presented.

# Chapter Five: Financial Assessment of Selected Municipalities

## 5.1 Introduction

This chapter presents an analysis of the financial assessments of each selected municipality in this study. These assessments include an historical overview and in particular the local demography, local economy, and the household infrastructure services provided to the respective communities. The chapter also includes the financial data assessment of each municipality. Furthermore, the chapter unpacks the financial status of these municipalities over the period of the study and discusses the reports on the statement of financial position, statement of financial performance, and cash flow against the norms and standards from National Treasury (NT). The chapter concludes with the main data findings.

## 5.2 Historical Overview

### 5.2.1 Key demographic perspectives

The total population for the Overberg District is depicted in Table 5.1.

**TABLE 5.1: TOTAL POPULATION – OVERBERG DISTRICT**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Theewaterskloof** | 107,909 | 108,952 | 110,145 | 111,248 | 112,287 | 113,285 | 114,337 | 115,458 | 116,630 | 120,378 |
| **Overstrand** | 77,930 | 80,723 | 83,620 | 86,332 | 88,864 | 91,205 | 93,438 | 95,566 | 97,568 | 101,544 |
| **Cape Agulhas** | 32,235 | 32,727 | 32,231 | 33,711 | 34,172 | 34,613 | 35,045 | 35,471 | 35,887 | 37,082 |
| **Swellendam** | 34,831 | 35,496 | 36,156 | 36,778 | 37,372 | 37,939 | 38,497 | 39,043 | 39,580 | 41,028 |
| **Overberg** | 252,906 | 257,897 | 263,151 | 268,069 | 272,695 | 277,042 | 281,317 | 285,537 | 289,665 | 300,032 |

Theewaterskloof municipality (TWK) has the largest population and represents 40% of the people living in the Overberg District, followed by Overstrand, Swellendam, and Cape Agulhas. What is interesting however, is that this municipality, even though it has the highest population, it has the lowest population growth rate of 1.0% in the Overberg District (Overstrand – 2.1%, Swellendam – 1.4% and Cape Agulhas – 1.2%).

In terms of population density, Overstrand Municipality is the highest densely populated area, with 60.64 people/km² followed by Theewaterskloof – 36.94, Swellendam – 10.70 and Cape Agulhas – 10.68 people/km².

**TABLE 5.2: AGE GROUP OF POPULATION**

| Age Group | Theewaterskloof | Overstrand | Cape Agulhas | Swellendam |
|---|---|---|---|---|
| 00 – 24 | 37.8% | 31.2% | 35.6% | 39.2% |
| 25 – 64 | 55.2% | 54.6% | 54.0% | 52.4% |
| 65 + | 6.9% | 14.2% | 10.3% | 8.4% |

The younger population is proportionally higher in Swellendam followed by Theewaterskloof and proportionally lowest in Overstrand while the working-age population is proportionally largest in Theewaterskloof followed by Overstrand, Cape Agulhas, and Swellendam. Proportionally more retired people reside in Overstrand while Theewaterskloof has proportionally the lowest population in this age group. The working-age population represents just over half of the total population in all four municipalities. This is important as they represent the potential demand for new household formation and associated demands on household service delivery, such as housing, sanitation, water, electricity, and refuse removal that will ultimately have an impact on both the operational and capital budgets of the municipalities.

### 5.2.2 Income

The revenue of municipalities is directly affected by the ability of the consumers of municipal services to pay for services. Hence, it is important to understand the income of consumers to determine the affordability of services.

#### TABLE 5.3: ANNUAL INCOME PER CAPITA

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Theewaterskloof** | 32,724 | 34,909 | 37,760 | 41,159 | 44,140 | 47,480 | 50,614 | 53,721 | 55,867 | 57,592 |
| **Overstrand** | 62,542 | 65,414 | 69,867 | 75,309 | 79,128 | 83,578 | 87,685 | 92,155 | 94,666 | 96,355 |
| **Cape Agulhas** | 50,451 | 53,567 | 58,570 | 64,327 | 69,451 | 75,059 | 80,303 | 85,790 | 89,693 | 92,837 |
| **Swellendam** | 42,544 | 45,184 | 48,771 | 52,909 | 56,593 | 60,619 | 64,692 | 68,819 | 71,569 | 74,444 |
| **Overberg** | 45,467 | 48,172 | 52,028 | 56,604 | 60,346 | 64,543 | 68,500 | 72,595 | 75,252 | 77,372 |
| **Western Cape** | 51,815 | 55,317 | 59,136 | 62,874 | 65,788 | 69,562 | 73,176 | 77,281 | 80,159 | 82,396 |
| **South Africa** | 36,071 | 39,106 | 42,116 | 44,885 | 47,433 | 50,363 | 53,057 | 56,386 | 58,855 | 60,823 |

The average annual income per capita for the Overberg District is R77,372 which is lower than that for the Western Cape (R82,396) but higher than the national annual per capita income (R60,823). However, Theewaterskloof municipality's annual income per capita is less than the national average and the lowest in the district. The municipality with the highest income per capita is Overstrand followed by Cape Agulhas and then Swellendam. The latter together with Theewaterskloof's income per capita is less than the Overberg and the Western Cape norm. The reason for the higher income per capita in both Overstrand and Cape Agulhas could be attributed to the fact that several historically holiday towns are situated within their boundaries and a number of affluent people have primary and secondary homes there.

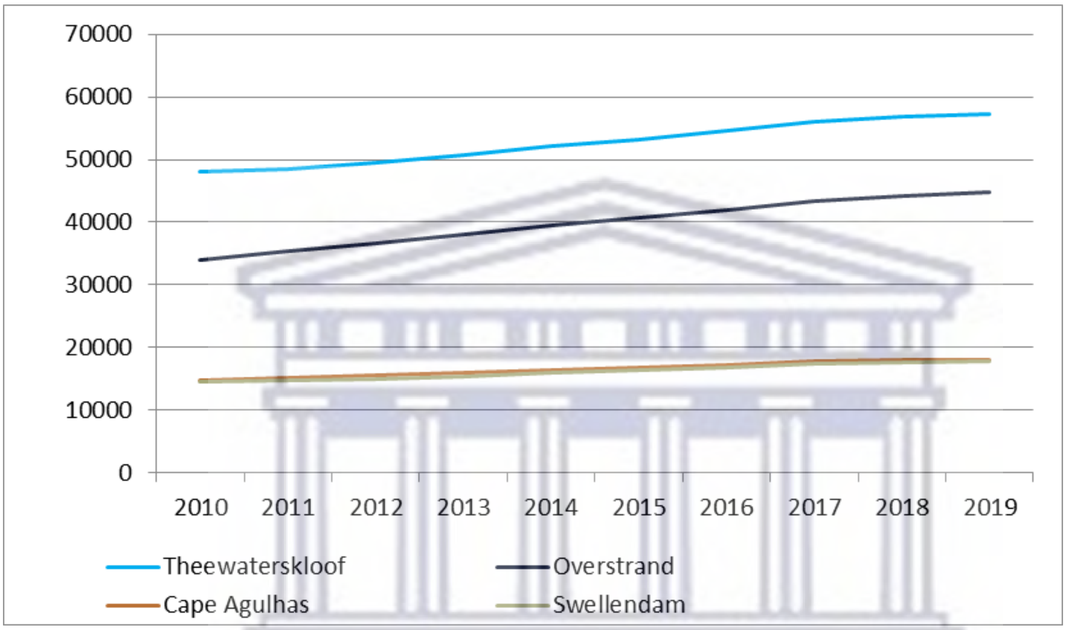
### 5.1.3 Economically active population

Table 5.4 provides a perspective on the growth in the number of economically active people (EAP). For the purposes of this study, the EAP is defined as the number of people who are able, willing, and actively looking for work and between the ages of 15 and 65. It thus includes both employed and unemployed people.

#### TABLE 5.4: ECONOMICALLY ACTIVE POPULATION

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Theewaterskloof** | 48,112 | 48,484 | 49,513 | 50,642 | 52,210 | 53,213 | 54,519 | 56,087 | 56,786 | 57,185 |
| **Overstrand** | 34,061 | 35,390 | 36,698 | 38,035 | 39,568 | 40,610 | 41,922 | 43,376 | 44,137 | 44,716 |
| **Cape Agulhas** | 14,685 | 15,084 | 15,481 | 15,913 | 16,453 | 16,806 | 17,247 | 17,756 | 17,985 | 18,088 |
| **Swellendam** | 14,465 | 14,697 | 15,030 | 15,398 | 15,947 | 16,335 | 16,805 | 17,368 | 17,644 | 17,831 |
| **Overberg** | 111,323 | 113,655 | 116,723 | 119,988 | 124,178 | 126,965 | 130,494 | 134,586 | 136,553 | 137,820 |

**GRAPH 5.1: ECONOMICALLY ACTIVE POPULATION AS PERCENTAGE OF TOTAL POPULATION**

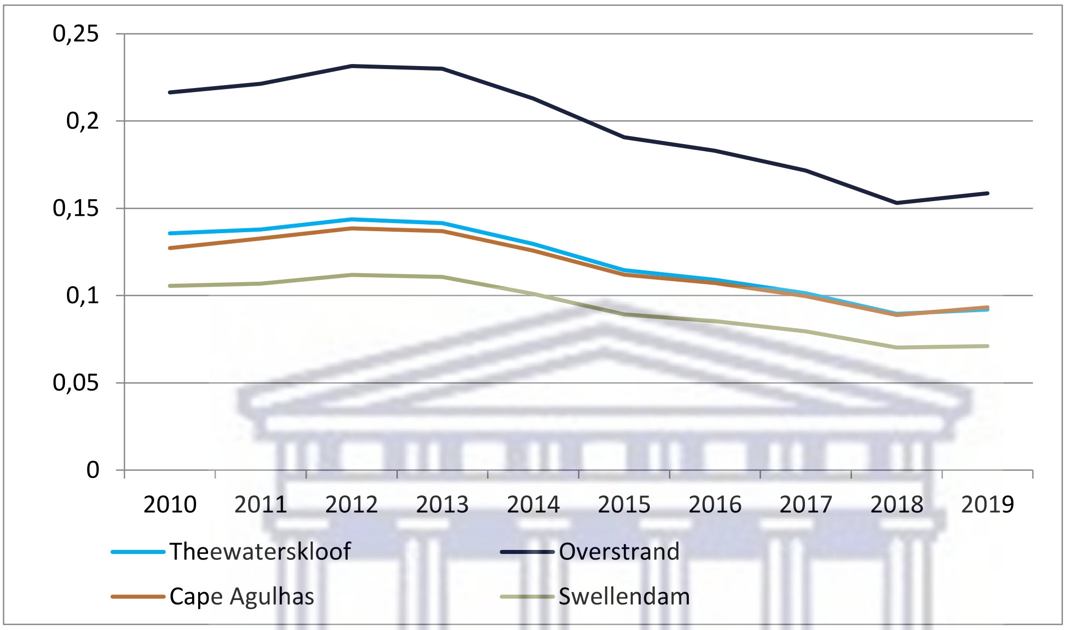



As illustrated in Graph 5.1, the EAP as a percentage of total population reflects an increasing trend over the period of this study. These levels are also greater than that of the country, which is at 38.6%. This trend can in all probability also be ascribed to the fact that the age group of economically active people (25 – 64 years) makes up more than 50% of the total population in all municipalities. It further shows that people are hopeful in seeking and finding employment.

### 5.2.4 Unemployment rate

Graph 5.2 reflects the unemployment rate of the four local municipalities, as well as those of the ODM, Western Cape province and the country. Overstrand has the highest unemployment rate, of the four local municipalities, at 15.86%, and this has been the case over the study period. They are followed by Cape Agulhas at 9.33% and Theewaterskloof and Swellendam at 9.2% and 7.1%, respectively. The unemployment rate in all four municipalities is less than that of the Western Cape at 20.5% and the rate in all municipalities is significantly lower than that of South Africa at 28.4%.

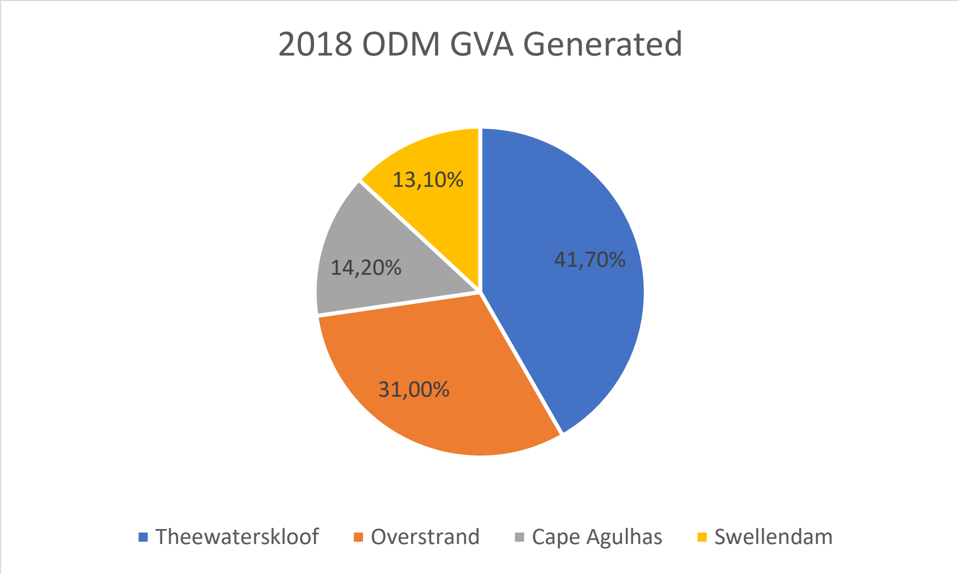
**GRAPH 5.2: UNEMPLOYMENT RATE**




### 5.2.5 Economy

This section defines the nine key economic sectors and the contribution to the Gross Value Add (GVA) of each sector of the economy.

**GRAPH 5.3: PERCENTAGE OF EACH LOCAL MUNICIPALITY TO ODM GVA GENERATED**




Graph 5.3 shows that Theewaterskloof is the largest contributor to the GVA generated in the district at 41.7% followed by Overstrand at 31.0%, Cape Agulhas at 14.2% and Swellendam at 13.1%.

Definitions of nine economic sectors:

- *Agriculture:* It is the foundation of developing communities and includes all agriculture, hunting, forestry, and fishing.
- *Mining:* It involves the full cycle of mining from exploration through to production, which includes quarrying and mineral processing, up to closure and rehabilitation.
- *Manufacturing:* This involves the production of merchandise for use or sale, using labour and machines, tools, chemical and biological processing, or formulation. It includes the processing, refining and value add to all primary agricultural and mining products, inclusive of the chemical, rubber, plastic, and glass industries. Manufacturing household goods, plant, equipment, and transport goods are also included. The last part of the beneficiation that is included in this broader sector classification of manufacturing is the printing, publishing, recording, and communication industry.
- *Electricity:* This is the generation, manufacture, and distribution of sources of energy; gas and water are included in this sector.

- *Construction:* This includes all building and or demolition of accommodation, manufacturing, and retail civil structures and related services, such as plumbing, electrical contracting, painting, decorating, and air conditioning.
- *Trade:* This involves wholesale and retail trade, repair of motor vehicles, motorcycles, and personal household goods; hotels and restaurants are included in this sector.
- *Financial:* This includes financial intermediation, insurance, real estate, and business services as well as rental of machinery and equipment, while the computer-related services, research, and services such as advertising, legal, accounting, and other professional consulting services are also included.
- *Community services:* This involves community, social and personal services such as public administration and defence activities, educational services, health, and social work; washing or cleaning and beauty treatment and funeral services are included in this sector.

## 5.3 Contribution of Sectors to GVA

### 5.3.1 Theewaterskloof

**TABLE 5.5: THEEWATERSKLOOF ECONOMIC SECTORS**

| Economic Sector | 2010 | 2019 |
|---|---|---|
| Agriculture | 25.04% | 21.87% |
| Mining | 0.08% | 0.08% |
| Manufacturing | 11.61% | 11.23% |
| Electricity | 5.5% | 4.33% |
| Construction | 5.41% | 5.29% |
| Trade | 14.99% | 15.93% |
| Transport | 8,17% | 8.80% |
| Finance | 12.42% | 14.42% |
| Community services | 16.78% | 18.04% |

Agriculture remained the major economic driver in Theewaterskloof for the past 10 years with a 21.87% contribution to GVA in 2019, decreasing from a level of 25.04% in 2010. This is followed by Community Services with a contribution of 18.04% in 2019. The contribution of Community Services, Finance, and Trade improved from 16.78%, 12.42% and 14.99%, respectively, ten years ago to the current contribution of 18.04%, 14.42% and 15.93%, respectively. The proportional contribution of Manufacturing, Electricity and Mining did not change significantly over the same time.

### 5.3.2 Overstrand

**TABLE 5.6: OVERSTRAND ECONOMIC SECTORS**

| Economic Sector | 2010 | 2019 |
|---|---|---|
| Agriculture | 9.52% | 8.73% |
| Mining | 0.13% | 0.13% |
| Manufacturing | 19.15% | 17.46% |
| Electricity | 1.86% | 1.42% |
| Construction | 11.54% | 10.78% |
| Trade | 15.11% | 15.15% |
| Transport | 6.5% | 6.83% |
| Finance | 19.71% | 22.16% |
| Community services | 16.49% | 17.34% |

Finance remained the dominant economic sector contributing 22.16% of the output in 2019 and is followed by Manufacturing at 17.46% and Community Services at 17.34%. The Overstrand economy remains fairly diversified, which contributes to economic stability. The Community Services sector not only contributes significantly to the economy but is also the main provider of employment here. Proportional growth was experienced in the Finance sector increasing from 19.71% in 2010 to 22.16% in 2019, while Manufacturing depicts a decline since 2009. All other sectors experienced only nominal change in their proportional contribution towards the local economy.

### 5.3.3 Cape Agulhas

**TABLE 5.7: CAPE AGULHAS ECONOMIC SECTORS**

| Economic Sector | 2010 | 2019 |
|---|---|---|
| Agriculture | 16.78% | 14.59% |
| Mining | 0.14% | 0.14% |
| Manufacturing | 8.94% | 8.25% |
| Electricity | 2.51% | 1.94% |
| Construction | 6.47% | 6.19% |
| Trade | 18.72% | 18.99% |
| Transport | 12.62% | 13.24% |
| Finance | 15.83% | 17.73% |
| Community services | 17.98% | 18.93% |

Trade at almost 19%, Community services at 18.93%, Finance at 17.73%, Agriculture at 14.59% and Transport at 13.24% remained the economic sectors contributing the majority of the GVA input for Cape Agulhas. This sector profile suggests that the economy in the municipality is fairly diversified, which should provide economic stability. The changing nature and function of the area is reflected in the proportional growth figures of key economic growth figures.

### 5.3.4 Swellendam

**TABLE 5.8: SWELLENDAM ECONOMIC SECTORS**

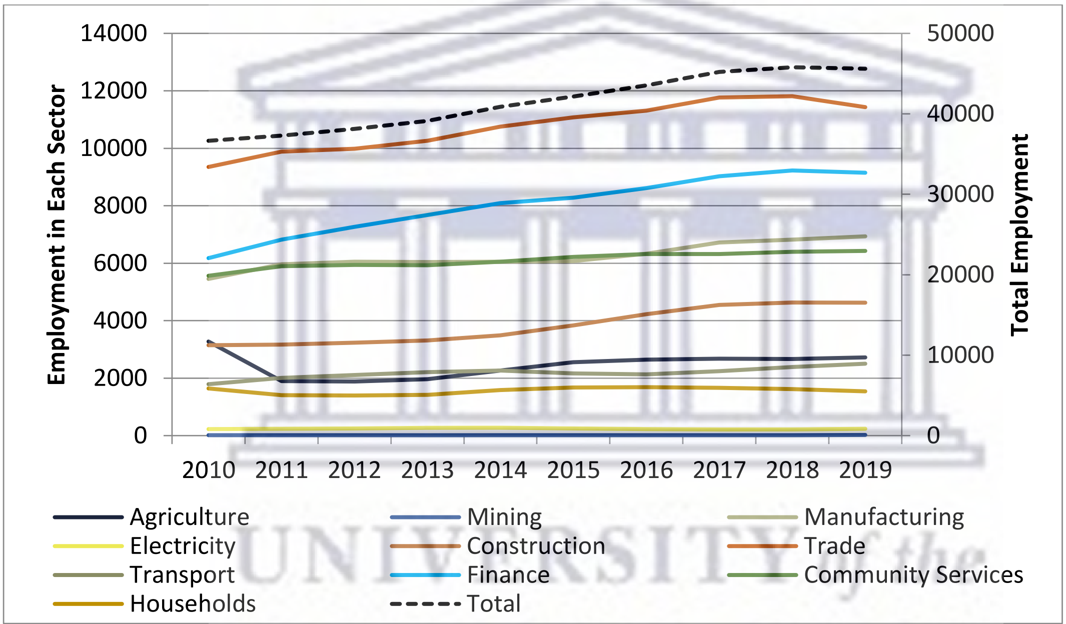
| Economic Sector | 2010 | 2019 |
|---|---|---|
| Agriculture | 15.73% | 13.70% |
| Mining | 0.09% | 0.09% |
| Manufacturing | 28.37% | 27.25% |
| Electricity | 1.47% | 1.15% |
| Construction | 4.62% | 4.45% |
| Trade | 14.37% | 14.72% |
| Transport | 6.79% | 7.20% |
| Finance | 12.33% | 14.30% |
| Community services | 16.24% | 17.15% |

Manufacturing has remained the major economic driver in Swellendam for the past 10 years with a 27.25% contribution to GVA in 2019; although there is a nominal decline, it has actually stagnated at that level over the period of the study. Manufacturing is followed by Community services at 17.15%, Trade at 14.72%, Finance at 14.3% and Agriculture at 13.7%. Proportional growth was experienced in the Finance, Community service and Trade sectors, nominal growth in Transport while all the other sectors, most significantly Agriculture, declined since 2010. The sector profile suggests that the economy is becoming more diversified, which would contribute towards economic stability.

## 5.4 Employment per Sector

### 5.4.1 Theewaterskloof

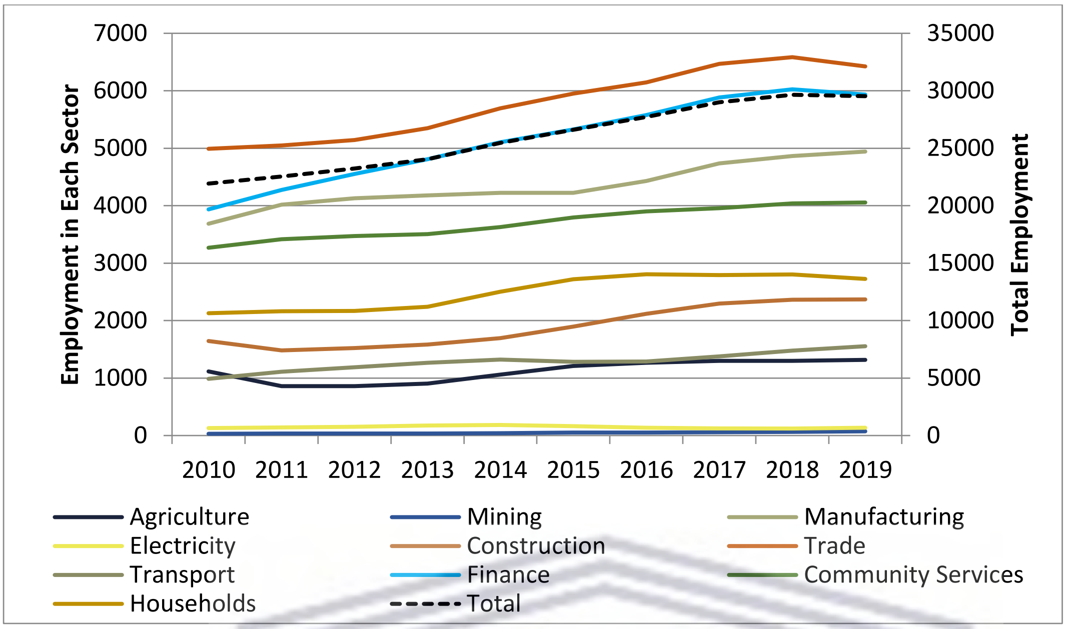
**GRAPH 5.4: THEEWATERSKLOOF EMPLOYMENT PER SECTOR**




Graph 5.4 indicates that over the past 10 years the total number of people formally employed in Theewaterskloof increased by 19.44% from 38,178 in 2009 to 45,600 in 2019, except in 2010 where the total employment experienced a slight decline of 2%. Trade continues to be the largest provider of employment in Theewaterskloof, employing approximately 11,512 people. Finance (8,459) and Community services (6,144) are also significant, with each sector currently employing more than 6,000 people.

5.4.2 Overstrand

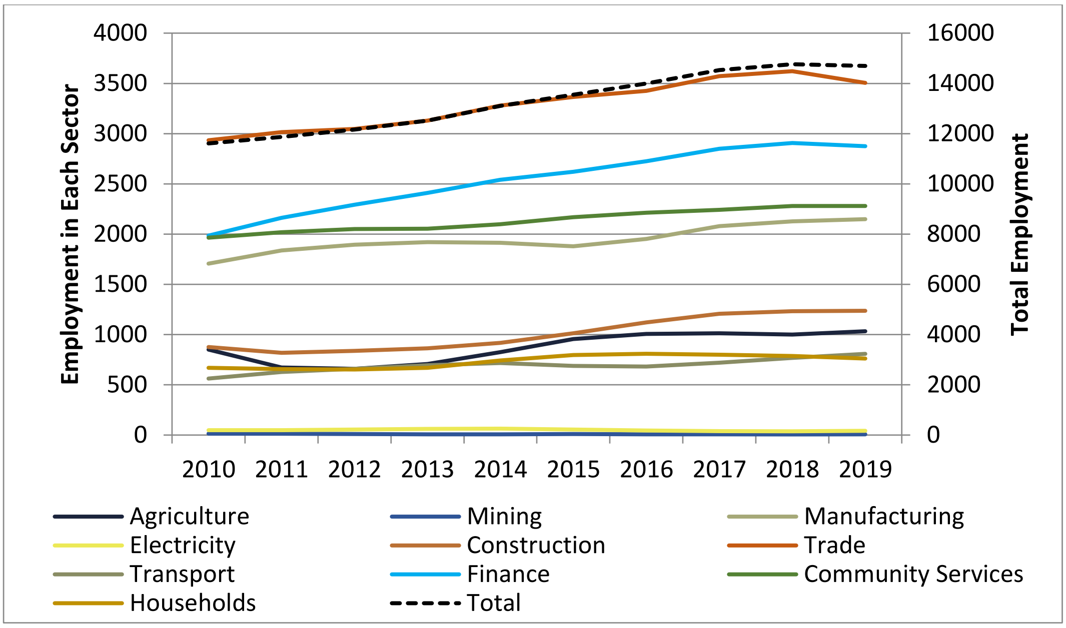
**GRAPH 5.5: OVERSTRAND EMPLOYMENT PER SECTOR**




The total employment numbers have increased over the period of study starting with 21,925 in 2010 and increasing to 29,534 in 2019. The trade sector remained the largest employer at 21.75% of total employment followed by Finance, Manufacturing and Community services at 20.1%, 16.7% and 13.7%, respectively. Graph 5.5 depicts a small decline in employment figures from 2018 to 2019 and largely in the Trade and Finance sectors.

5.4.3 Cape Agulhas

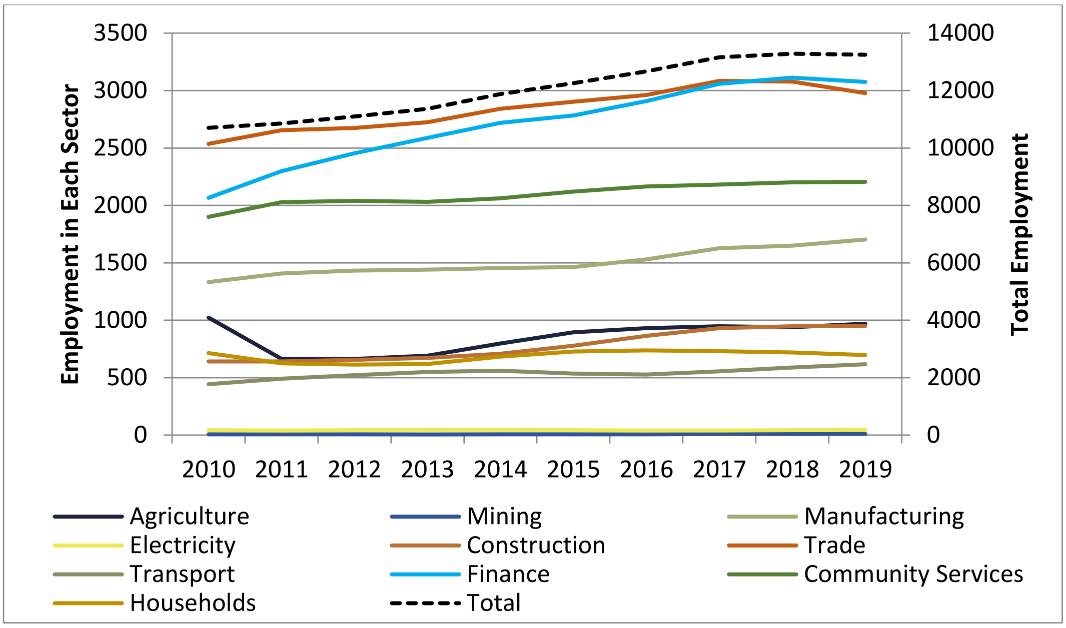
**GRAPH 5.6: CAPE AGULHAS EMPLOYMENT PER SECTOR**




Total employment figures have increased proportionally from 11,609 in 2010 to 14,692 in 2019, representing an increase of 26.55% over the period of study. The Trade sector is the largest contributor to employment, representing 24% of the total employment followed by Finance, Community services and Manufacturing at 19.6%, 15.5% and 14.6%, respectively. Once again, a slight decline is noticed in the employment figures of both the Trade and Finance sectors from 2018 to 2019 as is the case for both Theewaterskloof and Overstrand.

### 5.4.4 Swellendam

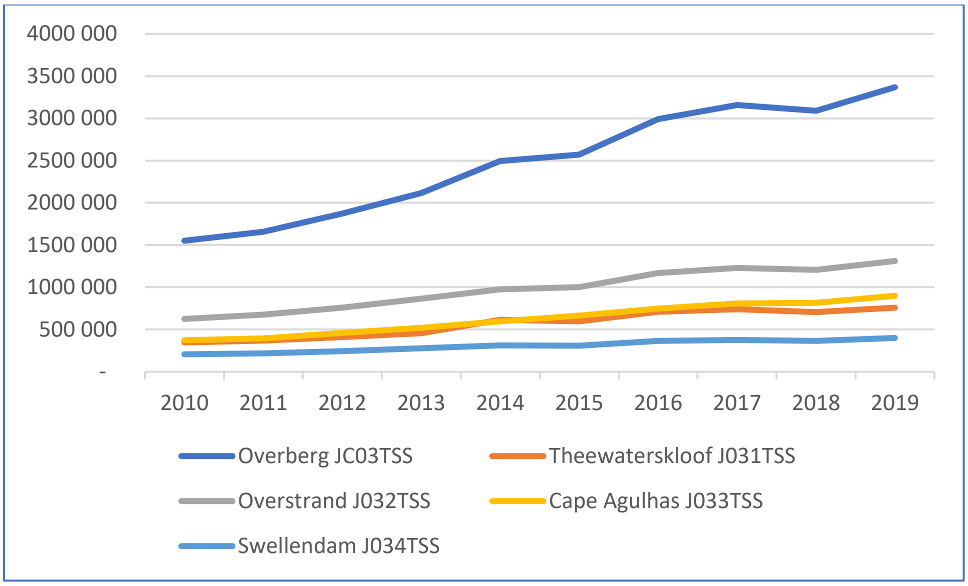
**GRAPH 5.7: SWELLENDAM EMPLOYMENT PER SECTOR**




The employment figures for Swellendam increased from 10,702 in 2010 to 13,247 in 2019, representing an increase of 19.21% over the period of the study. Finance overtook Trade as the leading employment sector from 2017 and has maintained this level for 2018 and 2019. Finance represents 23.2% of total employment in 2019, followed by Trade, Community services and Manufacturing at 22.5%, 16.6%, and 12.8%, respectively.

Tourism in the Overberg remains an important driver of the local economy. The tourism spend has increased significantly in the area over the period of study. Tourism spend in the Overberg has increased with 46.0% over this period. This increase in tourism spend is most likely also responsible for the increase in employment in the Community services sector in all four municipalities within the district. The Overberg accounts for 6.5% of the total tourism spend in the Western Cape. Within the Overberg DM, 38.9% of the tourism spend occurs in the Overstrand, followed by Cape Agulhas with 26.7%, Theewaterskloof with 22.5%, and Swellendam with 11.9%.

**GRAPH 5.8: OVERBERG TOURISM SPEND**




## 5.5 Historic Financial Assessment

### 5.5.1 Introduction

The NT (2014) issued MFMA Circular Number 71, in January 2014, with the purpose to offer a set of uniform key financial ratios and norms applicable to municipalities and municipal entities. This issuance was done in terms of Section 216(1)I of the Constitution (RSA, 1996) and Section 2 of the MFMA (RSA, 2003) that empowers NT to introduce uniform treasury norms and standards to guarantee sound and sustainable management of the fiscal and financial affairs of municipalities.

For the purposes of this study, the ratios and norms analysed below were used to interpret the financial position, financial performance, and cash flow statement of the local municipalities within the Overberg District Municipality (ODM) from 2012 to 2019. This specific period was identified, as during the period directly preceding it, the municipalities had continually adjusted and aligned their accounting practices in accordance with the Generally Recognised Accounting Practice (GRAP) that has an impact on the annual comparisons of financial performance. For this reason, it was decided to focus only on the AFS produced after the implementation of GRAP. Also, for the purposes of this study, financial information was reflected per annum, as per the audited financial statements and comparative restated figures were not considered. The ratios are clustered into the following categories:

(a) Statement of Financial Position.
(b) Statement of Financial Performance; and
(c) Cash Flow Statement.

The purpose of each ratio under the above categories is explained, followed by a summary of the actual assessment and interpretation thereof over the period of study. The following section presents a discussion of the selected municipalities.

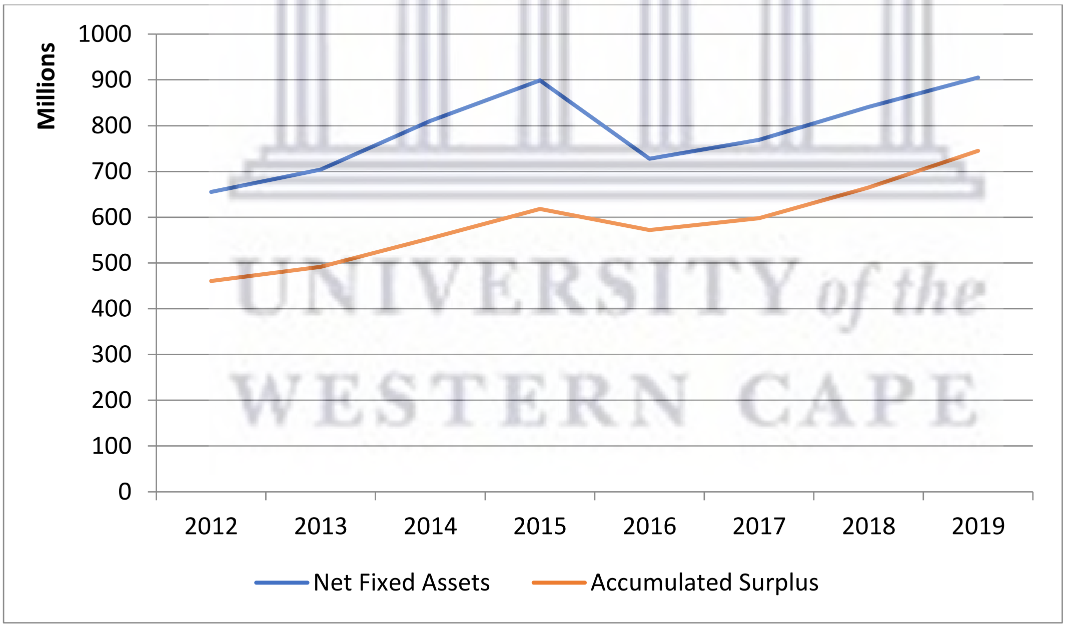
### 5.5.2 Theewaterskloof Municipality

#### *5.5.2.1 Statement of financial position*

Net fixed assets vs accumulated surplus

The purpose of this ratio is to measure the relationship between the fixed assets and the long-term funds of the municipality. It measures the ability of the municipality to generate or accumulate sufficient surplus to finance fixed assets. The norm should be one or less than one.

**GRAPH 5.9: THEEWATERSKLOOF NET FIXED ASSETS VS ACCUMULATED SURPLUS**



When comparing 2010/11 to 2017/18, accumulated surplus increased by R198.3 million, from an accumulated surplus of R486.6 million in 2010/11, to an accumulated surplus of R840.5 million in 2017/18.

Non-current assets increased by R198.26 million since 2010/11 from R642.3 million in 2010/11 to R840.5 million in 2017/18. The accumulated annual capital expenditure since 2010/11 is R549.0 million.

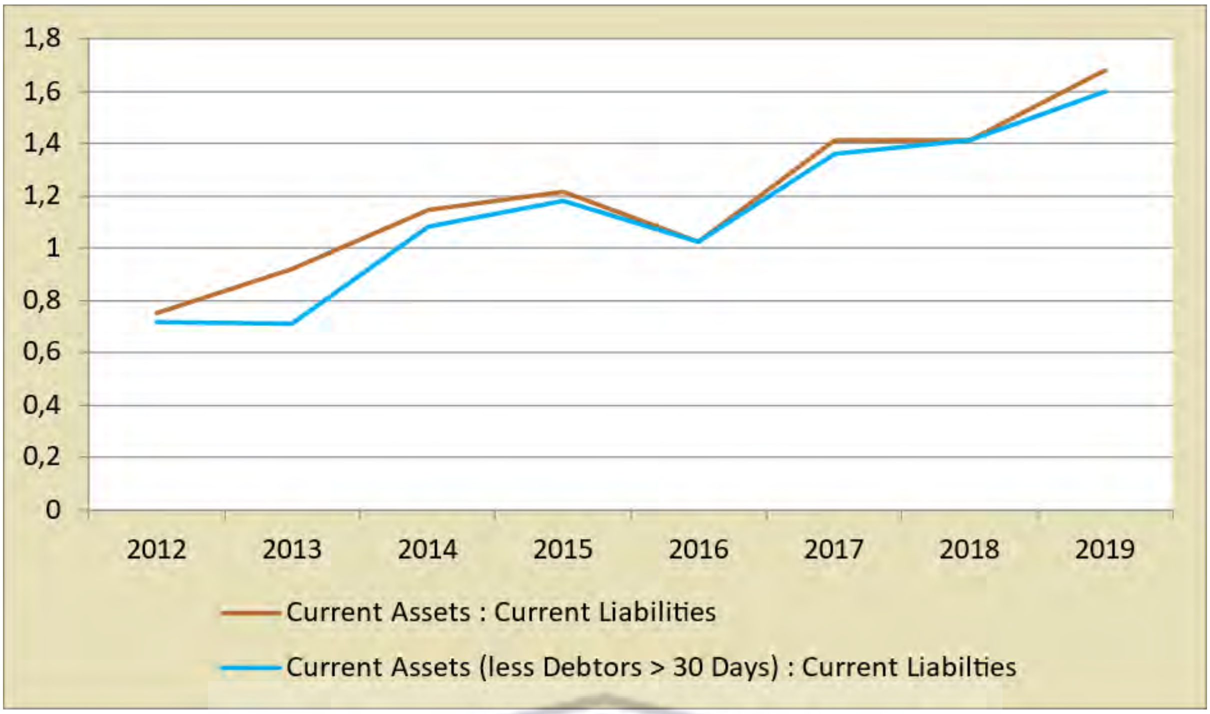
Theewaterskloof municipality's net fixed-asset position continued to improve in the 2019 financial year and came to R905.0 million at the end of the year, increasing by 7.6% from the prior year. This improvement was driven by a net surplus for the year of R80.2 million and increased in liquid current assets.

### Liquidity ratio

The relationship between Current Assets and Current Liabilities is an indication of an organisation's (or municipality's) liquidity position. At a minimum, the current assets should cover current liabilities as a ratio of 1:1. However, for a healthy position, the ratio should exceed 2:1. The growth in current assets as indicated above were driven by increases in cash and cash equivalents of R80.3 million. Against this positive increase in current assets, the municipality's current liabilities increased to R32.9 million mainly because of a R24.4 million increase in unspent conditional grants and R7.6 million increase in creditors.

These movements in working capital resulted in a net improvement of the municipality's liquidity position, with the liquidity ratio increasing from 1.45:1 at the 2018 financial year to 1.68:1 in the 2019 financial year. The liquidity ratio is within the norm range of 1.5 to 2.1 and continued improvement of this ratio should be encouraged. The improvement in this ratio and high level of liquid assets are even more pronounced when debtors greater than 30 days are excluded from the current assets.

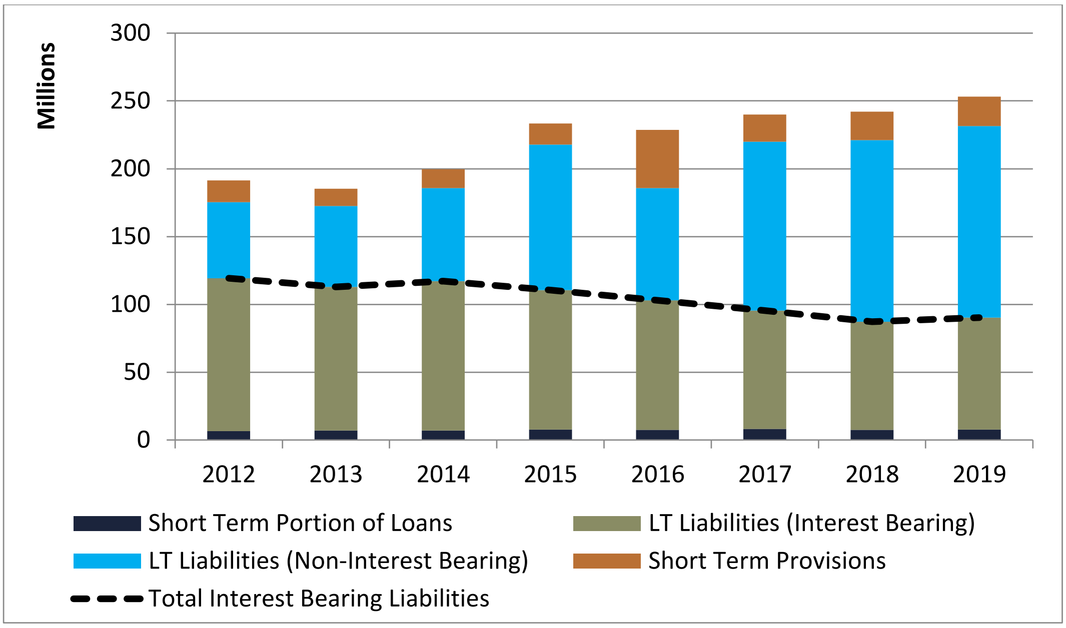
**GRAPH 5.10: LIQUIDITY RATIO**




Long-term liabilities: Interest-bearing vs non-interest-bearing

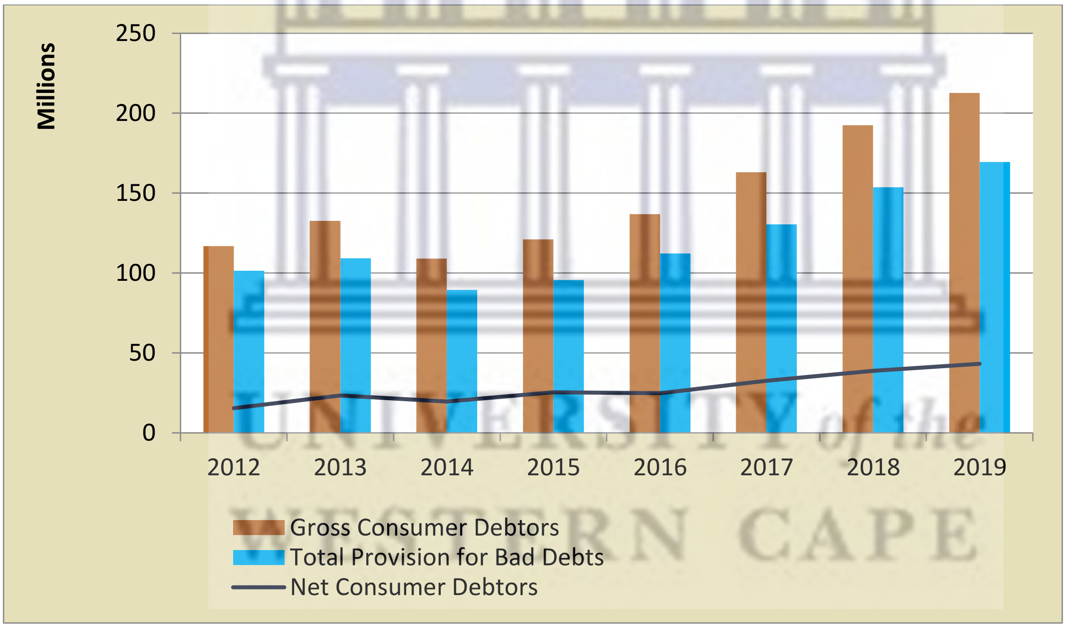
Graph 5.11 shows that Theewaterskloof recognised that Interest-Bearing Long-Term Liabilities have been on a decreasing trend, from R112.7 million in 2012 to R82.3 million in 2019. This is also indicated by the declining gearing ratio from 46% (2010/11) to 18% (2017/18). Theewaterskloof' s Total Interest-Bearing Liabilities (short and long term) peaked in 2011/12, to R112.8 million. During this period, the line item increased by the largest annual movement totalling R13.9 million (13%) compared to 2010/11. Since 2011/12, the balance has been on a declining trend at an average annual decrease of 5%.

**GRAPH 5.11: THEEWATERSKLOOF LONG-TERM LIABILITIES**




Gross consumer debtors vs net consumer debtors

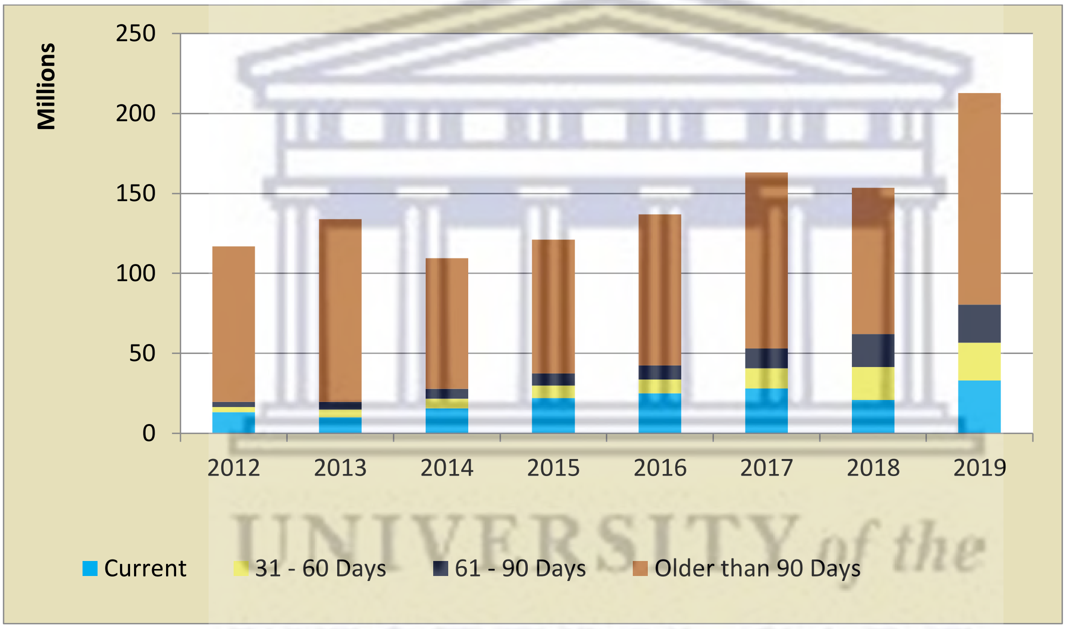
**GRAPH 5.12: GROSS DEBTORS VS NET CONSUMER DEBTORS**




Graph 5.12 shows that Theewaterskloof' s Gross Consumer Debtors increased from R116.85 million in 2011/12 to R212.79 million in 2018/19. Net Consumer Debtors have had sporadic movements throughout this assessment period with significant decreases occurring in 2011/12 (41%) and 2013/14 (17%) and significant increases occurring in 2014/15 (29%), 2016/17 (32%) and 2017/18 (19%). Net Consumer Debtors increased by R27.77 million from R15.45

million in 2011/12 to R43.22 million in 2018/19. The Debtors Payment Ratio has been below the NT recommended benchmark throughout this assessment period. Net Debtor days were at their lowest at 31.5 days in 2013/14 and have since been on an increasing trend reaching 46 days in 2018/19, well above the NT norm of 30 days. The deteriorating Net Debtor days ratio and the below-norm payment ratio is evident in the increase in the number of debtors greater than 90 days from R97.25 million in 2011/12 to R132.31 million in 2018/19. The increase in debtors greater than 90 days is a concern, as such a trend creates a lag effect on the actual value of credibility of the Net Consumer Debtors, as it indicates a looming possibility of debt write-offs and Consumer Debtors being a non-liquid current asset. Graph 5.13 indicates the consumer debt analysis, which clearly shows the increasing trend in debtors older than 90 days since 2014.

**GRAPH 5.13: CONSUMER-DEBTORS AGE ANALYSIS**





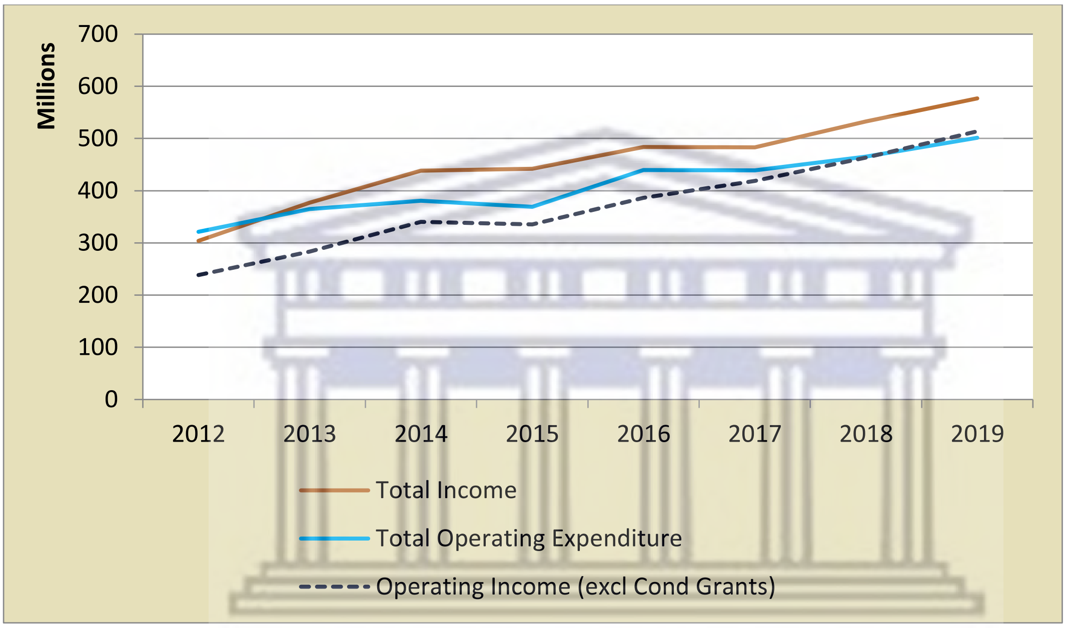

Total provision for doubtful debts as a percentage of debtors greater that 90 days has been greater than 100% since 2013/14, indicating that the municipality has not been under-provided for debtors. Even though TWK is not under-providing for debtors, it should be noted that the consumer debtors written off as a percentage of total provision for bad debts throughout this assessment period is 24%, below the NT norm of 100%. This is a matter of concern, as the municipality should write off bad debts already provided for, and if the results are less than 100%, it should be due to the possible recoverability of debtors.

*5.5.2.2 Statement of financial performance*

Revenue

Graph 5.14 shows that the total income of TWK municipality increased from R303.97 million in 2012 to R576.92 in 2019; thus, an increase of 89.8% equivalent to R34.11 million per annum. Total expenditure increased from R321.21 million to R501.46 million over the same period with an average per annum increase of R22.53 million. Therefore, on average, total income increased faster than total expenditure.

**GRAPH 5.14: TOTAL INCOME VS TOTAL EXPENDITURE**




The Total Accounting Surplus (Deficit) measures whether income from all sources exceeds Total Expenditure incurred. This calculation includes conditional operational and capital grant funding received and hence the reason for the dotted line in Graph 5.14 showing the operating income excluding conditional grants. The total operating surplus thus measures whether income from all sources excluding capital grants exceeds total expenditure. The cash generated by operations indicates the TWK's ability to generate cash operational surpluses once all non-cash items have been removed from the operational expenditure.

Table 5.9 below indicates the TWK's ability to generate surpluses over the period of the study based on the above-mentioned methodologies.

TABLE 5.9: ANALYSIS OF SURPLUS

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Total Accounting Surplus (Deficit) | (17.3) | 12.2 | 57.9 | 73.2 | 44.4 | 43.6 | 67.2 | 88.6 |
| Total Operating Surplus (excl. Capital Grants) | (72.8) | (60.9) | 9.0 | 13.5 | 11.0 | 5.1 | 17.0 | 54.3 |
| Cash Generated by Operations (excl. Capital Grants) | (12.6) | 15.0 | (11.8) | 4.6 | 27.5 | 38.6 | 45.2 | 93.3 |

In 2012, the total expenditure exceeded the total income, resulting in a total accounting loss of R17.3 million. Since 2013 onwards, the municipality had an accounting surplus of R12.2 million. This has been in an increasing trend and amounted to R88.6 million in 2019. On exclusion of the capital grant income, the municipality experienced an operating deficit in 2012 and 2013. In 2014, the operating surplus was R9.0 million, increasing to R54.3 million in 2019. The municipality had cash utilised by operations in 2012 and 2014 of R12.6 million and R11.8 million, respectively, followed by cash generated from operations of R15.0 million in 2013, increasing from R4.6 million in 2015 to R93.3 million in 2019.

### Contribution per income source

The four main revenue sources of the municipality are property rates, electricity services, equitable share, and water services, as depicted in Table 5.10. These sources contribute between 12% and 20% towards the operating income.

TABLE 5.10: CONTRIBUTION PER INCOME SOURCE

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Property rates | 18% | 16% | 15% | 18% | 17% | 19% | 20% | 19% |
| Electricity | 22% | 20% | 17% | 18% | 16% | 18% | 17% | 16% |
| Water | 14% | 11% | 10% | 11% | 11% | 13% | 13% | 13% |
| Equitable share | 18% | 18% | 15% | 16% | 14% | 16% | 16% | 12% |

TWK generated accumulated totals since 2012, as depicted in Table 5.11.

TABLE 5.11: ACCUMULATED TOTALS: 2012 TO 2019

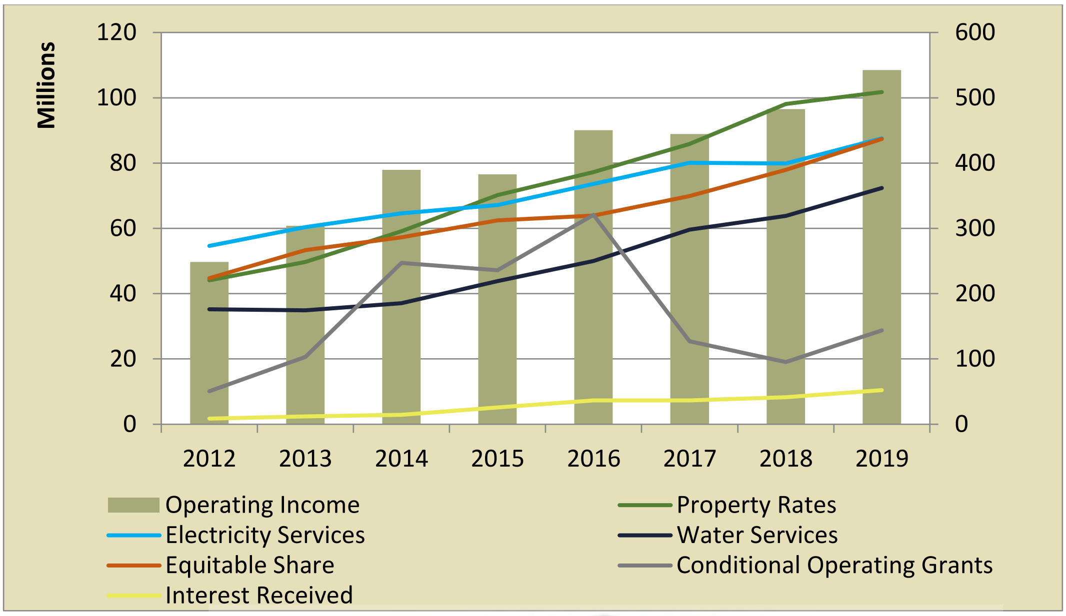
| | Percentage | R'Million |
|---|---|---|
| Equitable share | 21% | 472.15 |
| Conditional operational grants | 12% | 254.64 |
| Property rates | 25% | 542.08 |
| Electricity | 23% | 513.27 |
| Water | 17% | 361.58 |
| Interest earned on investments | 2% | 43.81 |
| Total | 100% | 2,187.53 |



A comparison between 2012 and 2019 figures, total operating income (excluding all conditional grants) increased by R238.41 million. The accumulated operational grant funding contributed 33% to the total operating income, indicating that the municipality is not significantly grant-dependent. The main source of income for the municipality is property rates at 25%, followed by electricity sales and the equitable share grant at 23% and 21%, respectively.

Graph 5.15 depicts the contribution per income source over the period of the study, showing the total operating income as well as all the different sources on one graph.

#### GRAPH 5.15: CONTRIBUTION PER INCOME SOURCE




The average increases on the above revenue items have been above Consumer Price Index (CPI) annually over the period of the study, except for the 2017/18 year when there was a 0% increase on electricity services.

Expenditure

The main expenditure items remained staff costs, followed by electricity services during this period. When assessing Table 5.12 against Table 5.13, staff costs increased with double digits, except for 2013 when costs actually decreased by 1% and 2016 and 2017 when costs increased by 8% each year.

Staff costs as a percentage of total operating expenditure has remained with the 25% to 40% NT benchmark throughout the assessment period at 35% and 36% for the recent two financial years. It has been the largest contributor to total operating expenditure throughout the period of assessment and annual increases in this expenditure have been above inflation. It should always be a key objective to enhance staff efficiency and to improve revenue and expenditure management.

The second largest expenditure was electricity services that constituted between 8% and 11% of total expenditure, as depicted in Table 5.12. The electrical expenditure remained fairly constant over the study period but even more so over the last five years thereof. Depreciation and repairs and maintenance as a percentage of the property, plant and equipment has been below the 8% NT norm throughout the period of the study.

**TABLE 5.12: CONTRIBUTION PER EXPENDITURE ITEM**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Staff costs | 30% | 25% | 30% | 33% | 32% | 34% | 35% | 36% |
| Electricity | 9% | 8% | 9% | 10% | 10% | 11% | 10% | 11% |
| Water | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 3% |
| Repairs and maintenance | 4% | 4% | 4% | 5% | 5% | 5% | 4% | 4% |
| Depreciation | 13% | 22% | 7% | 3% | 5% | 6% | 4% | 4% |

**TABLE 5.13: ANNUAL INCREASE PER EXPENDITURE ITEM**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Staff costs | 13% | -1% | 15% | 11% | 8% | 8% | 12% | 6% |
| Electricity | 21% | 9% | 10% | 8% | 15% | 6% | 0% | 12% |
| Water | 12% | 13% | 14% | 17% | 5% | 16% | -2% | 22% |
| Repairs and maintenance | 11% | 15% | 3% | 21% | 7% | 15% | -25% | 22% |
| Depreciation | 424% | 99% | -67% | -62% | 96% | 17% | -16% | -14% |
| Interest expense | 18% | -1% | -2% | 6% | 44% | 3% | -3% | -2% |



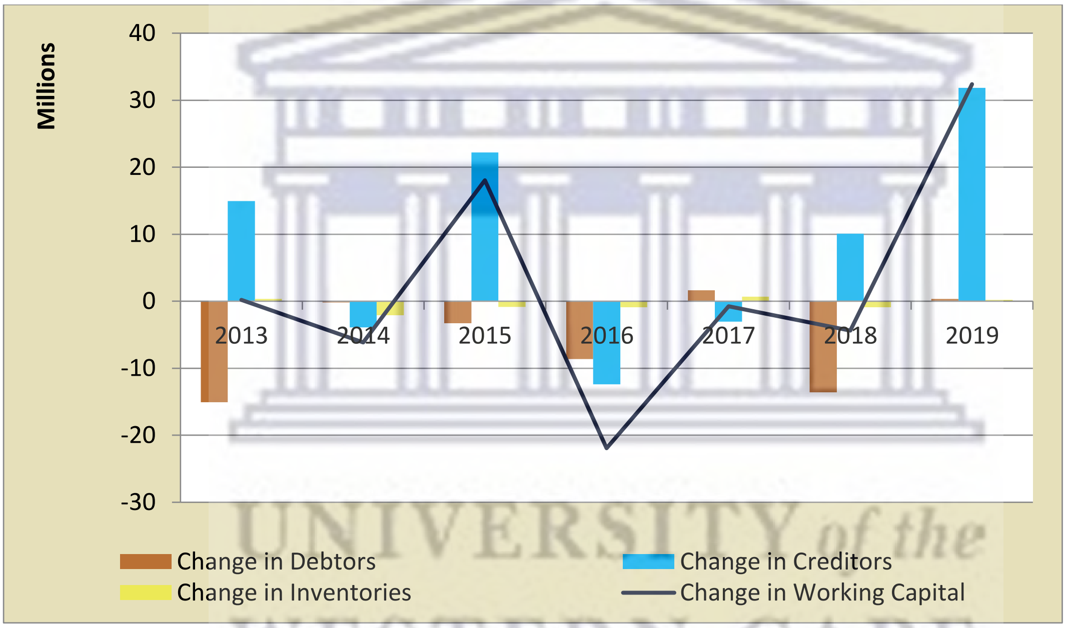
*5.5.2.3 Cash flow statement*

This section assesses the ability of the TWK municipality to generate surplus cash from its operational activities per annum, as well as the degree of surplus cash being invested back into new capital infrastructure or reserved in investments. The section also determines the financial resources at the municipality's disposal for investment in capital infrastructure and assesses to what extent these resources are optimally leveraged to accelerate service delivery while maintaining a financially sound position.

Cash impact of working capital changes

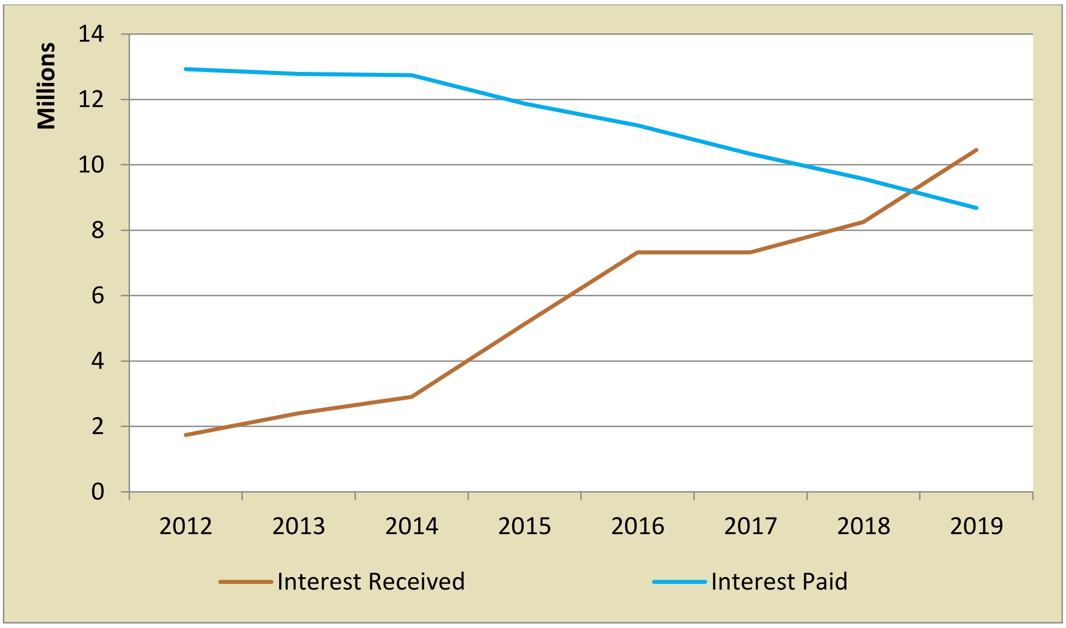
Municipalities have a limited ability for diversification of revenue sources and due to this they should ideally finance creditors from debtor collections. Graph 5.16 indicates that the municipality endured both positive and negative movements of working capital. The negative movement over the review period can be attributed to the increase in creditors. The increase in debtors negatively influenced the municipality's ability to generate working capital in 2018. However, the exact opposite is witnessed in 2019 with the result that the working capital increased significantly.

**GRAPH 5.16: CASH IMPACT OF WORKING CAPITAL CHANGES**



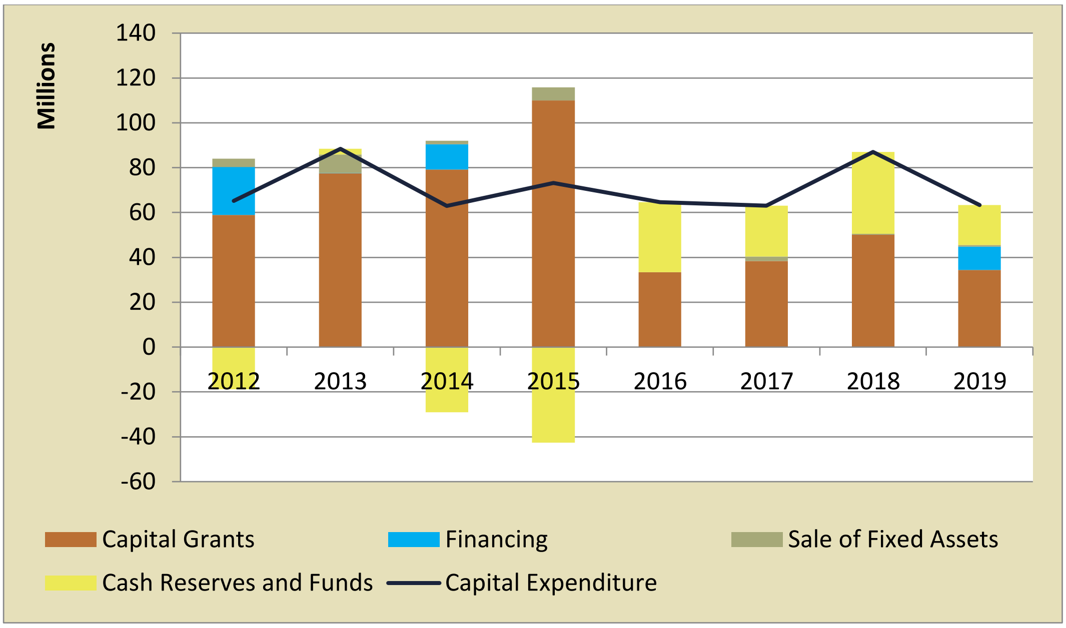

In terms of investment income versus interest paid, Graph 5.17 shows that the municipality's interest paid exceeded interest received in all previous years of the study period, except for the last year, 2019, when the interest received totalling R10.46 million exceeded interest paid at R8.68 million. This is a positive trend and should be maintained.

**GRAPH 5.17: INVESTMENT INCOME VS INTEREST PAID**



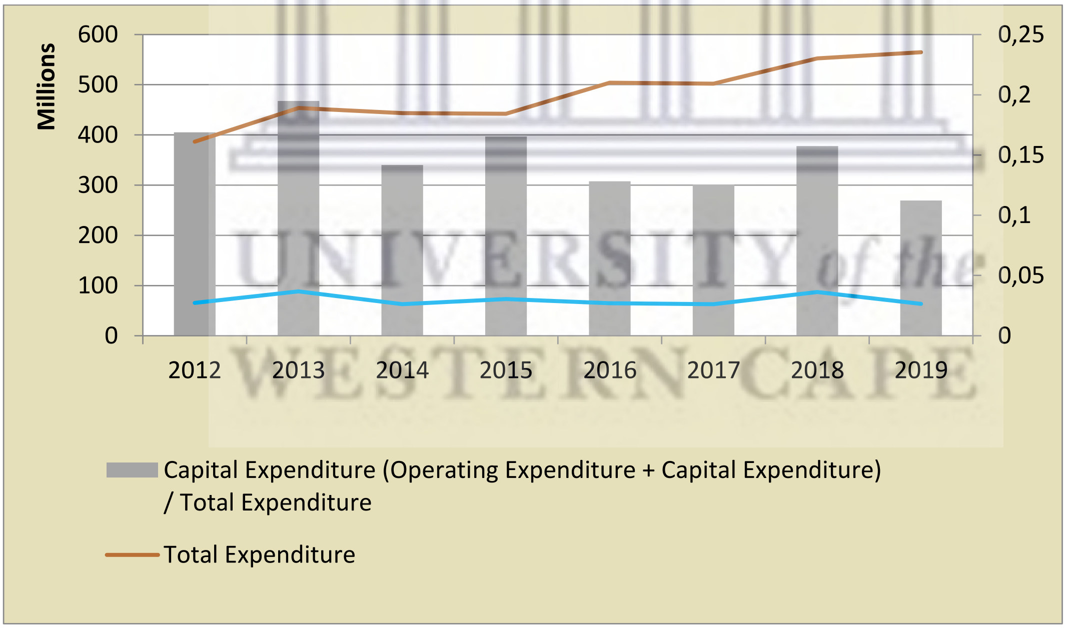

The municipality's capital cost (interest paid and redemption) as a percentage of the total operating expenditure remained within the 6% to 8% NT norm throughout the study period. This implies that the municipality's cost of debt is not excessive and indicates scope for further gearing. Capital expenditure over the period of the study was mainly sourced for capital grants (91%), external loans (11%), sales of fixed assets (5%), and own cash generated. It is important to note that the municipality was able to generate positive cash from 2016 to 2018, which contributed 42% of the capital expenditure over the same period. The municipality also did not use borrowings to fund capital expenditure over the aforementioned period. However, as Graph 5.18 shows, this changed in 2019 when external borrowing was added to the mix of resources to fund capital expenditure.

**GRAPH 5.18: FUNDING RESOURCES USED TO FUND CAPITAL EXPENDITURE**




An annual trend analysis indicated that there was a sharp increase in capital spending from R65.24 million in 2012 to R88.40 million in 2013, declining gradually to R63.01 million in 2017 and peaking again to R86.94 million in 2018 and dropping once again to R63.34 million in 2019.

**GRAPH 5.19: GROWTH IN TOTAL OPERATING INCOME VS CAPITAL EXPENDITURE**



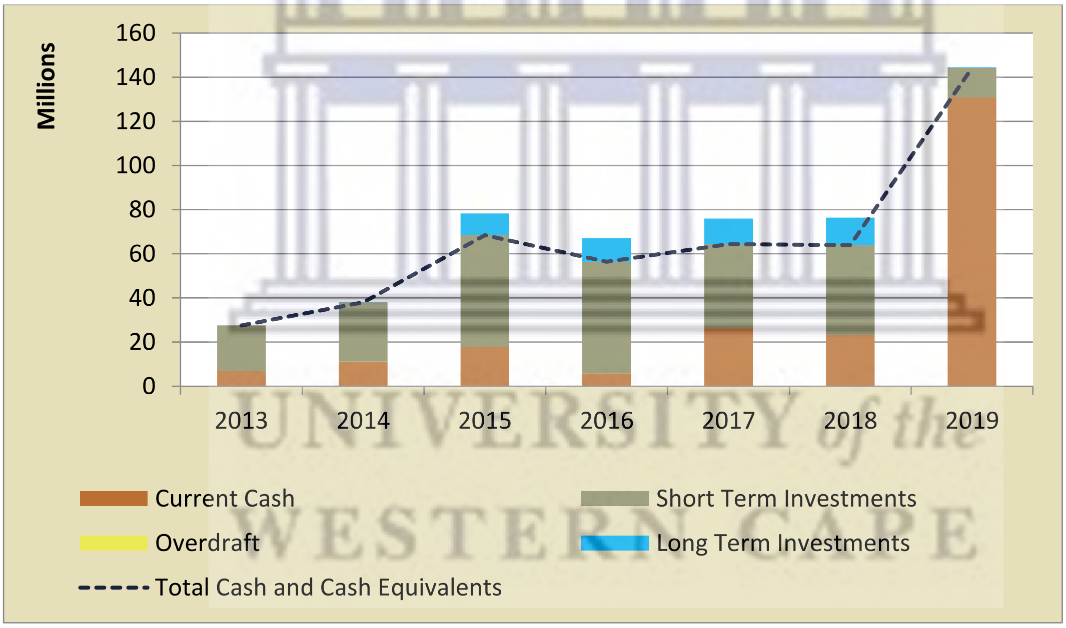

Graph 5.19 indicates that the TWK municipality's capital expenditure as a percentage of the total expenditure has been between the NT norm of 10% to 20%, throughout the period of

study; however, this ratio has decreased from a peak of 19% in 2013 to 11% in 2019. A continued decrease in this ratio reflects on lower capital spending on infrastructure and it holds a potential risk to sustained service delivery. This risk is further pronounced by the fact that capital expenditure decreased with R23.59 million from R86.94 million in 2018 to R63.35 million in 2019.

Cash and investments

TWK'S cash and cash equivalents comprised of many short-term investments throughout the period of the study and did not make use of an overdraft facility over the same period. As Graph 5.20 shows, the cash and cash equivalents reached the first peak in 2015 due to a drastic increase in short-term investments, dropping slightly in 2016 and remained steady for 2017 and 2018. In 2019 the cash position improved significantly with the current cash and short-term investments totalling R144.20 million.

**GRAPH 5.20: CASH AND CASH INVESTMENTS**

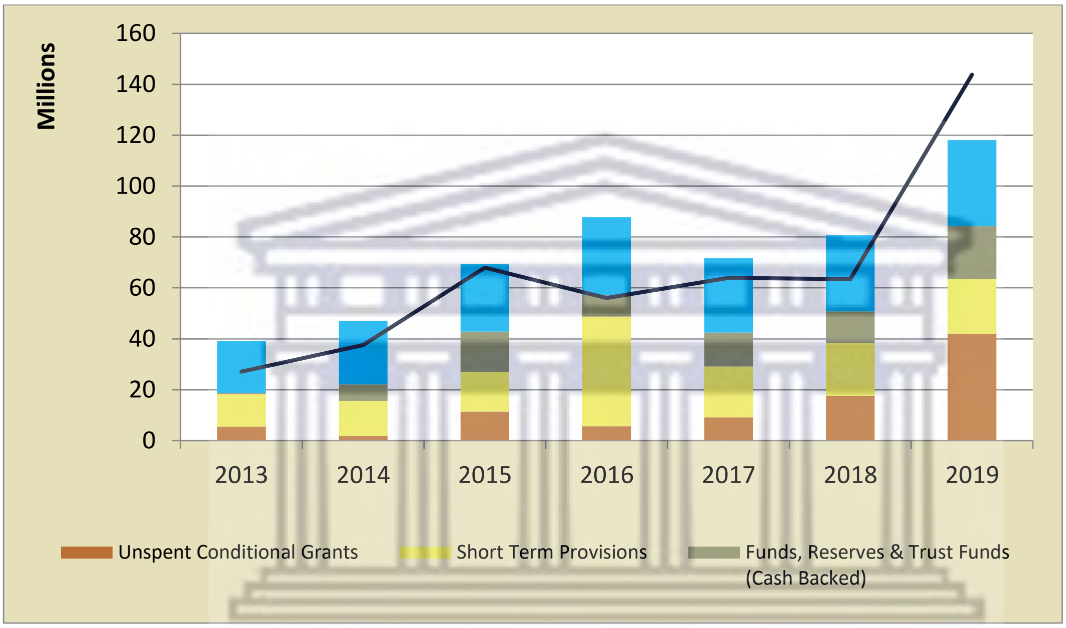



Minimum liquidity requirements

A municipality is always legislatively required to maintain cash reserves to sufficiently cover the statutory requirements of unspent conditional grants, short-term provisions, cash-backed funds and reserves as well as cash cover of at least one to three months of working capital.

Graph 5.21 illustrates that the municipality's liquidity requirements were not fully covered during the first seven years of the period of study and only shows an improvement in 2019. This is due to the huge increase in cash and cash equivalents, as illustrated in Graph 5.20. A particular concern, however, is the steady increase in unspent conditional grants from R5.62 million in 2016 to R41.91 million in 2019. This, together with the marginal underperformance on capital expenditure for the whole study period, except for 2018, could negatively impact on the future provision of grants to the municipality, thus not only affecting the cash flow but also on service delivery to the poor.

**GRAPH 5.21: MINIMUM LIQUIDITY REQUIREMENTS**




### 5.5.3 Overstrand Municipality

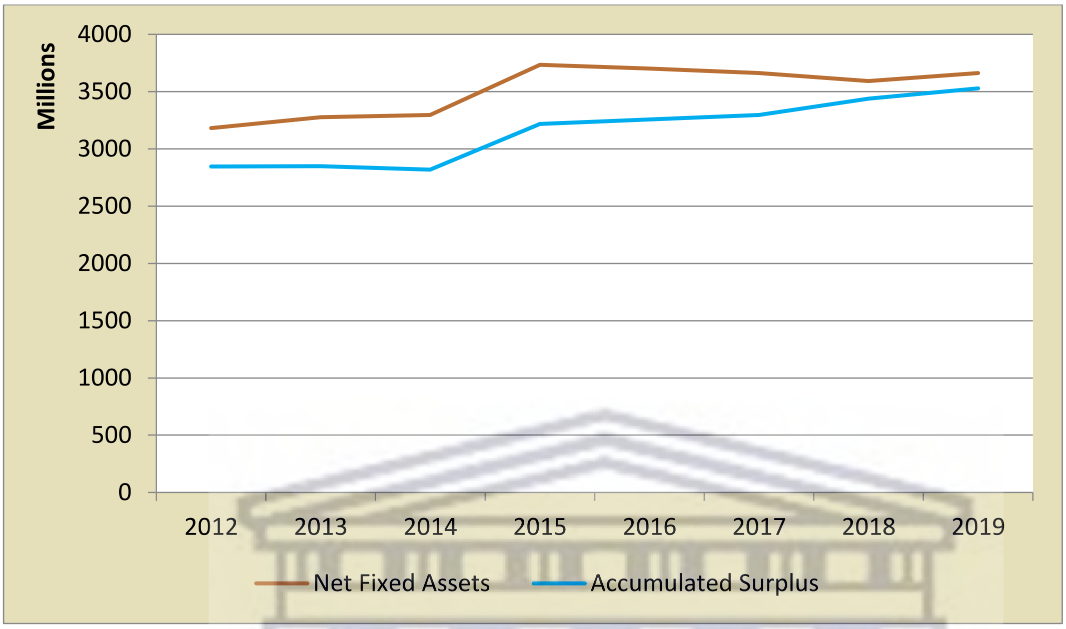
#### *5.5.3.1 Statement of financial position*

##### Net fixed assets vs accumulated surplus

The financial position of the Overstrand Municipality (OM) remained strong during the 2019 financial year. Total assets increased from R4.26 billion to R4.40 billion including cash and cash equivalents of R58.22 million as of 30 June 2019, compared to an increase in liabilities of R32.56 million for the year. This latter increase was driven by an increase in current liabilities of R1.2 million, while non-current liabilities increased by R31.4 million.

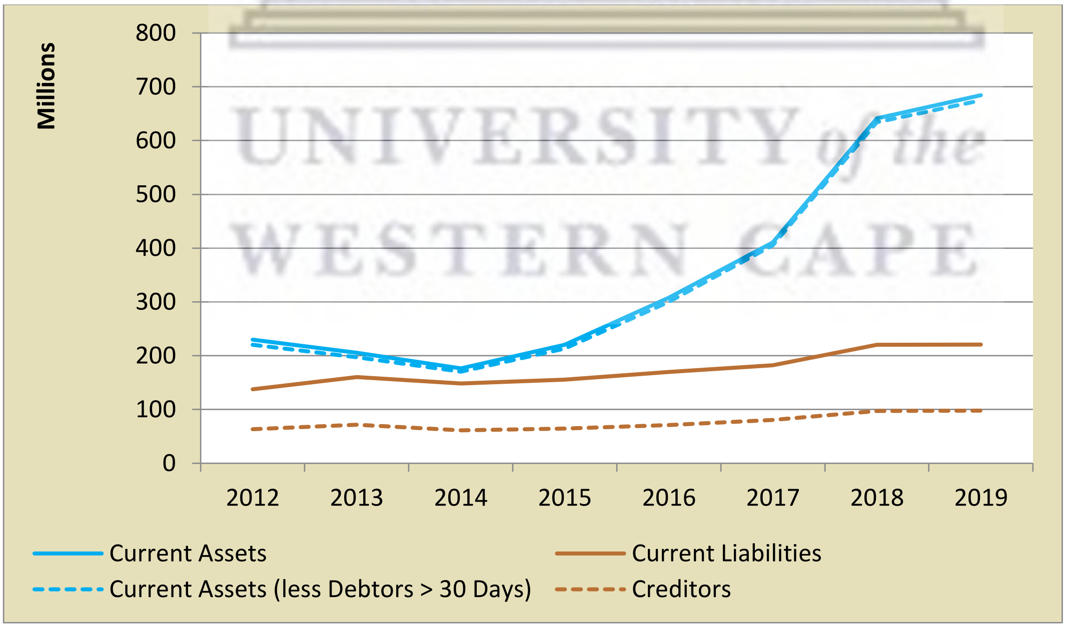
Net fixed assets improved from R3.18 billion in 2012 to R3.66 billion in 2019 – an increase of R480 million over the period of the study. The accumulated surplus followed the same trend, increasing from R2.85 billion in 2021 to R3.53 billion in 2019 – an increase of R680 million.

**GRAPH 5.22: NET FIXED ASSETS VS ACCUMULATED SURPLUS**




Liquidity ratio

**GRAPH 5.23: CURRENT ASSETS VS CURRENT LIABILITIES**

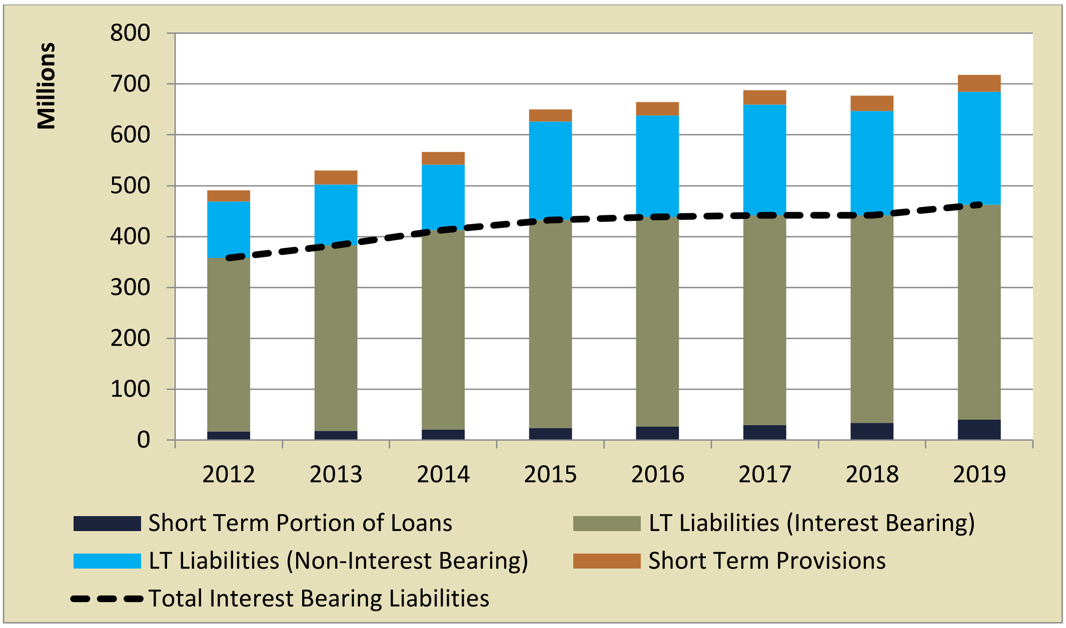


Despite the minimal increases in the current liabilities, it is positive to observe that it has stabilised compared to the pre-2018 steady increases, indicating a breakaway from the upward trend of this balance in the past. The municipality was also able to decrease the balance of the unspent conditional grants from 2018 to 2019. The asset movement during 2019 was the accumulated result of an increase in current assets of R69.41 million as well as a R52.47 million increase in non-current assets. This positive movement in the current assets was mainly driven by an increase in cash and cash reserves of R58.2 million.

The combined effect of the movements in current assets and current liabilities is evident in the liquidity ratio of the municipality. The ratio continued to improve from the 2018 reported position of 2.91 to a much stronger position of 3.21 in 2019. The ratio remains strong at 3.16 when debtors older than 30 days are excluded from the calculation, unpinning the strong liquidity position of the municipality.

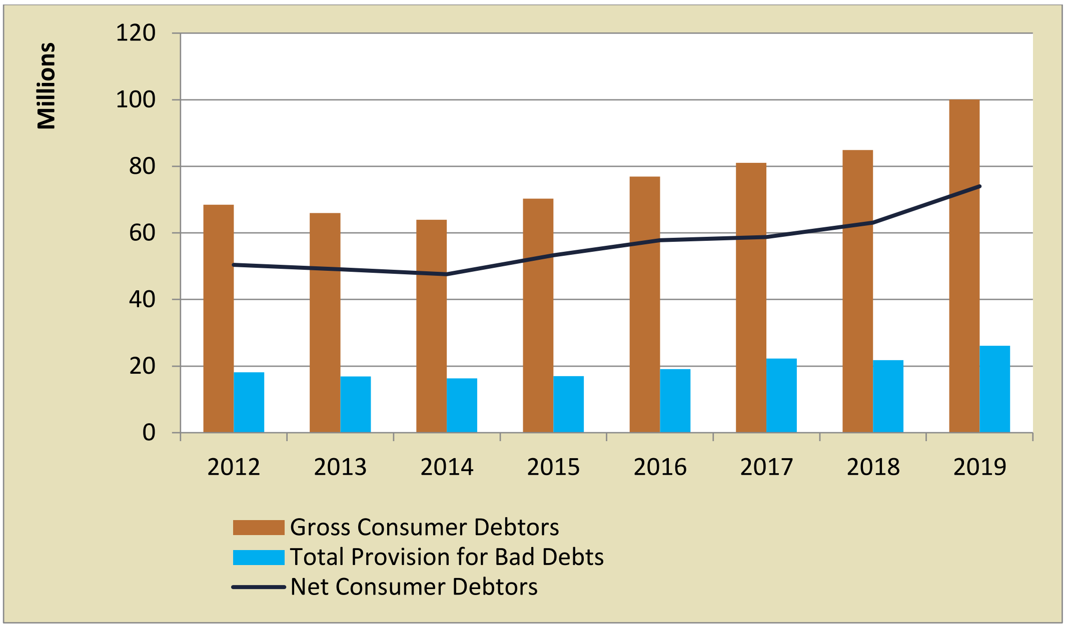
Contrary to the situation at TWK municipality, the OM made use of long-term loans to augment its capital budget funding throughout the study period, as can be seen in Graph 5.24. The long-term interest-bearing liabilities have grown steadily from R358.0 million in 2012 to R462.66 in 2019 with an average growth of R13 million annually. This resulted in a gearing ratio of 40% in 2019, decreasing from the 41% of the previous year. This level is now on par with the maximum recommended NT norm.

**GRAPH 5.24: INTEREST-BEARING VS NON-INTEREST-BEARING LIABILITIES**



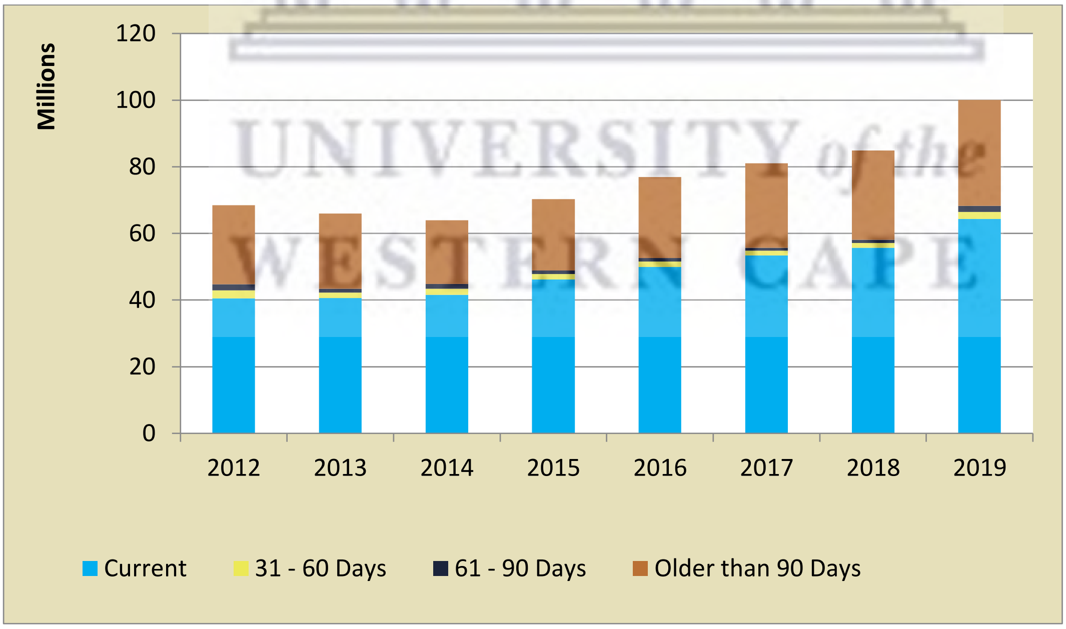

OM's gross consumer debtors grew by 17.3% to R99.59 million in 2019 while the provision for bad or doubtful debts was only R26.11 million at the same time. This shows that the provision is insufficient to cover all consumer debtors older than 90 days (R31.82), as illustrated in Graph 5.25. This trend was also observed throughout the period of the study, even though there have been marked increases in the growth of consumer debtors since 2014, preceded by a minimal decline in the previous two financial years. The latter growth in consumer debtors is noted across all service lines, with rates, electricity, and water being the largest contributors to the outstanding debtor's balance.

**GRAPH 5.25: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS**




The age analysis of consumer debtors reflects relatively high increases of 14.5% and 19.9% in the current debtors and debtors older than 90 days, respectively, as shown in Graph 5.26. The collection rate for 2019 deteriorated to 98.3%, which was the lowest in the last 10 years. Although this is still considered high, considering the NT norm of 95%, it is imperative that the municipality maintains its collection rate due to the sensitivity of its cash-generation ability on any decrease in the collection rate.

**GRAPH 5.26: CONSUMER-DEBTORS AGE ANALYSIS**

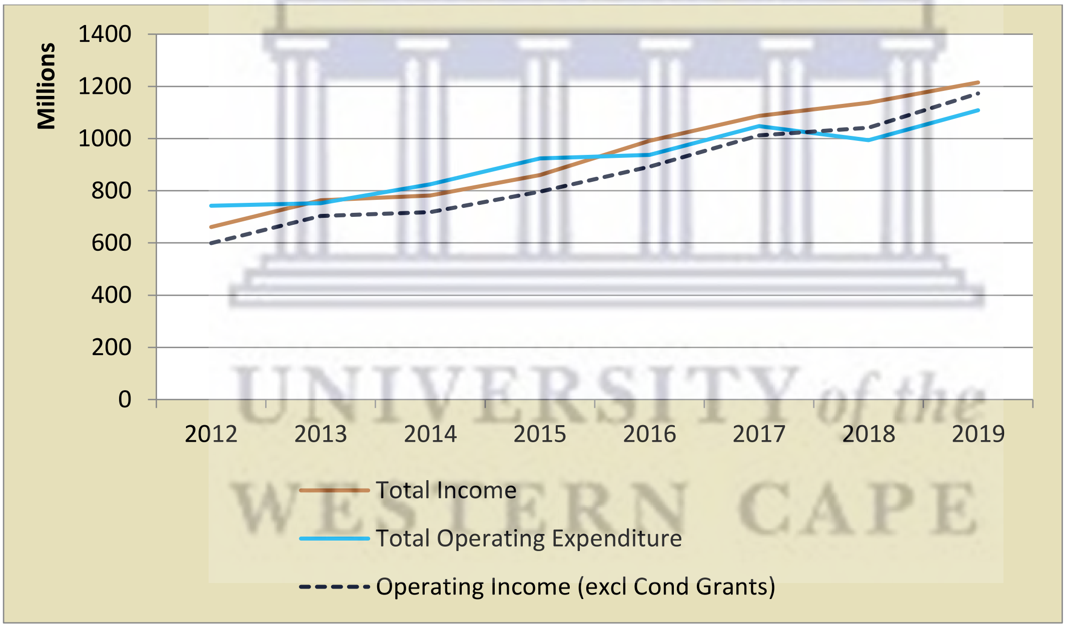


*5.5.3.2 Statement of financial performance*

Revenue

The municipality was able to move from a deficit where the operating expenses were slightly more than the total income from 2012 to 2015 to a positive performance since 2016 to 2019. In fact, operating expenses declined marginally from 2017 to 2018 and increased again from 2018 to 2019 while the total income increased proportionally with a total income of R1.215 billion and total operating expenditure of R1.172 billion in 2019. Total income increased by 84% over the period of the study while the expenditure increased by 49%. This is indicative of the municipality's efforts to curb its expenses while growing its income. The income versus total operating expenditure remains positive even after excluding conditional grants from the equation.

**GRAPH 5.27: TOTAL INCOME VS TOTAL EXPENDITURE**

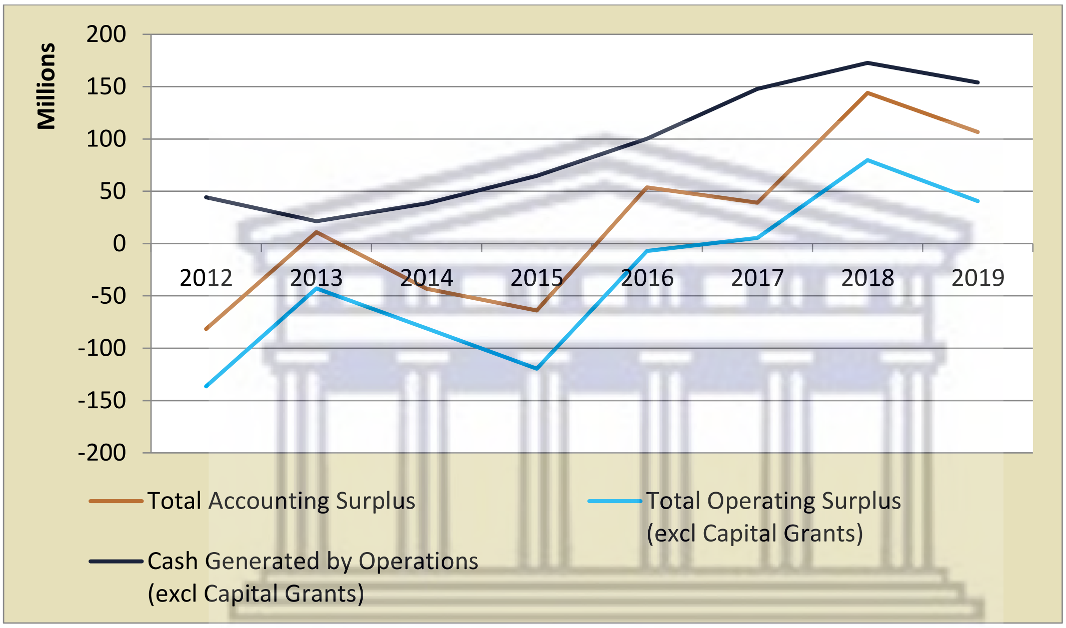



Analysis of surplus

The analysis of the municipality's financial performance reflects declines in both accounting and operating surpluses, as indicated in Graph 5.28. Total operating surpluses declined by

R38.47 million to R105.56 million, and operating surplus, excluding capital grants, decreased by R40.28 million to R39.50 million in 2019. Cash generated by operations decreased for the first time in six years by R18.75 million to R153.98 million. This, in part, may be attributed to the lower debtor-collection rate alluded to in the statement of financial position previously. The municipality was able to turn around and generate surpluses since 2016 as it recorded deficits from 2012 to 2015. However, the decreases referred to above from 2018 to 2019 are worrying and require additional effort, for instance, in debtor collections, for it to continue realizing surpluses in the future.

**GRAPH 5.28: ANALYSIS OF SURPLUS**



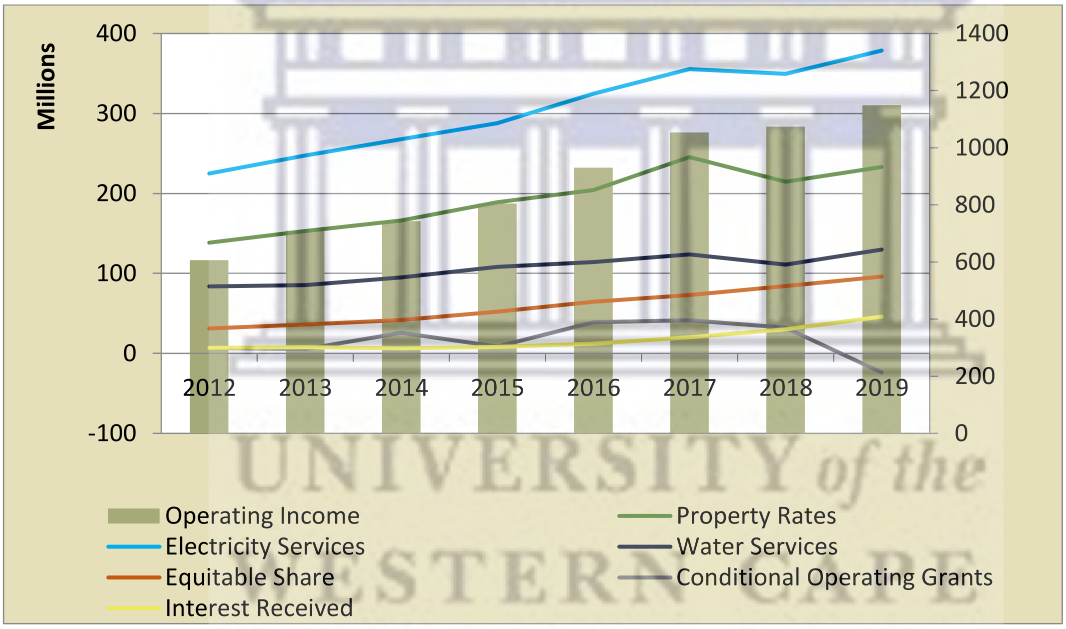

Contribution per income source

Graph 5.29 and Table 5.14 illustrate that the growth in total operating income was in excess of inflation at 6.9% from R1.07 billion in 2018 to R1.15 billion in 2019. The municipality was also able to increase its rates and service-charges income while other conditional operating grants continued to decrease, in 2019. The latter highlight the need for municipalities to become self-sustainable and less reliant on grant funding. OM's grant-reliance ratio (total grants/total revenue) decreased to 15% in 2019 from 16% in 2018.

**TABLE 5.14: CONTRIBUTION PER INCOME SOURCE**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Property rates | 138.4 | 153.1 | 166.1 | 189.0 | 204.3 | 245.5 | 214.8 | 233.3 |
| Electricity | 224.9 | 247.7 | 268.1 | 287.8 | 325.6 | 355.5 | 349.4 | 378.7 |
| Water | 83.8 | 85.2 | 95.1 | 108.3 | 114.2 | 123.7 | 111.2 | 130.0 |
| Equitable share | 31.2 | 36.1 | 41.9 | 52.0 | 64.6 | 73.0 | 84.2 | 96.1 |
| Con. oper. grants | 6.8 | 5.5 | 25.9 | 8.5 | 39.0 | 41.5 | 32.2 | 22.9 |
| Interest received | 6.9 | 7.6 | 6.4 | 8.1 | 12.2 | 20.3 | 30.3 | 41.8 |
| Operating income | 606.1 | 709.2 | 743.5 | 804.6 | 930.7 | 1053.1 | 1073.2 | 1148.1 |

**GRAPH 5.29: CONTRIBUTION PER INCOME SOURCE**

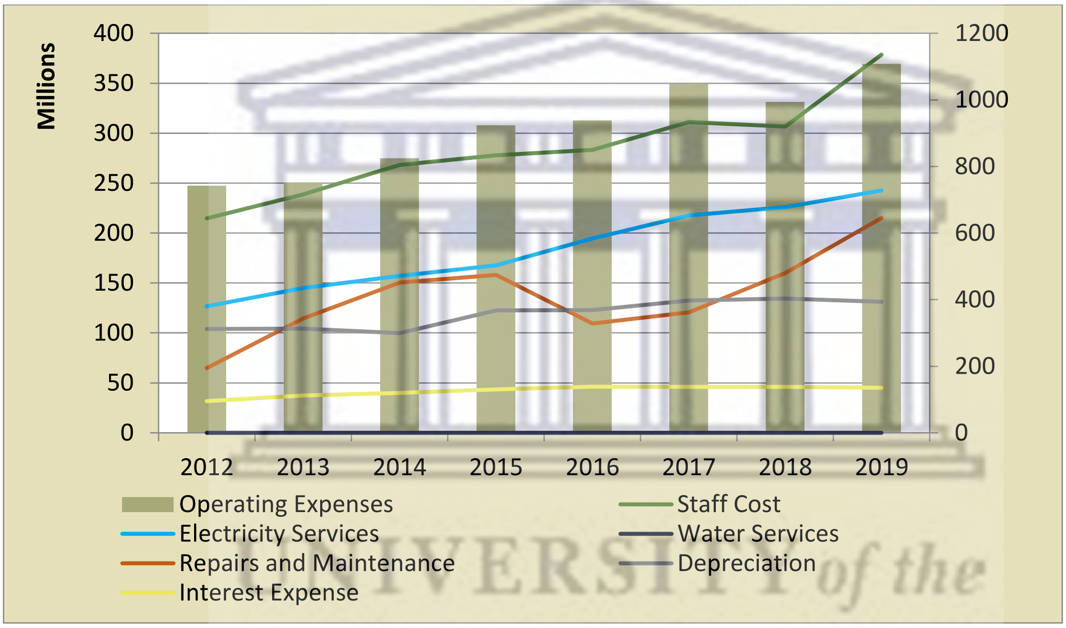



Expenditure

Total operating expenses increased by R115.11 million or 11.6% to R1.11 billion in 2019 while the increase of 23% (R71.8 million) was mainly driven by an increase in staff costs. On further enquiry, it was found that this significant increase was mainly due to a correction to the Employee Benefit Obligation provision between 2018 and 2019. Should this non-cash, once-off adjustment be excluded from the calculation, the staff-cost increases by a more reasonable 11.5%, which is still high. Staff costs now represent 29% of total operating expenses, compared to 28% in 2018. This is still close to the lower end of the NT norm of between 25% and 40%, but as the main contributor to the operating expenditure, this cost should be managed and monitored with prudency.

As Graph 5.30 indicates, on the positive side, the repairs and maintenance expenses increased by 34% in 2019, indicating the municipality's continued efforts in maintaining its current asset base in an effective manner to improve service delivery. At this level, repairs and maintenance represent 6% of the carrying value of Property, Plant and Equipment (PPE) and investment property, compared to the NT norm of 8% and the prior year's result of only 4%.

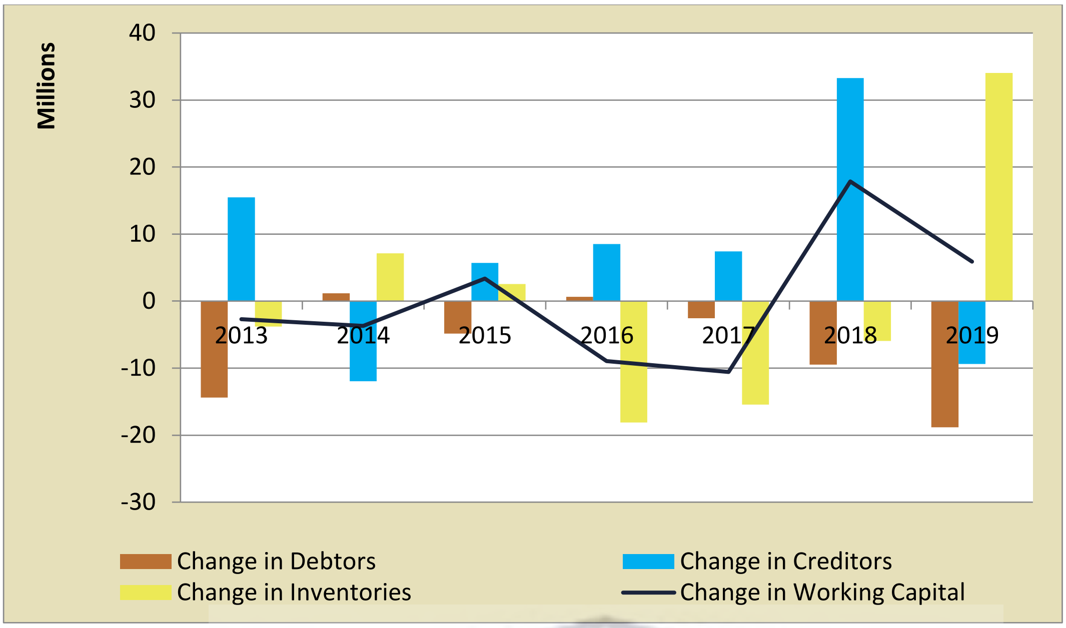
**GRAPH 5.30: CONTRIBUTION PER EXPENSE ITEM**




*5.5.3.3 Cash flow statement*

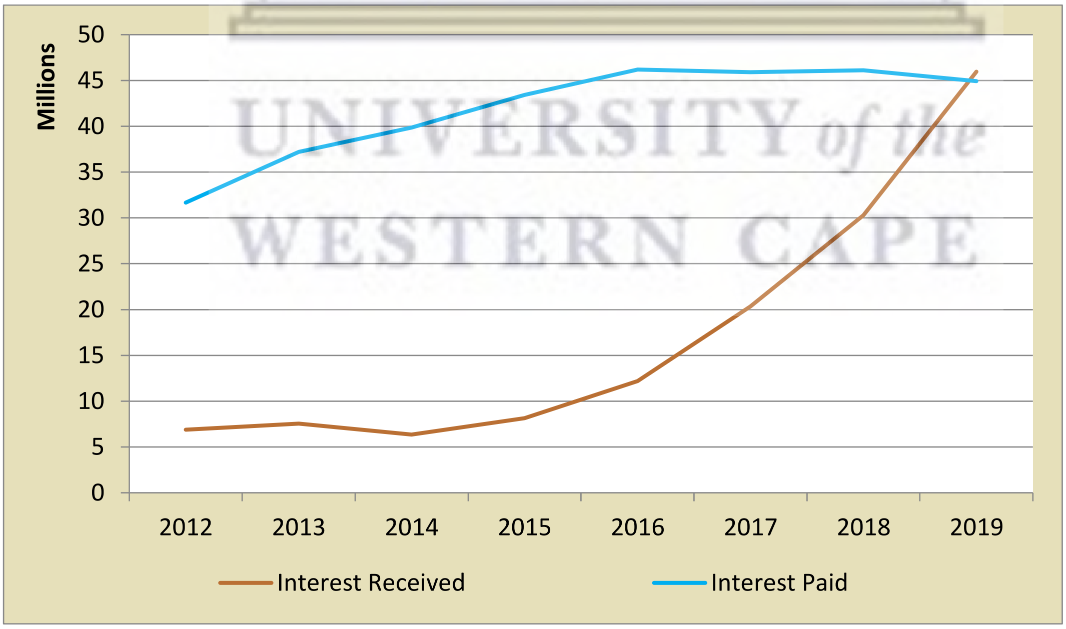
Graph 5.31 indicates that the municipality endured positive and negative movements of working capital. However, the positive movements experienced from 2017 to 2018 have been followed by a further negative movement in 2019. In essence, the latter negative movement is mainly due to the increases in inventories and the changes in debtors also negatively affected the municipality's ability to generate additional working capital.

**GRAPH 5.31: WORKING-CAPITAL CHANGES**




Graph 5.32 shows that interest paid continues to exceed interest received, but it is positive to note that this gap has continued to narrow. This is mainly due to the increase in balances of investments and cash and cash equivalents. This trend is expected to continue, as the municipality is at the maximum gearing norm of 40% and should practice caution with the uptake of further future long-term loans to fund capital expenditure.

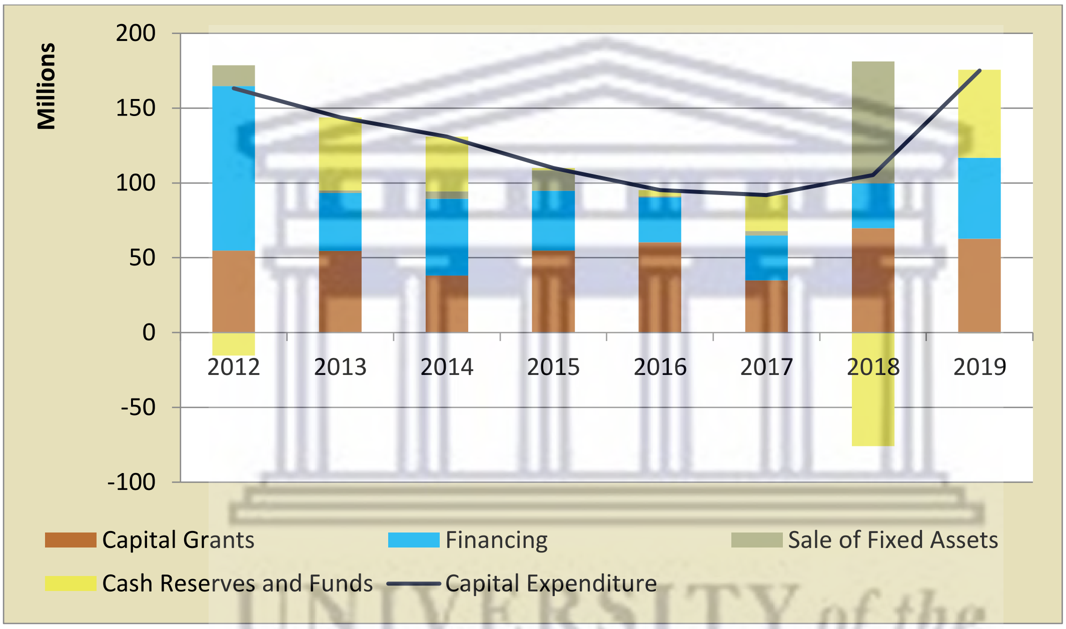
**GRAPH 5.32: INTEREST RECEIVED VS INTEREST PAID**



Annual capital funding mix

OM maintained a balanced capital-expenditure funding mix in 2019 with R54.0 million being financed externally, R58.9 million from own resources, and the balance of R62.8 million was funded by means of capital grants. The capital funding mix is heavily supported by external funding ranging from R110.0 million in 2012, steadily decreasing to R30.0 million between 2016 and 2018 and then increasing again to R54.0 million in 2019, thus adding up to a total of R384 million over the period of the study. The sale of fixed assets, in this case, land, to the amount of R81.43 million formed part of the capital funding mix in 2018, contributing 45% to the total capital budget of R181.12 million.

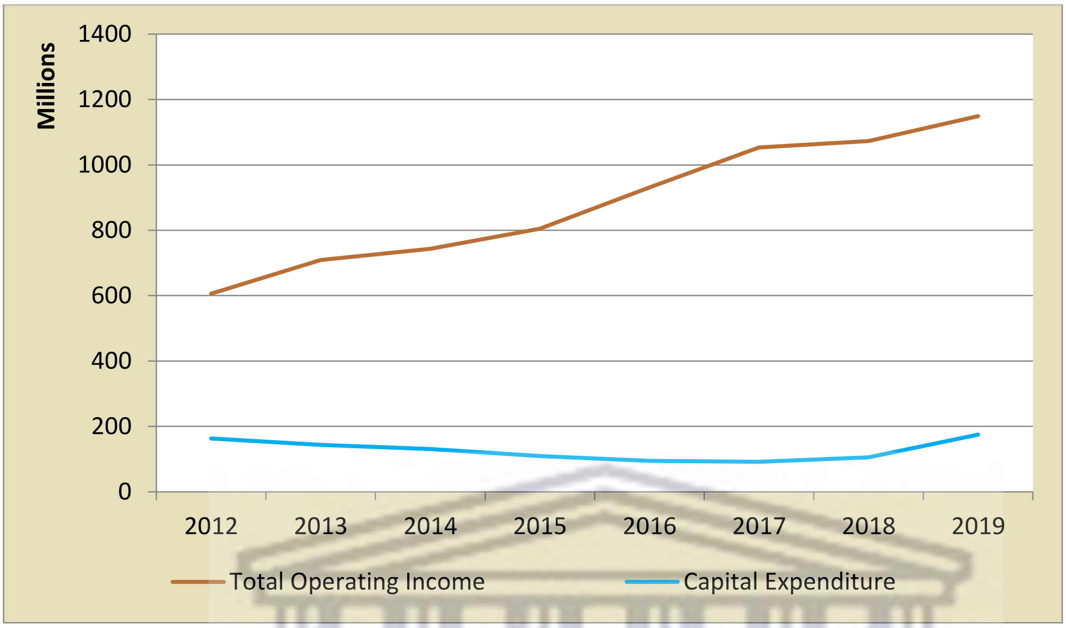
**GRAPH 5.33: CAPITAL FUNDING MIX**




Total operating income vs capital spending

Graph 5.34 indicates that the municipality's capital expenditure as a percentage of total expenditure was at 27% – 7% higher than the NT norm of between 10% and 20%. The municipality was able to reduce this percentage to 20% in 2013 and gradually every year to 10% in 2018. From 2018 to 2019 it increased again to 15%. This trend reflects the annual capital expenditure over the period of the study. The municipality should maintain the percentage closer to the higher end of the norm to avoid the potential risk to service delivery due to low spending on infrastructure development.

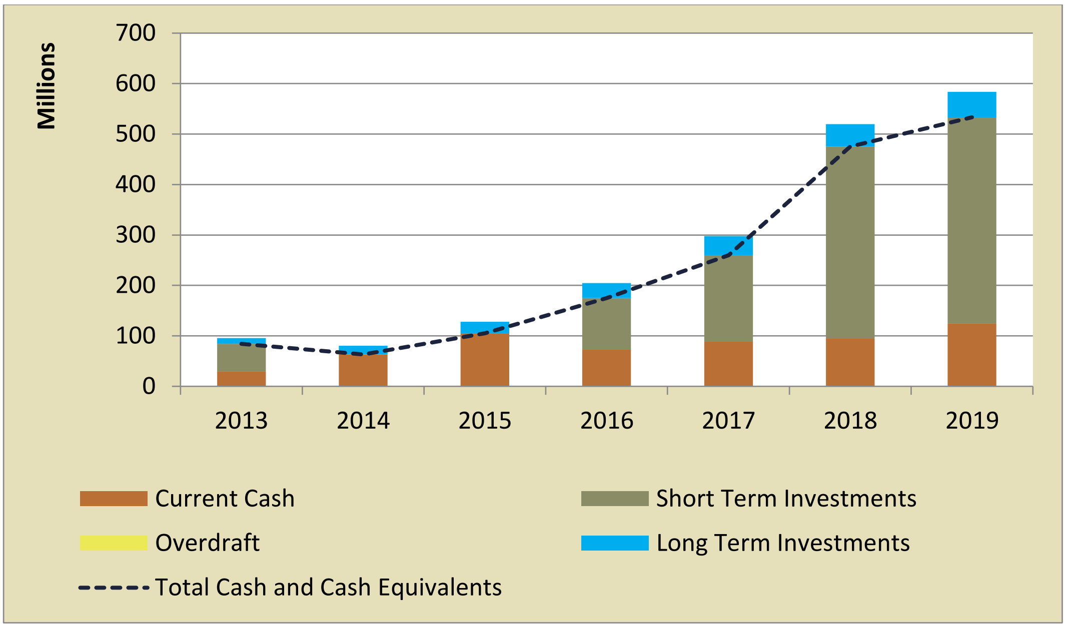
**GRAPH 5.34: TOTAL OPERATING INCOME VS CAPITAL EXPENDITURE**




Cash and investments

The positive cash generated from operations, effective management of working capital, and a balanced funding mix for capital expenditure contributed to an increase in cash and cash equivalents of R58.22 million to bring the balance to R533.2 million in 2019 as depicted in Graph 5.35.

**GRAPH 5.35: CASH AND INVESTMENTS**




Minimum liquidity requirements

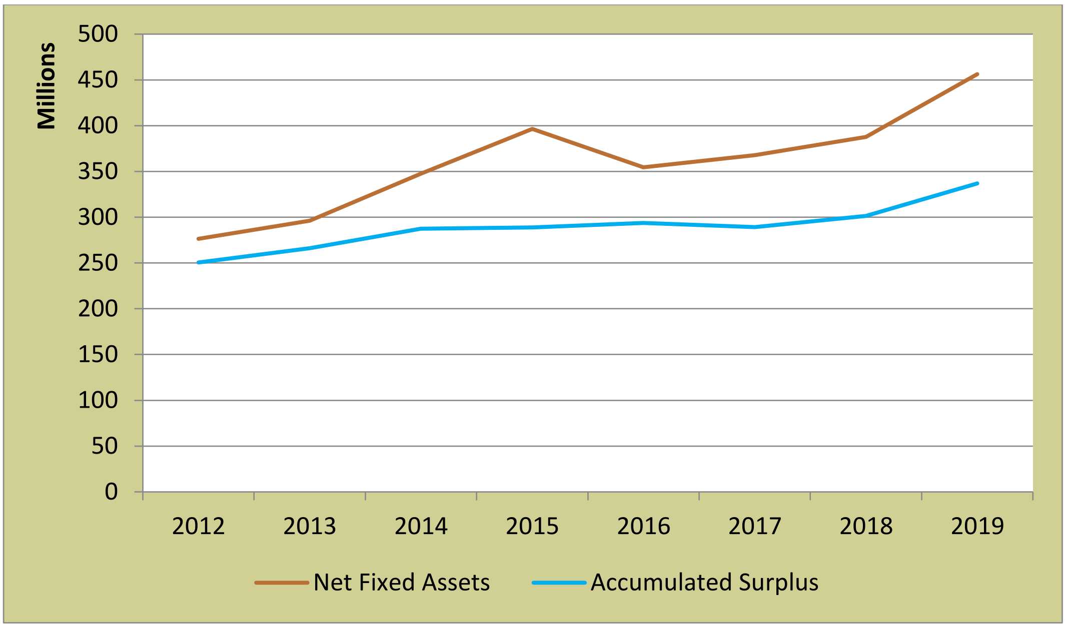
This build-up of cash and cash equivalents resulted in an improvement of the municipality's cash coverage from 2.4 to 2.6 in 2019. The municipality has truly little cash-backed reserves and should use this strong financial position and healthy liquidity to start building a Capital Asset Replacement Reserve (CARR) to provide for future capital spend. This cash balance also enabled the municipality to maintain higher levels of capital expenditure, as was the case with the increased spending in 2019.

### 5.5.4 Cape Agulhas Municipality (CAM)

#### *5.5.4.1 Statement of financial position*

Graph 5.36 shows that CAM's net fixed-asset position continued to improve in 2019 and came to R456.3 million as at the end of the year, increasing by 17.7% from the prior year. This significant improvement is driven by a net surplus for the year of R40.7 million and sharp increases in liquid current assets.

**GRAPH 5.36: FIXED ASSETS VS ACCUMULATED SURPLUS**

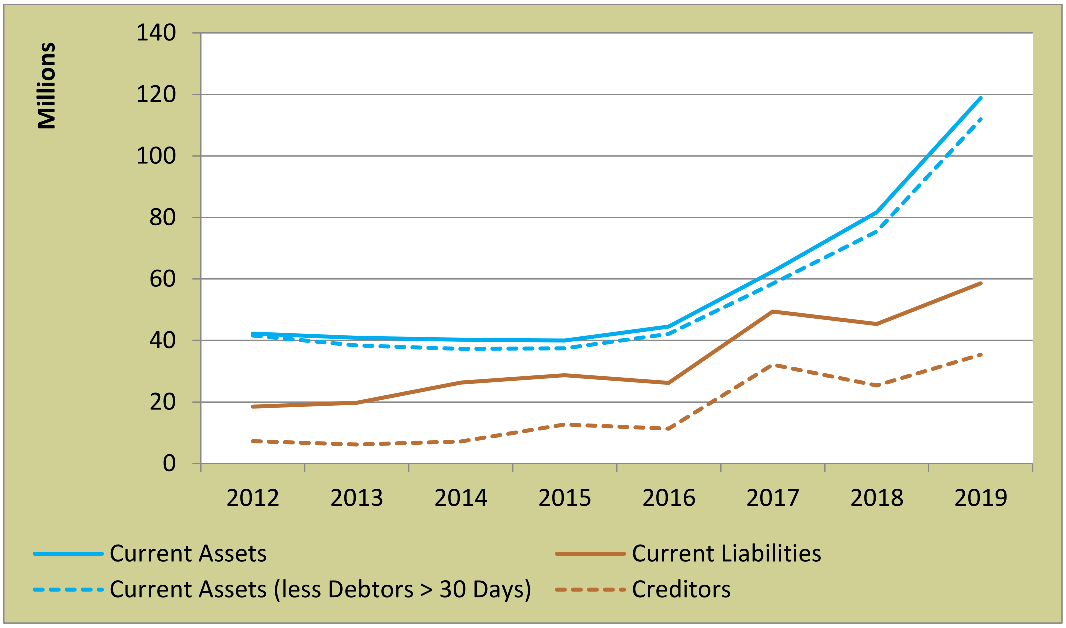



Current assets vs current liabilities

The growth in current assets of R37.1 million was driven mainly by the increases in cash and cash equivalents of R35.9 million. These results indicate successful implementation of the recommendations made in the municipality's long-term financial plan, specifically as far as it relates to the improvement of liquidity and preservation of its cash resources.

Against this positive increase in current assets, the municipality's current liabilities increased with R13.3 million mainly because of a R10 million increase in creditors. This information is depicted in Graph 5.37.

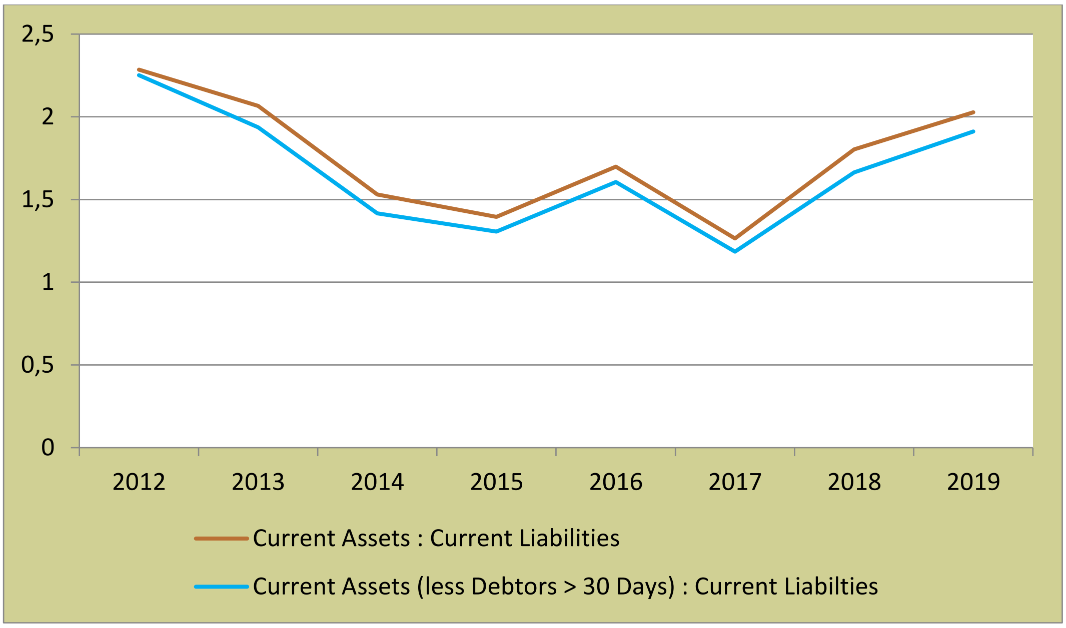
**GRAPH 5.37: CURRENT ASSETS VS CURRENT LIABILITIES**




Liquidity

These movements in working capital resulted in a net improvement of the municipality's working liquidity position, with the liquidity ratio increasing from 1.80:1 in 2018 to 2.03:1 in 2019. A liquidity ratio above the healthy norm of 2:1 is commendable. The strength of this ratio is further supported by the relatively high ratio of 1.91:1 when debtors older than 30 days are excluded from the current assets.

**GRAPH 5.38: LIQUIDITY RATIO**

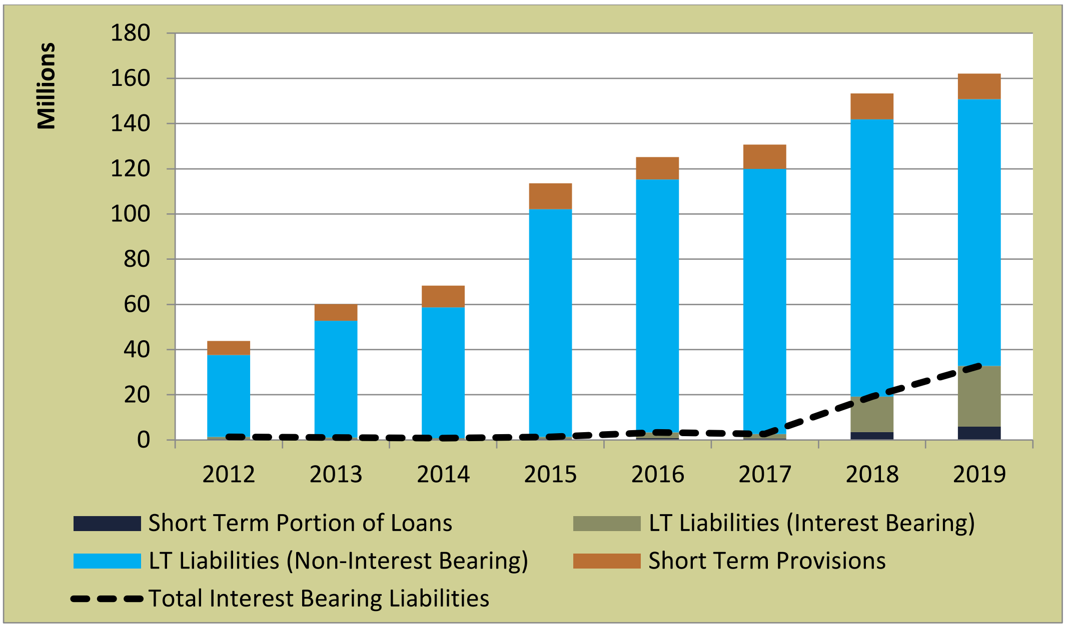



Long-term liabilities

Graph 5.39 illustrates the long-term interest-bearing versus non-interest-bearing liabilities. As can be seen, the non-interest-bearing liabilities remained the largest pool of liabilities throughout the period of the study and decreased by R4.6 million to R118 million in 2019. From 2017, there is a marked increase in the interest-bearing liabilities, as the municipality started to add external loans to its capital-funding mix.

The municipality accessed external long-term borrowing to the value of R17 million during 2019. This loan increased the total balance of interest-bearing liabilities to R32.8 million as at 2019, compared to R19.3 million in the prior year. Even at this level, the gearing ratio came to a low 10.2% compared to the NT norm of 40% maximum. The debt-service cover ratio was at a healthy level of 6.28% and the debt service as a percentage of total expenditure was on 1.8%, against the NT recommended norm of 8%. These indicators reflect the affordability of the municipality's current debt profile and the scope and opportunity that exist to access funding from external borrowing in future.

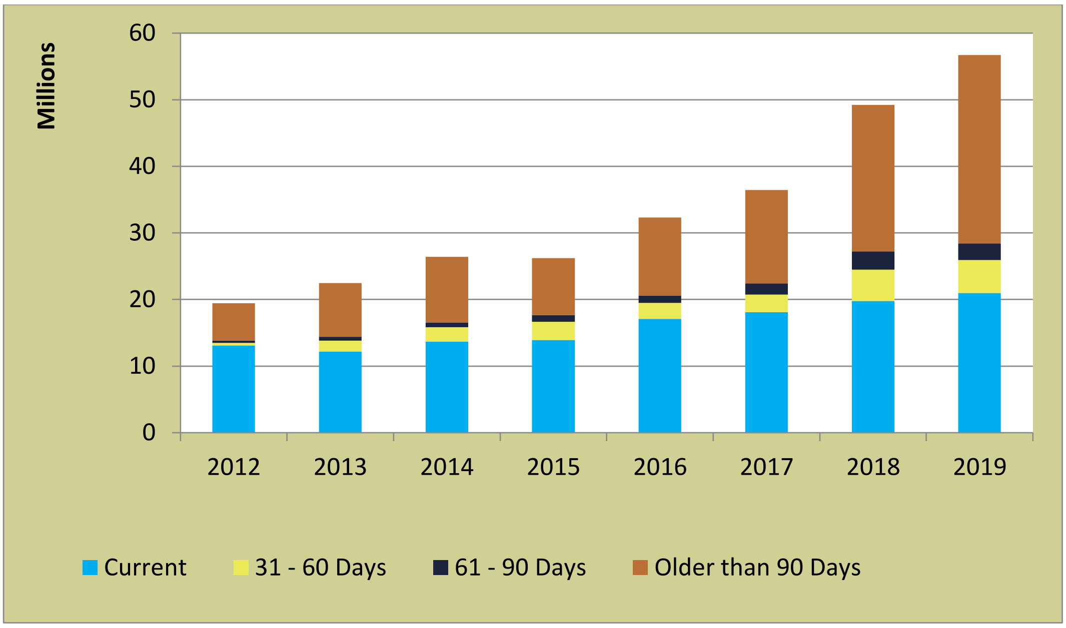
**GRAPH 5.39: LIABILITIES: INTEREST-BEARING VS NON-INTEREST-BEARING**



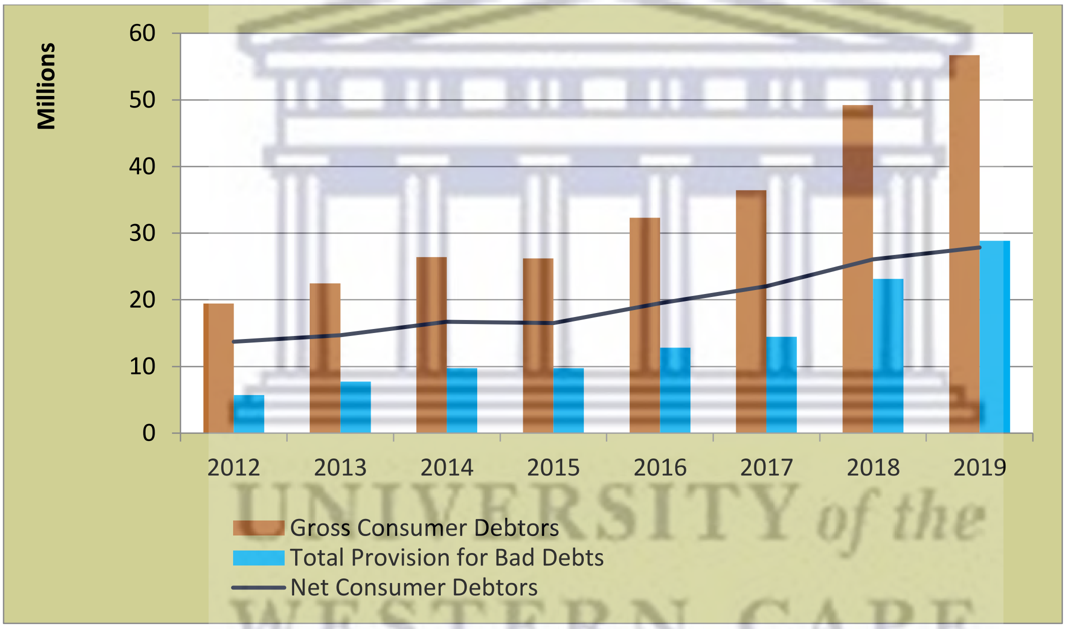

Gross consumer debtors

Despite the increase in the debtor's collection rate from 93.5% in 2018 to 94.6% in 2019, the debtors' ageing profile, as shown in Graph 5.40, reflects proportionally higher increases in the debtors older than 90 days, which represents R28.3 million or 49.9% of outstanding gross debtors. As these collection rates are below the NT norm of 95%, they need to be carefully managed and urgently addressed, as a higher collection rate will result in increased income for the municipality. A higher collection rate is considered achievable, as 96% was achieved on average over the last seven years. The municipality provided for R28.9 million in doubtful debt, against the gross consumer-debtor balance. This is just sufficient to cover all debtors older than 90 days, as illustrated in Graph 5.41.

**GRAPH 5.40: GROSS CONSUMER-DEBTORS' AGE ANALYSIS**



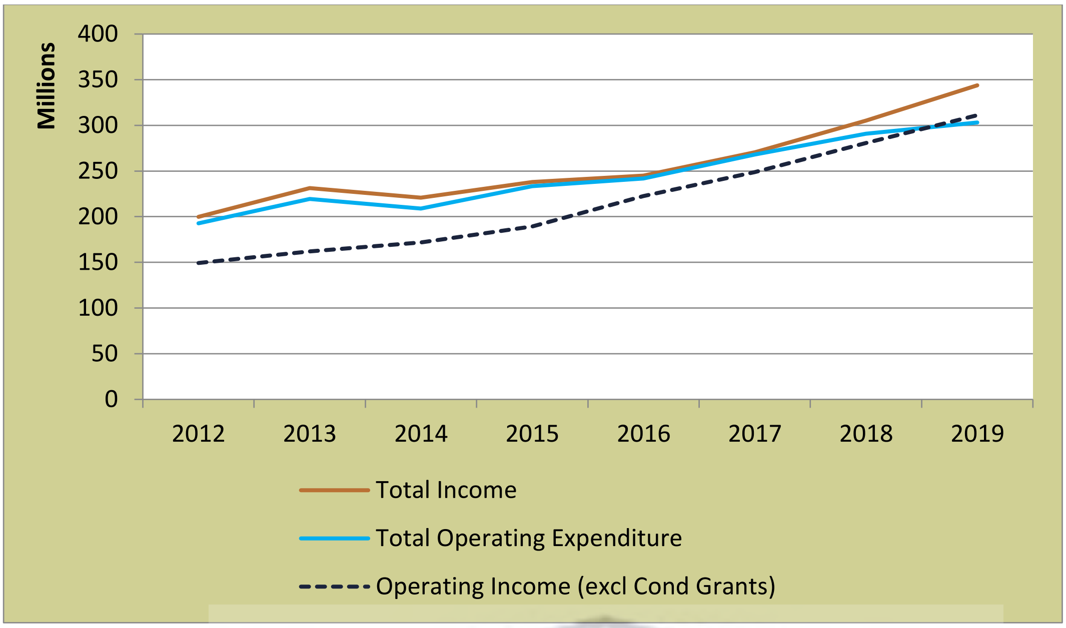

**GRAPH 5.41: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS**




*5.5.4.2 Statement of financial performance*

CAM's profitability continued to improve during 2019. The total income increased by R38.5 million (12.6%), while operating expenditure increased by only R12.4 million (4.3%). These movements resulted in a total income of R343.8 million and operating expenditure of R303.1 million (see Graph 5.42), resulting in an accounting surplus of R40.7 million in 2019.

**GRAPH 5.42: TOTAL INCOME VS TOTAL EXPENDITURE**

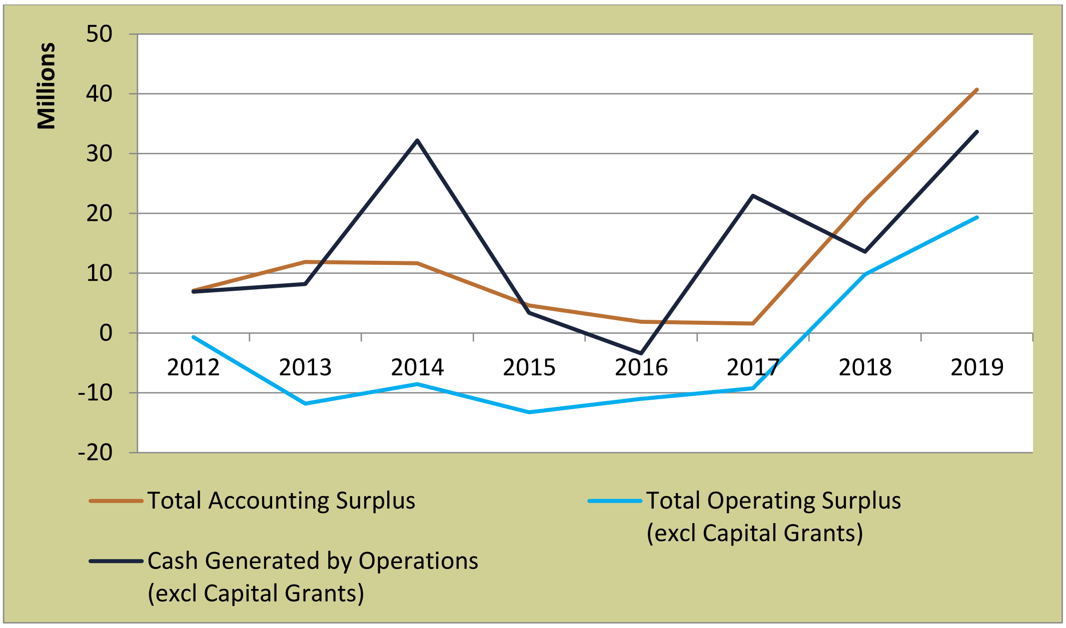



This is a significant improvement from the R22.3 million achieved in 2018. Capital grants represented R21.2 million of the total income, therefore, upon exclusion of the capital grants, the municipality still realized a surplus of R19.4 million, as shown in Graph 5.43. This level of operating profitability supported the cash generated by operations, which came to R33.7 million for 2019.

Total grants of R60.3 million represent only 18% of the municipality's total income, indicating the municipality's low level of reliance on grants from National and Provincial Government and the ability of the municipality to generate revenue from own resources.

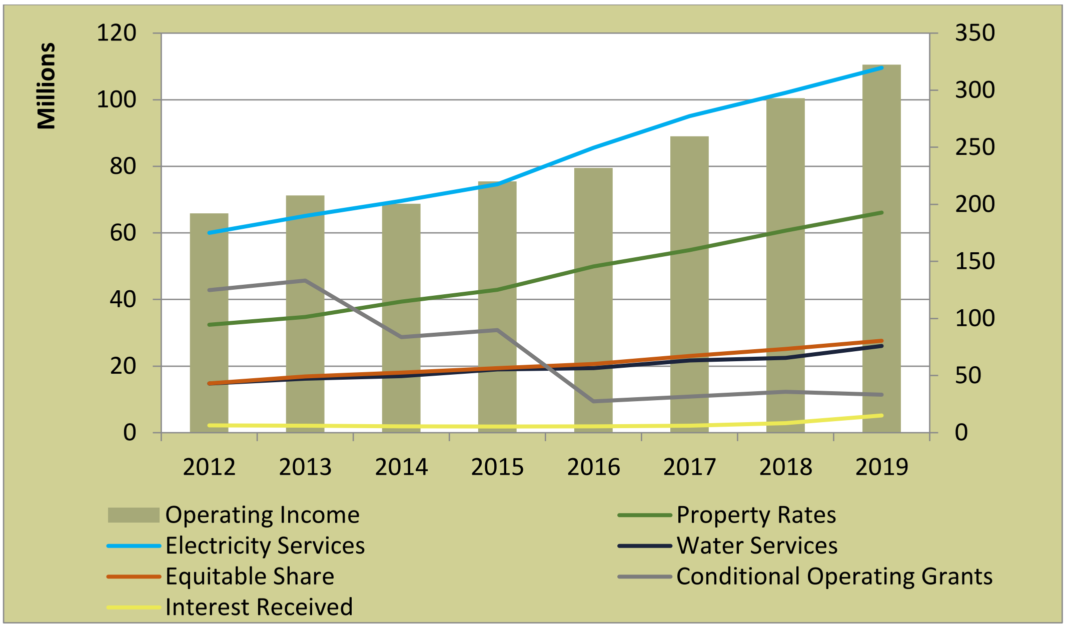


**GRAPH 5.43: ANALYSIS OF SURPLUS DEFICIT**




Billed income increased by R22.4 million (or 10%) from 2018 to 2019. Graph 5.44 indicates that electricity services and property rates remain the two main income sources of the municipality, generating combined revenue of R175.7 million or 54% of the total income of the municipality. This is despite the annual increases in electricity- and property-rates income remained above the CPI rate of 7% and 9%, respectively. Water services and the equitable share grant remained stable over the period of the study, contributing 8%, respectively, to the total operating income.

**GRAPH 5.44: CONTRIBUTION PER INCOME SOURCE**

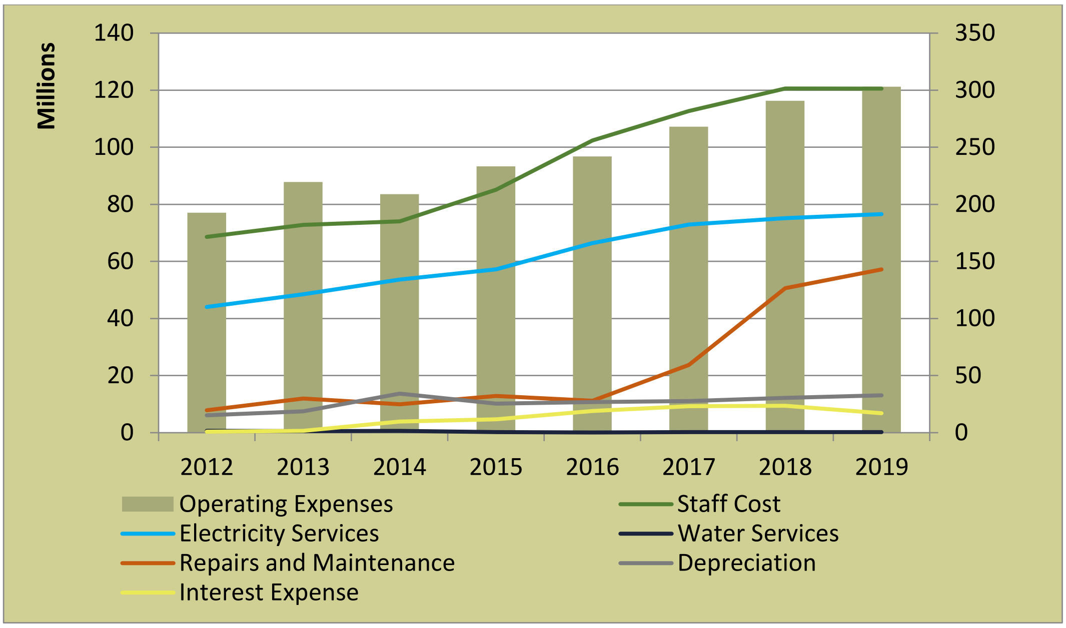



Operating expenditure

The increase in operating expenditure was driven mainly by an increase in the repairs and maintenance expense of R6.6 million (or 13%). This expense to the carrying value of PPE remains high at 12.7% in 2019 and has increased significantly from R11.2 million in 2016 to R57.2 million in 2019. This is an indication that the municipality is serious about repairing and maintaining infrastructure to ensure continued delivery of basic services.

Graph 5.45 also indicates that expenses relating to staff costs and bulk purchases of electricity, which are the two highest contributors to the operating expenditure, were well contained and remained relatively flat over the last period of the study. However, staff costs' contribution to the total operating expenditure was at 35.5%, which is in the higher end of the NT norm of between 25% and 40%, and efforts should be made to decrease this cost. The municipality can continue to improve its overall financial performance by carefully managing its operating expenses.

**GRAPH 5.45: CONTRIBUTION PER EXPENDITURE ITEM**

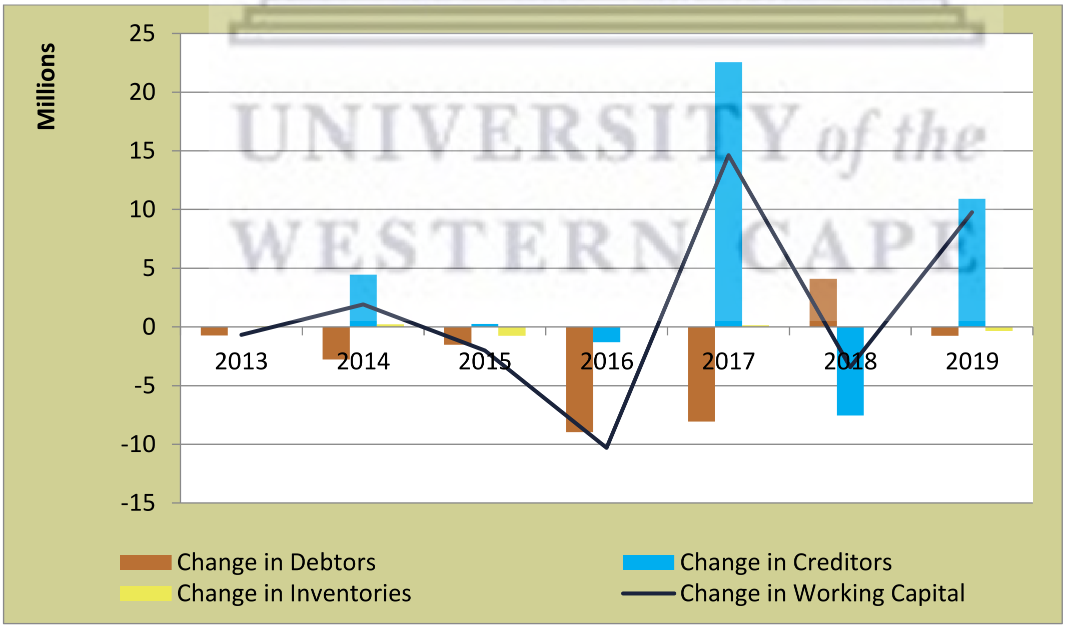



*5.5.4.3 Cash flow statement*

Working capital

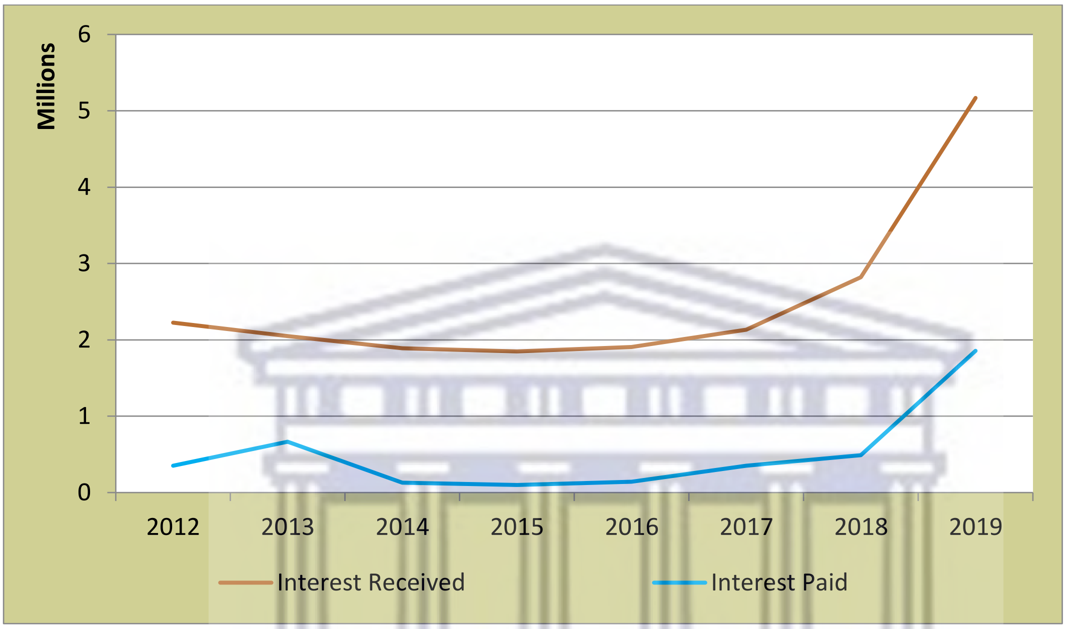
Graph 5.46 indicates that the municipality endured both positive and negative movements of working capital over the period of the study with a positive spike in 2017 as well as in 2019. The positive movement in 2019 reflects mainly due to the changes in the debtors.

**GRAPH 5.46: WORKING-CAPITAL CHANGES**



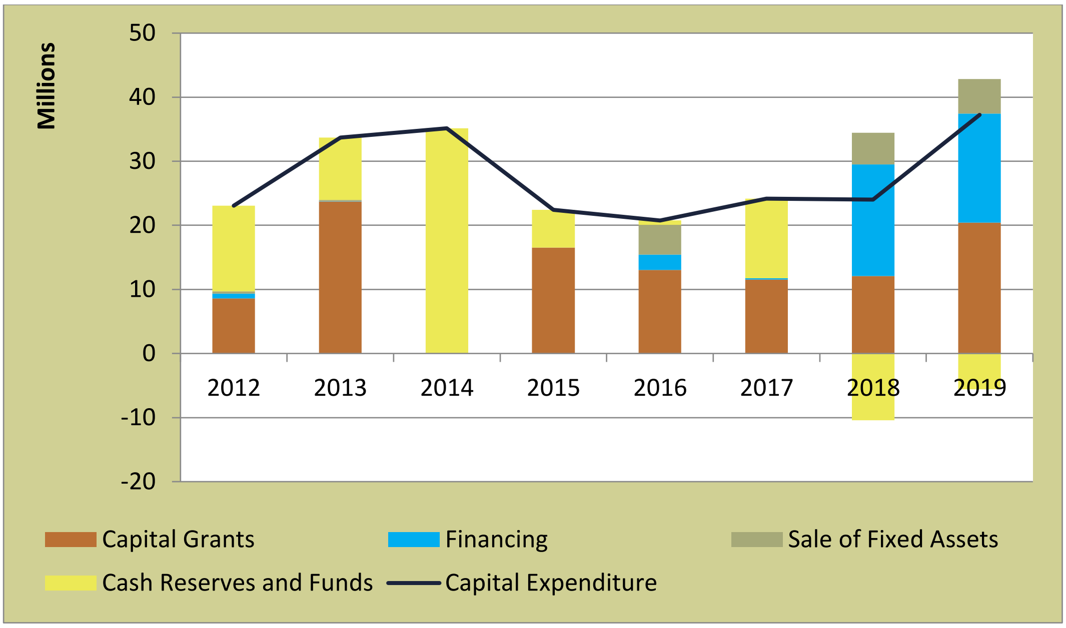
Graph 5.47 indicates that, throughout the period of this study, the municipality received more interest than what it paid in interest. This is an indication that there were no long-term liabilities, like loans, which generally accrue interest that needs to be paid, which was indeed the case at CAM. The municipality only added loans to its capital-funding mix from 2018 and the trend was maintained in 2019, as the municipality was able to perform in quite an exemplary manner, significantly improving its cash and cash equivalents.

**GRAPH 5.47: INTEREST RECEIVED VS INTEREST PAID**




Over the past eight years, the municipality has invested R220.52 million into capital infrastructure. Graph 5.48 shows a limited mix of funding sources for capital expenditure, mainly from capital grants and cash reserves and funds during the first four years of the study and from 2016 a lesser reliance on own funds to using funds generated from the sale of fixed assets and long-term financing from borrowing.

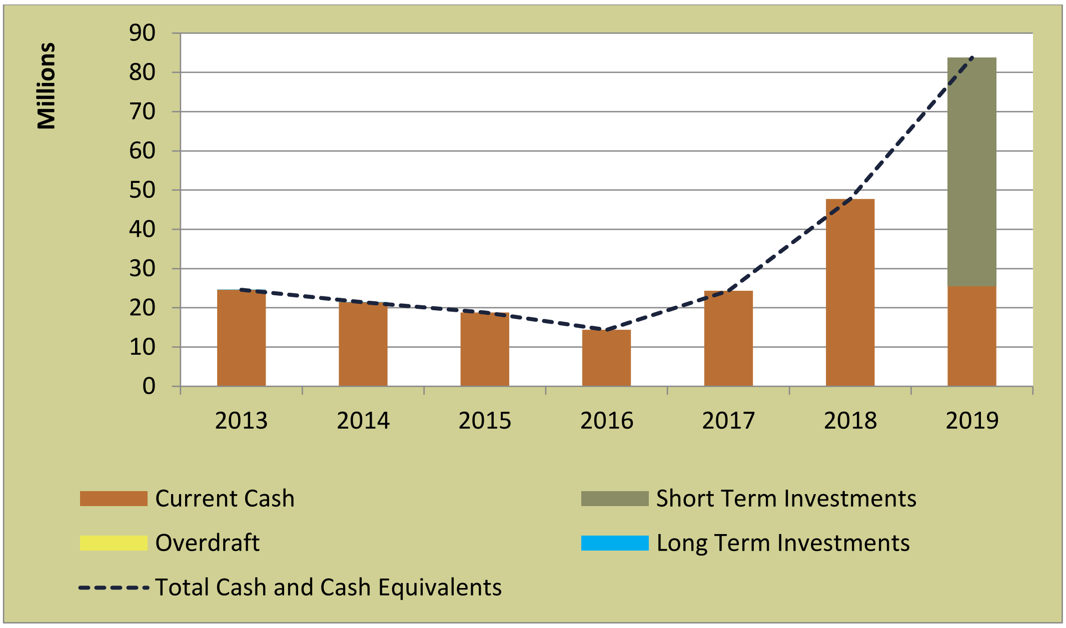
**GRAPH 5.48: ANNUAL-CAPITAL FUNDING MIX**




The municipality realized cash generated from investments of R33.7 million for the 2019 financial year. As Graph 5.49 indicates and supported by the increase in short-term investments, the capital expenditure for 2019 was funded by capital grants and external borrowing, allowing for the entire cash generated by operations during this year to be utilised for the servicing of debt and the preservation of the liquidity. In addition, the sale of fixed assets generated a further R5.4 million in cash for the municipality, resulting in an increase of R35.9 million in cash and cash equivalents to a balance of R83.7 million at the 2019 financial year end.



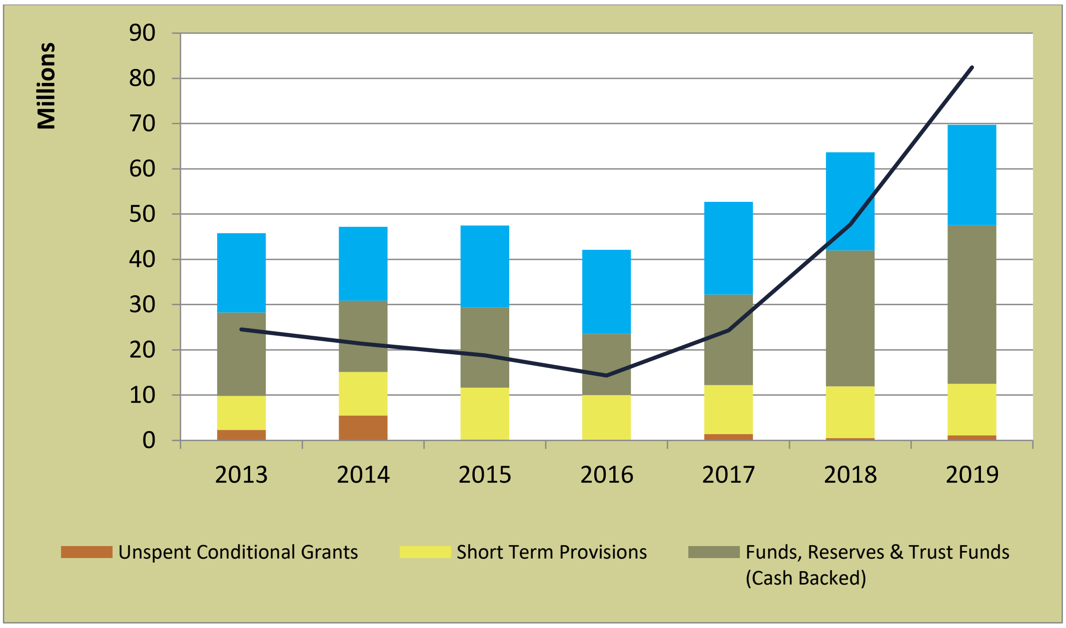
**GRAPH 5.49: CASH AND INVESTMENTS**




Graph 5.50 indicates that the municipality was unable to provide for the minimum liquidity requirements for seven of the eight years of the study. As a result of the increase in cash and cash equivalents in 2019, the municipality was able to achieve the minimum liquidity levels required, including one month's provision for working capital. The cash-coverage ratio improved from 0.75 in 2018 to 1.18 in 2019, within the NT norm of between one to three months' working capital.

Minimum liquidity requirements

**GRAPH 5.50: MINIMUM LIQUIDITY REQUIREMENTS**

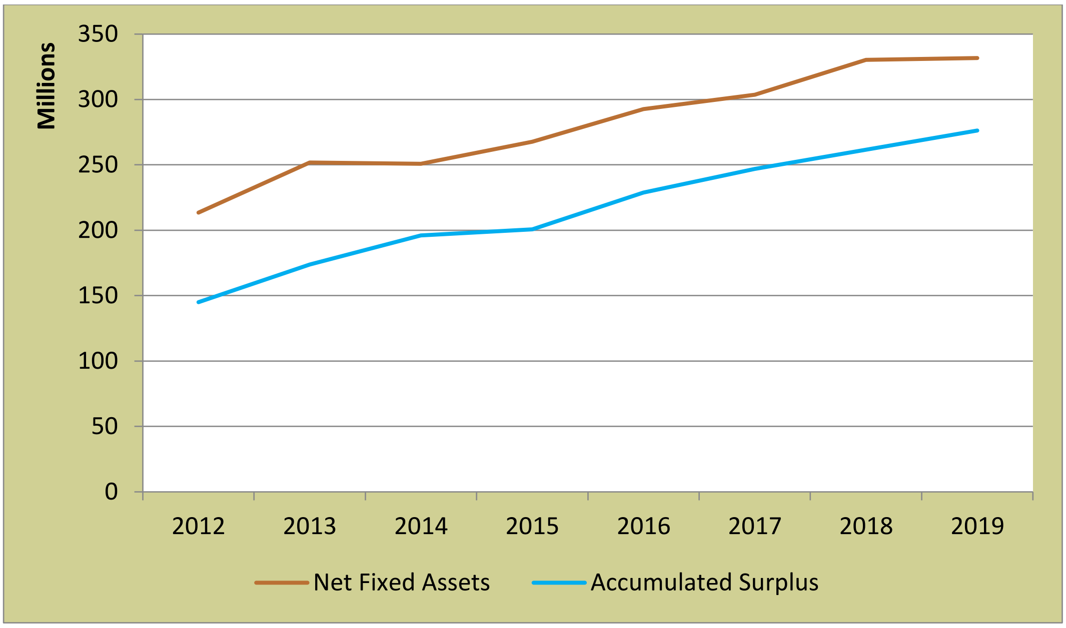



### 5.5.5 Swellendam Municipality

#### *5.5.5.1 Statement of financial position*

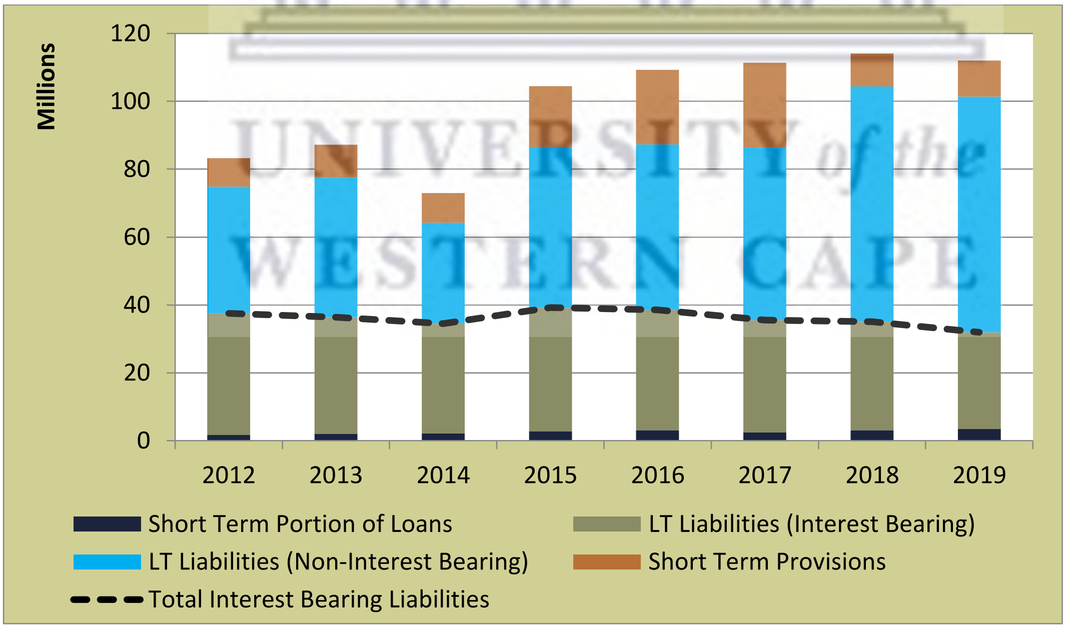
Graph 5.51 indicates that the municipality's accumulated surplus and net fixed-assets trends have been relatively consistent with each other over the period of the study. Net fixed assets increased with R79.84 million from R213.512 million in 2012 to R331.704 million in 2019 (or 46.9%) while the accumulated surplus increased with 64.7% over the same period.

**GRAPH 5.51: NET FIXED ASSETS VS ACCUMULATED SURPLUS**

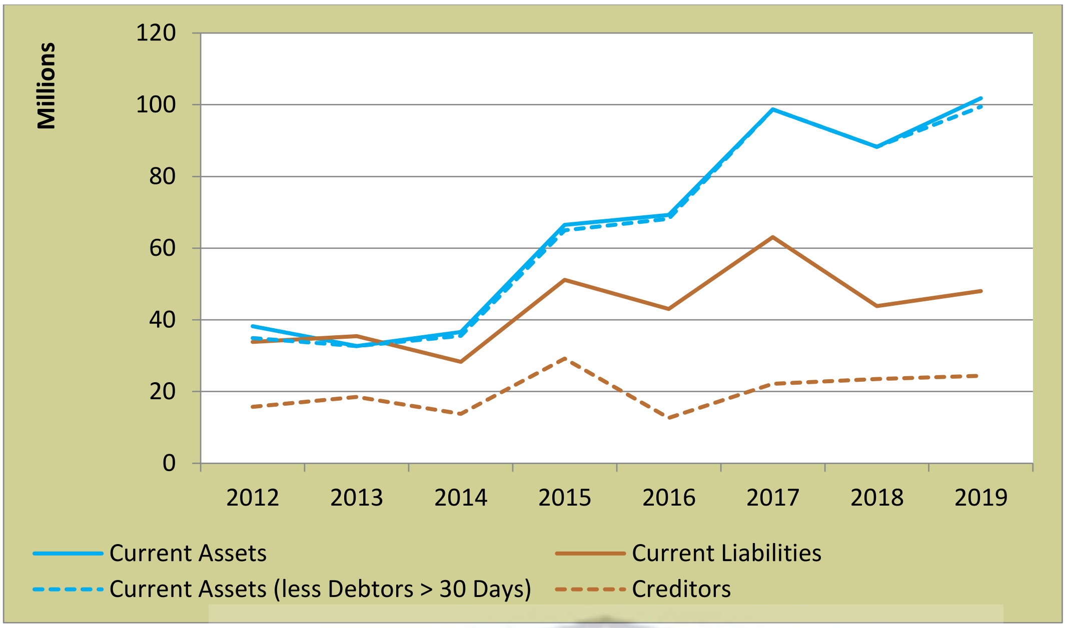



Graph 5.52 shows that the interest-bearing liabilities have been on a decline for the first three years of the study period, increasing slightly in 2015 and gradually decreasing again up to 2019. In rand value, it decreased from R37.542 million in 2012 to R28.522 million in 2019. This is also indicated in the gearing ratio declining from 32% in 2012 to 13% in 2019, the latter being well within the NT norm of 45% maximum. The repayment capacity ratio also declined from 7.44% in 2018 to 2.27% in 2019, also well below the NT norm of between 6% and 8%.

**GRAPH 5.52: LIABILITIES: INTEREST-BEARING VS NON-INTEREST-BEARING**



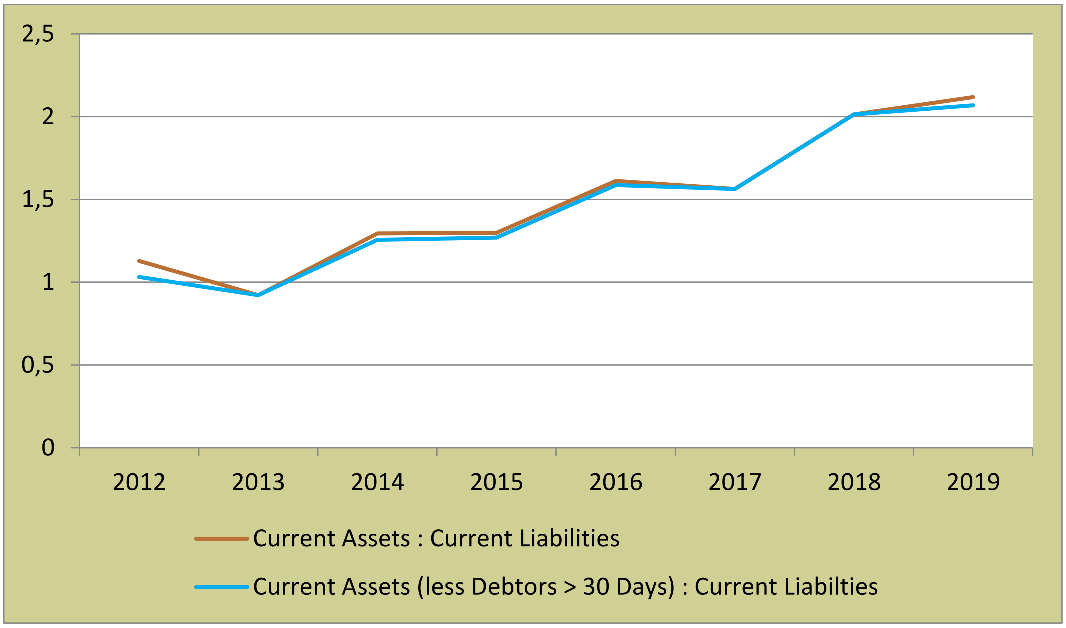
#### GRAPH 5.53: CURRENT ASSETS VS CURRENT LIABILITIES



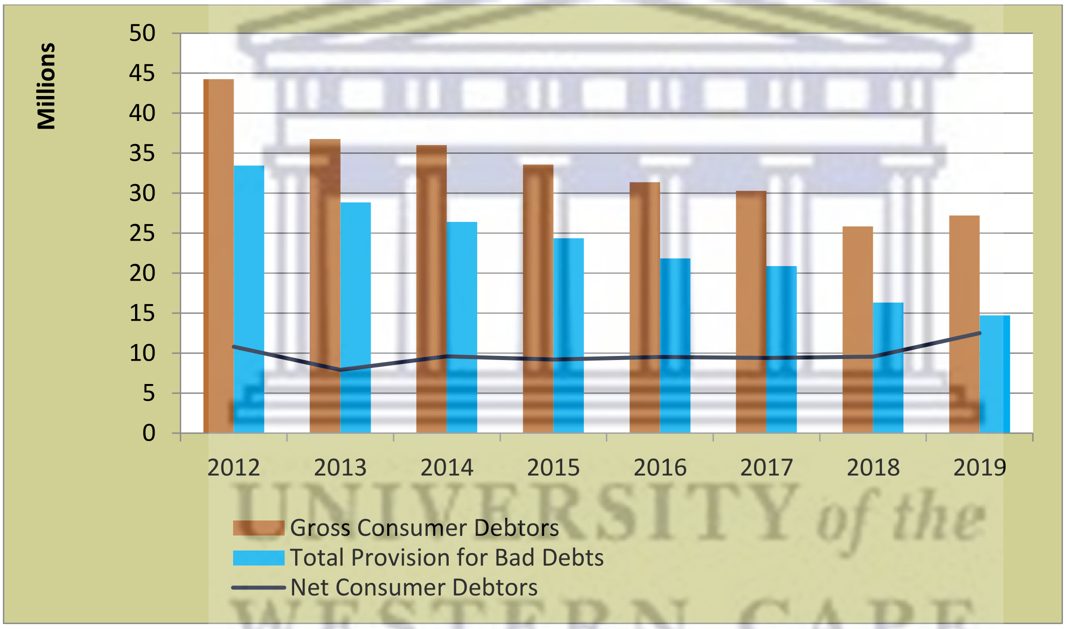

In reviewing the municipality's current assets to the current liabilities, the municipality has done well to improve its liquidity from 2013 when the current liabilities exceeded the current assets. The positive trend of widening the gap between current assets and current liabilities can be observed from 2014 to 2019, as shown in Graph 5.53.

The trend is further noticed in the considerable improvement of the liquidity ratios. Graph 5.54 indicates that the liquidity ratio improved from a negative 0.92 in 2014 to financially healthy, 2.12 in 2019.

#### GRAPH 5.54: LIQUIDITY RATIOS

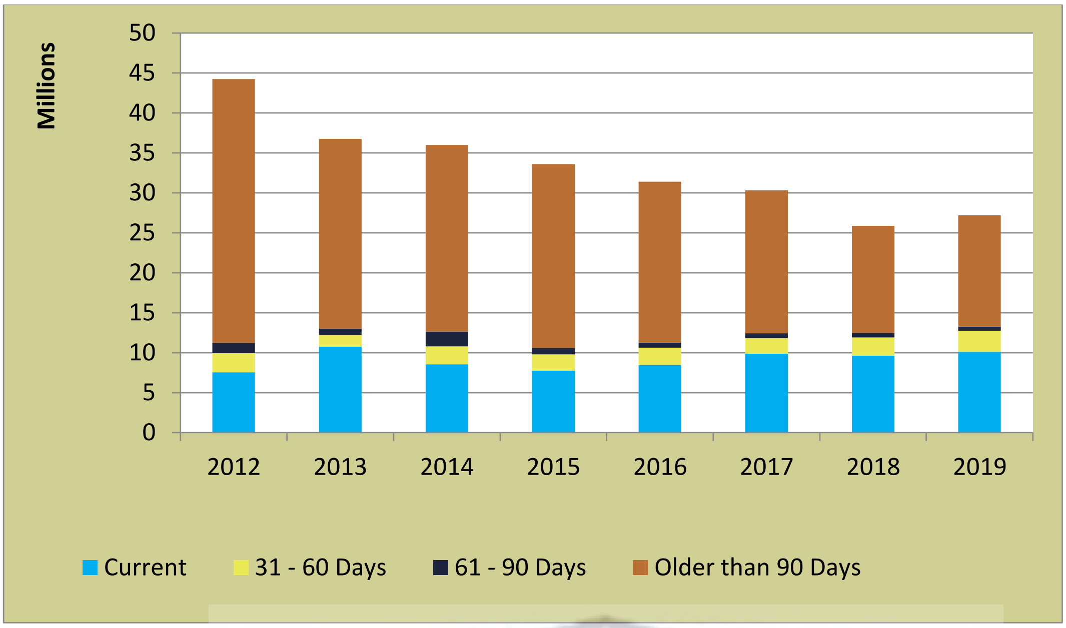



**GRAPH 5.55: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS**




Swellendam Municipality has excelled in reducing its gross consumer debtor's book throughout the period of the study. The debtor's book of the municipality decreased from R44.26 million in 2012 to R27.21 million in 2019, a reduction of 38.5%, as shown in Graph 5.55. The provision for bad debts, while considerably less than the gross consumer debtors, sufficiently covered the gross consumer debtors older than 90 days throughout the period of study.

**Graph 5.56: Consumer-debtor analysis**



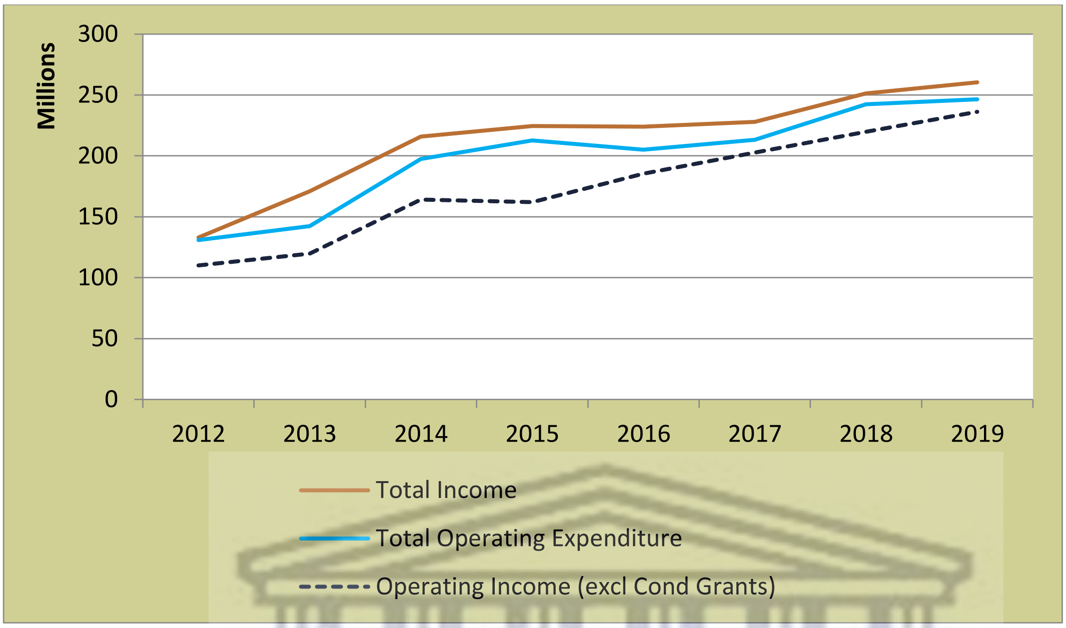

The information in Graph 5.56 reinforces that shown in Graph 5.55, as far as it relates to the reduction in debt older than 90 days, but it also shows that throughout the study period, the consumer debt older than 90 days remained higher than the current debt, and together with the debt between 31–90 days make up for more than 50% of the gross debtors in 2019. This despite the good debt-collection rate, which over the period of study, has on average been 99.4%, indicating that the municipality does achieve high levels of debt collection but most probably needs to ensure that the provision for and write off of doubtful debt be aligned to the actual doubtful-debt figures.

*5.5.5.2 Statement of financial performance*

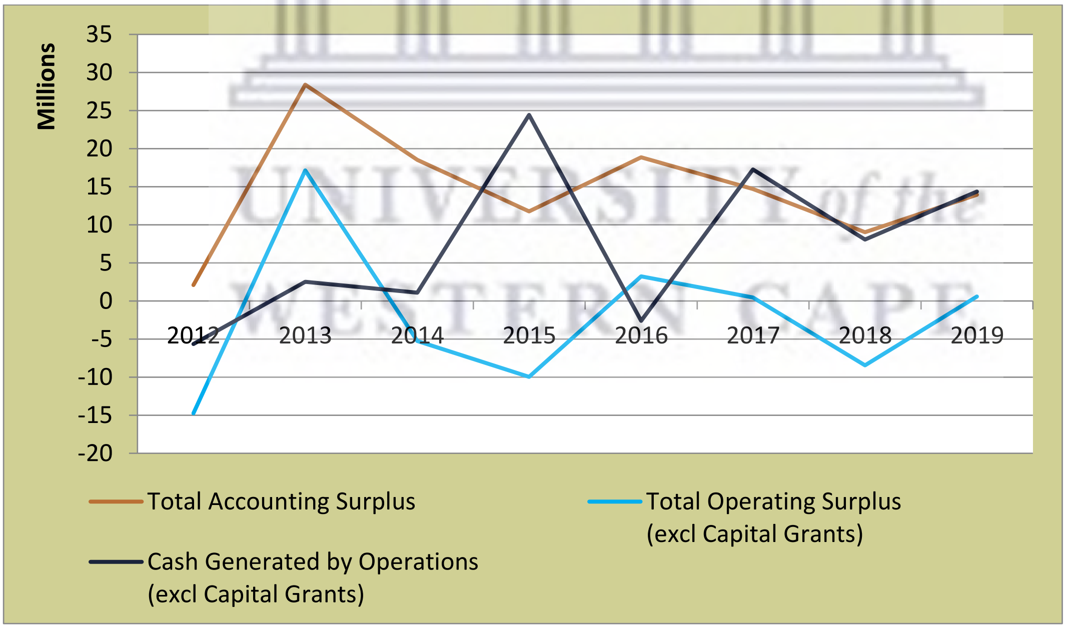
Revenue

Total income grew by 182% over the eight years of the study, while total expenditure grew by 188%. Graph 5.57 indicates that the gap between income and expenditure has been very narrow and remained as such over the study period. It should also be noted that total income includes both capital and operational conditional grant funding from National and Provincial Government, which may not be used for standard operating expenses, or for the repayment of external loans. Therefore, should the conditional grants be subtracted from the total income, the actual operating income is less than the total operating expenditure – it should ideally be higher.

**GRAPH 5.57: TOTAL INCOME VS TOTAL EXPENDITURE**

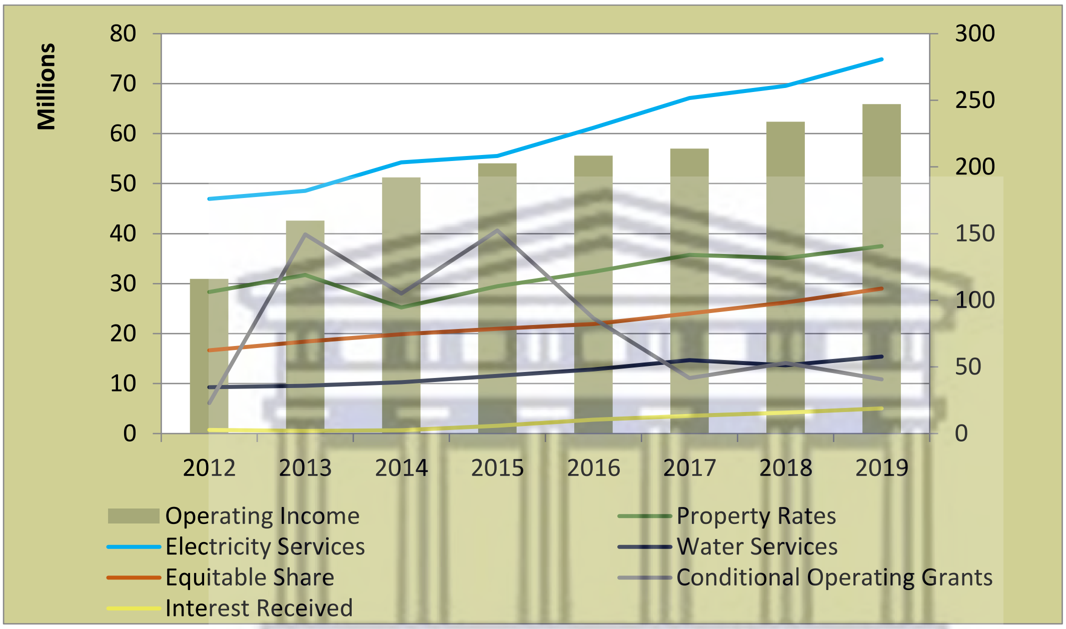



**GRAPH 5.58: ANALYSIS OF SURPLUS**



Swellendam Municipality had a total operating deficit of R17.14 million in 2012, realized a surplus in 2013, only to digress to a deficit again in the following two financial years. This situation improved again in 2016 and 2017 with a surplus of R3.22 million and R0.46 million in 2017. In 2018 it once again dropped to a deficit of R8.45 million and recovered to a small surplus of R0.593 million in 2019. Graph 5.58 shows that the cash generated by operations also fluctuated a lot over the period of study but remained mainly in the positive and improved from R8.07 million in 2018 to R14.39 million in 2019.

**GRAPH 5.59: CONTRIBUTION PER INCOME SOURCE**



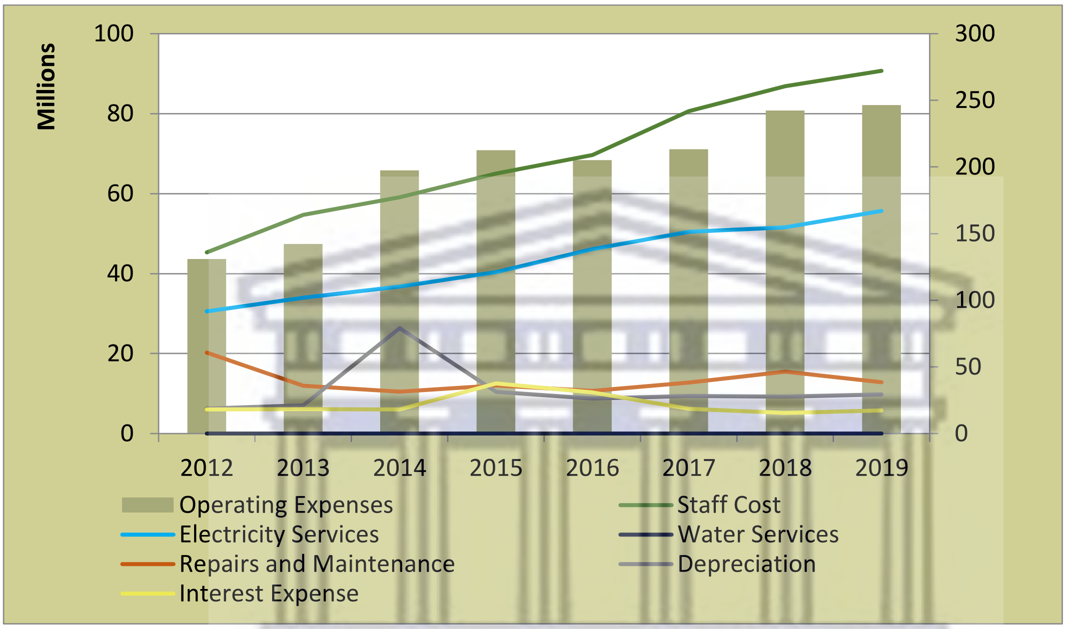

The municipality generates most of its own income from electricity services, which remained the main contributor throughout the study period, as shown in Graph 5.59. In 2019 electricity services contributed 30%, property rates 15%, equitable share 12%, and water 6%.



### Expenditure

Graph 5.60 indicates that the main expenditure items remained staff costs and electricity services, followed by repairs and maintenance and water services. Staff costs as a percentage of total operating expenditure have been within the 25% to 40% NT norm throughout the period of study, with 33% and 35% for the last two financial years. Staff costs have been the largest contributor to total operating expenditure over the entire study period. Annual increases in this expenditure item have generally been above inflation. The second-largest expenditure was electricity services that constituted between 17% and 21% of total operating expenditure. The electrical services expenditure remained fairly constant over the last four financial years ending at 21% in 2019 with a total cost of R55.67 million. Repairs and maintenance expenditure started off at 13% in 2012 dropped by more than half to 6% in 2013 and remained between the latter and 5% for the rest of the study period until 2019. This percentage is just outside the NT norm of 6% to 8% of the total carrying value of PPE.

**GRAPH 5.60: CONTRIBUTION PER EXPENDITURE SOURCE**

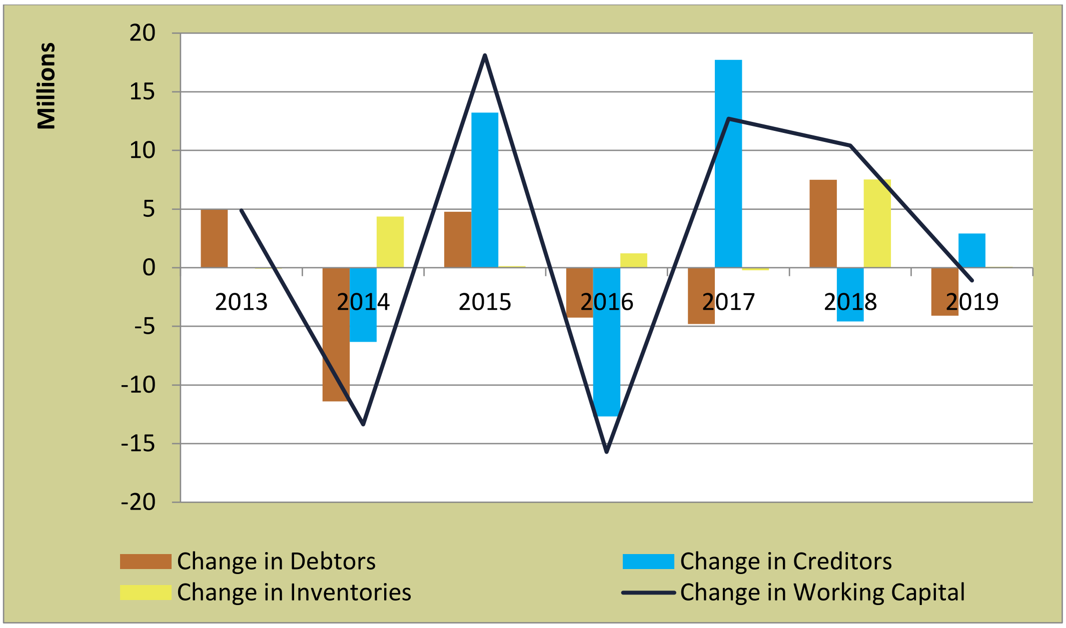



*5.5.5.3 Cash flow*

Working-capital changes

The working capital of the municipality fluctuated continuously over the period of study, starting off positively at the beginning of the study, then there was a cash outflow of R13.36 million in 2014 and recovered to a positive R18.11 million in 2015. In 2016 there was a huge decrease in working capital again, recovering to R12.70 million and remaining positive for 2018 as well. At the end of the study, it dropped to an outflow of R1.08 million.

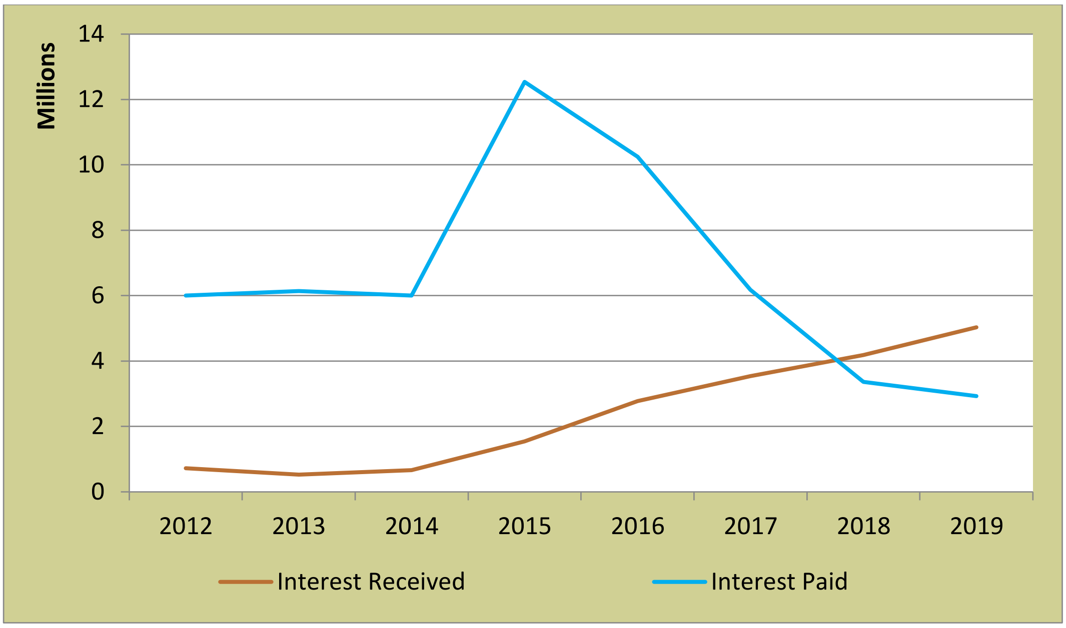
**GRAPH 5.61: WORKING-CAPITAL CHANGES**




It is vital that movements in working capital be effectively managed, as such swings as indicated in Graph 5.61, negatively impact on the operational performance. Swellendam's debtors and creditors cycle policies should be closely aligned to ensure that there is balance between cash collected from debtors and cash paid to suppliers.

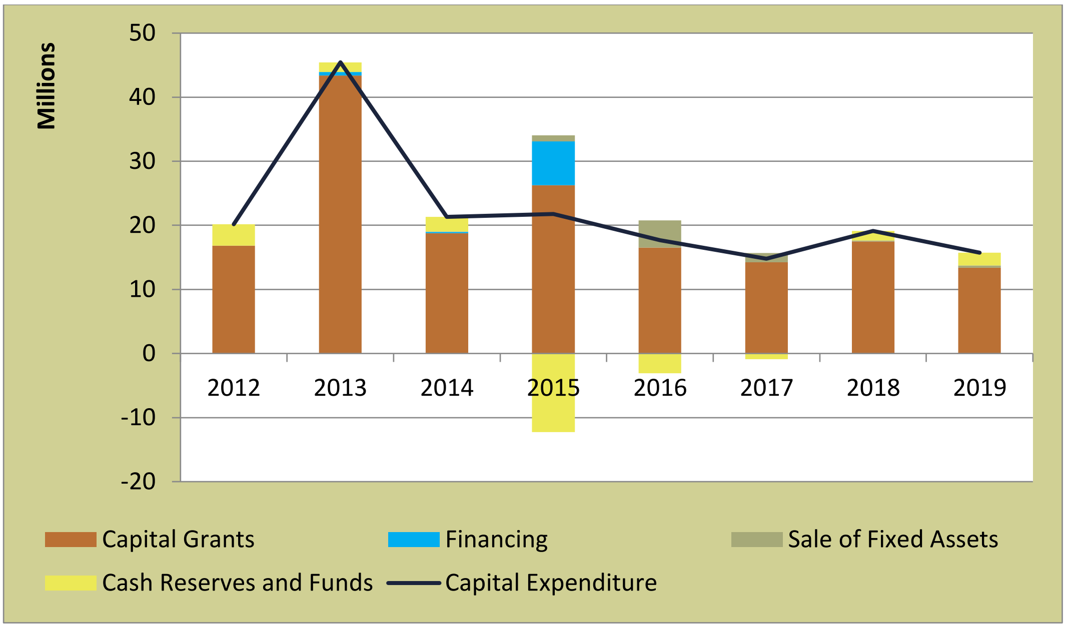
Graph 5.62 indicates the interest received in relation to interest paid by the municipality. At the start of the study and for the two years following 2012, the gap between interest paid and interest received remained stable. However, in 2015 there was a huge spike in interest paid; this could be due to new loans being taken up by the municipality as it forms part of the capital-funding mix for that year, which will be discussed next. Since this time, the municipality did well to decrease the interest paid and in 2018 there was a break-even between interest paid and interest received leading to the municipality actually receiving more interest from investments than what it paid on loans.

**GRAPH 5.62: INTEREST PAID VS INTEREST RECEIVED**



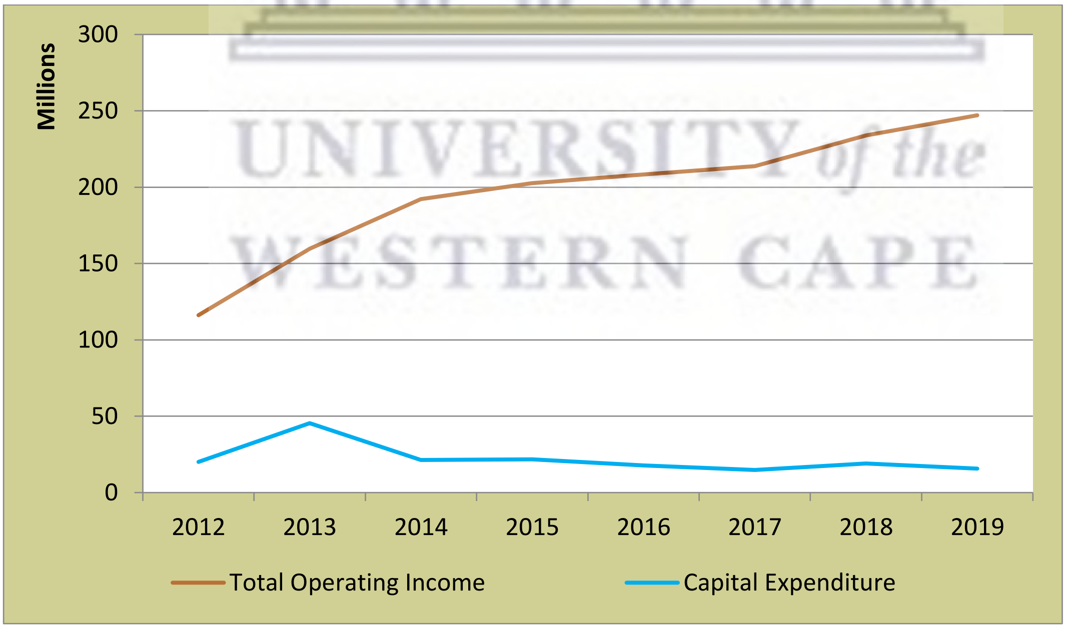

The municipality's capital-funding mix, for all other years, except 2015 and 2016, comprised mainly of capital grants and a small percentage funded from cash reserves and funds. In 2015, the capital mix included external borrowing and in 2016 a small portion was funded from the sale of fixed assets. As shown in Graph 5.63, the municipality is heavily dependent on capital grants from National and Provincial Government. The municipality should explore additional funding opportunities for capital expenditure, as conditional grant funding is not sustainable and will not address the service-delivery needs of all the residents within the municipality.

**GRAPH 5.63: CAPITAL FUNDING MIX**

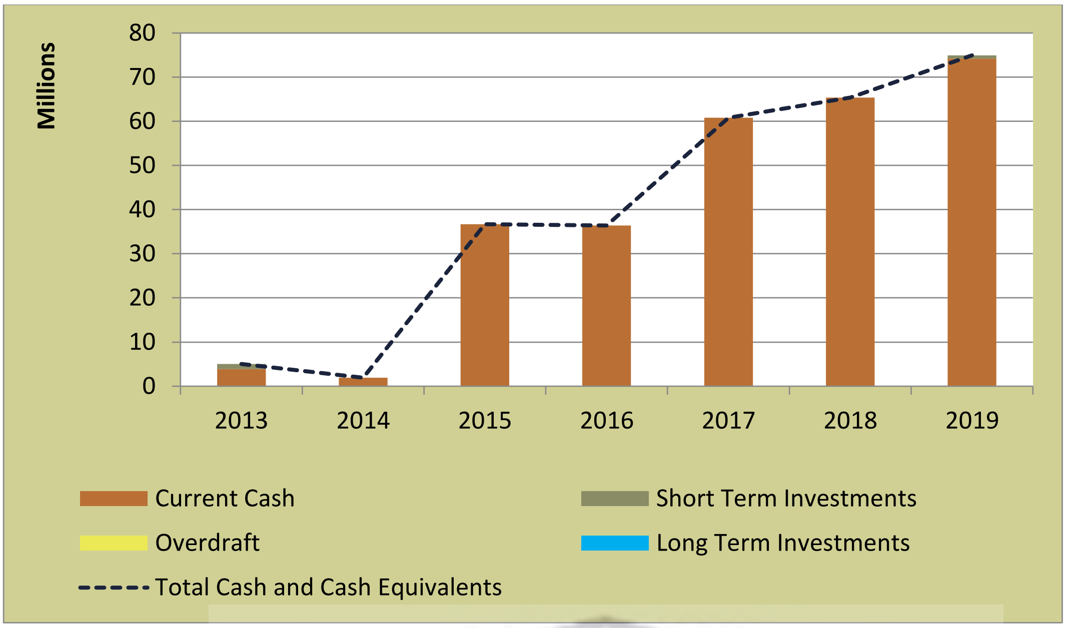



The above reliance on grant funding for capital expenditure also reflects negatively regarding the capital expenditure as a percentage of operating income. Graph 5.64 indicates that Swellendam's capital expenditure as a percentage of total income only remained in the NT norm of between 10% and 20% for the first four years of the study. Since 2016 the percentage dropped from 8% to 6% in 2019. A continued decrease in this ratio reflects lower spending by the municipality on infrastructure and therefore holds a real risk to service delivery in future.

**GRAPH 5.64: TOTAL OPERATING INCOME VS CAPITAL EXPENDITURE**



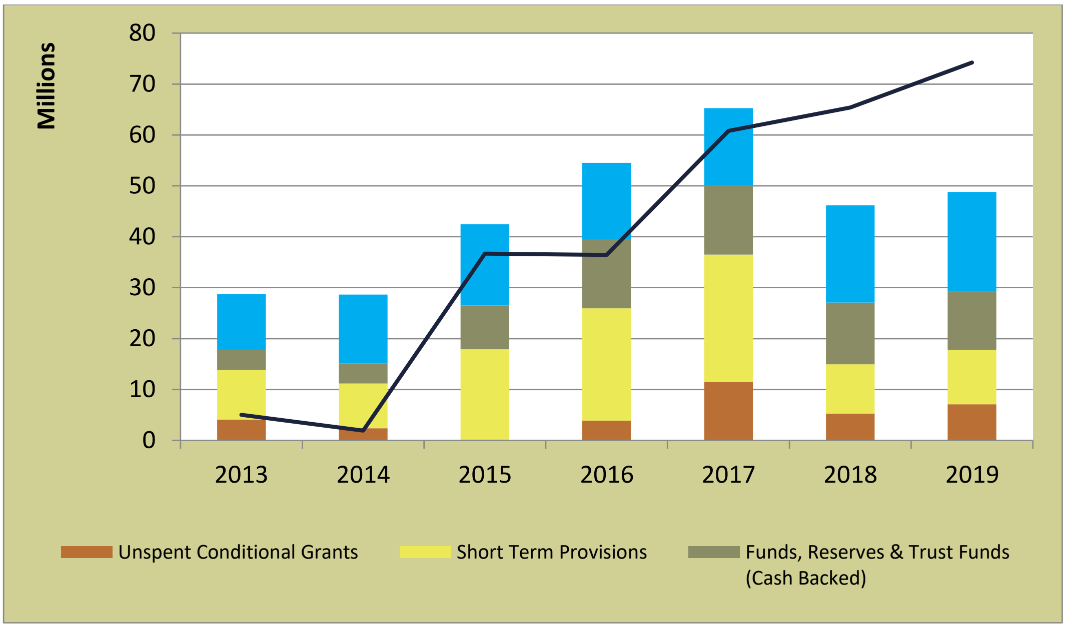
GRAPH 5.65: CASH AND INVESTMENTS




The municipality did not have any short- or long-term investments over the period of the study and did not make use of the overdraft facility. However, the current cash grew exponentially since 2014 when the total cash and cash equivalents were at a low of R1.92 million to R74.94 million in 2019.

Minimum liquidity requirements

GRAPH 5.66: MINIMUM LIQUIDITY REQUIREMENTS




Graph 5.66 reveals that the municipality was unable to meet its minimum liquidity requirements for the first six years from 2012 to 2017, but due to the positive growth in cash and cash reserves throughout the period of the study as well as a decrease in the short-term provision since 2017 and improved spending on the capital grants, it has not only met, but exceeded the minimum liquidity requirements with cash coverage ratios of 1.42 and 1.52 for 2018 and 2019 respectively.

## 5.6 Summary and Concluding Remarks

The purpose of this long-term analysis was to convert the complex financial data to a format that is easily understandable but also to identify trends and provide information that can assist a municipality when making future budgetary decisions to ensure financial sustainability. Hence, the somewhat abundant use of graphs and tables. Debtor-payment trends impacting on the revenues of municipalities should be of particular concern to the councillors when engaging with their constituents, as well as expenditure percentages relating to the provision of services. Additionally, the analysis also highlighted the matter of capital-funding mixes and how this relates to the liquidity of the municipality. A further trend that needs specific mention is the reliance on government grants, as it is linked to the ability of a municipality to generate its own funding, directly affecting future financial sustainability. The specific findings are discussed in further detail in Chapter Seven.

# Chapter Six: Respondents – Data Analysis and Discussion

## 6.1 Introduction

This chapter presents the qualitative analysis of the data collected from the respondents. At the outset of the research the intention was to do face-to-face interviews with the selected sample of participants. However, this was not possible due to the COVID-19 pandemic and the restrictions on meetings and travel. The data collection methodology used was semi-structured questionnaires and Google Forms, requesting the participants to complete these online. This eliminated the need for contact sessions. A limitation of this methodology was that it does not allow for probing. Nevertheless, the information gathered is relevant and provides rich data regarding the research question. The researcher disseminated the questionnaires to the four selected municipalities and specifically to the four Executive Mayors, four Municipal Managers, four CFOs, and four Chief Audit Executives who formed the sample. A total of eight responses, or 50%, were received by the due date. Responses were received from all four municipalities. The mayors from three municipalities responded and either the CFO or the Municipal Manager from all four responded; there was also a response from one internal auditor. However, the non-response from the other respondents was not found to be material to the study as the respondents included a mix of both politicians and senior officials, which was the aim of the researcher when the sample was identified. It should be noted that the research was carried out before the 2021 Local Government Elections and most of the sample group in one way or the other were involved in local elections. This could be the reason for the low response, but the respondents included at least one of the required respondents from each municipality.

## 6.2 Assessment of Individual Questions

### 6.2.1 Question 1

**Does the internal audit committee make recommendations to council that are informed by ratios, and if so, what decisions did council take with regard to these recommendations?**

Virtually all respondents (99%) agreed that the recommendations were made on financial ratios. One respondent stated that the audit committee does not make recommendations to council that are informed by ratios. Although, as the financial data clearly suggests, ratios were generated and reported to council and the community as they are included in the annual reports. With regard to what decisions council took related to the recommendations, the responses were varied but mainly related to the financial sustainability of the municipality. Councils made strategic decisions that improved the financial performance of the municipalities, and it was indicated that these recommendations also informed policy decisions. All the respondents indicated that the audit committee made recommendations that inform council decisions. The respondents cited a number of examples, such as recommendations on water losses and low capital-budget spending, which led to a water-loss reduction plan being drafted and implemented as well as a financial plan for the rehabilitation of landfill sites. The municipality also reviewed its procurement plan and budget to achieve targets in respect of the SDBIP and the spending of the capital budget improved to 95%. A number of policies were also amended following recommendations on the impairment of debtors and the debt-collections ratios. This followed on a concern from the audit committee on the debt ratio and the outstanding debtors, especially those older than 90 days.

The respondents further indicated that the audit committee reviews the financial ratios during its quarterly meetings and reports and makes recommendations to council on improving or maintaining a ratio. This is dependent on the movement of the ratio from the previous reporting period. The recommendation on the financial sustainability regarding the slow implementation of the municipality's long-term financial plan led to accelerated implementation supported by council. Audit committees make recommendations based on general observations through exercising their responsibilities and are informed by internal audit findings and through regular risk-analysis processes performed and identified by the municipality.

The respondents indicated that reports of the internal audit committee, inclusive of the meeting minutes, serve before council for noting, as part of their reporting requirements. According to one respondent the Internal Audit Committee Charter requires the committee,

> … to review and challenge where necessary – conduct analysis and trends and other financial ratio calculations, e.g., year-on-year comparisons and composition of primary groups such as salaries, as a component of operations, whether operations are undertaken on a sustainable basis, operations at surplus or deficit, efficient and solvency ratios, etc.

The respondents stated further that the audit committee does not make recommendations to council directly. However, in terms of the reporting of their activities, all comments and recommendations are brought to the attention of council.

It is also worth noting that at the time of the research, all four municipalities had properly constituted internal audit committees, and from the responses it would seem that these committees were not constituted only for the sake of compliance, but were indeed taken seriously in terms of recommendations to council as an independent oversight body.

### 6.2.2 Question 2

**Is the financial position of the municipality considered when making budgetary decisions?**

The respondents unanimously agreed that the financial position of the municipality is considered when making budgetary decisions. The budget is based on the available funds and expected revenue. The respondents explained that the municipalities use the previous year's actual financial performance as well as the financial position as baseline for the budgetary decision-making aligned with the strategic objectives identified in the long-term financial plan and independent annual financial assessment. The respondents indicated that the preservations of the CRR are also considered with budgetary consideration.

The respondents agreed that the financial position of the municipality is a key determining factor when council makes budgetary allocations to the different departments in the municipality. The financial position is a fundamental factor when determining the affordability of the budget. The respondents further indicated that the financial position is a key component of the Annual Financial Statements (AFS) and is used as the basis for the compilation of the next year's budget.

The data analysis indicated that the municipality considers the financial health and financial sustainability during the budget-preparation process and uses the recommendations in the long-term financial plan, which provides a roadmap for budgeting decisions.

### 6.2.3 Question 3

**Judging from the stubborn growth in outstanding debtors, effective debt collection remains one of the main challenges for municipalities. What do you think is the reason for this and what measures have, or should council put in place to address it?**

The data revealed a number of reasons for the growth in debtors and what mechanisms these municipalities employed to mitigate the growth in debtors. Some, like Swellendam, aggressively wrote off bad debt, while others followed various debt-collection strategies. However, these strategies were not too successful as it was shown that debtors actually increased and continued to do so over the period of the study.

The respondents revealed that people, in general, want to pay their municipal accounts but with the economic downturn, when faced with paying for municipal services as opposed to food, people choose to buy food. The respondents proposed that municipal councils should evaluate or assess each household that is in arrears or struggling to pay its municipal account and to provide the required assistance. The respondents maintained that the Indigent Policy should be amended and strictly enforced. They expressed their concerns about the uneven implementation of this policy – some people who can afford to pay, also receive an indigent grant, while those who cannot afford to pay and should be receiving an indigent grant are not receiving it.

The respondents agreed that effective debt-control mechanisms are key to the collection of outstanding debt. They indicated that council should put additional measures in place, like the annual review of the debt-collection policy, outsourcing or co-sourcing debt-collection services with specialised legal services and regular awareness campaigns encouraging customers to pay. There should also be an annual analysis of the provision for bad debt write-off purposes. Respondents identified unemployment as one of the reasons for non-payment of municipal accounts; as families become poorer, their other payment needs take precedence over a municipal services account. Another practice identified, was a culture of non-payment, stemming from the pre-democracy period.

One respondent suggested that municipalities should assess the effectiveness and productivity of their current debt-collection units, find ways of improving them, consider mitigating factors, and provide training to improve internal capacity. This would assist in sourcing an external service provider to assist with credit control and debt collection, as alluded to earlier. Respondents further suggested the regular review and updating of procedures and processes and the development of standard operating procedures (SOP) to assist with effective debt control.

Furthermore, respondents identified additional reasons for the growth in outstanding debt: higher than inflation tariff increases over the last 10 years; increase in the cost of living; impact of low salary growth; limited capacity of municipalities to optimise debt collection; and the negative impact of local-government elections on debt-collection efforts. The respondents urged that great care must be exercised when debt-collection initiatives are introduced. The associated risk of civil unrest must be considered but must not be the deciding factor when debt-collection initiatives, like the cutting of services are applied or the prohibitive costs of collecting debt using an external service provider are introduced.

The respondents unanimously agreed that the dual provision of electricity supplied by both the municipality and Eskom complicates debt collection, because it lessens the effectiveness of the debt collection. The primary tool for debt collection in most municipalities is the threat of disconnection of electricity services. In the Eskom distribution areas this is not possible, as it is not supported by them. To mitigate this, the municipality has installed pre-paid water meters as a credit control tool, but it is not as effective as managing electricity. The respondents stated that municipalities should take control of electricity distribution in all towns within its authority.

What became clear from these responses is that debt collection and the control of outstanding debtors are not as clear-cut as one would think. It also showed that the municipalities in this study have developed and implemented a number of measures to improve debt-collection efficiency indicating that policies, processes, and procedures should not be cast in stone and should be constantly reviewed for this reason.

### 6.2.4 Question 4

**Does council take the affordability principle into account when making decisions on tariff increases for all services? If yes, what information is used to inform this decision?**

With the exception of one respondent who indicated “not sure,” all other respondents were in the positive. The respondents indicated that municipal tariffs are determined by taking a basket of services and evaluating such services against the affordability and socio-economic conditions among different categories of consumers. A further response was that the implication of tariff increases is evaluated in terms of the different affordability consumer groups within a municipality and not just to balance the books. Municipalities further consider the municipal services account as a percentage of disposable income and compare the cost of services with other municipalities.

The respondents stated that other guidelines also inform tariff setting. The NT and NERSA issue annual budget circulars and guidelines, which recommend proposed tariff increases based on the affordability benchmarks and national inflation targets. Municipalities are required to use these benchmarks in the preparation of their annual budgets. However, the respondents stated that increasing financial needs of the municipality, especially in service delivery projects, often compel a municipality to increase the tariffs more than the above-mentioned guidelines.

One respondent was unsure if his municipality takes the affordability principle into account when considering tariff increases, maintaining that council decisions on tariff increases are informed by circumstances beyond its control. The respondent explained that for example, if Eskom increases its electricity prices, which are approved by NERSA, council is stuck in an inconvenient situation. Even though council would ideally not implement big increases, it is obliged to cover Eskom’s approved massive increases. These increases have a direct impact on the bulk purchases of electricity and need to be covered by the increases in municipal electricity tariffs, which are required to be cost-reflective.

One respondent specifically reflected on cost-reflective tariffs, expressing that this approach is not always possible due to the affordability principle. Cost-reflective tariffs might be unaffordable and may only lead to an increase in outstanding debtors. This view was shared by another respondent who maintained that there is a fine balance between affordability and ensuring financial sustainability. The respondents indicated that other economic data are used, such as the consumer price index (CPIX) economic indicators as well as the distribution of household income, unemployment rate, and household growth/infrastructure provision, as contained in the updated long-term financial-plan indicators and recommendations.

A number of respondents stated that the debt collection rate is considered as an indication of affordability. The trend in debt-collection performance is monitored monthly and analyses the categories outstanding, to flag potential underperforming areas or customers as one of the relevant indicators of affordability. Finally, respondents indicated that the Integrated Planning and Budgeting Assessment that is done annually by the Provincial Treasury (PT), which is an analysis of the municipal budget, IDP, SDF, and budget serves as an additional source of affordability validation. The respondents explained that as standard practice, they compare tariff increases with municipalities of equivalent size in the province and also between municipalities in the district; thus, in a sense, benchmarking according to size, location and similar types of communities served, for example, coastal towns.

### 6.2.5 Question 5

**NT maintains, and it is common financial practice, that capital funding be linked to the reasonable lifespan of the infrastructure to be built. Does council take the useful life of infrastructure into account when making capital-funding decisions?**

This question elicited a number of mixed responses. Respondents referred to ageing infrastructure and the fact that the CRR is not adequately funded to provide for replacement of infrastructure. They further stated that the CRR is often used to fund capital projects based on political views instead of available data. The respondents commented on the limited discussion at council level on the linkage between the useful life of the capital asset and the funding source when determining budgeted projects. They proposed that this should be done as standard practice. The respondents observed that the weakness is that line managers and directors do not conduct post-procurement planning of assets over the lifespan of the assets and managers are not always involved in the process of determining funding sources of capital assets to ensure correlation with the lifespan of the assets. The respondents commented on the municipal councils' heavy reliance on the guidance and advice of the CFO and the Budget and Treasury Office (BTO) to determine the funding sources for capital assets.

The respondents acknowledged that council does, to some extent, take the reasonable lifespan of capital infrastructure into account when considering capital-funding sources. In those instances, especially relating to bulk-services infrastructure aligned with the applicable infrastructure maintenance plans for the numerous services, either through renewal or replacement according to the specific needs requirement. However, the respondents noted that the municipality does not have a formal integrated support infrastructure maintenance plan that is linked to the asset register to inform budget-planning or decision-making. The respondents reported that future plans included the development of an electronic infrastructure maintenance plan in order to have a well-informed maintenance plan linked to the asset register's condition assessment and the remaining useful life of the asset for future budget planning.

Respondents highlighted the issue of asset management. They pointed out that an important perspective, often neglected, is the goal of asset management, which is to achieve the required level of service in the most cost-effective manner achieved through the management of the asset's life cycle. The original useful life of the asset considers the service protentional of an infrastructure asset, without any rehabilitation and renewal or upgrade costs or modification costs, which will extend the asset's original useful life, that will in future cause the municipality to incur capital costs where relevant, as part of the strategy to render services in the most effective manner.

A further response in this regard was that the useful life of infrastructure is considered specifically guiding the type or source of funding to be considered. For example, when long-term loans are considered, the loan period will be guided by the useful life of the asset. The respondents indicated that the grant funding, in this case specifically the MIG, and the impact of maintenance as well as replacement of assets funded by this grant, on future tariffs and rates, could be better utilised. Respondents confirmed that municipalities are grateful for the additional grant funding that the MIG provides but besides an acknowledgement that the infrastructure provided by this grant may have an impact on tariffs as they mature and additional maintenance is needed, none of them could actually prove that they have allowed for this in future.

### 6.2.6 Question 6

**Are financial trends and ratios considered when performance indicators are identified for performance contracts of the senior managers, specifically those of the Municipal Manager and CFO?**

The respondents indicated that financial trends and ratios are considered when the draft SDBIP together with the information in the draft MTREF Budget Report inclusive of financial trends information and ratios, serve before council in March annually. The respondents indicated that the SDBIP is a management and implementation plan and is not required to be approved by the council, but it is tabled in council with the draft IDP and the MTREF Budget annually for public consultation, and subsequently again tabled before council and made public for information and for purposes of monitoring.

It is important though, that the top layer of the SDBIP and its targets cannot be revised without notifying the council, and if there are to be changes in service delivery targets and performance indicators, they can only be given effect with the approval of the council, following approval of an adjustments budget in terms of Section 54(1)(c) of the MFMA (RSA, 2003). This council approval is necessary in terms of its oversight role, to ensure that the Executive Mayor or Municipal Manager do not revise service delivery targets downwards in the event of poor performance.

The respondents indicated that some of these ratios are also prescribed in terms of the MSA Performance Regulations (RSA, 2006a) and as such, must form part of the so-called top layer key performance indicators (KPIs), for example, debt collection, capital-budget spent, cash coverage, and liquidity. All four municipalities indicated that the prescribed indicators are included in the performance plans of their senior managers.

### 6.2.7 Question 7

**Is there any assistance needed by council in terms of financial management? If yes, what kind of assistance?**

Three respondents indicated that councils do not need any assistance, although one respondent stated that there should, however, be more oversight, from national and provincial levels to hold council accountable in its responsibility to safeguard municipal assets, monitor council's performance, consider reporting of spending of budgets, oversee the budgeting process. The respondents indicated that council must ensure that money is spent in an accountable and transparent manner. One respondent was of the view that they do not need assistance from councils as they have well- qualified and competent internal staff.

The respondents affirmed that good financial management is already in place and that assistance is needed in long-term financial planning, revenue-enhancement initiatives, and any other initiatives to ensure the financial sustainability of the municipality. The respondents unanimously agreed that the councillors require financial training, in particular on financial ratios and the impact of political decisions on municipal financial sustainability. The respondents highlighted the huge roles of councils and Executive Mayors, in relation to their delegation of powers and responsibilities in terms of the function of oversight and monitoring. They pointed out, in particular, that council must ensure the municipality's financial sustainability to render services as per the legislative mandate and the achievement of set outcomes aligned with the strategic objectives.

Other assistance mentioned was specifically linked to training, like general budgeting training for non-financial managers, supply-chain management, contracts, project management, strategic planning, and statistical-trend analysis. Additionally, respondents identified the need to analyse and evaluate financial reports.

The respondents highlighted the need for a review of the fiscal model for municipalities, in particular regarding the processes governing the taking over of all electricity distribution from Eskom. They suggested that the cost of free basic services be fully funded from the equitable share grant and that the municipality be assisted to set up a costing unit.

### 6.2.8 Question 8

**Do you think the NT norms in general are conducive to financial viability considering that those for water and electricity losses are quite generous?**

The respondents regarded the norms set by the NT as a good measuring point but felt that provision should be made for improvement and hence, the analysis of the ratios is key. Respondents suggested that an internal audit could assist with the ratio analysis and to propose implementable recommendations.

A further suggestion was that provision should be made for losses associated with the production or generation of water and electricity. Respondents submitted that there will always be system and distribution losses, and these should be managed with proper maintenance. The

NT norms are considered a guide, and the Council could decide to set stricter targets for water and electricity losses in their SDBIP and Performance Agreements of the Senior Management.

The respondents stated that the normal ratios as per the NT Circular are fine and contributes to the financial sustainability of a municipality. However, the norms governing water and electricity losses are extremely high, especially for water. All ratios and norms are only useful when sufficient efforts are applied to reach them. There also seem to be no consequences for non-adherence to these norms from the NT. Respondents expressed concerns that currently the ratios and reports are submitted to the NT, without any feedback; hence, the question remains, if the NT – or the PT in this case – uses these ratios to assist municipalities where it is indeed needed.

Respondents felt that most of the NT's norms relating to financial viability are still relevant and applicable but will have to be reviewed and aligned with the latest financial best practices, norms applicable, and current trends. One respondent was of the opinion there should be alignment between current trends and the newly promulgated regulations and standards such as the Municipal Standard Chart of Accounts (mSCOA). In the case of the latter, the measurement of the employee-related ratio and maintenance and repairs ratio, for example, have been adjusted in line with the new disclosure and reporting standards according to the nature of the expenditure incurred.

The negative impact of Eskom's ability to provide effective and affordable services with the subsequent increase of alternative electricity-generation initiatives, the deterioration of ageing bulk water and electricity infrastructure, as well as the severe droughts experienced in some areas require the tightening of the water and electricity losses ratio. Respondents suggested that it can function as an early-warning sign to detect any form of inefficiency well in advance, to put mitigating measures in place. This should be done to rectify the existing dysfunctionality losses before they escalate to the level of total renewal or replacement at a much higher cost; this should instead be done through the normal precautionary maintenance and repair programmes.

Another respondent agreed that the norms represent a general guidance to municipalities regarding most financial indicators. This respondent further stated that those for water and electricity losses can be decreased but then municipalities need to improve the necessary earlydetection systems. Other respondents indicated that the one-size-fits-all approach is a problem and individual municipal financial ability and capacity must be considered. The respondents cited the example of smaller capacitated municipalities, such as Cape Agulhas Municipality, that cannot afford the installation and maintenance of systems such as telemetry or water-demand management systems to manage water and electricity losses more effectively and efficiently.

There was one view that the NT norms are not conducive to financial sustainability and that the Western Cape Provincial Treasury benchmark tool is a more realistic one to be used as a standard/norm because it takes into consideration and eliminates certain anomalies, for example, differences in accounting policies.

The above notion is partially supported by this view that norms as determined by the NT do not take into account any factors impacting on the local reality, such as rates bases, property mix, for instance, industrial and residential. Another example cited, was a district municipality versus a local municipality, or a metro, in terms of the services rendered, as well as the geographic lay of the land that acts as an impediment to future developments, for instance, the town of Hermanus that is wedged between the mountain and the sea.

### 6.2.9 Question 9

**Is there anything that you feel regarding financial sustainability that is important for the purposes of this study?**

The respondents raised the issue of the municipal tax base as an instrument to generate income and more specifically, how it could be expanded.

The matter of determining if the municipalities in the study have a good financial sustainability prospective to be able to continue as a going concern for the foreseeable future to highlight any red flags was also highlighted.

The respondents indicated that measurement and reporting on financial ratios are good indicators to determine the financial sustainability but other underlying factors play an important role and should be assessed to measure effectiveness, efficiency, and economy on how services have been rendered. Typical things that might have a negative impact on financial sustainability in the long term if not addressed appropriately, are the lack of good governance, leadership, productivity, and actual service delivery according to set regulations or applicable standards.

The respondents cited the Eskom scenario as an example whereby no maintenance on infrastructure took place, poor planning, and management as well as spending on non-priorities that led to the total breakdown in service delivery; hence, the continuous blackouts that the country randomly experiences. Furthermore, respondents warned that municipalities must be cautious not to follow the same route but draw from the Eskom experience because in some instances, municipalities are already experiencing no service delivery.

Respondents stated that the backlog on infrastructure maintenance, poorly capacitated staff, high capital costs, and a lack of capital budgets to mitigate the decline, will lead to high and sudden tariff increases that might not be affordable nor will it have the immediate impact to improve service delivery. The respondents cited an example of Sol Plaatje Municipality in the Northern Cape that ranks among the top 10 best-performing municipalities in terms of financial sustainability, according to a Ratings Africa assessment report. However, when it comes to service delivery, it is non-existing; residents are without water for weeks, and sewerage and potholes in residential areas are problematic.

Further matters that were identified impacting on financial sustainability were the impact of staff morale, employee wellness, and limited staff capacity. In addition, respondents proposed that legislative changes are required to create an enabling environment, like the powers that the South African Revenue Services (SARS) have, to compel customers to pay. Respondents also touched on the negative impact of recent court judgements relating the service delivery on private land. It should be noted that these issues, albeit important, do not fall within the scope of this study and were not investigated further.

Finally, respondents noted that financial discipline, in reference to a focus on the longer term without losing the ability to respond to immediate and unavoidable incidents of magnitude as well as soft issues, such as organisational culture and capacity-building, were also identified as issues that could be included in this study.

### 6.2.10 Question 10

**Does your council have a long-term financial plan? If so, why? If not, why not?**

All respondents replied in the affirmative to this question. The reasons proffered were that council regards the municipality's financial position as a strategic imperative and that the plan was necessitated after the financial sustainability came under threat. One respondent mentioned that the plan was outdated and needed to be reviewed annually as part of the monitoring process.

Respondents indicated that long-term financial planning is essential for the municipality in ensuring the financial sustainability of the municipality over the long-term, thus aimed at ensuring that the municipality has sufficient and cost-effective funding available to achieve its long-term objectives, through the implementation of the medium-term operating and capital budgets.

One respondent indicated that their municipality has a long-term financial plan for its financial sustainability, as well as for the replacement of infrastructure; the latter is a 50-year plan.

## 6.3 Summary and Concluding Remarks

In general, from the responses, it can be surmised that all municipalities in the study value the importance of the internal audit committee. This view is supported by the fact that all four municipalities had well-established and functional internal audit committees. It is also noteworthy that the recommendations from the audit committees, specifically concerning financial ratios, either directly or indirectly had an impact on financial decisions taken by council.

Regarding the consideration of the financial position in making budgetary decisions, all municipalities replied in the affirmative. Respondents also emphasised the importance of the reflection on the previous financial year's actual performance as well as the financial position as baseline for future budgetary decision-making aligned with the strategic objectives of the municipality. One municipality stated that the financial position as a key component of the AFS is used as the basis for the compilation of budgets for the municipality.

Effective debt collection was also supported as a means of ensuring financial viability. This notion is supported by the findings of the historical financial assessment over the period of the study where it was shown that debt collection lower than the NT norm has resulted in cash-flow constraints and in some municipalities, the limited and non-availability of cash for capital infrastructure. Further to this, respondents considered as vital, the status of the indigent register as well as the validity of the applicants receiving an indigent grant. They felt that only customers who really qualify for an indigent grant in terms of the municipality's Indigent Policy should receive the benefits thereof. Respondents held the view that non-qualifying recipients of this grant are an unnecessary burden on the finances of the municipality and limit assistance to the genuinely poor customers who actually deserve to receive the grant.

All respondents supported the use of the affordability principle in determining rates and tariffs. However, they also mentioned that municipalities need to carefully balance affordability as opposed to cost-reflective tariff setting, which is also a legislative requirement. The latter, if municipalities are introducing it for the first time after years of just adjusting the previous year's tariff with a percentage, could lead to higher-than-expected increases and become unaffordable for certain sections in a community. Municipalities indicated that they have used indicators like the prevailing inflation rate and the guidance from the NT and NERSA to also inform their increases.

The application of the useful life on an asset as an indicator to fund the asset was also generally supported by all respondents as good financial practice. In practice, the experiences are different. Some municipalities have long-term infrastructure and master plans and almost exclusively fund bulk infrastructure projects with external loans with a repayment period linked to the useful life of the infrastructure. There seemed to be agreement among all four municipalities for the need for an asset management system that can assist in informing future budgeting decisions on repairs and maintenance, thus expanding the useful life of an asset as well as refurbishment and replacement.

The respondents agreed that financial trends and ratios are considered when performance indicators are identified for senior managers, like the Municipal Manager and CFO. Respondents noted that most of these indicators are indeed regulated and should be in the top-level KPIs of the SDBIP. Moreover, these top-layer KPIs may only be amended by the council to ensure that targets are not adjusted downwards when it is likely that they would not be met. This is important, as the original SDBIP was tabled at council and advertised for public comment; hence, the same process needs to be followed when it is amended.

Regarding specific assistance needed by municipalities to improve financial sustainability, most respondents identified training needs. These needs are specifically linked to financial management for non-financial managers and more specifically supply-chain, project and contract management. Further training needs were on the strategic level, analysing and evaluating financial reports, as well as understanding the financial ratios and their impact on a municipality's financial sustainability. Respondents also made reference to the review of the current fiscal model, that is, how municipalities are currently funded from the national fiscus and specifically the equitable-share grant allocation versus the need for more funding to provide free basic services. In municipalities that indicated that they already have good financial management in place, the needs were for revenue enhancement and long-term financial-planning initiatives and the importance of council understanding its oversight and accountability role in financial management.

Municipalities believed that the NT norms on financial ratios are conducive to financial sustainability, but they should be viewed as a guideline, and nothing prevents a council from setting ratios that are more stringent than the NT norms. The latter is particularly pertinent for the water and electricity losses norm, which is considered to be too high. Once again, in this case, the importance of historical valid financial data cannot be over-emphasised, as it is good practice to use the actual ratios of the previous financial year as a performance target for the new financial year. This should ensure continuous improvement year-on-year in an ideal environment.

The general view is that the norms are partially conducive, but the one-size-fits-all approach does not work for all municipalities. While there might be some truth to this view, one needs to understand that the intention of the NT was to create a minimum norm or standard in terms of financial ratios and the way they should be reported. Hence, the NT norms are the minimum requirement municipalities need to achieve, but as mentioned above, municipalities are encouraged to set their own if it is not more than the minimum norm. Respondents further suggested that there should be a proper analysis of the ratios, for example, by the internal audit units, who should make recommendations on future improvements.

Respondents identified some topics, like staff morale and wellness, the impact of legislative changes and court rulings, and the lack of good governance, that they felt should have been included in this study. Further issues identified were inappropriate leadership and service delivery standards. These issues, although important, unfortunately fall outside the scope of this study. Some of them are referenced in this study, but the focus was on the evidence-based data that could not be manipulated. Finally, all respondents indicated that their municipalities have a long-term financial plan that guides future financial decision-making.

# Chapter Seven: Summative Findings on Financial Data

## 7.1 Introduction

This chapter presents the findings of the financial data analysis of each selected municipality. It discusses financial ratios of gearing, liquidity, debt collections, and cash and cash equivalents, as well as liabilities, consumer debtors, and operating surpluses. Further discussion follows on capital expenditure and cash and cash equivalents as well as staff costs as a percentage of total operating revenue. The chapter concludes with a comparison of all the information in table format for ease of comparison and a summary of the findings.

## 7.2 Findings per Municipality

### 7.2.1 Theewaterskloof Municipality

- The statement of financial position discloses a liquidity ratio below the NT norm range of 1.5:1 to 2.1:1 throughout the study period, except for 2019 when the ratio was 1.68:1. The exclusion of debtors greater than 30 days does not significantly impact the liquidity ratio.
- The average annual growth of the gross-consumer debtor of 9.7% over the period of study up to 2019 will impact negatively on the municipality's ability to attract private capital.
- Interest-bearing liabilities have been on a decreasing trend since 2014, resulting in the gearing ratio decreasing from 30% in 2014 to 17% in 2019. The gearing ratio has been below the NT norm of 45% since 2012.
- Billed revenue decreased by 1% in 2018, significantly lower that the CPI norm but bounced back to 9% in 2019. The 2018 figure could have been influenced by the fact that a 0% increase in electricity tariffs was approved by the municipality in 2018.
- The average debt-collection ratio remained in the lower 80% over the period of the study, which is significantly lower than the NT norm of 95%. The net-debtor days decreased significantly since 2012; however, the increase to almost 40% in 2018 is a cause for concern.
- Total operating surplus (excluding capital grants) has been significantly lower than the total accounting surplus, indicating the municipality's reliance on grants to generate income.

- Over the past eight years, the municipality invested over R567 million into capital infrastructure. The bulk of the funding originates from capital grants received from National and Provincial Government.
- Cash and cash equivalents decreased since the first peak in 2015 but bounced back significantly in 2019 to total of R144.20 million.

Based on the above findings, it can be concluded that the Theewaterskloof municipality has been under financial pressure during the period of the study.

### 7.2.2 Overstrand Municipality

- The municipality has realized both accounting and operating surpluses throughout the period of the study.
- Revenue was increased from all sources of income.
- Staff costs increased by 11.5% in 2019, which is high, as this level of increase is not sustainable over the longer term and needs to be managed. The staff costs and contracted-services expense combined, represent more than 40% of total operating expenses in 2019.
- The increase in expenditure for repairs and maintenance from 4% (2018) to 6% (2019) is commended and the growth is encouraging as it indicates OM's continued efforts in maintaining its current asset base in an effective manner to improve service delivery. There is, however, room for further growth on this item, as the NT norm is 8% of the carrying value of the PPE and Investment Property.
- The consumer-debtor collection rate should be maintained above 98% to ensure future surpluses.
- The level of capital expenditure should be assessed using the NT norm of between 10% and 20% of total expenditure, which indicates the prioritisation of expenditure towards current operations, as opposed to future capacity in terms of municipal services. The 2019 level of 14% (compared to 10% in 2018 and 27% in 2012) should be maintained to keep up with the high level of service-delivery demands and to address backlog challenges.
- The capital-expenditure funding-mix balance should be maintained to preserve the 2019 healthy liquidity levels. This must be done carefully, considering the deteriorating debt-service cover ratio (from 2.27 in 2018 to 1.96 in 2019), the gearing ratio of 40,

which is on par with the NT norm, and the debt service to total operating expenditure that has decreased to 7% in 2019, just below the maximum norm of 8%.

- The concentrated effort to improve the liquidity and cash position has resulted in the improvement of the liquidity ratio from 2.91 in 2018 to 3.21 in 2019 and the cash coverage ratio from 2.4 months to 2.6 months over the same period.
- Even though the unencumbered cash and investments were sufficient to cover the minimum liquidity requirements, the absence of a capital replacement reserve is of concern. Considering the low levels of repairs and maintenance expense and capital expenditure in the last few years, it will be a prudent approach to earmark available cash for asset replacement in future.
- Consumer debtors are managed fairly well with 64% of the gross consumer debtors being current. The provision of doubtful debts leaves room for improvement as it covers only 82% of the debtors older than 90 days.
- This municipality has a low level of grant dependency.

The municipality's financial performance is not under threat in the near future, notwithstanding the deterioration in the socio-economic environment, which places a strain on financial ratios and may impact negatively on the municipality's ability to generate cash.

### 7.2.3 Cape Agulhas Municipality

- CAM's financial position and performance has improved year-on-year over the last few years.
- The municipality must continue with the diversification of the funding mix for capital expenditure and rely less on own cash resources.
- There is additional scope for the municipality to access and use borrowing to fund capital expenditure supported by the low gearing ratio.
- The municipality must, in future, carefully manage its operating expenses, as was done in 2019 to keep operating expenses well below operating revenue.
- The municipality must continuously assess the impact of staff costs to total operating expenditure as it is the largest contributor and is already closer to the maximum of 40% allowed for by the NT norms.
- Actual capital expenditure to budgeted capital expenditure has been well managed over the period of the study and should be maintained.

- The collection rate decreased in 2018 to 93% and increased in 2019 to 94.8%. This will have a negative impact on the municipality's cash-generation ability and needs to be addressed as a matter of priority. Collection rates of 95% or higher need to be maintained to support financial sustainability in the longer term.
- The annual average rates and tariff increases were above the CPI. The municipality must review this annually to ensure that services do not become unaffordable.

### 7.2.4 Swellendam Municipality

- Consumer debtors older than 90 days decreased substantially over the period of study.
- The municipality has not had any long-term investments throughout the assessment period.
- Total capital expenditure decreased from R45.45 million in 2013 to R15.75 million in 2019 and was only funded by capital grants. This is concerning, as the view is held that the investment to provide infrastructure to address the current needs and the backlogs is insufficient and there is a real risk to continued service delivery.
- The liquidity ratio improved substantially to 2.12 in 2019.
- Swellendam's payment ratio/collection rate remained above the NT norm of 95% during the period of study and was 99% in 2019.
- In terms of the total debt (borrowings) to the operating revenue, the 2019 percentage was 13% because of the municipality using only capital grants to fund capital expenditure. The municipality should consider making use of long-term external borrowing to fund capital projects, specifically those with future income-generating ability.
- The municipality can generate 80% of its own revenue with the total grant to total revenue ratio at 20% in 2019, indicating that the municipality is not entirely grant-reliant.
- The annual increases for services and rates were consistently above the CPI and the municipality must monitor this carefully to prevent a situation where services become unaffordable.

- Staff costs were at 35% of the total expenditure in 2019, still within the NT norm of between 25% and 40%; however, this expenditure should be closely monitored, as annual increases were also consistently above CPI over the period of the study.
- Capital expenditure as a percentage of total expenditure was at 6% in 2019, way below the NT norm of between 10% and 20%. As alluded to earlier, the municipality should be encouraged to increase capital budgets to ensure continued and uninterrupted service delivery in future.
- Actual capital expenditure to budgeted capital expenditure was at 75% in 2019. Actual capital expenditure, except for two years during the study, was below the 95% NT benchmark. This is concerning and can be detected in the significant unspent conditional grant portions in Graph 5.66 that affects the minimum liquidity requirements annually.
- Repairs and Maintenance were 4% below the NT norm of at least 8% of the carrying value of PPE. The low expenditure on repairs and maintenance coupled with the low provision for capital budgets for infrastructure pose the risk of infrastructure failure and service-delivery disruptions.

## 7.3 Summary and Concluding Remarks

Table 7.1 briefly reflects on all four local municipalities and the key calculations and ratios as at year end 2019. At first glance, the Overstrand Municipality is the strongest in the district followed by Theewaterskloof, Cape Agulhas, and Swellendam municipalities. This trend is evident in all items but most noticeably in assets, cash and cash equivalents, as well as revenue and capital expenditure. Overstrand's financial superiority in relation to the other municipalities is further reflected in the cash-coverage ratio of 11.52 in comparison with the 2.54 for Swellendam and 1.71 for both TWK and CAM. The cash surplus of OM is even more prominent with a healthy R248.58 million realized at the end of 2019, compared to that of Swellendam and TWK, disclosing a surplus of roughly 10% of OM's disclosure and CAM at R12.70 million. Further to the above, the financial health of OM is also obviously reflected in its liquidity ratio of 3.10 followed by Swellendam (2.12), CAM (2.03) and TWK (1.68).

**TABLE 7.1: KEY CALCULATIONS AND RATIOS**

| Description | Swellendam 2019 | CAM 2019 | TWK 2019 | Overstrand 2019 |
|---|---|---|---|---|
| Total Assets | 433,72 | 575,26 | 1 113,79 | 4 397,31 |
| Current Assets | 101,82 | 118,81 | 208,50 | 684,40 |
| Cash and Cash Equivalents | 74,95 | 83,74 | 144,20 | 533,19 |
| Gross Consumer Debtors | 27,21 | 56,70 | 212,79 | 100,11 |
| Gross Debtors: > 90 Days | 13,92 | 28,27 | 132,31 | 31,84 |
| Total Provision for Bad Debts (Consumer Debtors) | 14,71 | 28,85 | 169,57 | 26,11 |
| Unspent Conditional Grants and Receipts | 7,12 | 1,15 | 41,90 | 10,04 |
| Total Revenue or Total Income | 260,42 | 343,85 | 576,92 | 1 215,06 |
| Total Grants Income | 53,21 | 60,34 | 150,46 | 138,26 |
| Total Expenditure | 262,23 | 340,38 | 564,81 | 1 283,65 |
| Total Capital Expenditure | 15,75 | 37,25 | 63,35 | 175,11 |
| Budgeted Capital Expenditure | 21,10 | 34,76 | 88,84 | 174,75 |
| Liquidity Ratio (Current Assets : Current Liabilities) | 2,12 | 2,03 | 1,68 | 3,10 |
| Gross Consumer Debtors Growth | 0,05 | 0,15 | 0,11 | 0,18 |
| Payment Ratio / Collection Rate | 0,99 | 0,95 | 0,82 | 0,98 |
| Total Debt (Borrowings) / Operating Revenue | 0,13 | 0,10 | 0,17 | 0,40 |
| % Increase in Billed Income p.a. | 0,08 | 0,10 | 0,09 | 0,08 |
| Total Grants / Total Revenue | 0,20 | 0,18 | 0,26 | 0,11 |
| Own Source Revenue to Total Operating Revenue | 0,84 | 0,88 | 0,79 | 0,94 |
| Operating Revenue Growth % | 0,06 | 0,10 | 0,12 | 0,07 |
| Proportion of Property Rates to Total Operating Revenue | 0,15 | 0,20 | 0,19 | 0,20 |
| Staff Costs / Total Operating Expenditure | 0,35 | 0,35 | 0,36 | 0,29 |
| Repairs and Maintenance as % of PPE and Investment Property | 0,04 | 0,13 | 0,03 | 0,06 |
| Actual Capital Expenditure / Budgeted Capital Expenditure | 0,75 | 1,07 | 0,72 | 1,00 |
| Capital Expenditure / Total Expenditure | 0,06 | 0,11 | 0,11 | 0,14 |
| Cash Coverage Ratio (excl Working Capital) | 2,54 | 1,71 | 1,71 | 11,52 |
| Cash Coverage Ratio (incl Working Capital) | 1,52 | 1,18 | 1,22 | 1,87 |
| Cash Surplus / Shortfall on Minimum Liquidity Requirements | 25,39 | 12,70 | 25,67 | 248,58 |

In terms of gross consumer debtors, TWK leads with R212.79 million followed by OM (100.11), CAM (56.70), and Swellendam (27.21). This issue was discussed in more detail in the historic financial overview of each municipality earlier in this chapter. The same pattern is reflected with the gross debtors over 90 days. It should also be noted that all four municipalities provided for bad debts and that this provision for 2019 was more than the debt owed over 90 days. This is a good practice, but it was shown in the historical overview that even though sufficient provision was made for the writing off of bad debts, only Swellendam Municipality's information shows a reduction of the debtors above 90 days. Debtors are reflected as a revenue source in the statement of financial position, but municipalities should determine if this debt, especially that over 90 days, is indeed recoverable. Should it not be recoverable, it should be written off the books of the municipality so that the financial statements reflect the true financial position of the municipality. However, it does seem that TWK is following the lead of Swellendam in this regard, as it managed to decrease its gross-consumer debtor's growth from a high of 19% in 2017 to 18% in 2018 and 11% in 2019. On the other hand, this item has increased in the OM from 5% in 2018 to 18% in 2019. The OM should monitor this item and ensure that it writes off the actual amount budgeted for bad/doubtful debt each year. This increase could also be attributed to the higher-than-CPI annual increases in rates and tariffs and might be an indication that services become unaffordable.

The data revealed that there is a correlation between the debt-collection rate and the growth and size of debt. A case in point is that of TWK. This municipality had consistent low-collection rates over the period of study, ending with 82% in 2019. It is thus not surprising that this municipality's gross debtors are the highest as opposed to that of the other three municipalities within the district.

The historical financial overview has shown that all four municipalities, even during difficult times like the local government elections in 2016 and the drought in the same year, were able to generate own revenue. This statement is supported by the own revenue to total revenue percentages. Once again, OM leads the way with 94%, followed by CAM with 88%, then Swellendam (84%), and TWK (79%). This trend is also reflected in the total grants to total revenue figures, with OM at 11%, CAM at 18%, Swellendam at 20%, and TWK at 26%, indicating that the municipalities are not grant-dependent.

The study also found that in all four municipalities, property rates were the largest contributor to total operating-revenue budgets over the full period of the study. In the cases of OM and CAM, the contribution of property rates to total operating revenue was 20%, followed by TWK (19%) and Swellendam (15%). It is evident that Swellendam has been very conservative with its annual increases in property rates, averaging 5% over the period of the study and thus adding to the low contribution of this item to the total operating budget. TWK's average increase was the highest at 13%, followed by CAM (11%) and OM (8%). The opinion is held that Swellendam should investigate the possibility of increasing property rates with at least three percentage points higher than the prevailing CPI to make up for the low increases in previous years. This will not only add to its total operating-revenue bottom line but also allow for additional funding for capital expenditure on infrastructure.

Staff costs as a percentage of total revenue were the largest contributor to expenditure in all four municipalities, ranging from 29% in OM, to 35% for both CAM and Swellendam and 36% for TWK. The NT norm for this expenditure item is between 25% and 40% of total revenue.

Ideally, it should be below 30% to provide more funding for service-delivery operations; hence, the view is held that municipalities should manage staff costs prudently and focus on optimising the productivity of their workforce before making new appointments. The latter is specifically advised as municipalities do not have control over annual increases in salaries and benefits as these are negotiated at a national level.

The NT norm for repairs and maintenance expenditure is between 6% and 8% of total operating expenditure. The reason why this ratio is important, is that municipalities adequately repair and maintain existing infrastructure to not only expand their useful life but also prevent a breakdown in service delivery due to breakages and failures. As at 2019, CAM reported an expenditure on this item of 13%, followed by OM at 6%, while Swellendam and TWK's percentages were 4% and 3%, respectively. Although the OM percentage is at the lower end of the norm, it must be noted that it has the highest capital expenditure, indicating that it does maintain current assets but also actively invest in new infrastructure. In the case of Swellendam and TWK, this is not the case, as they rely mostly on capital grants from National and Provincial government to fund their capital budgets.

A further negative for Swellendam and TWK is the low expenditure on capital budgets, which in 2019 was at 75% and 72%, respectively. This under-expenditure on capital budgets as well as the reliance on capital grants and the low expenditure on repairs and maintenance do not bode well for future service delivery, specifically on basic services, in these two municipalities. They should plan their budgets using the various infrastructure master and development plans, which should include maintenance plans; they should also manage the execution of their capital projects stringently to ensure the full expenditure of the capital, as well as the operational repairs and maintenance budgets. This under-expenditure could also be ascribed to a lack of proper project and demand-management planning, which may be as a result of sufficiently trained and competent technical and supply-chain management personnel.

At the end of 2019, all four municipalities were able to meet their minimum liquidity requirements, which is positive, as it means that they have sufficient cash and cash equivalents to meet their short-term liabilities. The historical financial overviews indicated that the three smaller municipalities in the district were successful in turning their finances from negative positions to the positive. The challenge, going into the future, would be to maintain the liquidity and still provide much-needed services, in an increasingly difficult economic climate.

# Chapter Eight: Findings, Conclusions and Recommendations

## 8.1 Introduction

In this chapter, the results and conclusions of the research will be discussed, followed by recommendations for improving sustainability and further research. The introduction will be followed by a summary of the key findings and then a discussion on the factors enabling financial sustainability. The chapter will conclude with recommendations for further research.

The primary research question of the study was: "What factors should a municipality consider enabling future financial sustainability to become and remain sustainable?" The primary research objective was to identify factors that constrain or facilitate financial performance by using a longitudinal study over a period of nine years. The primary objective was pursued through the following secondary objectives:

(a) to perform a literature and legislative review;
(b) to analyse financial data of the Cape Agulhas-, Overstrand-, Swellendam- and Theewaterskloof municipalities from 2012 to 2019;
(c) to identify factors that constrain or facilitate the financial performance and viability of these municipalities; and
(d) to draw conclusions and make recommendations regarding the impact for financing service delivery.

The research is important because the findings provide a roadmap to municipalities on how to become and remain financially viable in order to generate sufficient revenues to deliver on their constitutional mandate of service delivery and plan for future development. This is essential to enable municipalities to maintain and enhance the provision of fundamental services. Effective financial-performance management is fundamental to ensure financial sustainability because data will be generated that can be utilised as an early-warning system to prevent further worsening of the financial conditions and to guide subsequent actions in terms of it.

The research findings are significant, since the knowledge gained from the medium- to long-term assessment could aid with better management of municipalities' financial performance, which could assist with financial viability. Importantly, the research fills a knowledge gap and adds to the academic discourse on ensuring financial sustainability at the local level to ensure effective, efficient, and economically sustainable service delivery.

## 8.2 Key Findings

A reasonable assumption can be made that the financial management reforms in South Africa, since the advent of democracy in 1994 and culminating with the implementation of the MFMA (RSA, 2003), on 01 July 2004, these changes, or at least the structural ones, should be well entrenched in all municipalities in the country. Judging from the latest AG reports on the financial statements in local government, this is clearly not the case. The notion of a failing local sphere of government is also punctuated by the fact that, at least over the last decade, more municipalities are finding themselves in a dire state of failure and inability to provide efficient and effective basic services (AGSA, 2020:9).

According to Pauw et al. (2002:255-256), Section 195(1) of the Constitution (RSA, 1996), highlights the following principles, on which public administration, and specifically municipal finance, must be established:

1. the promotion and maintenance of a high standard of professional ethics;
2. the promotion of efficient, economic, and effective use of resources;
3. public administration, which includes municipal administration, must be development-oriented;
4. municipal services must be provided impartially, fairly, equitably and without bias;
5. the people's needs must be responded to, and the public must be encouraged to participate in policymaking;
6. public administration must be accountable;
7. transparency must be fostered by the public being provided with timely, accessible, and accurate information.

The above principles were consequently reflected in every piece of local government legislation that was promulgated after the approval of the Constitution, and yet unethical behaviour – by both politicians and administrators – and the misuse of public resources are experienced in municipalities at present, with no accountability to the public or the oversight authorities. The equitable provision of municipal services is a misnomer, judging from the reality of non-service delivery, specifically in the less-formal settlements around the country.

A key finding is that public participation is done as a matter of course and to simply show compliance and the question begs if government is really responding to the needs of the people.

The fostering of transparency with the public being provided with timely, accessible, and accurate information depends on who owns and drives this narrative as well as the ability of the public to understand and engage the information that is provided. This anomaly has been dealt with earlier in the study using the example of the highly technical nature of financial statements and reports, while most of the users of these reports do not have the skills or the educational ability to meaningfully interrogate and engage with it.

The findings indicate that a lack and sometimes blatant disregard of consequence management as well as diligent oversight add to the continuous degradation of municipal service delivery and creates a sense of entitlement among councillors and administrators. This spectacle is further supported by political patronage and support. It could be argued that as there are negligible and delayed consequences for unethical actions and sometimes blatant disregard for the rule of law, the perpetrators, in a sense, are empowered to act with more impunity and insolence, as indicated by the actions of those implicated in the State of Capture Report (PP, 2016) and the subsequent court battles to have the findings in the report reviewed.

## 8.3 Discussion: Factors Enabling Sustainability

### 8.3.1. Diligent Consequence Management

The AG reports over the period of the study, with the findings of increasing unauthorised, irregular, and fruitless and wasteful expenditure, can inevitably be a consequence of the above-mentioned submissions on unethical and absolute criminal behaviour with little or no consequences. The findings of this study support the AG position that the issue of consequence and consequence management, requires serious, pertinent intervention and prompt actions to ensure that the perpetrators are brought to book, served with appropriate sanctions, and never be allowed to be a public representative or official again, regardless of their political position or affiliation.

Should the effective implementation of consequence management be further delayed and not taken seriously, it may lead to the total failure of municipalities to provide their constitutionally mandated services. It is already common cause that this leads to an inability to generate own revenue, attract further development and competent staff, increased reliance on grants, failure of critical infrastructure and eventually bankrupt municipalities dependent on bailouts from national and provincial government, which is not sustainable.

### 8.3.2. Positive External Audit Reports

The findings of the study indicate that the four municipalities in this study are doing well regarding financial sustainability, as opposed to the situation described in the introduction to this chapter. The research findings are supported by the AG on their annual financial statements and predetermined objectives, as indicated in Table 8.1.

**TABLE 8.1: AG AUDIT OUTCOMES**

| Fin. Year | TWK | OM | CAM | Swellendam |
|---|---|---|---|---|
| **2012** | Unqualified – No findings | Unqualified – No findings | Unqualified- With findings | Unqualified – With findings |
| **2013** | Unqualified – No findings | Unqualified – No findings | Unqualified- With findings | Unqualified- With findings |
| **2014** | Unqualified- With findings | Unqualified – No findings | Unqualified – No findings | Unqualified- With findings |
| **2015** | Unqualified – With findings | Unqualified – No findings | Unqualified – No findings | Unqualified- With findings |
| **2016** | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings |
| **2017** | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings |
| **2018** | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings | Unqualified- With findings |
| **2019** | Unqualified – No Findings | Unqualified – No findings | Unqualified – No findings | Unqualified – No findings |

OM received clean audits consecutively over the period of the study, followed by TWK and CAM with six overall clean audits and four and six, respectively, year-on-year towards the end of the study period. Swellendam had only three clean audits – 2016, 2017, digressing in 2018 to unqualified with findings before improving again to a clean audit in 2019. The findings showed that Swellendam had three consecutive disclaimers in the three years preceding the study and improved to an unqualified audit with findings the following four years. Swellendam introduced a turnaround plan, continuously working on the corrective measures agreed to on the previous year's findings, as contained in the OPCAR.

### 8.3.3. Valid and Accurate Financial Information

The findings indicate that financial viability requires that municipalities and their councils give serious attention to financial management, and in particular with the submission of annual financial statements that are accurate and timely, that the information provided in the AFS could be verified against the evidence sought by the AG, thus making it valid and accurate. This relates specifically to the principle of transparency, as contemplated in Section 195(1) of the Constitution (RSA, 1996). It further shows that actual expenditure on the budgets did not materially deviate from the approved budgets and with no adverse/negative findings on the predetermined objectives, it indicates that targets of the KPIs approved by council were either met or exceeded.

### 8.3.4. Compliance to Legislation

The findings highlighted the need for legislative compliance, specifically with the prescripts of the MFMA (RSA, 2003) regarding municipal financial management and reporting, supply-chain management (SCM), together with the MSA (RSA, 2000) with regard to integrated development planning and public participation, a clean audit further gives the public the assurance that there was sufficient compliance with legislation. The findings indicated that control and oversight must be exercised over supply-chain management and support the AG view on SCM. In this regard, the AG has consistently focused on SCM compliance. The study points out that SCM is a possible area of financial mismanagement, referring to the much-documented Soccer World Cup 2010 contractor collusion scandal as well as the findings of tender manipulation by the PP in her State of Capture report (PP, 2016), among others, that this is the section most prone to fraud and corruption. Hence, a reasonable assumption can be made that, when a municipality receives a clean audit finding from the AG and maintains that finding for consecutive years, the management of the municipal finances and performance, including financial sustainability, is sound.

### 8.3.5. Positive Liquidity

With the above as a base and following the findings in the historical financial assessments, in the main, clean audits do not necessarily equate to financial sustainability. Municipalities like TWK, CAM, and Swellendam struggled with liquidity at one point or another during the period of study and still received clean audits. As shown in Chapter Five, the NT norm for liquidity is between 1.5:1 and 2:1. It is noteworthy that all municipalities have succeeded in improving their liquidity gradually to 3.1:1 (OM), 2.12:1 (Swellendam), 2.03:1 (CAM), and 1.68:1 (TWK) in 2019, and all municipalities were operating within the liquidity norm. This is positive and the municipalities should endeavour to remain well above the NT norm for liquidity.

A positive liquidity rate allows not only for sufficient working capital to cover the day-to-day expenses but also for funding to be ring-fenced to build and maintain the CRR. It is important that CRR expenditure be guided by a master infrastructure plan as well as the infrastructure replacement plan to ensure that it is used for the purpose it was created for. It could not be determined from the financial information of the municipalities in this study that there was a resolute CRR. All surpluses were recognised as such in the financial statements, but none were specifically ring-fenced to be taken up in the CRR.

### 8.3.6. Infrastructure Master and Replacement Planning

The research findings indicated that infrastructure master- and replacement plans are important for financial sustainability. These plans are developed for the specific purposes of providing infrastructure for the future, in line with the predicted population growth in the municipal areas and the timely replacement of infrastructure so that service-delivery failures are not experienced. This is particularly significant for the replacement of critical infrastructure in the traditionally white and more affluent areas as the MIG can only be used for the purposes of providing infrastructure in the poorer areas. It is well known that after 1994, most of the capital investment in infrastructure has been in the poorer areas where there was a critical need due to the limited or substandard investment in these areas by the former apartheid-governed municipalities. As the infrastructure in the affluent areas are nearing or are already past their useful life, and its replacement cannot be funded from grants, one would expect that municipalities are aware of this and plan and budget appropriately to mitigate total infrastructure failure. Hence, as already mentioned previously, the importance of forward long-term planning for new and refurbished infrastructure investment.

### 8.3.7. Infrastructure Repairs and Maintenance

A further budgetary item related to infrastructure is the allowance for repairs and maintenance as a percentage of the carrying value of the PPE of a municipality. The NT norm is between 6% and 8%. The timely repair and maintenance of infrastructure prolong the useful life of infrastructure. For example, if potholes in a road are not repaired timeously and properly, this may lead to the systematic degradation of the road, leading to total failure. This is the reality in many towns in South Africa. Eventually, it would reach a stage where a damaged area cannot be repaired anymore and must be replaced. Needless to say, the cost of replacement of infrastructure is much higher as opposed to that of maintenance and repair. The replacement of infrastructure is also a capital expenditure while repair and maintenance costs are provided for in the operational budget. Ideally, repairs and maintenance of the cash-generating services should be funded from the tariffs charged for these services; hence, tariffs must be cost-reflective.

At the end of the 2019 financial year, only CAM reported a percentage of 13%, 5% higher than the norm, followed by OM at 6%, Swellendam at 4%, and TWK at 3%. On closer inspection of the capital-budget funding mix of the latter two municipalities, it was also found that capital grants make up most of this budget. In view of the above explanation on the purpose and the conditions of capital grants, as well as the low allowance for repairs and maintenance, it can be assumed, with reasonable certainty, that capital grants were used to provide infrastructure in the poorer areas within the municipalities and that existing infrastructure was not adequately maintained.

### 8.3.8. Capital Budget Spending

Further to the above, it was found that Swellendam and TWK had difficulty spending their capital budgets as well. The 2019 reported figures show that the actual capital expenditure as a percentage of the budgeted capital expenditure was 75% in the case of Swellendam and 72% for TWK. This is unacceptable, as it means that infrastructure development is retarded, thus negatively impacting on efficient service delivery, but also as the capital budgets comprise of capital grants, the lagging effect to the next financial year should be noted. Municipalities are legislatively required to maintain cash reserves that sufficiently cover unspent conditional grants, short-term provisions, cash-backed funds and reserves, and cash cover for working capital. Provision has to be made for unspent conditional grants from a previous financial year, in the cash reserves of a preceding financial year, thus alleviating undue pressure on the minimum liquidity requirements, as opposed to full expenditure in the year that it was received. A further risk of not fully spending capital grants in the year that it is received is that for the unspent part of the grant to be taken up in the following year's budget, a municipality must apply for a rollover of the funds to the NT. Should this rollover not be approved, the NT will deduct the unspent part of the grant from subsequent payments on the grant due to the municipality. In this case, a project already started will have insufficient funding to complete it and the municipality's capital budget for the current year will be less than expected, once again having a lagging effect into future years if the municipality is unable to turn the situation of low expenditure on capital budgets around.

#### 8.3.9. Grant Dependence

In terms of grant dependence, Swellendam and TWK are also marginally more dependent than CAM and OM. The 2019 total grant to total revenue ratio reflect TWK with the highest at 26% and Swellendam at 20%, followed by CAM (18%) and OM (11%). The dependency on grants is further indicated by the own-source revenue to total-revenue ratio. As expected from the discussion thus far, OM generated 94% of revenue from its own sources, followed by CAM at 88%, Swellendam at 84%, and TWK at 79%. The NT 2019 Budget Review (NT, 2019:67) indicates that local government raises approximately 70% of its own revenue but would inevitably be able to raise more if municipalities increased revenue collection efforts. It further states that in 2017/18, close to 50% of all municipalities collected less than 80% of their billed revenue. The latter is obviously reflecting the national picture, but the crux of the statement is a valid one, supported by the author, that municipalities must improve on revenue collection to improve their revenues.

### 8.3.10. Effective Debtor Control

The findings indicate that except for Swellendam, all municipalities reported a growth in consumer debtors, and especially those above 90 days over the period of the study. Swellendam was able to actively decrease the growth in debtors older than 90 days by budgeting for the annual write-off of this debt and writing off the full amount budgeted. In the case of the other municipalities, the opposite is true. Although these municipalities budgeted adequately to write off doubtful debt, they chose not to write off the full amounts, resulting in the growth. In fact, the annual growth in consumer debtors for Swellendam in 2019 was only 5%, followed by TWK at 11%, CAM at 15%, and OM at 18% for the same year.

The increase in consumer debtors is also directly linked to the payment ratio or collection rate. The NT norm is 95%, and although three municipalities in this study achieved a payment rate higher than this norm, it was noted that Swellendam had the highest collection rate in 2019 at 99% and TWK the lowest at 82%. With regard to OM at 98% and CAM at 95%, but the analysis showed that there was a decrease in the collection rate of OM and CAM from 2018 to 2019 and hence, also one of the reasons for the increase in consumer-debtor growth.

Municipalities should diligently manage debt collection, as it becomes more difficult to collect debt as it grows older; this means that more effort should be put into collecting debt soon after it becomes due to prevent further ageing. This study proposes that consumer debtors be incessantly assessed to determine if the debt is irrecoverable, and if so, it should be written off, as any further collection effort would be meaningless. In the replies to the questionnaires, one respondent commented that debt collection is awfully expensive, especially so, if an external service provider is used. The frequent assessment of debtors to determine recoverability will limit the costly debt-collection efforts to those that are indeed recoverable.

The findings indicated that the growth in consumer debtors may also be a result of non-affordability. The unemployment rate, as discussed in paragraph 5.1.4 shows that Overstrand Municipality has the highest unemployment rate of the four local municipalities at 15.86%; Cape Agulhas Municipality is at 9.33%, Theewaterskloof is at 9.2%, and Swellendam is at 7.1%. Interestingly, the increase in consumer debtors follows the same pattern in the municipalities, with the highest in OM and the lowest in Swellendam, as discussed above. The increase in consumer debtors is an important factor that, if not managed, could negatively impact on the financial sustainability of municipalities. It was further noted that in 2019, the annual increases in tariffs for all four municipalities were above the prevailing CPI and this has been the case throughout the period of the study. Municipalities must always be aware of the prevailing socio-economic situation within the municipality and consider the impact of tariff increases on the poor and unemployed. The findings indicated that the assessment of consumer debtors is important and may assist in providing indigent support to only those consumers who genuinely qualify for it and the write offs can be justified, supported by facts. By doing this, it is anticipated that the growth in consumer debtors may be stabilised.

#### 8.3.11. Effective use of Long-Term Borrowings

The NT benchmark for total debt (borrowings) to operating revenue, or the gearing ratio, is 45%; this means that the value of borrowings should not be more than 45% of the total operating revenue in any particular year. The findings indicated that CAM, Swellendam, and TWK have been conservative in their approach to borrowing, and in 2019 their borrowings to total operating revenue were at 10%, 13%, and 17%, respectively, while OM was at 40%. These figures indicate that there is room for the former three municipalities to consider borrowing as an additional source of capital-budget funding, depending, of course, on the individual municipality's ability to service the debt repayment in future from operating revenue to be generated. The repayment period for borrowing is usually linked to the useful life of the infrastructure to be financed. For example, it has been established that the useful life of a wastewater treatment plant is between 25 to 30 years. Hence, it would make sense that the loan repayment period should span over the useful life of the mentioned plant so that the current beneficiaries of the plant are not burdened at present and that future beneficiaries also pay towards the financing of the plant. With proper repairs and maintenance, the useful life can even be extended further and thus, once again, the importance of making sufficient funding available for this purpose must be emphasised.

#### 8.3.12. Regular Property Valuations

The study showed that property rates constitute the largest contribution towards the revenue of all municipalities in this study. In 2019, property rates contributed 20% to the total operating revenue of both CAM and OM, 15% of Swellendam, and 19% of TWK. In terms of the MPRA (RSA, 2006), municipalities are required to conduct a general valuation of all the properties within its authority, every four years, and annual supplementary valuations, to allow for in-year changes to the status of a property, like renovations and extensions. This period can be extended, with the concurrence of the relevant provincial Member of Executive Council (MEC), for a further two years. As a general valuation is by its nature quite an expensive exercise, municipalities tend to make use of the above extension. However, it must be noted that, specifically in holiday towns like Hermanus in OM and Struisbaai and L'Agulhas in CAM, the property market is highly active and having a period of six years between general valuations might impact negatively on the revenue from property rates of a municipality. This statement is supported by the fact that high-value properties in these towns are sought after and because of this, the values of these properties increase at much higher levels than the annual increases in the property-rate tariffs. By way of example, let us consider that a hypothetical property was valued at R1 million in 2014 after a general valuation. The property-rate tariff approved then was R0.0688. The owner of the property will then pay R68,800.00 for property rates for 2014 as well as the annual increases in subsequent years. The property was then sold in 2015 for R1.2 million but the value will still reflect as R1.0 million on the valuation roll of the municipality for the next three years to the next general valuation. Should the municipality extend the general valuation with another two years, it would effectively forfeit the revenue of a higher property value and hence a higher income from property rates for the two years of the extension. Municipalities must be aware of the changes in the property market in their authority and assess the property sale values before considering the extension of the general valuation because of the prominence of the percentage of property rates in relation to total operating revenue.

### 8.3.13. Control of Staff Costs

The research showed that staff costs are the biggest contributor to the total operating expenditure. Although the staff costs of all four municipalities are within the NT norm of between 25% to 40%, it was noted that only OM was below 30% at 29%, while the other three municipalities were at 35% and above. Annual staff increases are negotiated and agreed to nationally, which put them outside the control of the municipality; hence, making it difficult to manage. One of the ways to limit the growth in staff costs is to increase total operating revenue. As mentioned above, diligent control of debtors and an increase in the debtor-collection rate will ensure that debt owed to the municipality will decrease and improve revenue. However, this is not sustainable and hence the positive effect may only be noticed in one financial year.

Municipalities should continuously critically assess its staff budget and staff complement, ensuring that the productivity levels of staff are at a maximum and considering what can be done to improve productivity. In this case, the skills development plan and budget should focus on providing training that will enhance productivity, as opposed to providing training for personal needs. Training should also be intrinsically linked to achieve the strategic and operational goals of the municipality. For example, in this study, it was shown that the debt-collection rate in TWK was at 82% in 2019. The municipality should endeavour to increase the collection rate to the NT norm of 95%. Hence, considerable effort should be made to assess the productivity and capabilities of the staff in the credit-control and debt-collection units in the municipality. Management should work with them to determine what training and resources are needed to increase productivity and then follow through with appropriate mitigating actions. They should then agree on targets; and through constant monitoring and evaluation, assess if there is an improvement and adjust, as necessary. In doing so, the municipality should be able to improve staff morale, as they are regarded as valued officials improving the revenue of the municipality. If indeed the results are positive, it would remove the need for the municipality to contract external consultants for debt-collection purposes, thus resulting in a less-burdened expenditure budget but also an increase in revenue.

It is a well-established fact that municipal staff establishments are bloated and requests for new positions not well motivated. This study has found, specifically in the cases of OM and CAM, that there are always several vacant positions on the municipal organogram that have remained vacant for some time, even spanning over financial years. Vacancies on the organogram should only be filled with a full motivation for the post by the relevant senior official; if the request to fill a post is not properly motivated, the post should be abolished. In the same vein, a similar process should be followed when a post becomes vacant for whatever reason. Management should assess the post to determine if it is really needed and if not, remove it from the organogram, as it is a sure way to control staff costs, and it is within the municipality's control.

The goal should be to have the leanest possible staff establishment filled with competent, skilled staff operating at maximum productivity. It must be understood that achieving this will not be easy nor quick but rather a process driven by a culture of productivity and work ethics to reach the end goal. This study further advises that the process must be agreed to, at least in principle, by all role players – council, management, and the affected staff, as well as the unions, to ensure transparency and success.

#### 8.3.14. Long Term Financial Planning

The findings indicate that long term financial plans are an important element to ensure financial sustainability. All the municipalities in this study have long-term financial plans (LTFP) guiding the municipality's future financial decisions. It would seem, supported by the responses from the respondents and the analysis of the financial data, that long-term financial planning is crucial for ensuring the municipality's future financial sustainability. This is aimed at ensuring that the municipality has sufficient and cost-effective funding available to achieve its long-term objectives, through the implementation of the medium-term operating and capital budgets. This plan should be further supported by the infrastructure master and development plans.

## 8.4 Recommendations for Improving Financial Sustainability

The recommendations presented below are based on the research findings and aim to assist municipalities to achieve financial sustainability, and by doing so, deliver on their constitutional mandate.

8.4.1 Municipalities must ensure the effective implementation of consequence management. In this regard, it is important to ensure that council oversight committees, like the Internal Audit Committee (IAC) and Municipal Public Accounts Committee are properly constituted. The members of these committees must understand their roles and responsibilities and practice diligent oversight in holding council and the administration accountable. Internal audits can strengthen the position of the Accounting Officer (AO) in terms of advice, specifically in fraud and corruption investigations, regarding the charge sheets of those implicated. The AO should then follow through and report to the IAC and ultimately to council on the outcome of any disciplinary hearings.

8.4.2 Municipalities should continue working on achieving and maintaining clean audit outcomes; it shows a commitment to proper financial management and compliance with local government laws and regulations. Clean audits also have a reputational value, as prospective investors and developers will to some extent be assured that they can invest with confidence within the municipal jurisdictional area.

8.4.3 Municipalities must ensure a liquidity ratio of at least or above 2:1, specifically where there are unspent conditional grants that need to be covered and to allow for short-term provisions, cash-backed funds and reserves, as well as working capital of one to three months.

8.4.4 Municipalities must ensure that a dedicated Capital Replacement Reserve (CRR) fund is established and funded from annual surpluses. A healthy CRR fund will allow the municipality to fund infrastructure that cannot be funded from capital grants, specifically in the more affluent and previously advantaged areas. Usually, the properties in these areas are of a high value and consumer payment rates are also better. Municipalities need to actively show spending in these areas to earn and keep the trust of the ratepayers living here and thus ensure that they continue paying their municipal accounts.



8.4.5 Sufficient allowance should be made for expenditure on repairs and maintenance. This study recommends that municipalities make provision for at least the 8% of the total carrying value of PPE as guided by the NT norms. Proper repairs and maintenance of infrastructure prolongs the useful life, thus alleviating the burden on the capital budget in the longer term.

8.4.6 Expenditure on maintenance must be guided by proper maintenance-management plans to ensure that the maintenance budget is spent on the most critical maintenance needs.

8.4.7 The importance of full expenditure of the capital budget can also not be overemphasised. Under-expenditure on capital budgets happens for several reasons, but in most cases, it could be due to a lack of proper planning. Procurement in a municipality is guided by a demand management plan (DMP). In fact, the DMP is a contract between the AO and the various budget holders on when procurement practices like tender specifications will be approved that precede the actual tender advertisement and from there, when tender evaluations and adjudications will take place. In some cases, when the DMP is developed for approval, it is not informed by diligent planning of the implementation of the projects. The study recommends that the AO evaluate the implementation of the DMP in consultation with the management team, on a monthly basis, to determine progress and provide support and leadership, should there be slow progress. The study further recommends that only projects that are indeed "project ready" be considered for budget approval.

8.4.8 A further reason for under-expenditure on capital budgets is the competence and capacity of the supply-chain management (SCM) unit. As SCM is centralised in most municipalities, certainly in those used in this study, a general perception of budget holders is that SCM must drive their projects. The latter was experienced in both CAM and OM. Clearly, this is wrong, as SCM provides a support service and will only act on instruction from the budget holders, who are responsible for the expenditure of their budgets. SCM is a highly technical discipline, and the staff must have the required qualifications and skills, and as they are such an important link in the expenditure chain in a municipality, it is vital that municipalities firstly appoint staff with the required knowledge and skills and secondly, regularly evaluate their performance to determine maximum productivity.

8.4.9 A reliance on consultants, and specifically consulting engineers in infrastructure projects, is also viewed as a reason for slow capital expenditure. Consultants are also not appropriately managed, as budget holders rely on them to develop specifications and evaluate tenders. Some consultants are not always fully conversant with the SCM legislation, resulting in reports from them having to be constantly referred back for revision, adding to delays in adjudicating the tenders. As stated earlier in this chapter, consultants have no direct interest in the municipality and should be suitably managed to ensure that maximum value of their services is indeed received.

8.4.10 Municipalities must ensure that their capital-budget funding mix is diversified and not just dependent on one or two sources. A case is point is Swellendam, whose capital budget consisted only of capital grants. This way of budgeting is not sustainable, as municipalities have no control over the allocation of grants. The latter is done either by provincial or national government. Capital grants are also conditional; hence they can only be used for a specific purpose or programme, leading to the deterioration of services that are not supported by the grant if the capital budget does not include any other sources of funding.

8.4.11 Municipalities must ensure that they diligently apply credit-control and debt-collection measures immediately after debt becomes payable to minimise the possibility of an increase in older debt. This recommendation is made since three out of the four municipalities in this study showed stubborn increases in the debtors older than 90 days throughout the period of the study. In other words, municipalities must put more effort into collecting the current debt than chasing the older debt.

8.4.12 The study also recommends that municipalities assess and evaluate the old debt to determine if it is indeed collectable; should it not be, the municipality must make available an adequate budget to write it off. Debt is often reflected as a source of revenue in the statement of financial position of a municipality, but if it is irrecoverable, it defeats the purpose of these statements and will reflect an inaccurate financial position of the municipality.

8.4.13 A further reason for the continuous assessment of debt older than 90 days is to use the information to inform the allocation of indigent grants. These grants are approved on submission of an application by a ratepayer and hence, municipalities are reactive and dependent on the ratepayer to provide information that is often not verified, to inform their decision-making. A proper assessment of debt older than 90 days will, if followed up by further enquiries, provide acceptable validation that a ratepayer is indigent or not.

8.4.14 Debt-collection levels must be kept close to or at 100% and even higher, as a collection rate higher than 100% will show that older debt is also collected. The collection rate is calculated on billed income to actual income received each month and hence, the submission that a collection rate of more than 100% is possible.

8.4.15 Municipalities should consider doing debt collection in-house rather than to appoint an external service provider to do it. Service providers do not have any direct interest in the financial well-being of a municipality. The municipality should perform a proper evaluation of the capabilities of the staff in the credit-control and debt-collection units. This is to assess and understand strengths and weaknesses of the team and to determine what should be implemented to improve their performance. As stated previously, the proper buy-in and support of all role players, but specifically the managers, supervisors, and all other staff in these units, as well as the trade unions, should be sought. It is further submitted that when staff understands the reasons for a particular action and their role in it, they would be more willing to participate fully. Municipalities should also agree on performance incentives for reaching collection goals; this could either be additional leave or training – it does not always have to be monetary compensation.

8.4.16 It has been shown that staff costs are the largest contributor to operational expenditure within municipalities. As alluded to previously, it is difficult to contain, as annual increases are negotiated and agreed to on a national level. Municipalities have the choice to apply for waivers to implement increases lower than those agreed to nationally. However, it has proven to be a tedious exercise in futility for some of the municipalities in the Western Cape that have been through the exercise, like Swartland and Drakenstein, as one needs to prove unaffordability. The study proposes that municipalities must endeavour to constantly assess their staff establishments to determine if all the posts are required to support their operations. The study further proposes that productivity assessments be done to support the evaluation of the staff establishment, as it should no longer be the norm that a larger workforce equals greater productivity. This assessment must then inform the requests for new posts or the filling of vacant posts. Due to the burden of staff costs on the operational expenditure budget, any vacancy must be properly motivated before it is filled, as it is much easier to abolish a vacant position than one that is filled. The objective is to arrive at a point where there is a lean organogram with positions filled with highly productive staff.

8.4.17 Contributing to the staff costs are benefits like pension and medical aid as well as post-employment benefits of contributing towards medical aid. Then there are travelling and scarcity allowances, to name but a few. This researcher holds the view that a process must be started to challenge the allocation of some of these benefits as they are outdated and put an additional strain on the finances of a municipality, and that do not necessarily add value, as some people seek or hang on to employment in a municipality for the sake of the benefits. As some benefits are also negotiated and agreed to nationally, municipalities should start with the ones that the municipality controls, like overtime – this should be limited overtime to only emergency work. Then there are the scarcity allowances: management should work on a staff progression strategy that allows for the training of junior staff to be capacitated to take over from staff who were attracted to the municipality with a scarcity allowance. Travelling and essential motor-scheme allowances should be weighed against the cost of providing a staff member with a municipal vehicle. The point being made is that there are other costs included in staff costs that must be evaluated and can be cut to lower staff costs.

8.4.18 The study further noted that all four municipalities in this study had long-term financial plans (LTFPs) with the purpose of guiding future financial decisions to ensure future financial sustainability and that these plans are supported by infrastructure master- and development plans. It is essential that municipalities develop master-infrastructure plans to understand the extent and state of their current infrastructure. Master plans inform the expenditure on repairs and maintenance. Infrastructure-development plans determine the infrastructure needs of the future based on the estimated growth in population as well as possible private developments. This plan must guide future capital spending on new infrastructure. Without these essential plans, any future expenditure on infrastructure is reactive; that is, infrastructure failures determine upgrades and replacement and without infrastructure development plans, backlogs will never be eradicated.

8.4.19 In conclusion, the above two plans must inform the LTFP to guide future expenditure but also predict future revenue to be collected because of growth in consumers serviced by new infrastructure. The LTFP must forecast liquidity, capital funding sources, including borrowing, increases in operating revenue and expenditure, and cash flows. If we cannot predict and plan for our future needs, any planning done will be planning for failure.

## 8.5 Recommendations for Further Studies

The study found that municipalities, even those who are currently financially sustainable, will find it more difficult in future to remain so, given the realities of negative economic growth, increased unemployment, and subsequent dependence on the state for free services.

In view of the above, municipalities need to find alternative sources of funding to operate effectively and provide the constitutionally mandated basic services to the communities that they serve. With this in mind, this study's recommendation for further research would be that an assessment be done on the current funding mix of municipal budgets, if the current assumption that municipalities should provide 95% of their budgets from own-generated funding still holds true. If not, a study could determine what percentage could reasonably be generated by municipalities to support their budgets and if municipalities should receive a larger percentage from the national fiscus, given the current reality.

As municipalities are at the coal face of service delivery, it was found that communities tend to demand education, primary health, crime prevention, and social-related services from local government. This study proposes further research on the possible expansion of the functions and powers of local government as the sphere of government closest to the people.

Bac (2013:xiii) states that it is important that financial reporting is as understandable as possible and to include the electorate more intensively as part of the democratic process. This is specifically relevant in South Africa to keep politicians and their administrations accountable for the management of public money. This study proposes further research to improve the presentation of financial reports to enhance understandability and explore effective mechanisms to engage with communities to empower them to exercise their rights to hold those in power and responsible for the public purse, accountable.

A final recommendation for further research is that of consequence management and how it can be improved to curb corrupt activities within municipalities.

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