ASSESSING FINANCIAL VIABILITY OF SELECTED URBAN AND RURAL MUNICIPALITIES IN THE EASTERN CAPE

BY
SINDISILE MACLEAN

SUBMITTED IN FULFILLMENT FOR THE DEGREE OF DOCTOR OF ADMINISTRATION
IN THE
FACULTY OF MANAGEMENT AND COMMERCE
DEPARTMENT OF PUBLIC ADMINISTRATION
UNIVERSITY OF FORT HARE

SUPERVISOR:
PROFESSOR D.R. THAKHATHI
DECEMBER 2012
DECLARATION

I, Sindisile Maclean, hereby declare that the thesis entitled: Assessing Financial Viability of Selected Urban and Rural Municipalities in the Eastern Cape is my own original work, except where indicated in terms of acknowledgement, and has not been submitted for any other degree in any other University.

Signed

…………………………………

Date

…………………………………
DEDICATION

This thesis is dedicated to my late parents, Mnyamezeli (Trust) Norman and Nomisile (Notho) Grace Maclean. They were not educated, but determined, against all odds, to educate their children. Their determination inspired me to strive for this achievement. May their souls rest in peace.

0o0
ACKNOWLEDGEMENTS

I acknowledge the support, encouragement, assistance and prayers that were offered for me during the course of my studies and the research.

The first acknowledgement goes to my creator, the Almighty God for his unwavering guidance. For His support, I will remain grateful all my life. My spiritual leader, Reverend Fungile Buti is also acknowledged for his continued spiritual support.

I also acknowledge Professor Hendrick Kanyane for his academic guidance at the initial stages of the research.

My greatest acknowledgement is extended to my Supervisor, Professor Dovhani Reckson Thakhathi for his patience, as well as his constant academic guidance. His supportive style of supervision did not discourage me, but gave me more strength and confidence. Without his support and guidance, this document would not have been realised.

I wish also to acknowledge the respondents that responded to my interviews and questionnaires, and the institutions that gave me permission to undertake research in their institutions.

My colleagues, friends, comrades and those who did the reading and editing are also acknowledged.

Lastly, I acknowledge my wife Ntombekhaya, my children, my siblings and those members of my extended family who gave me support at a very critical time of the research.

0o0
ABSTRACT

The purpose of the research is to assess the financial viability of selected urban and rural municipalities in the Eastern Cape. Municipalities that are not financially viable and sustainable will always struggle to deliver basic services to communities. Without sound financial management systems, municipalities will be forced to discontinue their operations. Municipalities, particularly small and rural ones, are not self-sufficient and often rely on grants and transfers to satisfy their immediate short-term goal of providing basic services to satisfy the needs of their communities. Therefore, finance is regarded as an overriding and decisive factor for determining the viability of municipalities.

The study seeks to investigate the financial viability of selected urban and rural municipalities in the Eastern Cape. Its key research questions are:

- Are municipalities able to provide sufficient funds to provide a range of services at an acceptable service level?
- To what extent do municipalities rely on external funding?
- Do municipalities have revenue collection capacity and revenue policies?

The study asserts that most municipalities lack the required financial resources. They depend mainly on transfers from Provincial Government and equitable share and conditional grants from National Government. Section 152 (1) of the Constitution of the Republic of South Africa, Act 8 of 1996, states, amongst other things, that Local Government should ensure the provision of services to communities in a sustainable manner. The constitution further states that a municipality must strive, within its financial and administrative capacity, to achieve its objectives.

The Municipal Finance Management Act, Act 56 of 2003, creates a framework for municipalities to borrow money and determine the conditions for short- and long-term borrowing. The Act assigns clear roles and responsibilities to the various role players involved in local government financial management. According to the Act, an annual budget for a municipality may only be funded from realistically anticipated revenues to
be collected. As revenue projections in the budget must be realistic, the Municipal Property Rates Act, Act 6 of 2004, facilitates the collection of revenue in municipalities and establishes a uniform property rating system across South Africa. Property tax is the biggest element of local government tax revenue and is central to municipal finance. The Municipal Systems Act, Act 32 of 2000, amongst its objectives, provides for the manner in which municipal powers and functions are exercised as well as establishes a simple framework for the core processes of planning, performance management and resource mobilisation. The Act also provides a framework for public administration and human resource development. Finally, it also empowers the poor and ensures that municipalities put in place service tariffs and credit control policies that take their needs into account.

The research contends that, whilst there is legislation and structures to assist and direct municipalities, it has been established that municipalities do not properly collect rates and taxes due to them to augment their revenue. The study has shown nevertheless that metropolitan municipalities have the capacity to collect revenue for municipal services. This is confirmed by their collection rate which ranges between 94% and 97%. There is also the culture of non-payment by communities for services rendered by the municipalities. Rural municipalities are exempted from property tax, while other rural municipalities who have an urban component, have to collect. There is also the question of unemployment and poverty. Consequently, municipalities are not self-sufficient and rely on grants and equitable share to survive. As a result of this lack of self-sufficiency, it is difficult to implement service delivery and also difficult to attract skilled personnel. The study has investigated why some municipalities fail to collect revenue and depend on national grants. The study employed both qualitative and quantitative methods. The findings of the quantitative paradigm have been presented in the form of graphs and charts. The major findings include: All municipalities have limited borrowing capacity; have not exceeded their budgets in terms of their spending; small municipalities have households as their main contributor of revenue collected; metropolitan municipalities get the big slice of their revenue from business; small and rural municipalities rely on
grants and transfers and are therefore not financially viable; metropolitan municipalities are, to a great extent, financially viable but lack skills and capacity to utilize their resources for effective service delivery; and all municipalities underspend their budgets. The study, after elaborating on the findings, makes recommendations on how municipalities should become financially viable.

0o0
<table>
<thead>
<tr>
<th>ACRONYMS</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFS</td>
<td>Annual Financial Statements</td>
</tr>
<tr>
<td>ALGA</td>
<td>Australian Local Government Association</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor General</td>
</tr>
<tr>
<td>ANC</td>
<td>African National Congress</td>
</tr>
<tr>
<td>CBA</td>
<td>Cost Benefit Analysis</td>
</tr>
<tr>
<td>COGTA</td>
<td>Cooperative Governance and Traditional Affairs</td>
</tr>
<tr>
<td>CBOs</td>
<td>Community Based Organisations</td>
</tr>
<tr>
<td>DORA</td>
<td>Division of Revenue Act</td>
</tr>
<tr>
<td>DPLG</td>
<td>Department of Provincial and Local Government</td>
</tr>
<tr>
<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
</tr>
<tr>
<td>DG</td>
<td>Director General</td>
</tr>
<tr>
<td>GRAP</td>
<td>Generally Recognised Accounting Practices</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Practices</td>
</tr>
<tr>
<td>GAMAP</td>
<td>Generally Accepted Municipal Accounting Practices</td>
</tr>
<tr>
<td>GEAR</td>
<td>Growth, Employment and Redistribution Strategy</td>
</tr>
<tr>
<td>GSLN</td>
<td>Governing the States and Localities Newsletter</td>
</tr>
<tr>
<td>FCC</td>
<td>Fiscal and Financial Commission</td>
</tr>
<tr>
<td>IGF</td>
<td>Intergovernmental Forum</td>
</tr>
<tr>
<td>IGR</td>
<td>Intergovernmental Relations</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LGTAS</td>
<td>Local Government Turn Around Strategy</td>
</tr>
<tr>
<td>LED</td>
<td>Local Economic Development</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>MEC</td>
<td>Member of the Executive Council</td>
</tr>
<tr>
<td>MIG</td>
<td>Municipal Infrastructure Grant</td>
</tr>
<tr>
<td>MINMEC</td>
<td>Minister and Member of Executive Council</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>MUNIMEC</td>
<td>Municipalities and Member of Executive Council</td>
</tr>
<tr>
<td>M &amp; E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MFMA</td>
<td>Municipal Finance Management Act</td>
</tr>
<tr>
<td>MSA</td>
<td>Municipal Systems Act</td>
</tr>
<tr>
<td>MSA</td>
<td>Municipal Structures Act</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Governmental Organisations</td>
</tr>
<tr>
<td>NPC</td>
<td>National Planning Commission</td>
</tr>
<tr>
<td>PCC</td>
<td>Presidential Coordinating Council</td>
</tr>
<tr>
<td>PRC</td>
<td>Presidential Review Commission</td>
</tr>
<tr>
<td>PSC</td>
<td>Public Service Commission</td>
</tr>
<tr>
<td>PSR</td>
<td>Public Service Regulations</td>
</tr>
<tr>
<td>PWC</td>
<td>Price Water Coopers</td>
</tr>
<tr>
<td>RDP</td>
<td>Reconstruction and Development Plan</td>
</tr>
<tr>
<td>RSC</td>
<td>Regional Services Council</td>
</tr>
<tr>
<td>SACN</td>
<td>South African Cities Network</td>
</tr>
<tr>
<td>SALGA</td>
<td>South African Local Government Association</td>
</tr>
<tr>
<td>SCOPA</td>
<td>Standing Committee on Public Accounts</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 3.1: BCMM boundaries – Source: IDP 2011-2012

Figure 3.2: Lukhanji boundaries -- Source: IDP 2011-2012 and Census 2011

Figure 3.3: Nelson Mandela Bay boundaries – Source: IDP 2011-2012 and Census 2011

Figure 3.4: Ngqushwa boundaries – Source: IDP 2011-2012 and Census 2011

Figure 4.1: Distribution of Revenue Collection (BCMM)

Figure 4.2: Collection Rate (BCMM)

Figure 4.3: Municipal Revenue (BCMM)

Figure 4.4: Total Revenue (Lukhanji)

Figure 4.5: Distribution of Collected Revenue (Lukhanji)

Figure 4.6: Municipal Service Collection Rate (Lukhanji)

Figure 4.7: Different Amounts of Sources as Revenue (NMBM)

Figure 4.8: Distribution of Revenue Collected in terms of Percentage (NMBM)

Figure 4.9: Collection Rate for Municipal Services (NMBM)

Figure 4.10: Skills Development Levies Budget (Ngqushwa)

Figure 4.11: Financial Management Budget (Ngqushwa)
Table of Contents

DECLARATION ........................................................................................................................................... ii
DEDICATION ............................................................................................................................................... iii
ACKNOWLEDGEMENTS ............................................................................................................................. iv
ABSTRACT .................................................................................................................................................... v
ACRONYMS .................................................................................................................................................. viii
LIST OF FIGURES ..................................................................................................................................... x

CHAPTER 1 .................................................................................................................................................... 1
  1.1 INTRODUCTION AND BACKGROUND ............................................................................................ 1
  1.2 PROBLEM STATEMENT ....................................................................................................................... 3
  1.3 GENERAL OBJECTIVES OF THE STUDY .......................................................................................... 3
    1.3.1 Specific research objectives ........................................................................................................ 4
  1.4 SIGNIFICANCE OF RESEARCH ........................................................................................................ 4
  1.5 HYPOTHESIS ....................................................................................................................................... 4
  1.6 LITERATURE REVIEW ....................................................................................................................... 5
    1.6.1 Theoretical framework .................................................................................................................. 5
    1.6.2 General Financial and Revenue Issues .......................................................................................... 7
  1.7 RESEARCH METHODOLOGY ............................................................................................................. 15
    1.7.1 Research Design ........................................................................................................................... 15
    1.7.2 Population .................................................................................................................................... 15
    1.7.3 Sampling ...................................................................................................................................... 16
    1.7.4 Data collection ............................................................................................................................. 16
    1.7.5 Scope and limitation of the study .................................................................................................. 18
    1.7.6 Ethical considerations .................................................................................................................. 18
    1.7.7 Definition of terms ....................................................................................................................... 18
    1.7.8 CHAPTER OUTLINE ...................................................................................................................... 19
## CHAPTER 2

### LITERATURE REVIEW

2.1 INTRODUCTION........................................................................................................... 20

2.2 LEGISTATIVE FRAMEWORK....................................................................................... 21

2.2.1 The Constitution of the Republic of South Africa, 1996............................................ 22

2.2.2 Municipal Property Rates Act, 6 of 2004................................................................. 35

2.2.3 Municipal Systems Act, 32 of 2000 ................................................................. 36

2.3 AUDITING – AN ELEMENT OF FINANCIAL MANAGEMENT ................................... 37

2.3.1 Introduction.............................................................................................................. 37

2.3.2 Legal requirements ............................................................................................... 37

2.3.3 The need for audit committees.............................................................................. 38

2.3.4 Theory that depicts auditing in financial management........................................ 42

2.3.5 Conclusion.............................................................................................................. 55

2.4 COST BENEFIT ANALYSIS (CBA) – THEORETICAL UNDERPINNINGS............... 55

2.5 CRITICAL REVENUE DYNAMICS........................................................................... 59

2.6 SERVICE DELIVERY, SUSTAINABLE DEVELOPMENT AND LOCAL ECONOMIC DEVELOPMENT ........................................................................................................... 65

2.6.1 Service Delivery...................................................................................................... 65

2.6.2 Sustainable development....................................................................................... 68

2.6.3 Local Economic Development............................................................................... 78

2.6.4 International context............................................................................................. 80

2.6.5 Context for local government............................................................................... 85

2.6.6 Variants of LED in South Africa............................................................................ 86

2.6.7 Role of Local government in LED......................................................................... 86

2.6.8 Analysis of LED strategies.................................................................................... 89

2.6.9 Strategic planning for LED.................................................................................... 91

2.6.10 Conclusion............................................................................................................ 94

2.7 THEORY AND PRACTICE OF COST RECOVERY..................................................... 95

2.8 DEPENDENCE ON NATIONAL TRANSFERS AND GRANTS AND INTERGOVERNMENTAL RELATIONS .................................................................................. 99

2.8.1 Transfers and grants............................................................................................. 99
2.8.2 Intergovernmental relations .................................................................................................................. 102
  2.8.2.1 Pre-1994 Intergovernmental Relations (IGR systems) ................................................................. 102
  2.8.2.2 Post-1994 ........................................................................................................................................ 104
2.8.3 Weaknesses at the Centre of Government ......................................................................................... 110
2.8.4 The Intergovernmental Forum (IGF) ................................................................................................. 110
2.8.5 Ministerial Forums (MINMECs) .......................................................................................................... 111
2.8.6 The National Council of Provinces (NCOP) .................................................................................... 111
2.8.7 Technical Committees ....................................................................................................................... 112
2.8.8 Overall assessment of intergovernmental relations ........................................................................... 112
2.8.9 Constraints and Deficiencies ............................................................................................................ 113
2.8.10 Intergovernmental Forum .............................................................................................................. 113
2.8.11 Technical IGR Structures: Uneven Performance .......................................................................... 114
2.8.12 Role of the Department of Cooperative Governance .................................................................... 115
2.8.13 IGR within the Provinces: Failure in Co-ordination ....................................................................... 115
2.8.14 IGR and Local Government ........................................................................................................... 116
2.8.15 Impact of Financial Systems on IGR: Mismatch of Budgets .............................................................. 116
2.8.16 The Commission’s Concerns regarding IGR ................................................................................. 117
2.8.17 Evolvement of the IGR framework ................................................................................................ 117
2.8.18 Debate on continuity of provincial government in South Africa .................................................... 119
2.8.19 Public Participation .......................................................................................................................... 128
2.8.20 IGR SWOT Analysis ....................................................................................................................... 129
2.8.21 IGR Challenges ............................................................................................................................... 130
2.8.22 Conclusion ....................................................................................................................................... 132
2.9 PERFORMANCE BUDGETING .................................................................................................................. 132
2.10 PERFORMANCE MEASUREMENT AND APPRAISAL ................................................................... 135
  2.10.1 Performance measurement .............................................................................................................. 135
  2.10.2 Performance Appraisal .................................................................................................................... 137
  2.10.3 Conclusion ....................................................................................................................................... 148
2.11 MUNICIPAL FINANCIAL MANAGEMENT AND ACCOUNTABILITY .............................................. 148
2.12 GOOD GOVERNANCE AND CONFLICT OF INTEREST AND CORRUPTION ....................... 150
2.12.1 Good governance.................................................................................................................. 151
2.12.2 Conflict of interests and ethical conduct............................................................................. 152
2.12.3 Conclusion............................................................................................................................ 158
2.13 INTERNATIONAL PERSPECTIVE................................................................................................. 161
2.14 ATTEMPTS BY MUNICIPALITIES AT RAISING OWN-REVENUE ........................................ 170
2.15 MONITORING AND EVALUATION IN ENHANCING FINANCIAL VIABILITY AND SUSTAINABILITY ......................................................................................................................................... 177
  2.15.1 Introduction .......................................................................................................................... 177
  2.15.2 Monitoring............................................................................................................................ 177
  2.15.3 Evaluation............................................................................................................................. 178
  2.15.4 Reporting.............................................................................................................................. 178
  2.15.5 Conclusion............................................................................................................................ 182
2.16 GOVERNMENT INTERVENTIONS - ATTEMPTS TOWARDS SOLUTION OF LOCAL GOVERNMENT CHALLENGES ........................................................................................................................................ 183
  2.16.1 Introduction .......................................................................................................................... 183
  2.16.2 Five Year Local Government Strategic Agenda ................................................................. 184
    2.16.2.2 Key Performance Area 2 – Basic Service Delivery ....................................................... 184
    2.16.2.3 Key Performance Area 3 – Local Economic Development .......................................... 184
    2.16.2.4 Key Performance Area 4 – Municipal Financial Viability and Management ............. 185
    2.16.2.5 Key Performance Area 5 – Good Governance and Public Participation ....................... 185
  2.16.3 Local Government Turn - Around Strategy (LGTAS: 2009 – 2011) .................................. 186
    2.16.3.1 Key programmes of LGTAS ........................................................................................ 186
    2.16.3.2 LGTAS key objectives .................................................................................................. 187
    2.16.3.3 Focus areas of the LGTAS process ............................................................................... 187
    2.16.3.4 Expected outcomes of LGTAS (Ten point plan) .......................................................... 187
  2.16.9 Conclusion ............................................................................................................................ 192

CHAPTER 3 ......................................................................................................................................... 194
RESEARCH DESIGN AND METHODOLOGY .................................................................................. 194
3.1 INTRODUCTION .......................................................................................................................... 194
  3.1.1 Research Design and Methodology ...................................................................................... 194
3.2 SCOPE OF THE STUDY ........................................................................................................................................ 195
3.2.1 Buffalo City Metropolitan Municipality ................................................................................................... 195
3.2.2 Lukhanji Municipality ............................................................................................................................ 197
3.2.3 Nelson Mandela Metropolitan Municipality .............................................................................................. 197
3.2.4 Ngqushwa Local Municipality ................................................................................................................ 198
3.3 POPULATION.................................................................................................................................................. 200
3.4 SAMPLING...................................................................................................................................................... 200
3.5 DATA COLLECTION METHODS/TECHNIQUES .......................................................................................... 201
   3.5.1 Interview technique ................................................................................................................................ 201
   3.5.2 Questionnaire technique .......................................................................................................................... 202
   3.5.3 Document analysis .................................................................................................................................. 202
3.6 ETHICAL CONSIDERATIONS......................................................................................................................... 203
3.7 CONCLUSION................................................................................................................................................ 203

CHAPTER 4 ........................................................................................................................................................... 204
DATA PRESENTATION, INTERPRETATION AND ANALYSIS.................................................................................. 204
4.1 INTRODUCTION................................................................................................................................................ 204
4.2 DATA COLLATION AND PROCESSING ........................................................................................................... 204
4.3 DATA PRESENTATION, INTERPRETATION AND ANALYSIS ........................................................................ 205
   4.3.1 Buffalo City Metropolitan Municipality ................................................................................................... 205
   4.3.2 Lukhanji Local Municipality .................................................................................................................. 213
   4.3.3 Nelson Mandela Metropolitan Municipality .............................................................................................. 219
   4.3.4 Ngqushwa Local Municipality ................................................................................................................ 225
   4.3.5 General comparison of rural and urban municipalities, including those that are not necessarily selected for the topic .................................................................................................................. 229
4.4 Conclusion....................................................................................................................................................... 231

CHAPTER 5 ........................................................................................................................................................... 232
FINDINGS AND RECOMMENDATIONS .................................................................................................................. 232
5.1 INTRODUCTION................................................................................................................................................ 232
CHAPTER 1

1.1 INTRODUCTION AND BACKGROUND

The purpose of the study is to investigate the financial viability of a selected number of municipalities in the Eastern Cape. Any local government must have a clear vision of its goal therefore it must have a purpose in mind and a goal towards which it can strive. As finance is usually considered to be the overriding factor in determining the viability of local government, without sound financial management systems, local government will be forced to discontinue their operations (Kanyane, 2011:1) As a consequence, Ismail, Bayat and Meyer (1997:76) argue that all local authority stakeholders and role players should have a sound knowledge of local financial management. McCarney (1996:5) also contends that the importance of research on local government has never been greater to provide insight into the historical and contemporary systems of local government and changing nature of local governance now underway in the developing world.

McCarney (1996:23) suggests that to revise local government financial structures, governments and local government, in particular, should empower communities rather than simply deliver services. But whilst municipalities have to provide a satisfactory quality of life, resources to do so are essential. A majority of municipalities in South Africa are not self-sustaining. There are a number of challenges facing municipalities that include finance, proper budgeting, proper planning and qualified or capacitated personnel. It is preferable for city expenditure requirements to be raised from local revenue sources, as this maximises local accountability for local services (SACN, 2007:144). However, this study focuses more on the financial viability of local government to provide a conclusion for this investigation. Service provision requires a foundation of financial sustainability to fulfill constitutional and legislative responsibilities. Municipal financial resources come from three key sources, namely, equitable share, grants / transfers and locally-generated revenue.

The South African cities network (SACN) (2007:2), in its report on the State of City Finances, also highlights a number of strategic issues on the topic of municipal financial viability. Firstly, the report states that finances of city governments are fundamental to the functioning of city governments. Secondly, finance is about making choices regarding the allocation of scarce resources. For example, if taxes are too low, there will be insufficient resources to run public services, but if they are too high, local economic activity will be stifled. Thirdly, finance shapes institutions. The mechanism by which an organisation manages its finances, and the transparency and rigour with which it does so, have important institutional impacts. Most significantly, the mechanisms define the patterns of accountability which drive the actual functioning of institutions and the choices they make. For example, SACN (2007:2) concludes:

…the more a city government sources its revenue from its own citizens and businesses, the more attentive it will tend to be to their needs and the greater its incentive to act in ways which grow the economy, and thus its own tax base. A city government which is financed by informal grants has far less of an incentive to do so. But the configuration of city responsibilities means that city governments can, and should, be funded mainly by local revenue sources.
1.2 PROBLEM STATEMENT

Financial feasibility is crucial since it deals with the financial capacity of the local authority to execute basic services adequately. Generally, not all local governments are self-sufficient and many require national government transfers to bridge the financial gap. As a result of this lack of self-sufficiency, it is difficult to implement service delivery and also difficult to attract and retain skilled personnel in the area under study. Consequently, a municipality will not be able to fully carry out its legal and constitutional obligations, and services will collapse. In addition to the inability of municipalities to carry out their legal and constitutional obligations, there is an outcry and public concern regarding the mismanagement of funds and the under-spending by the municipalities. Under-spending is a big problem whilst crucial services are not rendered by the municipalities.

Linked to the problem statement are the following research questions:

- Are the municipalities able to financially maintain and provide the level of services anticipated by ratepayers and communities?
- Are municipalities able to provide sufficient funds to provide a range of services at a service level acceptable to recipients?
- To what extent do municipalities rely on external funding, including grants and transfers from provincial and national spheres of government?
- Do the municipalities have the ability to provide an acceptable range and quality of affordable services?
- Do municipalities have financial and revenue collection capacity and workable revenue policies?
- Do municipalities have audit committees?

1.3 GENERAL OBJECTIVES OF THE STUDY

The overall aim and objectives of the research is to assess the system of financing municipalities and to make recommendations on how to improve their viability. Viable
municipalities are able to discharge their legal and constitutional obligations towards their citizens, namely, delivering services.

1.3.1 Specific research objectives
The intention of the research is to assess financial viability of selected municipalities in the Eastern Cape Province. After assessing the finance viability of municipalities, and the financial mechanisms thereof, the research study will then recommend solutions for the problem of financing local government.

1.4 SIGNIFICANCE OF RESEARCH
The outcome and recommendations will help municipalities improve their financial mechanisms in support of their institutions. It will enable them to identify gaps to improve their policy positions and use their own revenue as a financial source rather than relying on grants. This study will also attempt to reinforce existing theories and add value to local government financial discourse. As a result, other spheres of government, who contribute to the finances of local government, as well as other stakeholders like organs of civil society and the public, will benefit from this study.

1.5 HYPOTHESIS
The hypothesis is postulated as follows: Whilst local government has its own revenue base, it relies on grants from national government. As a result, municipalities do not collect revenue due to them, and such non-collection and reliance on grants inhibits service delivery as expected by communities. The hypothesis predicted a relationship between independent and dependent variables that can be tested. The data has been collected and analysed and reinforces the hypothesis. The hypothesis was tested by the literature review which showed heavy reliance on external funding and government grants, the lack of strategy to collect revenue, and the widespread service delivery protests due to the fact that, in certain instances, municipalities cannot meet all the community needs and expectations.
1.6 LITERATURE REVIEW

1.6.1 Theoretical framework

The theoretical framework is based on the cost-benefit-analysis (CBA) theory which underpins the study. According to Williams and Giardina (1993:26) the cost-benefit-analysis is the tool of applied welfare economics which connects the decision to perform an action with its effects, in terms of benefits and costs to all the members of a community. Cost-benefit-analysis is designed to help public bodies make decisions (about the deployment of resources) which will affect the welfare of those individuals in the community to which the public body is accountable (Williams & Giardina, 1993:26, 65). In the context of this research, public bodies are the municipalities, and the municipalities are accountable to the communities they serve.

Canwell (2004:76) also argues that cost-benefit-analysis is a technique which seeks to assess the value of the benefits of a particular course of action that subtract any costs associated with it. The majority of benefits are received over a period of time, while costs may be once-off episodes or ongoing costs. In its simplest form, cost-benefit-analysis can use only financial costs and financial benefits.

Restricting the analysis purely to financial aspects does not mean that all costs and benefits have been assessed, as there may be human resource, environmental, production or a host of other costs and benefits which have not been included in the equation. The modern version of cost-benefit-analysis has relied heavily on developments in welfare economics, which provides the basis for cost-benefit-analysis. However, the measurement of costs and benefits is no easy task as the omission of benefits and costs might alter the social value of projects and distort social choice.

According to Misham (1988:159), cost benefit is an application of the theory of resource allocation. Misham (1988:188) also describes the context of a cost-benefit-analysis as a “partial equilibrium analysis” which focuses on:
...the valuation of several items on the assumption that effects of consequent changes in the prices of all, but the most closely related goods or bads may be neglected as we vary the amounts or introduce any one of these several items.

It cannot be too often stressed, however, that cost-benefit-analysis, as traditionally practiced, is no more than a useful technique in the service of social decisions. Indeed, the acceptance of a more rigorous and limited concept of cost-benefit-analysis clearly implies that the outcome of cost-benefit-analysis alone is not socially decisive. In simple terms, cost-benefit-analysis is a device for converting the utility losses and gains from a project. Here a project can be any government action that changes the productive capacities of an economy or the distribution of resources. In addition, it is a project that harms no one and makes at least one person better off, so is apparently consistent with a wide variety of moral commitments. Cost-benefit-analysis, therefore, is a welfare-maximising decision-making procedure which functions as a practicable decision-making tool. Misham (1988:188) asserts that cost-benefit-analysis is a:

...decision-making procedure that generates outcomes that are desirable against the standards of a plausible moral theory, while also enhancing transparency so that elected officials and the public can monitor government action.

The plausible moral theory is that government is morally obliged to advance the overall welfare of its citizens. However, Adler and Posner (2006:185) argue that it is plausible to think that “overall welfare is one of the fundamental moral criteria that ought to structure governmental choice and concomitantly, that interpersonal welfare comparisons are possible”. The general question that cost-benefit-analysis sets out to answer is whether a number of investment projects should be undertaken and, if investible funds are limited, which one, two or more, amongst the specific projects that would otherwise qualify for admission, should be selected. Cost-benefit-analysis is concerned with the economy as a whole, with the welfare of a defined society, and not any smaller part of it.
For example, the project in question, to be considered as economically feasible, must be capable of producing an excess of benefits such that everyone in society could, by a costless redistribution of the gains, be made better off. One use of cost-benefit-analysis arises in considering the desirability of transfers in kind since political decisions to help the less fortunate members of society need not always entail direct cash transfers. Cost-benefit-analysis should be a good proxy for overall welfare where the distribution of wealth or income among project winners is not dramatically different from its distribution among project losers. According to Misham (1988:201), cost-benefit-analysis can be regarded as an extension of an efficient price system, one that enables the selection only of those enterprises that are expected to produce an excess of social value over resource cost.

Cost-benefit-analysis can be a powerful tool, particularly if the intangible items are incorporated within the analysis. For Cohn (2003:547), an important advantage of cost-benefit-analysis is that it forces those responsible to quantify costs and benefits as far as possible rather than be content with vague qualitative judgments or personal hunches. Finally, even if cost-benefit-analysis cannot give the right answer, it can sometimes play the purely negative role of screening projects and rejecting those which are obviously less promising.

1.6.2 General Financial and Revenue Issues
Municipalities are generally not self-sufficient and depend on grants from national government. As a result they are not financially viable and service delivery is badly affected. Such lack of financial viability vindicates the cost-benefit-analysis theory that decisions by municipalities to deploy public resources are seriously affected by the state of municipal finances. However, most municipalities lack financial resources and depend mainly on transfers from Provincial Government and equitable share and conditional grants from National Government.
Preparation of operational and capital budgets, revenue collection, credit control, property valuation for taxation purpose, and regular bookkeeping of all financial transactions are some of the financing activities of local government (Gildenhuys, 1997b:22). These activities require skilled personnel and an adequate budget. In addition, town planning is quite central in these financial activities. Town planning has to include inter alia: land use management, zoning and rezoning, sub-division of land and removal of restrictions.

Another key aspect of local governance is economic development. The municipality must be able to do research, market the municipality, develop tourist attractions and establish trade and industrial areas. Gildenhuys (1997a:134) highlights two critical obstacles to the success of a municipality, namely, (i) lack of properly qualified persons for appointment and (ii) lack of money. Because of these challenges, municipalities will always fall short of their expectations. Some are not in a position to attract and retain skilled personnel like engineers, planners, good finance officers and auditors. The other shortcoming is the capacity to embark on a high scale of revenue collection and management.

Ismail et al (1979:77) argue that local government finance should be geared towards promoting the economic development of the local community, and every local authority must conduct its affairs in an effective, economic and efficient manner with a view to optimising limited resources in meeting its objectives. Normally, revenue for financing municipal activities accrues from rates and taxes, as well as tariffs including water, sewerage, electricity, refuse removal and bus services. Others are licenses for motor-vehicles, fire services and traffic fines. Ismail et al (1997:155) contend that it would be irresponsible for a council to adopt a certain policy without first determining whether there are sufficient funds in the budget for that particular project. For Dale (2004:182), participation in development work is normally taken to mean involvement by ordinary people (non–professionals) in a particular field or fields. Frequently, these people are intended beneficiaries of the work that is done. But participation may also denote
involvement by a range of other stakeholders with various interests and abilities. Dale (2004:205) concludes that local governments are intended to be in charge of essential development functions within their spatial areas of authority.

Pillay, Tomlinson and Du Toit (2006:76) argue that the demarcation of local government boundaries will always be a contested issue. This is because boundaries redistribute political power, with some organisations standing to gain power and others standing to lose power. For Pillay et al (2006:76), incorporation with richer jurisdictions often leads to a better standard of services while inclusion in poorer jurisdictions leads to a lower quality of services. However, Palmer (2004) argues that the misalignment between functions and finance continues to exist.

The Ministerial Advisory Committee on Local Government Transformation (2001:20) reports and confirms that “underfunded” and “unfunded” mandates delegated to local authorities create huge financial strain for municipalities attempting to address backlogs for service provision in their constituencies. The Ministerial Advisory Committee (2001:20) notes that in many municipalities, the equitable share is very low. A municipality’s ability to generate local revenue hinges on the local worth and scale of property within its municipal boundaries and economic activity. Pillay et al (2006:121) find that where economic activity is low or declining, municipalities are unable to generate revenue from economic activity. The assignment of core revenue generating powers and functions from local to district councils undermines the financial viability and capacity of non-metropolitan local government whilst adding to the complexity of the intergovernmental fiscal system (Pillay, et al 2006:121).

Underlying much of the policy development in the arena of municipal finance in recent years has been the issue of how to provide acceptable levels of municipal services to poor households at affordable rates, which in turn requires a degree of redistribution, (Pillay, et al 2006:157). For example, on the question of the revenue, until 30 June 2006, levies that were raised in larger secondary cities were used for redistribution in
poor and rural municipalities. The Regional Services Council (RSC) levies were collected from these cities and then distributed by the District Council to other local municipalities within the district. However, this was not well received by these secondary cities, and as a result, this practice was stopped in 2006 after the announcement by the Minister of Finance in his 2005 budget speech. Instead, the practice now is that of increased equitable share.

The transfers, divided into equitable share (unconditional), and conditional grants subsidise local government. Conditional grants include the Municipal Infrastructure Grant (MIG). The Municipal Infrastructure Grant is aimed at eliminating infrastructure backlogs in municipal areas, and the equitable share is aimed at financing the operating costs of the provision of basic services to poor households. The housing conditional grant is for housing development. Provinces also play a monitoring role in checking the expenditure patterns of these grants, and it must be remembered that Provinces also make transfers to local government.

The National Department of Provincial and Local Government (DPLG) now called the Department of Co-operative Governance and Traditional Affairs, ensures that there is a sound local government system in South Africa (Pillay, et al 2006:175). As the National Treasury is responsible for a sound fiscal system, the National Treasury is also deeply involved in municipal finances, and drives the agenda of borrowing through a policy on municipal borrowing. The Municipal Finance Management Act (Act 56 of 2003) creates a framework for municipalities to borrow money and determine the conditions for short-term and long-term borrowing.

Although property tax is the biggest element of local government tax revenue and is central to municipal finance, consumption tariffs can actually account for more revenue, especially electricity. The Municipal Property Rates Act (Act 6 of 2004), facilitates the collection of revenue in municipalities, and it establishes a uniform property rating system across South Africa. Indigent Policy which is financed through the equitable
share is used to help poor households in respect of delivery of services. It assists households who are indigent and without income to help them for payment of services, on top of the free basic services offered by government.

The extent of the provision of the indigent services, as well as free basic services, depends on the financial viability of each municipality. Logically, metropolitan municipalities and larger secondary cities provide better services than small, poor and rural municipalities. The financial viability of a municipality also plays a pivotal role in the borrowing capacity or potential of the municipality. The financial environment is closely looked at by financing institutions like the Development Bank of Southern Africa (DBSA) and the Infrastructure Finance Corporation (INCA). The researcher is also of the view that property tax is a great contributor to municipal revenue. Also of high importance in municipal revenue, is electricity as municipalities make a lot of money from electricity sales. The introduction of the restructuring in electricity would take electricity distribution out of municipal boundaries to an outside electricity distributor, which is an independent entity. As a result, municipalities take no comfort from the introduction of the restructuring of electricity distribution (namely, Regional Electricity Distribution, called Reds).

Parnell, Pieterse, Swilling and Wooldridge (2002:22) argue that local sources of income in many developed countries have not kept pace with the rapid escalation of local government expenditures. Local governments that depend heavily on central state funding are likely to experience more constraints on their policy-making because they are more easily subjected to central government pressures and because the cost of any additional expenditure is disproportionately reflected in local taxes. The fiscal problems experienced by many local authorities are compounded by geographical processes of uneven development at both local and regional scales. This fiscal disparity is frequently accompanied by the greater needs of those areas with the weakest tax base. Stewart and Stoker (1995:26) basing their experience on the British local government system, argue that Local Government finance has not reached a stable position.
In the medium and long term, changes will have to be made either to strengthen the local tax base (and thus local democracy) or to accept that local government is merely an agent of the centre, perhaps with little or no tax-raising power.

Cloete (1995:65) argues that historical debts of old black local authorities where they could not repay should be assumed by the state, excluding liabilities in respect of infrastructure which may operate revenue. Municipal finances must be based on the principle of one municipality, namely, one tax base. Over half of municipalities in South Africa are thought to be in financial difficulty. In response to the uncertain financial position, private lending has more or less dried up, except for short-term overdrafts and a few high interest loans. Government intervention is essential if the impact of cumulative process of uneven development is to be reduced.

There is always potential conflict between national governments anxious to control spending and local authorities under pressure to maintain and improve services. Many developed countries are characterised by a huge degree of political and administrative centralisation. Local government in such countries is weakly-developed and plays a far smaller legitimising role in developed countries. In year 2000, the Department of Provincial and Local Government (DPLG) introduced a programme called Project Consolidate. This was a programme introduced to assist the municipalities in building the financial, administrative and management capacity of financially-compromised municipalities to make them viable. There was initially resistance by some municipalities to the introduction of the programme, as others denied that they were financially compromised.

Project Consolidate assisted municipalities greatly in designing their systems. For instance, Buffalo City municipality was assisted in the billing system. Buffalo City municipality’s billing system was problematic and Department of Provincial and Local Government (DPLG) identified that short-coming. As a result, a project co-coordinator
was deployed to assist with improving the billing system. Reddy, Singh and Moodley (2003:64) conclude that viability and sustainability are fundamental factors in municipal service delivery if local government is to address its developmental role effectively. The financial viability of municipalities is a concern, not only in South Africa, but also in other countries in the world, including the United States of America (USA), where fiscal dependency is discussed. According to Rabin and Dodd (1985:187), the viability of American cities as governing units has been a recurring theme in popular and scholarly commentary and analysis. To a greater extent than in the past, the ability to govern cities has come to be perceived as the ability to finance.

Although cities in the USA are major recipients of federal grants, dependency connotes some reliance on external sources of revenue to finance functions and activities for which the city is legally responsible. The extent of a city’s fiscal dependency can be demonstrated by such measures as the percentage of revenues contributed by non-city government sources. Rabin and Dodd (1985:187) identify that some municipalities, besides being fiscally dependent, are fiscally distressed. Fiscal distress implies an extremely adverse condition under which a city lacks the financial resources to achieve some desired level of performance. Fiscal stress specifically refers to the gap between the needs and expectations of citizens, and the inability of the economy to generate economic growth to expand (Rabin & Dodd, 1985:164).

As part of addressing the financial ills of municipalities, performance budgeting becomes crucial. For Abedian, Stratam and Ajan (1998:153), in principle, the closer to the service delivery local governments get, the more useful performance budgeting becomes as a tool of service delivery management. Equally important, financial planning and management of service delivery can be much enhanced by the application of performance budgeting. The output of performance budgeting should be value for money, that is, efficiency, effectiveness and economical as well as quality product. Although budgeting suggests drudgery and boredom of ledgers, accounts and journals,
it is the heart of the political and decision-making process. If politics is who gets what, when, and how, then budgeting is the essence of politics.

Budgeting is the best statement of public priorities because it allocates money among competing programmes (Rabin & Dodd, 1985:85). Municipalities use the revenue they receive from rates to cover services that are used by the public generally. According to Hurt and Budlender (2001:42), municipalities are supposed to have a system of invoicing and collecting rates that is the same for all ratepayers. This means that rich and poor people are treated alike. However, bigger urban municipalities have an advantage over smaller rural municipalities. The urban municipalities receive more income from rates and user charges. This is because the people living in these municipalities are generally wealthier, have bigger properties, and the economy is larger (Hurt & Budlender, 2001:42). The researcher also observes that some municipalities apply rebates in rates for certain categories like the unemployed, senior citizens and the disabled.

A good tax system has to exhibit efficiency, equity and simplicity. It must be designed to minimise cost or losses to the paying individual. Those within the same tax band should endure the same tax regardless of gender, ethnicity or religious connection. According to Moeti, Khalo, Mafunisa, Singo and Makondo (2007:31), a tax system should be simple and easy to administer in order to reduce cost to both government and taxpayers. Moeti et al (2007:31) also refer to property tax as tax on wealth. This tax is levied on land owned by private individuals and the improvements built on the land. According to Hepworth (1984:22), local authorities are party to many national agreements, particularly where they affect pay. Whilst a local authority could opt out of some agreements in theory, in practice this is not possible. Hepworth (1984) cites an example of where a local authority cannot refuse to honour nationally-negotiated wage agreements. However, the researcher believes that they can apply for exemption.
Turning to government grants, Hepworth (1984) argues that government system should not ignore the pressures generated by local, economic and political background. The United Nations Capital Development Fund (UNCDF) also contributes to the debate about local government financing. According to UNCDF (2006:47), there is a fairly widespread, but mistaken belief, especially in countries creating local government for the first time that local government can and should be fiscally self-sufficient. The paradox of decentralisation is that the degree to which service expenditure responsibilities are ideally decentralised is much greater than then degree to which fiscal revenues can be decentralised. UNCDF (2006:47) find that virtually all local governments worldwide require central transfers to bridge this fiscal gap, and argue that “In principle, there is nothing fiscally unhealthy about such transfers; the problem lies in the fact that the systems established to affect them are often perverse”.

1.7 RESEARCH METHODOLOGY
The research methodology for this study includes the research design, population, sampling, data collection, scope and limitation of the study as well as ethical considerations.

1.7.1 Research Design
This study employed both qualitative and quantitative research methods. The findings of the quantitative paradigm have been presented in the form of graphs, tables, statistics and charts to validate generalisation from survey samples and experiments. On the part of the qualitative paradigm, the researcher embarked on an enquiry that explores social and human problems and variables. Qualitative data has been the product of a process of interpretation of information by the researcher.

1.7.2 Population
The population includes political office bearers and public officials of selected municipalities in the Eastern Cape. This population has been chosen by the researcher because the officials of municipalities are the ones that are hands-on in the municipal
finance discourse. National and Provincial Departments contribute financially and also monitor spending, hence documents from relevant departments were consulted.

1.7.3 Sampling
The sampling has been purposive and participants were selected by researcher including mayors, municipal managers and chief financial officers of selected municipalities. The justification to select these office bearers is that they occupy strategic positions in the municipality and are, therefore, able to give informed feedback that will give legitimacy to the research process. These municipalities were selected because they represent metropolitan municipalities, which have larger revenue bases and small urban and rural municipalities which are struggling to collect revenue, or have small or no revenue base at all.

So the municipalities were selected with a purpose, in that they represent the sample that will cut across the required categories of municipalities. The selected municipalities include:

(a) Nelson Mandela Bay (metro and urban)
(b) Ngqushwa (rural, small and local)
(c) Buffalo City (metro and urban)
(d) Lukhanji (urban and secondary city)

Financial documents of other partners and stakeholders like the Cities Network, National Treasury, Department of Local Government and Traditional Affairs in the Eastern Cape and South African Local Government Association (SALGA) in the Eastern Cape were chosen and consulted because they interact directly with these municipalities.

1.7.4 Data collection
The techniques that were used for data collection included interviews and questionnaires, as well as the scrutiny of numerous documents (see section on data collection methods/techniques in Chapter 3). In designing the questionnaire, the
researcher used a list of questions to collect information, and the targeted population was asked directly about the research concerns. The second data collection tool was interviews. The researcher used semi-structured interviews which allowed the interviewees some form of flexibility as this enabled them to express their perceptions and views. One-to-one interviews were also conducted with the ten representatives of the selected municipalities.

Because the researcher did not want to rely on memory alone during interviews, a tape recorder was used to record the interviews which were later transcribed. The interviews were conducted in an unhurried, relaxed, private and confidential setting.

The interview respondents included three representatives each from the selected municipalities such as the mayor, the municipal manager and the chief financial officer, and the portfolio head (councillor) responsible for finance where applicable.

In addition, as part of data collection, the researcher scrutinised a number of documents that dealt directly with issues of finance, audits, service delivery, planning, accounts, expenditure, and general reports on the state of municipalities. The following documents were scrutinised:

i. Municipal budgets
ii. Integrated Development Plans
iii. Auditor General reports
iv. Policies relating to Financial Management
v. Service Delivery Budget Implementation Plans
vi. Standing Committee on Public Accounts (SCOPA) reports
vii. South African Local Government Association (SALGA) reports
viii. Municipal Infrastructure Grant (MIG) expenditure reports
ix. Cities Network reports on municipal finances
x. Reports commissioned on the state of municipalities
1.7.5 Scope and limitation of the study
The researcher wished to assess as many municipalities as possible, but for effectiveness and thorough research, the research concentrated only on four municipalities. The research targeted municipal office bearers, officials and representatives of stakeholders that assist or work in partnership with local government. The municipalities were grouped into those who are (1) Metropolitan, (2) Urban and (3) Small and Rural. This targeting of municipalities is informed by the title of the research study.

1.7.6 Ethical considerations
The researcher did his best to promote ethics of research by observing the privacy of the respondents. For Neuman (2006:247), ethical guidelines serve as standards and as a basis of which the researcher ought to evaluate own conduct. The research has promoted confidentiality, so that respondents are protected from discrimination and intimidation (Cooper & Schindler, 2003:121). Therefore, the respondents were informed that participation in the research was voluntary, and consent forms were distributed to the participants before the interviews and the filling of the questionnaires.

1.7.7 Definition of terms
The following terms need to be defined for the study:

- Revenue: amount of money that an institution receives for services rendered
- Tax base: value of all assets that a municipality tax in its jurisdiction
- Credit: legal agreement in which a borrower received something of value and agrees to pay later
- Indigent: poor and cannot provide for basic necessities of life like services
- Equitable share: share or portion that local government receives from the national fiscus, based on the needs of the municipality
- Grants: subsidy or financial award given by national government
- Transfers: electronic transfer of funds from the national or provincial spheres of government to the local sphere
Consumer: one who acquires goods or uses a commodity or service
Cash flow: measure of an institution’s financial health
Investments: investing of money or capital in order to gain profitable returns
Rates: charges for the provision of municipal services. Examples are property, water and electricity rates
Viable: capable of sustaining, surviving and germinating under favourable conditions
Financial distress: tight cash situation preceding and including bankruptcy
Dependence: a state of relying on or needing someone for support
Financial management: planning, directing and managing an institution’s financial resources
Integrated development plan: central planning tool of development in local government
Budget: itemised document to project future income and expenditure

1.7.8 CHAPTER OUTLINE
Chapter 1 introduces and provides a background to the study.
Chapter 2 addresses the theoretical framework in Literature Review.
Chapter 3 involves Research Methodology.
Chapter 4 presents the Data and its Analysis.
Chapter 5 presents Findings and Recommendations.
Chapter 6 provides the Conclusion to the research.
CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter, the researcher attempts to demonstrate some understanding of the field in municipal financial viability and management. The review will be underpinned by the Cost Benefit Analysis Theory. According to Hofstee (2009:92), in academic terms, a theory is a logical explanation of why something is as it is, or does as it does. Theories are not cast in stone, but they are the best explanations currently available. Finance is usually considered to be the overriding factor in determining the viability of local government. Without sound financial management systems, municipalities will be forced to discontinue their operations and service delivery could collapse. Any municipality must have a clear vision of what its goal is, and local government must also have a purpose in mind and a goal towards which it strives.

The objectives of local government are based on a co-operative government framework that encourages participation with other councils within the district, as well as the provincial and national spheres of government, in public policy setting, development planning and the delivery of services, (A Guide to Municipal Finance Management for Councillors, 2006:7. The constitutional mandate for municipalities is that they strive, within their financial and administrative capacity, to achieve the objectives and carry out the developmental duties assigned to local government (A Guide to Municipal Finance Management for Councillors, 2006:7)

For Ismail, et al (1997:76), all local authority stakeholders and role players should have a sound knowledge of local financial management. According to McCarney (1996:5), the importance of research on local government has never been greater, to provide insight into the historical and contemporary systems of local government and changing
nature of local governance now underway in the developing world. In addition, some publications acknowledge that a majority of municipalities in South Africa are not self-sustaining. There are a number of challenges that include finance, proper budgeting, proper planning and qualified or capacitated personnel.

Municipal resources to fulfill constitutional and legislative responsibilities come from three key sources, namely, the equitable share, grants/ transfers and locally generated revenue. The purpose of the study is to investigate the financial viability of a selected number of municipalities in the Eastern Cape. However, it is the intention of the researcher to concentrate more on the financial viability of local government in order to come to a conclusion regarding the topic.

Restructuring of local government in South Africa has caused municipalities to experience a variety of financial challenges. These challenges have placed significant pressure on the cash flow of municipalities and led to a reduction in their financial resources. According to White Paper on Local Government (1998:16), the amalgamation of previously divided jurisdictions has massively increased the population which municipalities must serve, without a corresponding increase in tax base. The aim of the White Paper on Local Government was to restore financial discipline, eliminate outstanding debt and generate the necessary cash flow to sustain development activities and projects in municipalities. Financial management for municipalities is, therefore, crucial. The financial system of a municipality normally entails the receipt of money, disbursements, budgeting, financial planning, cost accounting, debtors, assets, liabilities creditors, and personnel management.

2.2 LEGISLATIVE FRAMEWORK
Legislative framework is composed of the Constitution of the Republic of South Africa and other pieces of legislations, which are discussed below, and that deal with municipal finances. The constitution deals with the accountability of government, including the provision of services.
2.2.1 The Constitution of the Republic of South Africa, 1996

According to section 152 (1) of the Constitution of the Republic of South Africa, Act 56 of 1996, local government should provide democratic and accountable government for local communities; ensure the provision of services to communities in a sustainable manner; and strive within its financial and administrative capacity to achieve the set out objectives. Section 153 of the constitution states that a municipality must structure and manage its administrative, budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the country.


- Division of Revenue Act and Intergovernmental Fiscal Relations Act, 97 of 1997

In terms of section 214 (1) of the Constitution, local government (and each Province) is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions and competencies allocated to it. These transfers are done through the division of revenue. This division of revenue is facilitated by the Division of Revenue Act which is enacted annually. The main thrust of the Division of Revenue Act is to provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for each financial year and the responsibility of all three spheres pursuant to such division. The Division of Revenue Act explains the basis for the transfers, and sets out grants to each Province and municipality for the coming three financial years, namely, the Medium Term Expenditure Framework (MTEF). The following years can be adjusted in subsequent budgets.
The Intergovernmental Fiscal Relations Act, Act 97 of 1997 is intended to promote co-operation between national, provincial and local spheres of government on fiscal, budgetary and financial matters, and to prescribe a process for the determination of an equitable sharing of allocation of revenue raised nationally, and to provide for matters in connection therewith. This Act has to be read in conjunction with the Intergovernmental Relations Framework Act, Act 13 of 2005. This Framework Act is intended as enabling legislation that, to a large extent, codifies existing practice that emerged over time. The Intergovernmental Relations Framework Act is essentially voluntary in nature and does not impose any penalties or sanctions for non-compliance with its provisions. The voluntary principle reflects a belief that cooperative governance cannot be compelled or coerced, and as cooperation is a constitutional obligation, to do so, may be inappropriate.

**Municipal Finance Management Act, 56 of 2003**

The objective of the Municipal Finance Management Act, Act 56 of 2003 is to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government, and to establish treasury norms and standards for the local sphere of government. The Act creates a framework for municipalities to borrow money and determine the conditions for short- and long-term borrowing. The Act assigns clear roles and responsibilities to the various role players involved in local government financial management. The other requirements for the Act are ensuring transparency, accountability, appropriate lines of responsibility, budgetary and financial planning processes, handling of financial problems and supply chain management.

A municipality may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years’ surpluses not committed for other purposes; and borrowed funds (section 18 (1) a-c) of the Municipal Finance Management Act. The Municipal Finance Management Act came into existence on the 1 July 2004. It is the key legislative mechanism governing financial
administration, but impacts significantly on wider governance issues. Broadly, the Act requires a more strategic approach to financial management based on clear accountability, transparent processes and provision for public consultation and monitoring.

The Municipal Finance Management Act intends to clarify accountability between political and administrative heads; bring a more strategic approach to financial administration; introduce budget monitoring and political oversight; address financial emergencies; harmonise and modernise financial and administrative systems and accounting, and tighten controls. The Act also attempts to clarify and separate the roles and responsibilities of the mayor, executive and non-executive councillors and officials.

However, as the research examines the financial viability of municipalities, it is imperative on the researcher to spend more time on the Municipal Finance Management Act. Consequently, a number of Chapters of the Act are discussed. Important chapters of the Municipal Finance Management Act are discussed below. These chapters are crucial and relevant to the research topic.

**Chapter 4 – Municipal Budgets**
Chapter 4 describes municipal budgets including:

- Determining the annual budget process for municipalities within a three year budgeting framework
- Standardising the format of budget documents
- Linking the budget to other related policy and planning processes, for example, Integrated Development Plan, Municipal Tax and tariffs and Credit Control Processes
- Modernising the budget process
- Allowing for a consultative process of hearings after the tabling of the budget and for a process to adjust the annual budget
• Making councils responsible for approving budgets, within the framework set for intergovernmental relations around financial management

Section 15 prescribes that a municipality may, except where otherwise provided in the Act, incur expenditure only:

(a) In terms of an approved budget, and
(b) Within the limits of the amounts appropriated for the different votes in an approved budget.

Section 61(1) states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) states that in order for a municipality to comply with subsection (1), the mayor of the municipality, must table the annual budget at council meeting at least ninety (90) days before the start of the budget year.

In terms of section 17(2), an annual budget must generally be divided into a capital and an operating budget in accordance with the international best practices. Section 18 deals with funding expenditure. According to subsection 1 of the Section 18, an annual budget may only be funded from:

(a) Realistically anticipated resources to be collected
(b) Cash-backed accumulated funds from previous year’s surpluses not committed for other purposes
(c) Borrowed funds, but only for the capital budget

Section 19 deals with the capital projects. Subsection 1 of Section 19 states that a municipality may spend money on a capital project only if:

(a) The money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in Section 17(2).
Section 21 deals with the budget preparation process. According to Section 21(1), the mayor of a municipality must:

(a) Coordinate the process of reviewing the municipality’s integrated development plan and budget related policies and ensure that they are mutually consistent and credible.

(b) Mayor must at least ten (10) months before the start of the budget year, table in the municipal council a time schedule outlining deadlines for:

(i) Preparation, tabling and approval of the annual budget

(ii) Annual review of:

(a) Integrated development plan

(b) Budget related policies

In discussing publication of the annual budget, Section 22 of the Act stipulates that immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must, in terms of subsection 1, make public the annual budget, and in subsection 2, invite the local community to submit representations in connection with the budget, and then submit it to the National Treasury.

The approval of the annual budget is discussed in Section 24(1) where it is stated that the municipal council must at least thirty (30) days before the start of the budget year consider approval of the annual budget. Subsection (2) stipulates that the annual budget must be approved before the start of the budget year.

There are instances where the municipal council might fail to comply with Chapter 2 of the Municipal Financial Management Act. Section 27(1) states that the mayor of a municipality must, upon becoming aware of any impending non-compliance by the municipality of any provisions of this Act, pertaining to the tabling and approval of the budget, inform the Member of the Executive Council (MEC) for Finance in the province, in writing, of such impending non-compliance.
The other most important section of this Act, Section 32, deals with the unauthorised, irregular or fruitless and wasteful expenditure. In terms of Section 32(1):

(a) A political office bearer of a municipality is liable for unauthorised expenditure if that office bearer knowingly after having been advised by the accounting officer of the municipality that expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure.

Subsection 3 of Section 32 states that if the accounting officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not accountable for any ensuing, irregular or fruitless and wasteful expenditure, provided that the accounting officer has informed the council, the Mayor or the executive committee, in writing that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.

**Chapter 5 – Cooperative Government**

Chapter 5 provides information on cooperative government, consultation on budgetary as well as basic service delivery. Chapter 5 provides information on cooperative government including:

- Dealing with co-operative governance in the budget preparation and implementation process
- Providing for national and provincial governments to assist local government in building its financial management and budgeting capacity
- Obligating national and provincial government to make three-year allocations by municipality, to enable municipalities to prepare and table three-year budgets.
- Providing for the process of stopping funds to municipalities that do not comply with basic treasury norms or standards
• Providing for a consultative process with other spheres of government and the community when municipalities intend to sign long-term contracts for basic municipal services
• Providing for organs of state providing bulk resources, i.e. electricity and water
• Providing for process to manage intergovernmental disputes

In addressing capacity building, the Act states in Section 34(1) that national and provincial governments must by agreement assist municipalities in building the capacity of municipality for efficient, effective and transparent financial management. Section 35 addresses promotion of co-operative government by national and provincial institutions. In terms of this section, national and provincial departments and public entities must in their fiscal and financial relations with the local sphere of government, promote cooperative government in accordance with Chapter 3 of the Constitution.

Municipalities always complain of lack of resources, especially those who do not have adequate revenue collection. Section 36 of the Act addresses the national and provincial allocations to municipalities. Subsection (2) states that the Minister or the MEC responsible for finance in a province, must, to the extent possible, when tabling the national budget in the National Assembly or the provincial budget in the Provincial Legislature, make public particulars or any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next three financial years.

According to Section 38(1), the national treasury may stop the transfer of funds due to a municipality as its share of the local government’s equitable share referred to in Section 214(1) (a) of the Constitution, but only if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution. In terms of cooperative governance, resolving of disputes between the spheres of government is crucial. Arising from the provisions of Section 44(1), whenever a dispute of a financial nature arises between the organs of the state, the parties must, as
promptly as possible take all reasonable steps that may be necessary to resolve the matter out of court.

Chapter 7 – Responsibilities of Mayors

Chapter 7 outlines the responsibilities of mayors including:

- Dealing with responsibilities of the mayor with regard to the budgetary and financial management
- Providing guidelines on the budget process
- Approving a performance plan called the service delivery and budget implementation plan, which must inform the performance agreement of the municipal manager
- Considering monthly and quarterly financial reports
- Making quarterly reports to the council

Distinguishing responsibilities is very important. In some municipalities mayors and municipal managers always clash over roles. Section 52 of the Act provides that the mayor of a municipality must:

(a) Provide general political guidance over the fiscal and financial affairs of the municipality
(b) Monitor and oversee the exercise of responsibilities assigned in terms of this Act to the accounting officer, but may not interfere in the exercise of those responsibilities
(c) Take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of approved municipal budget
(d) Submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality within thirty (30) days of the end of each quarter

Regarding budget-related processes, the mayor must, in terms of Section 53(1) provide general political guidance over the budget process and priorities that must guide the preparation of a budget. The other subsections of Section 53 are the same with those of Section 21 of Chapter 4 of the Act. This is also applicable in Section 54 which deals with budgetary control and early identification of financial problems.
Chapter 8 – Responsibilities of Municipal Officials

Chapter 8 defines the responsibilities of officials involved in municipal financial management. The various responsibilities include:

- Designating as the accounting officer with responsibilities related to developing and maintaining:
  - Effective, efficient and transparent systems of financial and risk management and internal control
  - Asset and liability management
  - Revenue management
  - Expenditure management

- Ensuring important reporting responsibilities relate to budget implementation and on overspending or under-collection of revenue.

Part two of this chapter sets out the conditions for the delegation of powers and duties by municipal managers and also outlines the implications this has for such officials. This section deals with the responsibilities of the municipal manager. Section 60 states that the municipal manager is the accounting officer, and as accounting officer, must:

(a) Provide guidance on compliance with this Act to:
   (i) Political structures, political office-bearers and officials of the municipality, and
   (ii) Any municipal entity under the sole or shared control of the municipality.

Section 61(1) states that the accounting officer must:

(a) Act with fidelity, honesty, integrity and in the best interest of the municipality in managing its financial affairs.
(b) Disclose to the municipal council and the mayor all material facts which are available to the accounting officer or reasonably discoverable, and which in any way might influence the decisions or actions of the council or the mayor.
The accounting officer of a municipality is responsible for managing the financial administration of the municipality. In terms of section 62(1), the accounting officer must take reasonable steps to ensure:

(a) Resources of the municipality are used effectively, efficiently and economically
(b) Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
(c) Unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented

Section 63 deals with the management of assets and liabilities. In terms of this section, the accounting officer of a municipality is responsible for the management of:

(a) Assets of the municipality, including the safeguarding and the maintenance of those assets, and
(b) Liabilities of the municipality.

The provisions of Section 64(1) aver that the accounting officer of a municipality is responsible for the management of the revenue of the municipality. Expenditure management is also an important responsibility of the accounting officer. Section 65(1) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality, and must take reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for approval, authorisation, withdrawal and payment of funds.

Section 68 orders that the accounting officer must:

(a) Assist the mayor in performing the budgetary functions assigned to the mayor in terms of Chapters 4 and 7, and
(b) Provide the mayor with the administrative support, resources and information necessary for the performance of those functions.
Monthly budget statements are also important responsibilities of the accounting officer. Section 71(1) prescribes that the accounting officer of a municipality must by no later than ten (10) working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement on the prescribed format on the state of the municipality's budget.

Chapter 9 – Municipal Budgets and Treasury

This chapter requires municipalities to establish a Budget and Treasury Office by:

- Outlining the responsibilities of the Chief Financial Officer
- Providing for delegations and minimum competency levels for officials with any financial management responsibilities.

According to Section 80(1), every municipality must establish a budget and treasury office. Section 80(2) indicates that the budget and treasury office consists of:

(a) Chief Financial Officer designated by the accounting officer of the municipality
(b) Officials of the municipality allocated by the accounting officer to the chief financial officer
(c) Any other person contracted by the municipality for the work of the office

The role of the chief financial officer is also clarified in Section 81. In terms of Section 81(1), the chief financial officer of a municipality:

(a) Must be administratively in charge of the budget and treasury officer.
(b) Must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of this Act.
(c) Must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget.

Section 81(2) dictates that the chief financial officer of a municipality is accountable to the accounting officer for the performance of the duties referred to in subsection (1).
Competency is also a serious consideration in the application of the Municipal Financial Management Act. In terms of Section 83(1) the accounting officer, senior managers, the chief financial officer, and other financial officials of a municipality, must meet the prescribed financial management competency levels. Section 83(2) avers that a municipality, must for the purposes of subsection (1) provide resources or opportunities for the training of officials referred to in that subsection to meet the prescribed competency levels. Section 83(3) stipulates that the National Treasury or a provincial treasury may assist municipalities in the training of officials referred to in subsection (1).

Chapter 11 – Goods and Services

This chapter deals with the procurement of goods and services and the disposal of assets, including:

- Dealing with the supply chain management policy and processes as well as public-private partnership, ensuring that the framework for these processes is fair, equitable, transparent, competitive and cost effective in accordance with Section 217(1) of the Constitution
- Barring councillors from participating in tender and bid committees

Section 111 provides that each municipality and each municipal entity must have and implement a supply chain management policy. Section 112(1) provides that the supply chain management policy of a municipality or entity must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management. Section 112(2) states that the regulatory framework for municipal supply chain management must be fair, equitable, transparent, competitive and cost effective.

The approval of tenders not recommended is also discussed. According to Section 114(1), if a tender other than the one recommended in a normal cause of implementing the supply chain management policy of a municipality or municipal entity is approved,
the accounting officer of the municipality or municipal entity, must, in writing, notify the Auditor-General, the relevant provincial treasury and the national treasury and, in the case of a municipal entity, also the parent municipality, of the reasons for deviating from such recommendations.

Section 115(1) states that the accounting officer of a municipality or municipal entity must:

(a) Implement the supply chain management policy of the municipality or municipal entity, and
(b) Take all reasonable steps to ensure that the proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favoritism and unfair irregular practices. Section 115(2) says no person may impede the accounting officer in fulfilling this responsibility.

Councillors are barred from serving on municipal tender committees. Section 117 prescribes that no councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, nor attend any such meeting as an observer. Interference with the supply chain management process is also prohibited. In terms of Section 118, no person may:

(a) Interfere with the supply chain management system of a municipality or municipal entity, or
(b) Amend or temper with any tenders, quotations, contracts or other bids after their submission.

Lastly, this chapter discusses conditions and processes for public-private partnerships. Section 120(1) provides that a municipality may enter into a public-private partnership agreement, but only if the municipality can demonstrate that the agreement will:

(a) Provide value for money to the municipality
(b) Be affordable for the municipality
(c) Transfer appropriate technical operation and financial risk to the private party

Chapter 12 – Financial Reporting and Auditing
This chapter outlines the requirements and procedures for the preparation, auditing and processing of annual financial statements of both municipalities and municipal entities. The municipal manager and chief financial officer of a municipality and municipal entity must prepare and submit financial statements for auditing and produce annual reports. This chapter also:

- Provides for a process for the council to consider the annual report, and adopt an oversight report to ensure that corrective steps are taken when problems have been identified by the Auditor General
- Provides for the annual and oversight report to be tabled in the provincial legislature

The chapter also addresses accountability. The basic meaning of accountability is to be responsible for the execution of activities and tasks; to be responsible for compliance and non-compliance with legislation and finally to be responsible for reporting on progress of compliance or non-compliance as prescribed or required by law. Section 121(1) demands that every municipality and every municipal entity must for each financial year prepare an annual report in accordance with this chapter. The council of a municipality must within nine months after the end of a financial year, deal with the annual report of the municipality and of any municipal entity.

2.2.2 Municipal Property Rates Act, 6 of 2004
The Municipal Property Rates Act 6 of 2004 Act came into effect in July 2005 to standardise the raising of property rates. The objective the Municipal Property Rates Act, Act 6 of 2004 is to regulate the power of a municipality to impose rates on properties and to exclude certain properties from rating, to make provision for municipalities to implement a transparent and fair system of exemption, and finally, to make provision for fair and equitable valuations methods of properties. Essentially, the
Act facilitates the collection of revenue in municipalities and establishes a uniform property rating system across South Africa. Property tax is the biggest element of local government tax revenue and is central to municipal finance.

According to Fourie and Opperman (2007:160), property tax is a form of property rates and is the main source of income to finance municipal services. Property tax is a major contributor to municipal income and is levied currently only in urban areas (Local Government White Paper, 1998:114). King (1992:82) asserts that taxes on immovable property are an important source of tax revenues for local government. Although property taxes are predominantly local taxes, local governments do not generally have complete discretion over the tax base and the rate of tax, even where they are responsible for the assessment and collection of the tax. Almost all local authorities are subject to limitations on the choice of the tax base for local income and or property tax. Many municipalities are also subject to limitations on the determination of the rates of these taxes.

2.2.3 Municipal Systems Act, 32 of 2000
The Municipal systems Act, Act 32 of 2000, has among its objectives, the provision for the manner in which municipal powers and functions are exercised as well as to establish a simple framework for the core processes of planning, performance management and resource mobilisation. The Act also provides a framework for public administration and human resource development. It also empowers the poor and ensures that municipalities put in place service tariffs and credit control policies that take their needs into account.

The Act is intended to encourage community participation; institute a system of integrated planning that is supported by a system of performance management; define the role of the Accounting Officer or Municipal Manager and establish a formalised system of delegation between the council or political executive and the administration; establish processes for formulating tariff and credit control policies; set out the process
to assess and change the way that municipal services are rendered, and enforce the codes of conduct for both councilors and officials.

2.3 AUDITING – AN ELEMENT OF FINANCIAL MANAGEMENT

2.3.1 Introduction
The Local Government Transition Act, Act 97 of 1996, paved the way for the establishment of audit committees in the municipalities to facilitate proper municipal financial management. The complaints that were related to financial management in local government needed the establishment of control mechanisms to manage public funds as a result of a lack of capacity within these institutions of local government. Between 2004 and 2009 some changes in municipalities in the discipline of financial management have been evident (SACN, 2011:149).

This research addresses issues of auditing in the context of financial viability and management. This auditing section discusses issues like principles of financial management, theory and practice, essentials of managerial finance and financial strategy. The research will also address various facets of the auditing function such as forensic auditing, fraud auditing, forensic accounting, fraud detection, accounting systems and auditor’s role.

2.3.2 Legal requirements
The importance of auditing function in municipal financial management is recognised by the Municipal Finance Management Act, Act 56 of 2003. Section 166 of the Municipal Finance Management Act addresses the need to establish audit committees. This piece of legislation requires each municipality to establish an audit committee and regulate the requirements, duties and composition of such committee. The Act does, however, make provision for the establishment of a single audit committee for a district municipality and the local municipalities within that district municipality or for a municipality or municipal entities under its sole control. In dealing with municipal
financial management, whilst the Municipal Finance Management Act is crucial, municipal authorities have to take into account a variety of pieces of legislation. So the Municipal Finance Management Act must be read in conjunction with the:

- Constitution of the Republic of South Africa of 1996
- Municipal Demarcation Act, Act 27 of 1998
- Municipal Structures Act, Act 117 of 1998
- Division of Revenue Act, Act (enacted annually)
- Property Rates Act, Act 6 of 2004

The policy framework, strategic direction and financial sound footing of the municipality rest on the proper application and compliance with the Municipal Finance Management Act and the legislation listed above.

2.3.3 The need for audit committees

For a municipality to function properly according to good governance, an internal audit unit and an audit committee are essential. Good governance and accountability is of paramount importance in municipal services. An audit committee can add value by assisting the municipality (Councillors and Management) in carrying out their duties with regard to financial and performance reporting as well as controls.

According to Fourie (2004:22), good governance is essentially a function of:

- Leadership and direction within the organisation
- Appropriate risk management and control over its activities
- Manner in which meaningful disclosure relating to its activities is made to communities
- Direction and control applied to stewardship of an organisation’s assets (financial and non-financial) in the pursuit and delivery of primary objectives
The King Report of 2002 identifies the following seven primary characteristics of good governance as:

- **Discipline**: the commitment by organisation’s senior management to standards of correct and proper behaviour.
- **Transparency**: ease with which an outsider can meaningfully analyse the organisation’s actions and performance.
- **Independence**: the extent to which conflict of interest is avoided.
- **Accountability**: addressing communities’ rights to receive information relating to stewardship of the organisation’s assets and its performance.
- **Responsibility**: entails acceptance of all consequences of the organisation’s behaviour and actions, including a commitment to improve where required.
- **Fairness**: acknowledgement of respect for and balance between the rights and interests of the organisation’s various stakeholders.
- **Social responsibility**: entails an organisation’s demonstrable commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the community on which it operates.

Because an audit committee is independent, it is able to assist municipalities in checks and balances in financial management. An audit committee is an independent advisory body appointed by a council and has to assist the council in fulfilling its oversight responsibilities.

The audit committee has to review:

- Financial reporting processes
- System of internal control and management of financial risks
- Audit process
- Compliance with laws, regulations, policies and its own code of business conduct
- Maintain effective working relationships with the Council, management and internal and external auditors
Regarding duties and responsibilities of the audit committee, Fourie (2004:23) lists a few key performance areas. These include:

- **Financial Reporting**
  Overseeing the financial reporting process is the primary responsibility of an audit committee. It should seek reasonable assurance that financial disclosures made by management are timely, objective, and complete and shows the council’s financial position, results of operations, plans and long-term commitments. The success of overseeing the financial and performance results depends largely on its ability to communicate effectively with management and internal and external auditors.

- **Corporate Governance**
  The corporate governance responsibility of the audit committee is to provide reasonable assurance in respect of the council:

  - complying with relevant laws and regulations
  - conducting its affairs ethically
  - maintaining effective and efficient control systems in order to prevent and detect conflicts of interest and white-collar crime such as fraud by councillors, management and staff
  - ensuring corporate control

  This includes control over a council’s key financial and operating risk areas and systems of internal control.

The objectives of internal control include:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, legislation and contracts
- Safeguarding of assets
- Economical, effective and efficient use of resources
- Performance management
Fourie (2004:24) continues to list the duties and authority of an audit committee as prescribed in the Municipal Finance Management Act (Chapter 12) as:

- Advising the municipal council, political office-bearers, accounting officer (municipal manager) and management and staff of the municipality on matters relating to:
  - Internal financial control and internal audits
  - Risk management
  - Accounting policies
  - Adequacy, reliability and accuracy of financial reporting and information
  - Performance management
  - Effective governance
  - Legislative compliance
  - Performance evaluation

- Reviewing the annual financial statements to provide the municipality with an authoritative and credible view of:
  - Financial position of the municipality
  - Municipalities’ efficiency and effectiveness
  - Overall compliance with legislation

- Responding to the council on any issues raised by the Auditor-General in a report
- Carrying out such investigations into the financial affairs of the municipality as the council may request

For an audit committee to carry out its responsibilities effectively and independently, it has to have the following authority:

- To obtain/seek/gather any relevant information it requires from internal or external sources
- To request/obtain outside legal or other professional advice
- To ensure the attendance of council officials/councillors when required
- To initiate special investigations
2.3.4 Theory that depicts auditing in financial management

According to Block and Hirt (1992:6), the field of finance is closely related to the fields of economics as well as accounting. Financial managers need to understand the relationship between these fields. Accounting is sometimes said to be the language of finance because it provides financial data through income statements, balance sheets, and the statements of cash flows. The financial manager must know how to interpret and use these statements in allocating the institution’s financial resources to generate the best return possible in the long run (Block & Hirt, 1992:6).

According to Pauw, Woods, Van der Linde, Fourie and Visser (2002:325), municipal financial administration is rather a complicated and technical part of municipal administration and management. Practitioners, including financial practitioners, line managers and even councillors who take, on a daily basis, decisions that have financial implications, should, therefore, study the financial management process extremely carefully, and should make sure they have a thorough understanding of this process (Pauw et al, 2002:325). Block and Hirt (1992:11) contend that the daily activities of financial management include credit management, inventory, control and the receipt of disbursement of funds.

According to Atrill (1997:1), the finance function within an institution exists to help managers to manage. Strategic management refers to the role of managers in developing overall objectives for the institution and then formulating long-term plans, which match those objectives. When formulating long-term plans, possible courses of action (strategies) must be identified and evaluated.

Atrill (1997:2-3) lists three key tasks that are concerned with financial management. These include:
Financial planning: involves developing financial projections and plans (such as cash flow statements and profit statements) which allow managers to assess the viability of proposed course of action.

Financing decisions: requires the identification of financing requirements and the evaluation of possible sources of finance determining the appropriate financial structure for the institution.

Financial control: refers to the way in which the plans are achieved. Once plans are implemented, it will be necessary for managers to ensure that things go according to plan. Control must be exercised over financing decisions, which may involve such matters as the monitoring and control of investments, control of stocks, debtors, creditors and liquidity.

Financial planning is an important aspect of the municipality’s operations because it provides road maps for guiding, coordinating, and controlling the municipality’s actions to achieve its objectives. Gitman (2000:579) describes the financial planning process as beginning with long-term or strategic, financial planning that in turn guides the formulation of short-term or operating plans and budgets.

According to Besley and Brigham (2000:7), it is becoming increasingly important for people in marketing, accounting, production, personnel and other areas to understand financial management in order to do a good job in their own fields. Thus, there are financial implications in virtually all business decisions, and Besley and Brigham (2000:7) conclude that non-financial executives simply must know enough finance to work these implications into their own specialised analyses.

Besley and Brigham (2000:132) also explain that the financial control phase is a phase where the municipality or any institution is concerned with implementing the financial plans, or forecasts, and dealing with the feedback and adjustment process that is necessary to ensure that goals of the institution are pursued appropriately.
Today, municipalities are using what is called Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practices (GRAP). Although it is widely argued that GAMAP has its origins in the United States, GAMAP helps municipalities in South Africa to make sure that the key financial management principles are adhered to.

In the United States, Harvard Business Essentials (2002:38) argues that Generally Accepted Accounting Principles (GAAP) is a body of conventions, rules and procedures sanctioned by the Financial Accounting Standards Board, an independent, self-regulatory body. According to Harvard Business Essentials (2000:39), an audit is designed to provide reasonable assurance that the financial statements are a fair representation of a company’s financial transactions. It is not however, an absolute assurance since the auditor examines evidence on a test basis using statistical sampling and does not exercise every transaction and amount.

Transparency is also vital for an efficient economy. If reliable and accurate financial information is available to the public and all stakeholders, then there is transparency. As part of transparency, the annual report of a municipality is essential. The annual report presents four basic financial statements, namely, the balance sheet, the income statement, the statement of retained earnings and the statement of cash flows.

Brigham and Daves (2003:393) list three main purposes of the post-audit as:

- Improving forecasts: When decision makers are forced to compare their projections to actual outcomes, there is a tendency for estimates to improve; and people simply tend to do everything better, including forecasting, if they know that their actions are being monitored.
- Improving operations: Businesses are run by people, and people can perform at higher or lower levels of efficiency; and will try to improve operations if they are evaluated with posts audits.
• Identifying termination opportunities: Although the decision to undertake a project may be the correct one based on information at hand, things do not always turn out as expected. The post-audit can help identify projects that should be terminated because they have lost their economic viability.

For Rutterford (1998:1), it has long been acknowledged that finance plays a vital role within the organisation, with accounting systems designed to help organisational decision-making and control and financial techniques such as discounted cash flow providing tools for valuing projects and investments.

In recent years, it has become clear that financial strategy on its own can have a major impact on organisations. Rutterford (1998:11) also concludes that choosing the correct financial strategy can add value and make the stakeholders of the organisation better off.

The views that follow further illustrate the significance of the auditing function. According to Bologna and Lindquist (1995:5), financial auditing generally is not intended to search for fraud but to attest that financial statements are presented fairly. Movements are afoot to compel financial auditors to design their audits in such a way that fraud can be discerned and criminal acts can be discovered.

Fraud auditors are accountants who, by virtue of their attitudes, attributes, skills, knowledge and experience are expects at detecting and documenting frauds in books of account. However, fraud prevention should take precedence over detection. Internal controls alone do not prevent fraud in books of account; they merely facilitate its detection. Fraud prevention measures include hiring honest people, paying them competitively, treating them fairly and providing a safe and secure workplace.

Arens and Loebbecke (1997:290) contend that the reason a company establishes a system for control is to help meet its own goals. Control systems must be beneficial so
that system consists of many specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met. These policies and procedures are often called controls, and collectively they comprise the entity’s internal control.

Arens and Loebbecke (1997:291) also suggest that auditors should emphasise controls concerned with the reliability of data for external reporting purposes, but controls affecting internal management information, such as budgets and internal performance reports, should not be completely ignored. Management, not the auditor, must establish and maintain the entity’s controls. This concept is consistent with the requirement that management, not the auditor, is responsible for the preparation of financial statements in accordance with generally accepted accounting principles.

Auditors use five types of tests to determine whether financial statements are fairly stated. Arens and Loebbecke (1997:330) list these test types as:

- Procedures to obtain an understanding of internal controls
- Tests of controls
- Substantive tests of transactions
- Analytical procedures
- Tests of details of balances

The first two types of tests are performed to reduce assessed control risk, whereas the last three types are all substantive tests. All audit procedures fall into one, and sometimes more than one, of these categories.

A major consideration in the audit of general cash balances is the possibility of fraud. The auditor must extend his/her procedures in the audit of year-end cash to determine the possibility of a material fraud when there are inadequate internal controls. An audit involves, broadly, the investigation of evidence on which some financial statement is
prepared; and reporting whether that statement fairly presents a summary of transaction and their outcome for the period under review.

Dickinson (1982:5) identifies that for the report to be of value to its readers, it must be competent, unbiased and authoritative. This requires the auditor having considerable technical knowledge and experience of finance, law and business generally, particularly that of his/her client. The auditor should also be protected from any other management pressure. The auditor should also avoid straining his/her impartiality in reporting by conflict of interests. This could arise from relationships with or responsibilities towards other clients, or other relationships with the same client. Thus the auditor should not be too closely involved, personally or through his/her family, with the management or ownership of any client.

The primary objective of an audit is the issuance of a report, usually on balance sheet and income statement, that these fairly present the position of the undertaking at the balance sheet date, and the outcome of its transactions for the period then ended.

Dickinson (1982:9) argues that for an auditor to report, he/she should satisfy him/herself on the following points:

- Adequate system exits and does in fact operate as it is claimed to do
- Proper books of account are maintained, and are correctly and timeously entered
- Final accounts under review agree with the books, are consistent with previous periods and avoid any unnecessary obscurity
- Balance sheet assets exist, are the property of the client and are appropriately valued
- All liabilities are included and are appropriately valued
- Appropriate notes appear indicating any unusual treatments adopted and material commitments, contingent liabilities and happenings since the balance sheet date, affecting the interests of owners
The external audit has been established to prevent any doubt arising about the quality of the financial accounting information which an institution is required to present to its stakeholders. It would appear that since the information is supported by an expert independence opinion it will be accepted and used with confidence.

The opinion of an independent public accountant concerning the financial statements of a business will ordinarily be based on a comprehensive audit examination of the financial statements and the supporting data and will indicate whether or not the statements present fairly the financial position of the institution and the results of the institution’s activities for the period stated. The external auditor should concern him/herself with the interests of the third parties, generally known to him/her, who will be relying upon the financial statements in question (Dickinson, 1982:15).

Some writers define auditing function as an independent examination of, and expression of opinion on the financial statements of an institution by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligations. Glaser (1990:1) argues that the primary purpose of the auditor is to express his/her opinion on the truth and fairness of the financial statements in the auditor’s report, which is presented with the financial statements for the members of the institution after the end of the financial accounting period under audit review.

The secondary purpose of an audit is for the auditor to place the audit so that he/she has a reasonable expectation of detecting material misstatements in the financial statements resulting from improprieties, which include fraud, errors, irregularities for the prevention and detection of improprieties rests with the management, by instituting sound systems of management internal control (Glaser, 1990:2).

The auditing function is concerned with a search for audit evidence which will give the auditor a level of confidence that the accounting records and the information in the financial statements, based on those records, are true and fair. Glaser (1990:3) argues
that audit evidence which forms the basis of the auditor’s opinion on the financial statements is obtained by carrying out audit test that may be classified as substantive or compliance tests of detailed transactions and balances. Compliance tests are tests of internal control within business systems.

For Glaser (1990:412) the auditor should be concerned with:

- Opening position: balancing satisfaction that those amounts which have a direct effect on the current period’s results or closing position have been properly brought forward.
- Accounting policies: determining whether the accounting policies adopted for the current period are consistent with those for the previous period.
- Corresponding amounts: ensuring that the amounts from the preceding period’s financial statements are consistently classified and properly disclosed as corresponding amounts.

Woolf (1979:8) describes an audit as a process whereby the accounting of business entities, including charities, trusts and professional firms, are subjected to scrutiny on such details as will enable the auditor to form an opinion as to their accuracy, truth and fairness. This opinion is then embodied in an audit report addressed to those interested parties who commissioned the audit, or to whom the auditors are responsible under statute.

For Woolf (1979:5), the skills of an auditor can only flourish in a situation of true independence. Woolf (1979:11) then lists general advantages of an audit as:

- Avoiding disputes between partners, especially where complicated profit-sharing arrangements subsist if the accounts have been subjected to a disinterested examination by an external auditor.
- Enhancing application to banks and other outside parties for the purposes of raising finance if supported by audited accounts.
- Carrying greater authority for audited accounts submitted to the Inland Revenue than accounts which have not been audited.
• Incorporating a provision for a variety of partnership deeds for the auditor to act as arbitrator in the event of dispute on specific issues.

For Woolf (1979:19), the audit committee’s function is to view the institution’s position in a detached and dispassionate light, and to liaise effectively between the main board and the external auditors. Woolf (1979:20) also lists the following activities of an audit committee:

• To make recommendations for the improvement of management control
• To ensure that there are adequate procedures for reviewing rights circulars, interim statements, forecasts and other financial information before distribution to shareholders and stakeholders
• To assist external auditors in obtaining the information they require and in resolving difficulties experienced by them in pursuing their independent examination
• To facilitate a satisfactory working relationship between the management and auditors, and between the internal and external audit functions
• To be available for consultation with the auditors at all times, if necessary without the presence of management
• To be concerned with all matters relating to the disclosure by the accounts of a true and fair view for the benefits of all users

Internal control is the basis of audit work. For Woolf (1979:55), internal control is not only internal checks and internal audits but the whole system of controls, financial and otherwise. These controls are established by management to carry on the business of the institution in an orderly manner, to safeguard its assets and to secure, as far as possible, the accuracy and reliability of its record.

The aspect of internal control which is exclusively concerned with the prevention and early detection of errors and fraud is usually referred to as internal checks. The objectives of internal and external auditing are similar, except that the internal auditors are employees of the company or institution and are responsible to its management.
Woolf (1997:74) concludes by writing that with the growth and size and complexity of many companies in recent years, the importance of the internal audit has correspondingly increased so that it is today a major factor in establishing the quality of a company’s internal control and its development has made considerable contribution to contemporary auditing.

Glaser (1990:28) points out that it would be impossible for the auditor to test each and every transaction. The result is that the auditor can plan sample testing of transactions from the vast population of invoices, receipts, delivery notes and other transactions where the auditor decides the systems are unreliable then a greater volume of testing of transactions is needed. The audit emphasis has changed from testing many transactions for fraud and error, to testing relatively few transactions, within a sound system of internal control, to see whether they form the basis of a true and fair view of the dealings of the institution.

For Whiteley (2004:113), apart from cash, the financial assets of a business are in an intangible form, and therefore unusually susceptible to fraud. Internal controls should be recorded and subject to regular review, and compliance with internal controls should be regularly monitored. As integral to the internal control system, is the competence of staff at all levels to carry out their duties, training should be monitored and instituted where necessary.

Auditing, therefore, is a key area of control in business finance. Institutions of a certain size are obliged to have external audit, and many large institutions have internal audit units or departments.

External audits involve an independent person or firm (usually a chartered accountant) examining financial statements to enable them to certify that the financial statements give a true and fair view of the company’s affairs at the balance sheet date. An auditor's report may amount to an unqualified or clean report. This means that the
auditor is satisfied that the institution’s financial statements give a true and fair view. This is not a guarantee that there are no errors in the financial statements, but it gives the readers of the report a high degree of assurance in the integrity of the accounts.

A qualified report indicates a reservation which the auditor may have on some aspect of the financial statements. The qualification may be relatively minor and others may be more serious (Whiteley, 2004:118). Whiteley (2004:120) concludes by saying the internal audit departments carry out similar functions to external auditors, but they are not independent as they carry out their examinations on behalf of the management of the company. Internal auditors are also involved in risk management.

Hermanson et al (1980:3) argue that auditing is an integral part of communication process. Basic to the audit process is an auditor’s review, evaluation and testing of the client’s system of internal control. The analysis of internal control will affect the auditor’s decisions regarding the audit programme. Errors and irregularities which are related to internal control are also considered. For Hermanson et al (1980:166), the internal auditors often are involved in policing the effectiveness of internal control. To the extent that they are successful, the internal auditors strengthen the effectiveness of the system of internal control.

Taylor et al (1987:25) suggest that the main objective of an audit is an examination of all the records and documents sufficiently to satisfy the auditor that the statement he/she is called upon to audit fairly presents the facts. The crux of the matter is sufficiency of the audit checks. For Taylor et al (1987:25), the probe would then lead to an assessment of the risk of error. The bulk of the auditor’s work will usually be related to income statements and balance sheets.

The auditor does not undertake to guarantee the accuracy of the financial statement. Taylor et al (1987:31) mention two types of audits, namely:
Complete or standard audit which entails such checking and testing as the auditor deems necessary to enable him to decide whether or not the financial statements fairly present the state of affairs.

Restricted or partial audit which may either be audit of part of the records of a business, where an audit is not required by the law.

Audit risk is defined as the risk that the auditor will unknowingly express an inappropriate opinion on the financial information on which he/she is reporting. Failure to detect material error is a greater risk than mistakenly interpreting evidence as indicating that financial information is materially misstated, when in fact, it is not. Taylor et al (1987:44) point out that the generally accepted auditing standard which requires the exercise of due professional care would preclude the auditor from issuing an unqualified audit opinion where his/her assessment of audit risk is within the high to medium range.

The principal overall purpose of an audit is to add credibility to the financial statements by the expression of an independent opinion thereon. Coopers et al (1991:57) contend that management is responsible for the preparation of those financial statements, and in compiling them, makes certain assertions regarding the information given therein.

The term audit risk is used to describe the risk that the auditor will issue an incorrect opinion on the financial statements. Coopers et al (1001:61) argue that in practice, audit risk is the risk that the financial statements taken as a whole are materially misstated.

Coopers et al (1991:69) conclude by listing key elements of the control environment as:

- effectiveness of the organisational structure
- role of the audit committee and internal audit
- reasonableness of management plans and budgets
- relevance and reliability of management information
• existence of adequate policies and procedures for controlling the business
• effectiveness of management controls or intentionally misstated the financial statements

In computer auditing, Lang and Still (1987:620) argue that the auditor may be involved in the acquisition procedure in either of two ways. The first would be to review the overall process as part of the general control's review. The second would be where the client specifically requests his participation either to act as a member of the steering committee or to perform the acquisition on his/her behalf.

There can be little doubt that the number of firms using computers has increased. The modern auditor has to be more proficient, not only in understanding computers, but also in operating and programming them. Lay and Still (1987:167) conclude that computers are currently being used by audit practices for a wide variety of functions, ranging from simple work processing of internal memoranda to revenue-generating application processing; from assistance on the audit to modeling and tax and estate planning.

In terms of the Public Accountants and Auditors Act of 1991, Cilliers (2002:268) explains that the auditor cannot give a report unless he/she:

• has carried out the audit free of any restrictions whatsoever
• has obtained all information, vouchers and other documents which in his/her opinion were necessary for the proper performance of his/her duties
• has any material irregularity that had, at the date on which he/she reported, been adjusted to his/her opinion

Konrath (2002:152) argues that audit risk analysis directly confronts inherent risk, control risk and detection risk. It is an audit approach that attempts to identify those areas presenting the highest probability of material errors or fraud, and those areas of greatest audit complexity.
2.3.5 Conclusion

The importance of auditing function in government has been recognised in so much that it has been enacted as a requirement for all government spheres. If auditing is properly established and structured in municipalities, and has sufficient resources, municipal managers as accounting officers can expect a number of benefits.

Auditing must play a pivotal role in the improvement of financial management. The office of the auditor-general promotes accountability and transparency through independent auditing and its reporting responsibilities to Parliament, and ensures that instances of non-compliance are reported to the public so that corrective action can be taken. This entrenches public confidence in the auditing profession and ensures that the fundamental values of society are maintained.

2.4 COST BENEFIT ANALYSIS (CBA) – THEORETICAL UNDERRPININGS

The theoretical framework of the literature review is based on the cost-benefit-analysis (CBA) theory. According to Williams and Giardina (1993:26), the cost-benefit-analysis is the tool of applied welfare economics which connects the decision to perform an action with its effects, in terms of benefits and costs to all the members of the community. Cost-benefit-analysis is designed to help public bodies to make decisions (about the deployment of resources) which will affect the welfare of those individuals in the community to which the public body is accountable (Williams & Giardina, 1993:65). In the context of this research, public bodies are municipalities, and the municipalities are accountable to the communities they serve.

The basic aim of any cost-benefit-analysis of a government programme is to figure out if the benefits of a programme outweigh its costs. This process is similar to the logic that any decision maker, in the public or private sector, goes through in trying to make any decision. Despite this similarity, the simple insertion of the adjective “government” before the noun “programme” adds much complexity and interest to the question of evaluation (Gramlich, 1981:4).
Canwell (2004:76) argues that CBA is a technique which seeks to assess the value of benefits of a particular course of action that subtract any costs associated with it. The majority of benefits are received over a period of time, while costs may be one-off episodes or ongoing costs. In its simplest form, CBA can use only financial costs and financial benefits. Restricting the analysis to purely financial aspects does not mean that all costs and benefits have been assessed, as there may be human resource, environmental, production or a host of other costs and benefits which have not been taken into the equation.

The modern version of CBA has relied heavily on developments in welfare economics. Welfare economics provides the basis for cost-benefit-analysis. However, the measurement of costs and benefits is no easy task as the omission of benefits and costs might alter the social value of projects and distort social choice. According to Misham (1988:359), cost-benefit-analysis is an application of the theory of resource allocation. The context of a cost-benefit-analysis is that of partial equilibrium analysis. It is one on which the valuation of several items is concentrated on with the assumption that effects of consequent changes in the prices of all. However, the most “closely-related goods or bads may be neglected as the amounts are varied or introduce any one of these several items”, continues (Misham, 1988:188). It cannot be too often stressed however, that cost-benefit-analysis as traditionally practiced is no more than a useful technique in the service of social decisions. Indeed, the acceptance of more rigorous and limited concept of cost-benefit-analysis clearly implies that the outcome of cost-benefit-analysis alone is not socially decisive.

In simple terms, cost-benefit-analysis is a device for converting the utility losses and gains from a project. Here a project can be any government action that changes the productive capacities of an economy or the distribution of resources. A project that harms no one and makes at least one person better off, is apparently consistent with a wide variety of moral commitments. Cost-benefit-analysis is a welfare-maximising decision procedure, and it functions as a practicable decision-making tool.
Cost-benefit-analysis is a decision procedure that generates outcomes that are desirable against the standards of a plausible moral theory, while also enhancing transparency so that elected officials and the public can monitor government action. Adler and Posner (2005:185) define plausible moral theory as governments being:

…morally obliged to advance the overall welfare of its citizens. But it is plausible to think that overall welfare is one of the fundamental moral criteria that ought to structure governmental choice and concomitantly, that interpersonal welfare comparisons are possible.

The general question that a cost-benefit-analysis sets out to answer is whether a number of investment projects should be undertaken, and, if investible funds are limited, which one, two or more/amongst the specific projects that would otherwise qualify for admission, should be selected. Cost-benefit-analysis is concerned with the economy as a whole, with the welfare of a defined society, and not any smaller part of it.

The project in question, to be considered as economically feasible, must be capable of producing an excess of benefits such that anyone in the society could, by a costless redistribution of the gains, be made better off. According to Gramlich (1981:4), government is not an entity separate from taxpayers, but really the collective expression of the will of the taxpayers. The benefits and costs of a government project are then to be defined not as an increase or decrease in government revenues but as a gain or loss in welfare of all members of society. Moreover, government has a responsibility to look beyond the simple monetary gains and losses. One use of cost-benefit-analysis arises in considering the desirability of transfers in kind since political decisions to help the less fortunate members of society need not always entail direct cash transfers. Cost-benefit-analysis should be a good proxy for overall welfare where the distribution of wealth or income among project winners is not dramatically different from its distribution among project losers. According to Misham (1988:201), cost-benefit-analysis can be regarded as an extension of an efficient price system, one that enables the selection of only those enterprises that are expected to produce an excess of social value over resource cost.
French (1983:137) argues that cost-benefit-analysis is being urged on bureaucrats as a tool for doing policy studies in government. After the study is completed, its results are presented to the decision-makers who, supposedly, then have an objective basis upon which to decide policy or specific cases. On a practical level, cost-benefit-analysis provides government decision-makers with a reasonable means of calculating the net benefits that are likely to arise from the implementation of certain regulations or practices. Questions may be raised about the constraints to be placed on analysts and those who use the cost-benefit-analysis in government decisions. It is not hard to imagine circumstances in which the recommendations of cost-benefit-analysis would create imbalances in the economic system or prejudice the right of minorities (French, 1993:139).

Cost-benefit-analysis can be a powerful tool, particularly if the intangible items are incorporated within the analysis. According to Cohn (2003:547), an important advantage of cost-benefit-analysis is that it forces those responsible to quantify, costs and benefits as far as possible rather than rest content with vague qualitative judgments or personal hunches. Finally, even if cost-benefit-analysis cannot give the right answer, it can sometimes play the purely negative role of screening projects and rejecting those which are obviously less promising.

Gramlich (1981:8) lists the following five elements as pillars of the cost-benefit-analysis. The elements include attempts to:

- specify basic programme objectives in each major area of governmental activity
- analyse the outputs of each governmental programme
- measure the costs of the programme, not for one year but over the next several years
- compare alternative activities
- establish common analytic techniques throughout the government
In addition to these elements, Gramlich (1981) contends that alternatives are to be compared; benefits and costs are to be specified and measured, for the future as well as the present; and the entire approach is to be applied with common techniques throughout the government.

According to Nas (1996:1), to ensure efficiency in resource allocation and to achieve maximum gains in social welfare, it may be necessary to use evaluation procedures that are based on systematic and careful assessment of all options under consideration. One such procedure is cost-benefit-analysis. Under the cost-benefit-analysis methodology, all potential gains and losses from a proposal are identified. Cost-benefit-analysis is designed for the evaluation of public projects, and the project outcome is always evaluated on the basis of public interest. Public project analysis requires a general framework within which cost and benefits can be identified and assessed from society’s perspective.

2.5 CRITICAL REVENUE DYNAMICS
Municipalities are generally not self-sufficient and depend on grants from national government. As a result, they are not financially viable and service delivery is badly affected and, in some cases, can lead to collapse of services. Collapsing of services invites protests by affected communities. Such lack of financial viability vindicates the cost-benefit-analysis theory that decisions by municipalities to deploy public resources, is seriously affected by the state of municipal finances. Although most municipalities lack financial resources, there are some municipalities who are large, have certain capacities, can collect revenue and are, therefore, financially stable. These municipalities include metropolitan and certain secondary cities. Those municipalities who are not financially viable depend mainly on transfers from the Provincial Government and equitable share and conditional grants from the National Government.
Gildenhuys \((1997b:22)\) lists, amongst the finance activities, the following:

- preparation of operational and capital budgets
- revenue collection; credit control
- property valuation for taxation purposes
- regular bookkeeping of all financial transactions

These activities require skilled personnel and an adequate budget. Town planning is also quite central in these financial activities. Town planning has to include, inter alia, land use management; zoning and rezoning; sub-division of land and removal of restrictions.

Another key aspect of local governance is economic development. The municipality must be able to do research, market the municipality, develop tourist attractions and establish trade and industrial areas. Gildenhuys \((1997a:134)\), highlights two critical obstacles to the success of a municipality, namely, (1) lack of properly qualified persons for appointment, and, (2) lack of money. Owing to these challenges, municipalities will always fall short in their expectations. For example, some are not in a position to attract and retain skilled personnel like engineers, planners, good finance officers and auditors. The other shortcoming is the capacity to embark on a high-scale of revenue collection and management.

Ismail et al \((1997:111)\) argue that local government finance should be geared towards promoting the economic development of the local community, and every local authority must conduct its affairs in an effective, economic and efficient manner with a view to optimising limited resources in meeting its objectives. Normally, revenue for financing municipal activities accrues from rates and taxes and payment for municipal services rendered as well as tariffs including water, sewerage, electricity, refuse removal and bus services. Others are licenses for motor-vehicles, fire services and traffic fines. Ismail et al \((1997:155)\) argue that it would be irresponsible for a council to adopt a certain policy
without first determining whether there are sufficient funds in the budget for that particular project.

The conventional wisdom about functions of local authorities is that they can reasonably be entrusted with the provision of certain public goods, that they should be given little or no powers at all over the stabilisation of the economy (King, 1992:24).

Dale (2004:182) explains that participation in development work is normally taken to mean involvement by ordinary people (non-professionals) in a particular field or fields. Frequently, these people are intended beneficiaries of the work that is done. But participation may also denote involvement by a range of other stakeholders with various interests and abilities. Dale (2004:205) concludes that local governments are intended to be in charge of essential development functions within their spatial area of authority.

Nel and Rogerson (2005:5), borrowing from the World Bank, argue that local economic development tends to revolve around a set of common issues of job creation, empowerment, the pursuit of economic growth, community development, the restoration of economic vitality and diversification in areas subject to recession and also establishing the locality as a vibrant, sustainable economic entity. Integrated development planning is a participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and improvement of the poor and the marginalised (Department of Provincial and Local Government, 2000:15).

Nel and Rogerson (2005:12) highlight various challenges for local government. For example, the politicisation of development is an issue where individual interests often override the greater common good. There is also the clear problem of grant dependence and limited sustainability of many projects as well as need for more
training, facilitation and funds. In addition, the rhetoric of pro-poor planning by local government is not always matched in practice as community focused programmes are often difficult to sustain. In addressing some of the challenges, Nel and Rogerson (2005:136) contend that local government and the community can now manage their existing resources and enter into partnership with the private sector or other players to create jobs and stimulate economic activity in a defined economic space.

Pillay et al (2006:76) also contend that the demarcation of local government boundaries will always be a contested issue. This is because boundaries redistribute political power, with some organisations standing to gain power and others to lose power. Incorporation with richer jurisdictions often leads to a better standard of services while inclusion in poor jurisdiction leads to a lower quality of services (Pillay, et al 2006:76).

The misalignment between functions and finance continue to exist. The transfers, divided into equitable share (unconditional), and conditional grants subsidise local government. Conditional grants include the Municipal Infrastructure Grant (MIG). The MIG is aimed at eliminating infrastructure backlogs in municipal areas, and the equitable share is aimed at financing the operational costs of the provision of basic services to poor households. The housing conditional grant is for housing development. Provinces play a monitoring role in checking the expenditure patterns of these grants. It must also be noted that provinces make fiscal transfers to local government. The Department of Cooperative Governance and Traditional Affairs ensures that there is a sound local government system in South Africa, and the National Treasury is responsible for a sound fiscal system. National Treasury is also deeply-involved in municipal finances, and drives the agenda of borrowing through a policy on municipal borrowing.

The financial viability of a municipality also plays a pivotal role in the borrowing capacity of the municipality. The financial environment is closely looked at by financing institutions like the Development Bank of Southern Africa (DBSA) and the Infrastructure Finance Corporation (INCA). The researcher is of the view that property tax is a greater
contributor to municipal revenue. However, electricity is also of high importance in municipal revenues as municipalities make money from electricity sales. The introduction of the restructuring in electricity, would take electricity distribution out of municipal domain to an outside electricity distributor, which is an independent entity. However, municipalities take no comfort form the introduction of the restructuring of electricity distribution (namely, Regional Electricity Distribution, called Reds). Stewart and Stoker (1995:26), basing their experience on the British local government system, argue local government has not reached a stable position. In the medium- and long-term, changes will have to be made either to strengthen the local tax base (and thus local democracy) or to accept that local government is merely an agent of the centre, perhaps with little or no tax-raising power.

According to Hurt and Bundlender (2001:42), municipalities are supposed to have a system of invoicing and collecting rates that is the same for all ratepayers. This means that rich and the poor are treated alike. Bigger urban municipalities have an advantage over small rural municipalities. The urban ones can get much more income from the rates user charges. This is because people living in them are generally wealthier and have big ratable properties, and the economy is larger (Hurt & Bundlender, 2001:42).

The researcher observes that some municipalities apply rebates in rates for certain categories like the unemployed, senior citizens and the disabled. Hurt and Bundlender (2001) describe a system of taxing that should be the same and Moeti et al (2007) focus on the fundamental principles of taxation.

A good tax system has to exhibit efficiency, equity and simplicity. It must be designed to minimise cost or losses to the paying individual. Those within the same tax band should endure the same tax regardless of gender, ethnicity or religious connection. A tax system should be simple and easy to administer in order to reduce costs to both government and tax payers (Moeti, et al 2007:31). Moeti et al (2007) also refer to property tax as tax on wealth. This tax is levied on land owned by private individuals
and the improvements built on the land. According Hepworth (1984:22), local authorities are party to many national agreements, particularly where they are affected by payment of services. Whilst a local authority could opt out of some agreements in theory, in practice this is not possible. Hepworth (1984) cites an example of where a local authority could not refuse to honour nationally negotiated wage agreements. But the researcher believes that they could apply for exemption. Turning to government grants, Hepworth (1984) argues that the government system should not ignore the pressures generated by local, economic and political background.

The United Nations Capital Development Fund (UNCDF) also contributes to the debate on local government financing. According to UNCDF (2006:47), there is a fairly widespread, but mistaken belief, especially in countries creating local government for the first time, that local government both can and should be fiscally self-sufficient. The paradox of decentralisation is that the degree to which service expenditure responsibilities are ideally decentralised is much greater than the degree to which fiscal revenues can be centralised. Virtually all local governments worldwide require central funding to bridge this fiscal gap. In principle, there is nothing fiscally unhealthy about such transfers, the problem lies in the fact that the systems established to put them into effect are always perverse (UNCDF, 2006:47).

The Ministerial Advisory Committee on Local Government Transformation (2001:20), reports and confirms that “underfunded” and “unfunded” mandates delegated to local authorities create huge financial strain for municipalities attempting to address backlogs for service provision in their constituencies. The Ministerial Advisory Committee (2001:20) notes that in many municipalities, the equitable share is very low. A municipal’s ability to generate local revenue hinges on the local worth and scale of property within its municipal boundaries and economic activity.

Where economic activity is low or declining, municipalities are unable to generate revenue from economic activity (Pillay, et al 2006:121). Pillay et al (2006:121) state that
the assignment of core revenue generating powers and functions from local to district councils undermines the financial viability and capacity of non-metropolitan local government whilst, adding to the complexity of the intergovernmental fiscal system.

When there is a shift in municipal powers and functions as well as employment costs, the constitutional imperative to ensure access to basic services, rising bulk supply costs and the costs associated with the process of amalgamation, create financial pressures on municipalities. For Pillay et al (2006:157), the manner in which revenue and capital are mobilised for local government is also critical to the structure and nature of accountability, and, therefore, to the design and functioning of municipal institutions and their position within the overall intergovernmental system. In essence, Pillay et al (2006) argue that where municipalities are reliant upon other spheres in order to ensure that resource levels are maintained or expanded or where they are dependent upon their own residents for such resources, their focus will generally shift favourably towards residents.

2.6 SERVICE DELIVERY, SUSTAINABLE DEVELOPMENT AND LOCAL ECONOMIC DEVELOPMENT

This section deals with issues of service delivery, sustainable development and economic development. These areas contribute greatly in municipal finance and governance.

2.6.1 Service Delivery

According to a Guide to Municipal Finance Management (2006:7), a municipal council takes on the following principal responsibilities:

- To provide democratic and accountable government without favour or prejudice
- To encourage the involvement of the local community
- To provide all members of the community with equitable access to the municipal services to which they are entitled
• To plan at the local and regional level for the development and future requirements of the area

• To monitor the performance of the municipality by carefully evaluating budget reports and annual reports to avoid financial problems and resolve them as they arise

• To provide services and facilities, and financial capacity, within the legislative and constitutional authority, that will benefit ratepayers and residents, and visitors to its area, including, and are not limited to, general public services or facilities (such as electricity, water and sanitation services, waste and refuse removal), community services or facilities, and cultural or recreational services or facilities, while focusing on core functions as a priority

• To provide infrastructure for the community and for development within the area by promoting an attractive climate and locations for the development of business, commerce, industry and tourism

• To manage, improve and develop resources available to the council

Underlying much of the policy development in the arena of municipal finance in recent years, has been the issue of how to provide acceptable levels of municipal services to poor households at affordable rates, which, in turn, require a degree of distribution (Pillay, et al 2006:157). On the question of the revenue, until 30 June 2006, levies that were raised in large secondary cities were used for redistribution in poor and rural municipalities. The levies of the then Regional Services Council (RSC) were collected from these cities and then distributed by the district council to other local municipalities within the district. This practice was stopped in 2006 after the announcement by the Minister of Finance in his 2005/2006 budget speech. Instead, the practice now is that of increased equitable share.

The indigent policy which is financed through the equitable share is used to help poor households in respect of delivery of services. It assists households who are indigent and without income to help them for payment of services, on top of the free basic
services offered by government. The extent of the provision of the indigent services, as well as free basic services, depends on the financial viability of each municipality. Logically, metropolitan municipalities and larger secondary cities provide better services than small, poor rural municipalities. Viability and sustainability are fundamental factors in municipal service delivery if local government is to address its developmental role effectively (Reddy, et al 2003:64).

The financial viability of municipalities is a concern, not only in South Africa, but also in other countries in the world. This international phenomenon where there is fiscal dependency is discussed in section 2.13, page 162. According to Rabin and Dodd (1985:187), the viability of the cities of the United States of America as governing units has been a recurring theme in popular and scholarly commentary and analysis. To a greater extent than in the past, the ability to govern cities has come to be perceived as the ability to finance. The basic services municipalities have to deliver are water, electricity, sanitation, waste management and other infrastructure services like roads.

Underlying policy development in the arena of municipal finances is the issue of providing acceptable levels of municipal services to poor households at affordable rates which, in turn, requires some redistribution. There is an increasing reliance of municipalities on transfers (equitable share and others) from national government to fund their activities. Challenges with regard to financial management identified in municipalities during the assessment of the state of local government are not new and have been identified in reports from National Treasury and the auditor-general.

Poor financial management and lack of controls and accountability systems impact negatively on service delivery for communities, from lack of provision of water and other services to inadequate funds for technical equipment for servicing basic infrastructure. Although there has been a reduction in the number of disclaimed and adverse audit opinions for municipalities, from 99 disclaimed opinions for the year ended June 2007,
to 85 for the year ended June 2008, more than a third of the 283 obtained either
disclaimers or adverse opinions.

To increase the efficiency of service delivery, the intergovernmental system is
dependent on the proper co-ordination of policy, budgeting, planning, implementation
and reporting between spheres. Substantial increases have been made to the transfers
(both operational and infrastructure) of local government over the last few years in
acknowledgements of its increased service-delivery responsibilities. Yet, many
municipalities are not in a position to meet their developmental mandate owing to an
inadequate economic base or high levels of poverty and unemployment. Internal
municipal systems result in cumbersome administrative and budgeting systems,
inefficient service delivery, poor management and disproportionate wage bills are
adding to the problems of municipalities. National policies, such as the extension of free
basic services to poor households, are also putting added pressure on local
government.

2.6.2 Sustainable development

For development to be sustainable, there needs to financially sustainable and viable
local government. It is argued that there is no blue print or generally accepted theory of
development. All the theories purport to espouse development. Whilst there are these
contending theories the dominant ones from these different schools of thought are neo-
liberal and basic needs. The researcher attempts to argue these two approaches as a
contribution in the financial viability of municipalities, service delivery as well as
developmental government.

For Todaro (1987:86), development has traditionally meant the capacity of a national
economy, whose initial economic conditions has been more or less static for a long to
generate and sustain an annual increase in its gross national product at rates of
perhaps 5% to 7%. Todaro (1987:89) argues further that development would mean
sustained elevation if an entire society and social system toward a better or more human life.

It is, therefore, the researcher’s view that each approach has its strengths and weaknesses. The ideologies or theoretical setting is, therefore, interesting and a challenge. Sustainable development has two approaches that are discussed below. The first approach is the Market-based approach and the second one is the needs-based approach.

**Neo-Liberalism: Market-based approach**

By the late 1970s, prescriptions for an interventionist role of the state had become fainted by the excesses of statistics and experiments and by the declining influence of the left wing politics internationally. Neo-liberalism, therefore, at its birth, stressed the role of the market and emphasises a market-driven development policy. It is argued that the neo-liberated school originated from the writings of Adam Smith in his book, The Wealth of Nations. Smith (1776) espouses gradual removal of control of state in development and economics, what he called the laissez-faire principle.

Therefore, the proponents of the neo-liberal approach can be traced back to the advocates of “free enterprise” espoused by Smith’s (1776) theory.

For Rao (1994:329), the social and political upheavals in several countries are very significant in many of the countries which were administered “shock therapy treatments” in the name of structural adjustments. Rao (1994:329) argues that the approaches of the International Monetary Fund (IMF) and the World Bank start with a calibrated structural adjustments lending (SAL) method of credit lending. These tend to assume the one size fits all approach.

In Latin America, it was observed that there is very little evidence that any of the IMF policies recognised the problems of poverty and environment.
Stewart (1995) argues that the strongest verifiable criticism against the Bank and IMF is that adverse effects on poverty and the environment occurred when the borrower countries undertook adjustment policies at the instance and insistence of global institutions, and many of the problems were foreseeable and avoidable, yet those institutions did not share any responsibility for the adverse consequences.

The structural adjustment, according to Charttergee and Slinger (1994) often results in sharp fall in real purchasing power of some of the poor and limits their ability to purchase food and other essential items. At the same time, the expected growth has not so far rationalised in many countries, and negative effects on the poor are often certain and immediate, whereas positive effects are uncertain and have gestation periods.

Rao (1994:330) contends that the environmental repercussions of so-called stabilisation problems, are environment destabilising, and the usual methods of the one-size-fits-all approach are founded on fallacious assumptions. These include norms like "getting the prices right" even before a definition of markets and prices or getting the institutional structures right.

Chaibva (1996) finds that prescriptions from the IMF and the World Bank, with improperly understood solutions to wrongly diagnosed problems, and human misery tends to be aggravated as a consequence. This is not to state that almost every measure these institutions propose is fraught with such disaster.

Since the early 1980s, many African countries have adopted, at one stage or another, and with different levels of commitment and residence, so-called structural adjustments programmes as prescribed by the World Bank and the International Monetary Fund. These programmes involved the commitment by governments to follow specific macro-economic and trade policies in exchange for hard-currency loans (which they are more
or less free to use as they please and which they typically action to their domestic importers.

The World Bank itself, in its 1994 assessment of adjustment in Africa, was hard put to claim success for any more than four states, out of a total of about thirty that have embarked on at one time or another on such programmes (Englebert, 2000:178). The systematic weaknesses of implementation of adjustment packages suggest that understanding the roots of policy, choice in Africa is more important than recommending the adoption of specific policies without an understanding of their context.

To compound the problem, such economic weaknesses are partly brought about by the legitimacy deficient of the states they inherited from the colonial period. In the end, no matter how appetising the carrot of adjustment lending or how large the stick of suspended flows of foreign capital, African leaders cannot lastingly escape the constraints of illegitimate statehood (Englebert, 2000:179). Englebert (2000) continues to argue that because of the cycle of political instability and state failure, African elites can rarely afford to consistently and sustainably choose policies for growth. The failure of adjustments has progressively led the World Bank to recognise that something was amiss upstream of economic policy-making. Whilst not abandoning the structural adjustments programme, it has first broadly redefined their content.

For Cole (1994:30), the wholesale imposition of structural adjustment should thus best be seen as a return to the former colonial relationship, this time taking a multilateral form, but no less disadvantageous to the peripheral countries. Cole (1994:30) concludes that it is this sense that some analysts have begun using the term “recolonisation” to describe the impact of structural adjustment in the 1980s. In addition, Cole (1994:40) quoting the Economist of 1993, says a government which tried to implement the old solutions, would, sooner or later collide with the disciplines of the IMF and the World Bank. Cole (1994:41) argues further that “we are witnesses here to the contemporary self-confidence of neo-liberalism”. For Cole (1994), it is “as if socialism is
dead and neo-liberalism is the only truth”. As a result, Cole (1994:43) argues that in Latin America the track record of neo-liberalism has been “none too good” as after ten years of more or less neo-liberal policies in Latin America countries, per capita income was on average about 9% lower than it had been in 1980. In some countries like Bolivia and Argentina, the decline was very much greater, up to about 20%. In the 1960s and the 1970s, the annual growth was around 5% to 6%. The difference was particularly marked in relation to the poor.

In the 1960s and 1970s, some progress by the State was made in reducing the official number of poor from 51% to 35%. However, in the 1980s, there were well over 40% designated poor. There has been a drastic reduction in the social expenditure in social services, health and education provided by public authorities, the catastrophic effects of which were in no way compensated for by private health care education and the like. Cole (1994:44) also argues that neo-liberalism has had a success story in Chile as growth rates in Chile have been and remain dramatic. However, there should be some relationship between political democracy and economic equalisation. There is nothing sacred about democracy, and if it does not deliver the goods, then it can be abandoned (Cole, 1994:44). Neo-liberalism is a toughened, hardened, galvanised form of liberalism whose relation to democracy is, as the Chilean success story shows, at best equivocal and at worst absolutely hostile.

The World Bank resource report (1994) tends to defend the operations and effect of the neo-liberalism approach in Africa. It contends that the impact of adjustment on the poor is positive. The implications of neo-liberal approach in sustainable development include:

- Neo-liberalism is regulated through the market
- Underlying philosophy is the one of individualism
- Implementation of fiscal austerity
- Privatisation
- Trade liberalism
• Domestic market liberalisation
• Currency devaluation
• Retrenchment
• Derogation
• Sharing of pro-capitalist ideology
• Enforcement of liberalisation and financial discipline on borrowing countries
• Conditionality in terms of loans
• Dramatic rises in urban unemployment
• Rising urban poverty
• Reduced government expenditure on social services
• Falling levels of real investment
• Budgetary reductions
• Unsustainable high real rates
• Entrenched dependence

**Neo-liberalism and the role of local government state**

Neo-liberalism approach forces the state to have liberalisation of the economy, therefore, the state will be forced to deregulate and to open up markets. The state must be removed completely from the developmental aspects, for example, the states authority of enforcing businesses to contribute to development by paying levies. On the contrary, the state must follow the market base approach and advocate a free-market. So, the state’s role would be to open up the markets. According to neo-liberalism, the role of the state should be to privatise state assets and parastatals. In other words, government should not be in business, and business should be given to the private sector or the private enterprise. Privatisation, therefore, robs the government of sources of income to be used for development. Neo-liberalism would also persuade the state to raise interest rates. This form of approach will encourage the state to use foreign capital rather than local capital. In essence, the neo-liberal approach takes decision-making away from the state, and requires the state to cut subsidies, cut budgets, and cut back on the needs of the citizens.
Implications for the state

The neo-liberal approach compromises political legitimacy in that the politicians who manage the state are compromised. This is a serious political implication for the state. This compromise of political legitimacy endangers relationships between the state and the citizens and has implications of being anti-institutional development. The problem is that if institutional development is encouraged, this might strengthen the very state which should be weakened.

Therefore, this implies that the state, in cutting the budget, must manage it and worry about non-expenditure or over-expenditure. If the budget on social spending is cut, the state will need to be concerned with how citizens are going to be funded. State now has to constantly control the citizen’s emotions. If the citizenry is not happy, there could be upheavals in the form of protests and riots. If the South African situation is considered, because there are resources, citizens can be made happy by giving food parcels as part of the Social Development Department Food Security Programme. However, this runs the risk of having a welfare state.

In Zimbabwe, for instance, where there are less resources, the state, will send military to quell the upheavals and protests because they do not have enough resources to distribute in terms of food security. The implications for the state as a consequence of neo-liberalism will be, for instance, South Africa would create a welfare state whereas other countries that do not have resources would create a military state. The actions of the state will, therefore, ignore the human dimension. Neo-liberalism will force the state to be concerned with forcing investors at the expense of social development. The state will have to create conducive environment for forensic investments, and in this fashion, the government becomes paternalistic.

If the government keeps on buying people all the time because of their neo-liberal approach to development, the Zimbabwe experience is enacted. It has been almost
28 years since the structural adjustments were introduced in Zimbabwe and now the state is gradually becoming the enemy of the people instead of being a provider.

**The basic needs approach – the alternative approach to development**

Rao (1994:85) states that the right to development must be filled so as to equitably meet development and environmental needs of present and future generations. For Rao (1994:85), all states and all people shall co-operate in the essential task to eradicating poverty as an indispensable requirement for sustainable development. This is required to decrease the disparities in standards of living and better meet the needs of the majority of the people of the world.

Development is fundamentally a broad-based specification of economic progress. The vast majority of people in developing countries live in rural areas, and there is significant poverty in these regions. Sectional and geographical decompositions of the incidence of poverty are useful for maintaining proper forms to mitigate the interdependent problems of poverty and environmental degradation.

For Englebert (2000:4), development capacity refers to the capacity of goods to design and implement policies for growth and to provide good governance to their societies and markets. Good governance involves the creation and maintenance of accountable and efficient institutions. However, the state is a broader concept than government or regime, and also includes territory, laws, the bureaucratic and military apparatus, and some ideological justification of the state’s existence.

The state is legitimate when its structures have evolved endogenously to its own society and there is some level of historical continuity to its institutions. State capacity refers to the capacity of governments to achieve their stated objectives, whatever these may be, even when opposed by other groups in society. Inclusive defiant deems capable those states that penetrate society, regulate social, regulate social relationships, extracts resources, and manage to appropriate them. Englebert (2000:4) defines development
capacity as the ability of governments to design and implement economic policies for growth and to provide good governance to their societies and markets. Englebert’s (2000) approach places less emphasis on a state as market conception of development. In fact, it proposes a state-cum market understanding of development. Englebert (2000) contends that development is a function of a certain set of economic policies and institutional conditions. This definition of capacity really captures whether states are capable of foregoing predatory urges in favour of long-term benefits that may not necessarily accrue to the specific individuals who inhabit the state’s space of power (Englebert, 2000).

Some of the policies that governments employ have far-reaching implications for the long-run phenomenon of their economies. They will affect their countries welfare long after the governments that chose them are gone. Given the constraints of their budgets, Englebert (2000:20) argues that governments allocating resources to education and infrastructure face a trade-off away from current expenditures, such as wages and salaries, military spending, or purchase of goods and services for the daily functioning of the bureaucracy. This trade-off actually provides additional development benefits, as high current government expenditures appear to be by themselves inimical to growth.

Many elements of policy choices and good governance relate to growth. Englebert (2000) contends that policies positively affect growth and policies that positively affect growth, fall into two categories, that is, those that reduce distortions and those that allow for more efficient allocation of resources. The analysis confirms that it is important to have good policies and good governance for economic development. Also it is argued that Africa’s crisis is to a large extent a crisis of capacity.

Englebert (2000) states that Weber, (1918) defined the state as a human community that claims the monopoly of the legitimate use of physical force, within a given territory. The state can also be brought as a system of structures. The World Bank’s definition of a state highlights elements of violence and territory. The World Bank endorses even
more Weberian (1918) definition wherein the state refers to a set of institutions that possess that means of legitimate coercion exercised over a defined territory and its population, referred to as society.

The state’s reach spreads from territorial and physical to ideological. In addition, the state is an idea that people display feelings of patriotism and loyalty towards. Therefore, the state is broader and more permanent than government. Englebert (2000) further argues that the majority of contemporary African states are exogenous institutions superimposed over pre-existing political structures and inherited by domestic but westernised elites at independence.

For Lingset (1981:64 in Englebert, 2000), the stability of any given democracy depends not only on economic development but also upon the effectiveness and the legitimacy of its political system. Englebert (2000:173) writes that the historical endogenoity of the state, its congruence with underlying political institutions and norms of political authority, namely, its legitimacy, is a crucial variable in understanding the choice of policies that rulers of developing countries adopt and the quality of the overall governance they provide. For Englebert (2000), both, in turn, are important factors contributing to economic development.

Deficits of state legitimacy are, therefore, at the core of the developmental failure of many African states. Thirnwall (1999:68) explains that the provision of health services, education, housing, sanitation, water supply and adequate nutrition came to be known in development circles in the 1970s as the basic needs approach to economic development. The rationale of the approach was that the direct provision of such goods and services was likely to relieve absolute poverty more immediately than alternative strategies that would simply attempt to accelerate growth or would rely on raising the incomes and productivity of the poor.
Thornwall (1999:68) lists strategies to support his argument as follows:

- Growth strategies usually fail to benefit those intended
- Productivity and incomes of the poor depend in the first place on the direct provision of health and education facilities
- Long time to increase the incomes of the poor so that they can afford basic needs
- Poor tend not to spend their income wisely and certain facilities such as water supply and sanitation can only be provided publicly
- Difficult to help all the poor in a uniform way in the absence of the provision of basic needs

Treurnicht (1986) describes the basic needs approach growing out of the failure of modernisation. The basic needs theory represents a shift in emphasis away from economic development and more in the direction of a human-centered approach. It emphasised that any process of growth which does not address these needs, makes a mockery of the process of development.

Treurnicht (1986) highlights principles of basic needs as follows:

- Addressing mass poverty
- Protagonists of this approach view development as the elimination of mass poverty
- People’s participation
- Participation for some people merely implies providing information, while for others it can imply total control
- Importance of growth
- Economic growth should be part and parcel of a broader process of change including the redistribution of scarce resources

2.6.3 Local Economic Development

Local economic development occurs when communities, government and the business sector, usually acting in partnership, start to engage in activities to improve local social-
economic conditions. Local economic development is mainly associated with attracting industrial investment, but has taken different forms as time progressed (LED Framework, 2006-2011:4). According to Davids et al (2005:18), the newly-democratically elected government of South Africa introduced the concept of People Centred Development as a way of addressing the past ills of the apartheid government.

LED is inextricably linked to service delivery, development and poverty alleviation. It is to activate economic activity in low-income communities, and it is intended to create self-employment opportunities. It also focuses on economic viability and sustainability to avoid grant dependency. Bartick (2003:2) asserts that the functioning of local government should be to promote local economic development or should have a bearing on it.

Nel and Rogerson (2005) describe LED as an applied economic development strategy which seeks to address site-specific needs through locally appropriate solutions. Nel and Rogerson (2005) go on to argue that successful LED depends on the formation of partnerships between key local stakeholders, preferably comprising local authorities, local business, community leaders and non-governmental organisations.

According to Nel and Rogerson (2005:1), LED has evolved to a point where it has become an obligation for local government to meet. External agencies, it is submitted, such as other spheres of government and external organisations have a role to play, on condition that they do not suppress local initiatives and resourcefulness. Communities should look inward at their own unique resources and skills in a quest to ensure self-reliance.

Rogerson (1997) identifies four distinctive links along which LED can be developed as:

(a) Cities as centres of production: promotion of business and manufacturing
(b) Cities as centres of consumption: promotion of leisure, tourism and recreation activities
(c) Cities as centres of information processing and decision-making: corporate headquarters, high technology and information industry
(d) Cities as centres for government investment and functions to drive their local economies

Cities offer what they perceive to be the unique advantages of their locality, usually backed up by illustrations of their infrastructure and service development in smaller towns and rural communities, but also within cities. LED is often undertaken as a broad-based community initiative led by a local NGO or a key local leader such as a local priest or mayor. Activities in local government tend to focus on developing local potential with the aid of local resources and skills, and promoting actively such as small-scale farming, micro-business and tourism.

2.6.4 International context

There have been a number of studies over recent years in developed countries in the world which point to the importance of small business in creating jobs. The cost-effectiveness of regional inward investment strategies, as opposed to supporting indigenous business, was being questioned.

According to Sachs (2005:61), even if investors are able to develop new scientific approaches to meet local economic needs, the chances of recouping investments in the local markets are very low. These are:

- Promoting a culture of entrepreneurship including its introduction to sectors
- Focusing efforts start-ups, business survival, small-firm growth and fast-tracking development of medium-sized firms
- Ensuring better access to risk capture
- Continuing advice and on the job training for entrepreneurs, including mentors and business angels
• Helping with product process development to stimulate innovation
• Improving access to wider markets, research and development and technology transfer
• Providing advanced and targeted business services for both general company developments of niche-market groups such as hi-tech companies

Although Middleton (2012) cites some case studies, the researcher refers only to one case study which deals with creating community involvement. The case study is that of Cleveland, Ohio, in the United States. Twenty-two years ago, Cleveland was faced with the loss of half of its manufacturing employment as the region and the economy had hit rock bottom during this period. During this time, the heavily-polluted river caught fire around the same time that there were serious riots. As a result, once a proud city, Cleveland went down the economic ladder. However, in the past 15 years there has been a turnaround, with the creation of 400,000 new jobs in a region of three million people.

The regional economy is still influenced by manufacturing, automotive, polymers, plastics as well as biotech and medical devices. It now has the sixth highest concentration of Fortune 500 companies in the United States.

Underpinning the turnaround has been the state’s commitment to worker re-training. It launched a programme to help blue-collar workers find new opportunities of high-tech business. As a result, the average age of students at Cleveland State University is 29, with most of its 16,000 students attending part-time in the evening. This commitment is a fundamental part of the region’s long-term economic development strategy.

However, for Greg Clark, Executive Director, London Development Agency, UK (19120) local government is very rarely a monopoly provider of all the local things that economic development needs to embrace. Clark (1912) argues that there should be partnership at all levels of the global economy if it is to be a partner rather than an enemy of local
development. Clark (1912) also contends that LED is fundamentally about taking a view of the locality’s potential and actual offering as a location from the point of view of various key economic and social stakeholders. This is showcased, for instance, where several municipalities will club together with business leadership organisations, utility companies, universities, and others to form a metro-wide economic development agency and programme, recognising the fundamental economic interdependence of all parts of the region.

According to Clark (1912) the goals of local economic development have substantially broadened as they do not now simply include the creation of jobs or the generation of municipal tax revenues. Local economic development objectives now frequently include quality of life, economic diversification aspirations, incomes and disposable income targets, labour market participation rates, business forum rates, productivity and innovative measures, and very precise local investment targets and mechanisms.

Clark (1912) lists sixteen changing practices of local economic development, all of which will not be dealt with in this study. Only seven changing local development practices will be highlighted. These shifts or changing practices are:

- From focusing on crises to long-term analysis and strategy led interventions
- From focusing on sites and buildings, to a focus on firms, people and skills
- From focusing on tax or cash-based incentives to a focus on local product and environmental improvements (quality) and relationships management (customer care)
- From focusing on job-creation initiatives to employment strategies that emphasise income goals, skills enhancement, employment preparation, labour-market access, and on-the-job development and support
- From focusing on community involvement to community empowerment through asset transfers, community-development corporations and balance-sheet strength
• From focusing narrowly on private-sector partnerships, to a realisation of a need to engage all of public and community sectors as well
• From focusing on local development being a job for everyone to an increased professionalisation and more defined niches and roles

Local economic development has three basic variables, namely:

• Nature of the challenges faced in the local economy, their complexity, and sensitivity to local interventions, local economic development challenges are not all the same, even if they increasingly happen in the same global context.
• Political, financial and fiscal context in which local development agencies are established.
• Inter-institutional settlement (who does what) in terms of the whole economic development programme.

Clark (1912) concludes his paper by arguing that private finance is key to economic development because it:

• Provides more capital than is otherwise available, more quickly and more efficiently
• Helps to rebuild local investment markets and averts other disinvestments from occurring
• Builds a more sustainable finance strategy into economic-development initiatives, allowing public funds to be gradually unlocked for alternative actions
• Creates a greater commercial and professional discipline within economic-development policies and initiatives
• Attracts wider interest from other commercial players, giving confidence that something of value must be occurring which might merit their interest
• Re-positions good economic-development activity as an investment rather than an expenditure in the modern economy
Provincial and National context

It is argued that local economic development was practiced to a degree by larger South African cities in the early 1900s. LED was largely associated with attempts to attract industrial development, focusing on advertising, the provision of infrastructure and limited incentives. It was only in the era of late apartheid, in the late 1980s and early 1990s that LED can truly be said to have been raised to prominence in the country. The first example of the revival was the town of Stutterheim in the Eastern Cape, where community-based local development initiatives, based on local political recommendation, laid the basis for identifying new development logic.

Since the early 1990s, interest in LED blossomed. For instance, in 1994, the private sector think tank, the Urban Foundation (now known as the Centre for Development and Enterprise) published a policy document which allocated western LED experience.

In 1996, the National Business Initiative (private sector body) in collaboration with the then RDP Ministry published an LED manual which argues for both community-orientated strategies. The government has been engaged in policy development and legislation. In 1995, the government published its urban and rural development strategies and identified LED as the prime mechanism for job creation, empowerment and local development.

National and provincial governments also play their role by transferring LED related funds to local government. According to Beall (2005:3), large amounts of money directed at alleviating poverty and empowering low income and marginalised people end up in the wrong hands or give rise to ambiguous outcomes.

The following are legal provisions which provide a basis for LED:

- Local Government Transition Act 1993 and 1996
- Development Facilitation Act, 1995
The White Paper introduced the concept of developmental local government which departs from the traditional, limited focus of local government activity service and infrastructure provision. Nel and Rogerson (2005) define developmental local government as local government committed to wanting with citizens and groups within the community to find ways to meet their social, economic and material needs and improve the quality of their lives.

**2.6.5 Context for local government**

The context under which local government should operate includes:

- Maximising social development and economic growth to meet basic needs, delivering services, investing locally, developing land and encouraging investment so as to create the conditions for economic development, to provide basic households infrastructure and to pursue affirmative procurement policies.
- Integrating and co-ordinating development. In other words, providing leadership and vision to local role players and to establish sustainable and livelihood settlements.
- Democratising development, empowering communities and redistributing resources, including services subsidies and support for community organisations.
- Leading and learning
- Providing good basic services and providing for cross-subsidisation to support the poorest communities and to lever private sector investment.
- Creating livelihood, integrating cities, towns and rural areas through the promotion of spatial integration and sustainable environments.
- Simplifying regulations and supporting local procurement policies, zoning, the speeding up of delivery, providing of one-stop shop facilities, marketing and investment, small business, training, researching and linking with relevant role players in the local area.
LED in South Africa occurs at a variety of levels and assumes widely-differing characteristics. Apart from enterprises such as the business-orientated National Business Initiative, there is a plethora of, for instance, CBO and NGO initiatives in local areas which also promote social and economic upliftment.

2.6.7 Variants of LED in South Africa
There are four variants of LED which currently feature in South Africa, namely:

- **Formal local government initiatives:** which parallel traditional western thinking and, to a large degree, overlap with government thinking on the topic as detailed in its Local Government White Paper.
- **Community based / small town initiatives:** which often develop as a result of NGO support and facilitation. Overlap with the government's Rural Development Framework is evident.
- **Section 21 developmental corporations:** companies that promote local development within a selected spatial area, but not for gain. Top down LED in which government, usually at provincial level, and or various national organisations attempt to catalyse and support local initiatives.

2.6.8 Role of Local government in LED
Chapter 7, of the Constitution of the Republic of South Africa of 1996 outlines the functions and objects of Local Government. Section 152(1) (c) of chapter 7 promotes social and economic development and Section 152(1) (e) encourages the involvement of communities and community organisations in matters of local government.

Local funds are an administrative vehicle for selecting, funding and implementing community or locally-identified and managed small-scale public projects targeted at disadvantaged groups or areas (Beall, 2005:3).

In South Africa, economic development has been identified as a priority area since 1994. It emphasised economic growth, wealth creation, job creation and income
redistribution. Local government is required by law to play a leading role in promoting local economic development. Therefore, it should primarily act as a facilitation and enabler, meaning in more practical terms to promote and strive towards an enabling environment which could, for example, include:

- Development of appropriate infrastructure
- Development of appropriate by-laws and regulations
- Provision of technical information
- Acting as a catalyst to start up LED projects alone or preferably in co-operation with stakeholders
- Promotion of networking and creating linkages between resource actors and development projects as well as linkages between enterprises

Section 26 (a) of chapter 5 of the Municipal Systems Act No.32 of 2000 stipulates the need for municipalities to develop Integrated Development Plans [IDPs] which include local economic development. The IDP is a tool to ensure that social, economic, environmental, infrastructure and spatial aspects of development are planned in an integrated way. LED can be used to achieve a municipality’s development objectives. Some of the socio-economic needs identified in a community can best be addressed through LED initiatives. Municipalities must then determine what role they can play in those LED initiatives, how municipal structures or agencies will participate in LED activities, budget funds for LED activities, decide how to co-ordinate LED activities with the rest of the municipality and decide how to co-ordinate the LED activities with organisations at other levels of government and the rest of society.

LED is essentially seen as an important vehicle that will:

- Create jobs and new employment
- Increase income levels that will enable people to pay for their services for which arrears in South Africa now stand at some R25billion
- Broaden the tax and revenue base of a local authority
- Enable a municipality to provide more and better services and facilities
- Concentrate human resource potential and opportunity for development
- Build new institutions for sustainable economic development
- Promote links between developed and under-developed areas

However, there is international criticism of LED as a concept and the way it can be integrated into explicit anti-poverty strategies. This criticism opposes the claim that economic growth automatically benefits the poor through increased economic opportunities and jobs. It says the assumption is false because there is international evidence that dynamic economic growth can occur without creating new jobs. This criticism also challenges the capacity of local government which it says lacks capacity to formulate coherent local anti-poverty strategies. It is not surprising that South African case studies demonstrate a pattern of LED interventions devoid of systematic approaches that aim to erode structural poverty in the given locality.

The reason given for municipalities to be involved in LED is that they employ people from the local area, purchase goods and services, develop infrastructure and regulate the development of land. All these activities impact on the local economy. The estimated goods and services purchased by the 284 municipalities in South Africa are estimated at some R72 billion a year. In addition, the Constitution defines one of the objects of local government as the “promotion of social and economic development”.

The White Paper on local government (1998) reinforces the mandate by introducing the concept of “developmental local government” which defines it as “Local Government committed to working with citizens and groups within the community to find suitable ways to meet their social, economic and material needs and improve the quality of their lives”.

The White Paper states that local government is best placed to promote economic development of communities because this sphere exerts considerable influence over
the social well-being of local communities. Municipalities are required to participate in various economic development programmes of provincial and national government. According to Hindson et al (2003:8), local government has the comparative advantage in LED of policy planning, mobilisation of actors and resources, facilitation of development and encouragement of partnership formation. City authorities cannot influence economic fundamentals, but they can direct the nature of responsiveness of city services, prioritise city infrastructure and lead local economic development partnerships (SACN, 2004:2).

2.6.9 Analysis of LED strategies

According to Rogers, Jalal and Boyd (2008:31), poverty must be reduced by meeting the basic needs. A strategic assessment of policies and plans must be undertaken. The role of municipalities in establishing LED strategies is crucial for job creation, poverty alleviation and income redistribution. Programmes and strategies must include infrastructure improvement, business expansion and retention, export promotion based on a municipal geographic comparative advantage, economic development and local government transformation.

There are several ways in which local government can promote LED. It can act as a coordinator in which case, it uses its IDP to draw together developmental objectives, priorities and strategies as well as programmes for the municipality. It can act as a facilitator by improving the investment environment, as stimulator by providing low rent premises or hives to SMMEs or as entrepreneur / developer where it takes full responsibility for operating an enterprise. It can also enter as a joint venture with an NGO.

There are, however, numerous definitions of LED and it means different things to different people. The Department of Provincial and Local Government (now called Department of Cooperative Governance and Traditional Affairs) asserts that as an
outcome based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development. The aim is to create employment opportunities for local residents, alleviate poverty and redistribute resources and opportunities to the benefit of all local residents.

DPLG (now COGTA) has further suggested seven interrelated strategies that are commonly used to transform an economy, namely:

- Development and maintenance of infrastructure
- Retention and expansion of existing business
- Plugging the leaks in the local economy
- Development of human capital
- Community economic development
- SMME development
- Investment attraction and place marketing

It has, however, been emphasised that there is no single approach to LED which will work in every local area. Each local area has a set of opportunities and problems and must develop an LED (or combination of strategies) that is specific to local context. LED initiatives need to take into account the regional, national and global context and design it in a way which assists local areas to respond to these contexts creatively.

The criteria for funding LED as outlined by Government are:

- Short- and long-term job creation
- Targeting the poor and disadvantaged
- Capacity to leverage other resources for funding
- Sustainability of projects and jobs
LED takes place within the context of specific institutional arrangements in South Africa. These institutional arrangements mean the range of organisations, structures and networks through which LED can be co-ordinated, managed, implemented and monitored. The design relates to the way these institutions relate to each other. But it must be designed to meet the needs and circumstances of the community. Institutional options outside the municipality can be used as vehicles.

There is a distinction between LED institutional arrangements that focus on the co-ordination of an LED programme and those that focus on specific LED projects.

At a programme level, institutions are required to take responsibility for the co-ordination and management of the LED programme and for the identification and mobilisation of resources necessary for the planning and implementation. At a project level, specific institutions or structures are given responsibility for managing individual projects within the LED programme. In addition to providing programme-level leadership and co-ordination, municipalities may be involved in LED projects. LED projects may also be managed and driven through a number of different institutions, where the municipality plays a less direct role.

DPLG (now COGTA) says there are a number of institutional options which offer benefits for the management, implementation and monitoring of LED programmes or projects by municipalities. These include municipal LED units; community development trusts; Section 21 companies; and partnership with stakeholders.

### 2.6.10 Strategic planning for LED

The local economic development policy paper entitled “Refocusing Development on the Poor” of the Department of Provincial and Local Government (now COGTA) (2002:58) highlights the Government’s pro-poor policies. The policy paper argues that the municipality must integrate existing resources in order to tackle the three strategic objectives.
The Policy Paper lists the following strategic objectives, namely:

- Establish a job-creating economic growth path
- Embark upon sustainable rural development and urban renewal
- Bring the poor and the disadvantaged to the centre of development

The Policy Paper also states that in particular, LED strategies are often fatally flawed because they do nothing for those who are most in need, namely, rural residents, women and children, the elderly, disabled people, people who are living with HIV/AIDS, and the environment.

The Policy Paper explains further that a “lead” LED strategy is desirable which clearly indicates to local constituents, outside investors and anyone else interested, that a municipality has done sufficient research and consulted widely so as to possess both sound LED objectives and a definite plan to achieve these. One of the main objectives of the LED Policy Paper is to rectify the incoherence between the varied kinds of LED strategies, and ensuring that the main objectives are met.

The Policy Paper indicates that Department of Provincial and Local Government has identified three appropriate LED instruments as part of deepening the LED strategy, including:

- Capacity improvement instruments: including infrastructure improvements, land acquisition, tax increment financing, leasing of land to developers and others.
- Market expansion instruments: expanding the local market, especially when this is combined with redistribution and social justice, often makes a locality more attractive to investors and assist local firms to upgrade.
- Cost reduction instruments: encouraging investment by reducing the cost to households, developers and businesses through public subsidies.

The DPLG’s Policy Paper (2002) arguing on interventions, talks of “revitalising municipal planning”. The paper argues that in considering the planning process it is
useful to break it down to components. The components are listed in the policy paper as follows:

- “Infrastructure” components including capital investments (such as water, sanitation, energy, public transport, recreational facilities and the like).
- “Programme” component entails the ongoing servicing of the system (such as public safety programme or a housing joint venture scheme).
- “Procedural” component includes the rules and regulations that relate to service provision (such as development approval processes).
- “Management routines” are repeated activities (such as rubbish collection or building inspections).
- “Management interventions” are specific attempts to change the system (such as pollution control).

For Neil and Tykkylainen (1998), the explanations of spatial economic development have mostly been one-sided, emphasising only some aspects of development. Neil and Tykkylainen (1998) continue to argue that since the late 1980s, a wave of agency-centric conceptualisation and theory building has been in progress. These deal with the information-based mode of production, post-modern socio-economic relations, local innovative milieu and the network forces and various partnerships play a larger role in the geographically-orientated policy decisions of the 1990s than they did in the 1980s.

Hannigan (1998) attempts to address public-private partnerships by arguing that while both parties broadly support a growth-orientated strategy, specific goals may differ in approaching local economic development. Hannigan (1998) also states that cities today cannot afford to rest on their laurels. Depending on the nature and size of the project, the prime initiative may come from either the public or the private partner. Although Hannigan (1998) finds that such partnerships are assumed to be in the best interest of the community, in reality, the downtown landscape is still “littered with the remnants of failed experiments that have not delivered the jobs or commercial spin-offs as predicted”.

93
Smith (1992) writes broadly about cities in planning and strategies, and contends that while there is little overt planning, in the sense of consciously seeking to achieve positive sound economic and environmental outcomes, at the level of the city as a whole, there is a great control at more local scales. The implication of this, Smith (1992) argues, is that as far as possible, new growth should be strategically and sensitively implored within the boundaries of the existing cities.

Nel and Tykkylainen (1998) conclude by saying that there is no single, simple, and universal explanation of local economic development, nor is there a single uniform policy or scheme that can offer a universal panacea for the problems of local economic development. Nel and Tykkylainen (1998) also concede, as well that their conclusion is not to assert that it is not possible to define some general underlying principles that affect the success of local economic development schemes.

2.6.11 Conclusion

According to Nel and Rogerson (2005) although LED has become an established feature of the development scene of South Africa, the number of LED projects is small. This, Nel and Rogerson (2005) attribute to serious resource and skills constraints which are compounded by the lack of strategic guidance, facilitation and role models. Progress is often inhibited by rigid ordinances, near bankruptcy, shortage of skilled staff and the absence of any major organisation to offer extensive support and advice to local government (Nel & Tykkylainen (1998).

In a positive note, Nel and Rogerson (2005) admit that there are positive elements of LED, which they conclude by highlighting key policy requirements for LED to succeed, namely:

- LED policy must acknowledge and encourage the participation of a wide range of actors in the local economy
- LED fund is necessary to “kick start” development at the local level
- LED facilitators need to encourage local initiative and leadership in smaller towns and rural areas
- LED Institute might go a long way to broadening the potential and scope of LED activities by establishing a formalised structure

Local government interventions to address local economic development are enormous. In South Africa, there huge backlogs of under-development and poverty as this country underwent skewed development in the past. In addition, sometimes, because of huge challenges, government efforts might not be appreciated.

Therefore, economic development is a long-term effort which requires vision and ambition. Most of the tools lie within the hands of local government as statutory powers and duties, for example, planning, regulations. As a result, partnerships like business, labour, NGOs, CBOs, government and community must pull together for LED to succeed.

Finally, for LED to succeed, the following must prevail:

- Financial viability and sustainability
- Quality project management,
- Capacity and skills development
- Community participation
- HIV/AIDS impact
- Job creation
- Funding is crucial for the concept of LED to succeed and deliver to the poor

### 2.7 THEORY AND PRACTICE OF COST RECOVERY

The theory and practice of cost recovery in dealing with finance and service delivery is important. According to McDonald and Pape (2002:17), cost recovery refers to the practice of charging consumers full or nearly full cost of providing services such as
water and electricity. In contrast to the long standing of the state subsidising these services, consumers around the world are increasingly expected to pay in full for service delivery. The concept of cost recovery is the recovery of all, or most of the cost associated with providing a particular service by a service provider.

For those services that can be accurately measured in volumetric terms (for example, water, electricity or water borne sewerage), cost recovery is achieved by charging end-users the short-run marginal cost of production plus a long-term operating and maintenance costs. Progressive block tariffs have been introduced in many countries in an effort to make the initial levels of consumption more affordable, or even free, while charging increasingly higher prices as consumption levels rise.

This rising tariff has the added potential benefit of curbing consumption at the top end, thereby introducing conservative incentives. Block tariffs are not inconsistent with cost recovery. McDonald and Pape (2002:18) argue that for any cost recovery policy to be effective, a service provider must be able to measure the consumption of a particular service by an individual household regularly and accurately, and it must be able to collect payments. For volumetric services such as water and electricity, measurement is relatively easy with the use of increasingly sophisticated metres that measure the number of liters used and kilowatts hours consumed. Without metres, it is virtually impossible to apply marginal cost pricing. For those services that are not measurable on volumetric basis, it is necessary to approximate average consumption and to charge the average cost.

But for most accurate measurement and pricing systems in the world mean little if the service provider cannot collect the monies owed for services rendered. According to Gildenhuys (1997b:241), there is no sense in imposing a tax of which the net yield after collection cost is almost zero. It is, therefore, clear that the collection cost should be kept as low as possible. Effective administration is important here, including a good postal/payment system. Of equal importance are the punitive measures/threats used to
persuade and force consumers to pay their bills. The most common form of punishment is to cut-off a service to a household. In the case of water and electricity, this means disconnecting the household from water and electricity mains. In most cases, this is temporary, unless the case is delinquent, which can mean disconnecting for a long time. Cut-offs and evictions are expensive and politically sensitive enforcement weapons, which is why municipalities now use mainly prepaid where possible. A prepaid metre is a device that not only measures the exact amount of the service that is consumed, but also forces users to purchase the consumption in advance. Prepaid metres are the ultimate cost recovery mechanism. They collect money in advance, thereby earning interest for the services provider in the processes. They also do not allow the consumer to go into default, and theoretically, they require no overt punitive measures to enforce payment for services.

According to Aronson and Schwartz (1981:192), the end product of the user charge system is a combination of charges that are higher than those who demand more service, for residents who live in areas that are particularly expensive to serve, and for those who use the service during peak periods. Aronson and Schwartz (1981: 194) conclude that the production, distribution and administration costs vary among publicly supplied service such that the charging practices for each should and will vary among services. Cost recovery for basic municipal services has not always been a policy of national and local government in South Africa. Only since the end of apartheid in the mid-1990s has full cost recovery been isolated as an explicit, widespread policy objective.

Most South African municipalities, especially those that are small and rural, are still a long way from meeting these cost recovery goals. Another concern with the way that cost recovery is being implemented in South Africa is the harsh way in which it is enforced. More subtle forms of injustice and insult include pensioners waiting for hours on end in the heat and cold to pay their bills at understaffed municipal offices, and
sometimes receive rude services from those officials who do not always ensure good customer/client care.

Service cut-offs and evictions are indeed unconstitutional. Visser and Erasmus (2002:140) question at what stage does payment for goods and services delivered constitute debt. Visser and Erasmus (2002) argue further that recording and reporting on debts must be maintained in order to determine the extent amount of total debt owed to the state, the amount repaid, the amounts outstanding and the bad debt being written off. In terms of fiscal arguments, the single most important reason given for cost recovery is the need to balance books and it is a matter of good fiscal practice. Service costs vary dramatically across the country and even within municipalities. But for those who have service infrastructure, and who receive regular bills, the median total cost per month for water, electricity, sewerage and refuse removal varies. A notable feature of the costs is how relatively these services are for upper income families which is a group composed of urban whites who have long benefited from heavily subsidised municipal services, as well as urban blacks who are well off and can comfortably manage payments. For this economically well off group (black and white), payment of municipal services is simply not a major budgetary concern. The prices of the payment of these municipal services are also not out of line with international practice. South Africans also pay considerably less for water than many other countries.

According to McDonald and Pape (2002:165,167), South Africans pay less than a third of the average of price of water per liter than in the United Kingdom. Many low-income households find themselves heavily in arrears for basic services like water and electricity. Households in urban and metropolitan areas are more likely to be in arrears than those in rural areas, owing in part to the fact that metred connections are less common in rural areas. One response to the issue of affordability and cut-offs has come in the form of free basic services. The free basic services policy is based on the concept of providing a life line supply of water and electricity to every household in the country free of charge. Essential services need to be made more affordable for poor
households if the promise of service access to all is to be met. If ability to pay is more important than willingness to pay, then no amount of moralising or threatening is going to alleviate the payment crisis in the country.

2.8 DEPENDENCE ON NATIONAL TRANSFERS AND GRANTS AND INTERGOVERNMENTAL RELATIONS

Section 2.8.1 discusses transfers and grants that come from national and provincial governments in order to contribute to financial viability and sustainability of local government. It also depicts how local government is dependent on these grants. Intergovernmental Relations (IGR) which facilitates the interaction between these three spheres is also discussed extensively.

2.8.1 Transfers and grants

A government grant is a special kind of government assistance: a monetary value that can be attached to the assistance given to an institution. Parnell et al (2002:22) argue that local sources of income in many developed countries have not taken place with the escalation of local government expenditures. Local governments that depend heavily on central state funding are likely to experience more constraints on their policy-making because they are more easily subjected to central government pressures and because the cost of any additional expenditure is disproportionately reflected in local taxes. The fiscal problems experienced by many local authorities are compounded by geographical processes of uneven development at both local and regional scales. The fiscal disparity is frequently accompanied by the greater needs of those areas with the weakest tax base.

According to Bunting (2005:357-358), government assistance is defined as any action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government grants are understood as the form of transfers of resources to any entity in return for past or future compliance with certain
conditions relating to the operating activities of the entity. If no monetary value can be placed on the government assistance, then it cannot be a government grant. Cloete (1995:65) argues that historical debts of old local authorities where they could not repay should be assumed by the state. This should exclude liabilities in respect of infrastructure which may operate revenue. Cloete (1995) continues to argue that municipal finances must be based on the principle of one municipality-one tax base. Over half of municipalities in South Africa are thought to be in financial difficulty. In response to the uncertain financial position, private lending has more or less dried up, except for short term overdrafts and a few high interest loans. Government intervention is essential if the impact of cumulative process of uneven development is to be reduces.

There is always potential conflict between national governments anxious to control spending and local authorities under pressure to maintain and improve services. Many developed countries are characterised by a huge degree of political and administrative centralisation. Local government in such countries is weakly developed and plays a far smaller legitimising role in developed countries. In the year 2000, the erstwhile Department of Provincial and Local Government (DPLG) introduced a programme called Project Consolidate. This was a programme introduced to assist the municipalities in building the financial, administrative and management capacity of financially compromised municipalities to make them viable. Initially, there was resistance by some of the municipalities to the introduction of the programme, as others denied that they were financially compromised. Project Consolidate assisted municipalities a lot in designing their systems. Again in 2006, the erstwhile Department of Provincial and Local Government introduced another programme called the Five Year Local Government Strategic Agenda. This programme was an improvement of Project Consolidate.

The Five Year Local Government Strategic Agenda comprised five key performance areas, namely, municipal organisation and transformation, local economic development, service delivery, financial, financial viability as well as good governance and public
participation. The Five Year Local Government Strategic Agenda was designed to start in 2006 and end in 2011 when its impact would have been assessed. This strategic agenda is discussed in section 2.16 under the heading: Government Interventions – Attempts towards solution of local government challenges. The new Department of Co-operative Governance and Traditional Affairs in 2009 unveiled the new Local Government Turn-Around Strategy, called LGTAS. According to Co-operative Governance and Traditional Affairs (2009:3), notwithstanding the valuable role that municipalities have played in South Africa’s new democracy, key elements of the local government system are showing signs of distress in 2009. The Turn-Around Strategy is also discussed in section 2.16.

The Ministerial Advisory Committee on Local Government Transformation (2001:20) reports and confirms that "unfunded" and "underfunded" mandates delegated to local authorities create huge financial strain for municipalities attempting to address backlogs for service provision in their constituencies. This committee notes that in many municipalities, the equitable share is very low. A municipality's ability to generate local revenue hinges on the local worth and scale of property within its municipal boundaries and economic activity.

Where economic activity is low or declining, municipalities are unable to generate revenue from economic activity. However, Pillay et al (2006:12) state that the assignment of core revenue generating powers and functions from local to district councils undermined the financial viability and capacity of non-metropolitan local government whilst adding to the complexity of the intergovernmental fiscal system.

According to King (1992:56), the relationship between central, regional and local governments is constantly changing. Some governments are committed to decentralising expenditures and revenues, while others are adopting a more interventionist approach in the affairs of local government. The issues of local autonomy and local accountability are closely linked, since one of the main reasons for giving local
government a degree of fiscal discretion is to encourage local accountability. This, in turn, enables local electorates to influence the mix of local taxes and services, thereby promoting a more efficient allocation of resources and encouraging containment at local level.

2.8.2 Intergovernmental relations
Intergovernmental relations play a prominent role in shaping and determining the financial viability or non-viability of municipalities. Intergovernmental Relations (IGR) has been in existence since the apartheid regime as well as this democratic government. The only difference is how the IGR system has been used by both dispensations. The pre-1994 dispensation used IGR to strengthen the apartheid hand in all provinces and locals under the authoritarian rule of the national.

This aspect of the theoretical framework research deals with the pre-1994 IGR system and will try to show how it entrenched the apartheid system. The researcher will then proceed to look at the post-1994 IGR system. The research tries to show how the democratic government, since 1994, has tried to use IGR for the advancement of social delivery.

The research also considers the IGR forums, as well as their strengths and weaknesses. The work done by the 1998 Presidential Review Commission is also widely used in this research. This section also addresses the assessment and evolution of the IGR framework, the debate on the continuity of Provinces, and, lastly, the IGR’s recommendations and conclusions.

2.8.2.1 Pre-1994 Intergovernmental Relations (IGR systems)
The immediate preliminary end to apartheid rule saw a centralised authoritarian system of government. At this time, three sets of institutions ruled South Africa, that is, parliament, the military and the Broederbond. In a highly-authoritarian system, there is little space for intergovernmental relations, as it exists today. In the period preceding self-rule and Bantustanisation of the country, there was a central government, four
provinces and approximately 1200 local authorities. The so-called independent states replicated the system found in South Africa.

The centralised system saw rule from the top with very little decentralisation of powers. Those powers which were centralised could be revoked and replaced with edicts from Cape Town or Pretoria.

Thornhill (2002:30) identifies that during the course of more than 300 years of oppressive rule in South Africa, the European philosophy of government and administration was adopted in the various areas now comprising the Republic of South Africa. The four areas formerly known as Transvaal, Cape of Good Hope, Orange Free State and Natal constituted the Union of South Africa in 1910.

In 1908, a National Convention was convened, which ultimately decided on a draft constitution to obtain political unity amongst the areas concerned (Thornhill, 2002:30). The decisions of the National Convention led to the South African Act, 1909. In the pre-1994 scenario, South Africa was at varying stages ruled by the British, as colonies. The colonies were the Cape and Natal. On the other hand, Transvaal and the Orange Free State were Boer Republics. Levy and Tapscott (2001:4) argue that the British Colonies were a two-tier system comprising central and local governments. On the other hand, the Boer Republics adopted a unitary model of government. The central government retained absolute power whereas the local government had no substantive powers.

The South African Act of 1909 united the Boer Republic and the British Colonies into one State. The British Colonies were designed to foster discrimination, and the Boer Republics were forerunners of the oppressive system of apartheid. The four provinces derived their legislative powers from the South African Constitution Act of 1909. Levy and Tapscott (2001:5) contend that provinces served as rubber-stamps of the National government because they were sub-ordinate to the National legislature.
The Provinces had administrators and provincial councils, however, administrators were appointed by the Prime Minister. The Prime Minister had to ensure that the IGR systems in place were there to sustain apartheid. A Prime Minister could not support an administrator who was not committed to the governments polices of apartheid.

Administrators and Provincial Councils had to be closely guarded by the National government. They were government structures that were needed to perpetuate and deepen the policy of apartheid. Consequently, the administrator was the direct representation of the Prime Minister.

The National government did not trust anybody except themselves hence they did not devolve any power to Provincial Councils. The Bantustan system was also problematic as intergovernmental relations were poorly defined there.

2.8.2.2 Post-1994
According to Venter (2001:125), the way in which the state is structured, whether federal or unitary, influences the way in which its functions are implemented and public service rendered. South Africa can be regarded as a unitary state with some federal characteristics. This means that power remains firmly concentrated at the level of central or national government and certain prescribed powers are developed to provincial or local authorities.

The institutions of Government in South Africa have, since April 1994, existed as a series of delicately interlocking devices, pervasive throughout society, and all aimed at achieving the national development policy goal. It should be apparent that for this objective to be secure, the machinery of government must be imbued with a significant degree of inter-institutional harmony (Venter, 2001:191).

After the April 1994 election, the first initiative towards the harmonisation of intergovernmental relations came at the insistence of the then National Ministry for
Provincial Affairs and Constitutional Development. A meeting between the President and the Deputy President, and nine Provincial Premiers was convened in August 1994, at which it was resolved to establish an intergovernmental Forum (IGF). The Intergovernmental Forum’s permanent members would be the nine Provincial Premiers, the Minister of Provincial Affairs and Constitutional Development, the Minister of Public Service and Administration, the Minister of Finance and the Director-General of the Office of the President (the President and Deputy President attended as ex-officio members).

Venter (2001:191) argues that a Technical Intergovernmental Committee (TIC) was placed at the disposal of the IGF on an advisory capacity. The TIC consisted of the Directors-General (DGs) of the National and Provincial departments, the Chairperson of the FFC, and members of the Public Service Commission.

Because the TIC could quietly become unwieldy, a core group was selected, comprising DGs of the nine provinces, the DG of the Office of the President, the Chairperson of the FFC and the DGs of the following relevant departments: Constitutional Development, Finance, Public Service and Administration, and State Expenditure.

In August 1994, it was resolved to establish ministerial forums between the various national ministries and their provincial counterparts to facilitate (line function) cooperation. The forums have become known as MINMECs (namely, Ministers and Member of the Executive Council). Like the IGF, the MINMECs have technical support of officials in the relevant national and provincial departments (Venter, 2001:192).

Over time, a Premier’s Forum and a Speaker’s Forum were established to co-ordinate matters of national interest between provincial premiers and between provincial speakers. With the IGF, its TIC and the MINMECs were in place, so attention was
devoted to the establishment of a more coherent vision of co-operative government (Venter, 2001:192).

Rapoo (1995:17 in Venter, 2001) contends that the African National Congress (ANC) constitutional thinkers began to examine the German model more closely and submitted a document that made two important contributions to the ongoing debate on intergovernmental relations. The document spoke of co-operative and co-ordinated government, and it suggested that the responsibilities of provinces could be augmented not so much by the allocation of a maximum amount of power to provinces, or even the promotion of a vigorous and competitive federalism, but by strengthening the roles of provinces and the centre (Rapoo, 1995:17 in Venter, 2001).

Venter (2001:192) explains that the thinking of co-operative and co-ordinated government, in turn, is contained in Chapter 3 of the Constitution of the Republic of South Africa. Venter (2001) finds that all spheres of government are instructed:

- To preserve the national unity and individuality of the Republic (section 40(1)(a)
- To not assume any power or function except those conferred on them in terms of the Constitution (section 40(1)(f)
- To exercise their powers and perform their functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere (section 40(1)(g)

These three spheres must conduct this intergovernmental co-operation by:

- Assisting and supporting one another
- Informing one another of, and consulting one another on, matters of common interest
- Coordinating their actions and legislation with one another
- Adhering to agreed procedures
- Avoiding legal proceedings against one another (section 40(1)(h)
In the post-1994 system, there were three distinct spheres of governance each with constitutionally entrenched powers. The nineties also witnessed a radical shift from the politics of conflict and confrontation to the politics of negotiation and consensus building in South Africa. This change, which resulted in the Interim Constitution of 1993 and the New Constitution of 1996, is important as it fundamentally altered the conception of societal transformation and nation building in South Africa. The institutional arrangements had to be redesigned to drive these changes in governance.

Chapters 3 and 10 of the New Constitution of South Africa (1996) make provision for an integrated, inter-sectoral, and co-operative approach to governance. These provisions commit all three spheres of government (national, provincial and local) to be transparent in policy making and inclusive in its approach. The Constitution further stipulates that public administration should adhere to a number of principles including:

- High standard of professional ethics be promoted and maintained
- Services should be provided impartially, fairly, equitably and without bias
- Resources should be utilised efficiently, economically and effectively
- People's needs should be responded to
- Public should be encouraged to participate in policy-making
- Public administration should be accountable, transparent and development-oriented

Since 1994, the political landscape has been altered, with the introduction of the new central, provincial and local spheres of governments. New national and provincial departments were established through the amalgamation and restructuring of former apartheid administrations.

In developing a system of good governance in 1996, the Presidential Review outlined the pursuit as follows:

- To shift power and authority from central government to provincial and local government, within a framework of national norms, standards and values
• To locate responsibility for achieving efficient and effective delivery of services to the lowest possible level
• To ensure that ethical and professional standards are developed and maintained throughout the public service and all other organs of state
• To ensure that the functions and records of government are open to public view and appraisal
• To secure accountable and transparent stewardship of public resources, so as to build the kind of society envisaged in the 1996 Constitution
• To reward achievement, acknowledge failure and give redress to grievances

The Presidential Review Commission of 1998 further states that a major achievement was the re-integration of government, following the country's balkanisation under the apartheid system. This involved the complex and difficult task of rationalising and integrating the eleven former administrations of the Republic of South Africa and the "independent" and "self-governing" homelands into a single unified public service, operating at national and provincial levels. Typically, these various administrations brought with them different accounting and financial systems, different levels of job grading, skills and experience and, in some cases, a different work ethic. The complex nature of this task accounts for many of the problems that continue to afflict the new public service, including corruption and the incompatibility of systems. Considering the abiding self-interest built into these former administrations, the mere achievement of bringing them together was no mean feat. In fact, in regions such as the Eastern Cape and Northern Provinces, many of the persisting problems could be attributed directly to this incorporation process. In the Northern Cape, however, the problems arose differently. Due to the fact that it was a completely new province, it had no existing public sector infrastructure to draw upon.

The Review Commission (1998) stated that:

The wholeness of government is weakened, indeed threatened in South Africa by both structural and functional defects. Structurally, the national machinery is too fragmented. There are too many departments with too narrow a focus. The
whole machine is headed by too many ministers supported by too many private offices, directors general and their support staff. This in turn has created major problems of coordination. In addition every separate department is potentially another self-regarding vehicle for thrusting policies at provincial and local government.

Functionally, there existed what many have described as a vacuum at the centre of government which existed somewhere between the offices of the President and Deputy President. Between these and the departments lay a space which was conventionally filled in virtually all systems of government by a central secretariat or cabinet office. The function of such an office was to ensure that issues and policies requiring consideration by the President, Deputy President and Cabinet were identified, that the ground work for their presentation was thoroughly prepared with all the relevant departments involved, that there was comprehensive and comprehensible briefing, that policies and outcomes were properly and promptly secured and recorded, that implementation followed, and that progress was effectively monitored.

Effective co-ordination within and between the spheres of government was clearly vital, especially if the public service was to contribute meaningfully to the kind of integrated approach to reconstruction and development advocated in the RDP, and other policy papers, as well as to the system of co-operative governance spelled out in the 1996 Constitution. However, virtually all of the studies initiated by the Commission pointed to serious weaknesses in the current structures and mechanisms for co-ordination, both within departments and provinces and between the different spheres of government. The lack of effective co-ordination mechanisms was also highlighted as a major problem by most departments and provinces which made presentations before the Commission. IGR, according to the 1998 Presidential Review, gives valuable background to the evolution of IGR in a democracy.

According to PRC (1998), whilst IGR were only at a formative stage in South Africa the relationship between and within the different spheres of government had emerged as an
issue of key concern to the Commission. There was particularly a concern with the management of intergovernmental relations and the viability of the mechanisms for the communication of cabinet policy to departments and provinces throughout the government machinery. In this, the role of the centre, the efficacy of existing structures, and their capacity to implement national policies were a cause for considerable concern (PRC, 1998).

2.8.3 Weaknesses at the Centre of Government
In view of these shortcomings, the Commission dealt at length with the inter-sectoral management of affairs between and across the three “spheres” of government. Similarly, in view of the importance attached to this matter, the Commission initiated specialist studies to examine the issue of Intergovernmental Relations in more detail and to make recommendations as to how relations might be improved.

2.8.4 The Intergovernmental Forum (IGF)
This body was established to provide an opportunity for consultation and joint decision-making between ministers and premiers on all matters of mutual interest. It was, however, an informal body and had no legal basis for the decisions reached by its members. No legal mechanisms were available to ensure that governments adhere to the decisions taken by the IGF. It depended, therefore, largely on mutual trust.

The permanent members of the IGF were all at the heart of the public administration system and were central to inter-sectoral co-ordination. They included the Minister of Provincial Affairs and Constitutional Development, the Minister for Public Service and Administration, the Minister of Finance, the Director-General of the President's Office, the nine provincial premiers, and, ex-officio, the President and Deputy President. The main functions of the IGF were the establishment and implementation of an integrated and co-ordinated IGR policy framework, multi-sectoral or lateral policy issues, finance and fiscal matters and constitutional concerns. The co-ordination of this body rested with the Minister for Constitutional Development who presided over meetings and presented the decisions of the IGF to cabinet.
2.8.5 Ministerial Forums (MINMECs)

These were sectorally-based meetings of national ministers and provincial MECs, established to promote co-operation, co-ordination and communication between the national departments and their provincial counterparts. MINMECs comprised of a national minister and members of the executive council (MECs) in each of the provinces, for example, the Minister of Finance together with the MECs for finance in each of the provinces. Depending on the sector, MINMECs reportedly met fairly regularly and discussed the implementation of government policies as well as the division of financial and other resources. Their deliberations were less overarching and more sectoral and detailed in character than the matters discussed by the bodies such as the Cabinet or the Inter-Governmental Forum.

The responsibilities of the MINMECs include:

- Harmonisation of legislation within a given sector
- Division and deployment of financial resources
- Harmonisation of programmes on a national basis
- Consultation and negotiation on national norms and standards
- Integration of inter-governmental policies and strategy
- Formulation of joint programmes and projects
- Sharing of sectoral information
- Assignment of roles and responsibilities between spheres of government

2.8.6 The National Council of Provinces (NCOP)

Chapter 4 of the 1996 Constitution made provision for an NCOP, which provided a direct channel for provincial governments to participate in policy formulation at national level. Structurally, the NCOP comprised of a ten person delegation from each of the provinces including four “specialist” delegates, (the premier/or delegate, plus three others) who, within their level of competence, could issue legislation of common interest
to all provinces which could feed into the national legislative process. The NCOP took up provincial matters of governance and service delivery.

However, the NCOP was designed more for the discussion and determination of broad policy than for the management of inter-governmental relations. Nevertheless, the desirability of a formal linkage between the premiers and the office of the President as a means of communicating policy and avoiding potential conflicts was a matter needing serious consideration on the part of government.

2.8.7 Technical Committees
Quite a number of technical committees were established to support the political structures of IGR, and to promote co-operation and consultation at the administrative level. The most prominent of these structures was the Technical Inter-Governmental Committee (TIC) established as the administrative support of the Inter-Governmental Forum (IGF). It discussed matters falling within the responsibility of the IGF and made proposals on how to address them. It also facilitated guides and monitored the implementation of decisions taken by the IGF and reported back on progress. This body met on a quarterly basis and was chaired by the Director General of the Department of Constitutional Development. In addition to the TIC there were technical committees for each of the MINMECs. Each of these committees was supported by an array of sub-committees, both technical and inter-sectoral, and was attended by all the relevant national and provincial DGs.

2.8.8 Overall assessment of intergovernmental relations
Having noted the instruments and developing forms of IGR, it is to some extent possible to assess the system as a whole. In doing so, the researcher is mindful of the fact that South Africa’s Constitution is flexible on cooperative governance. As a result, it can be concluded that the efficacy of the IGF was open to considerable uncertainty, given its increasingly limited use. Meetings of the IGF initially took place on a monthly basis, but in 1996 these were rescheduled to bi-monthly meetings, and in 1997, they were further reduced to quarterly meetings (Presidential Review Commission, 1998).
2.8.9 Constraints and Deficiencies
The contribution of MINMEC structures to inter-governmental co-operation has been substantial, but the institution, as a whole, has not been without its limitations. Amongst the stated shortcomings of the MINMECs are the following:

- Highly sectorally-focused and paying insufficient attention to related functional areas; as a consequence, encouraging the fragmentation of policy formulation.
- Form of inter-governmental relations, as set out in the Constitution, was in many ways not working as smoothly as intended.
- Culture of inter-governmental relations, based on technical capacity, still had to evolve.

Inter-governmental relations in South Africa are shaped by political, administrative, legislative and financial factors and these individually and collectively impact on the overall performance of the system of government.

2.8.10 Intergovernmental Forum
The IGF was subjected to severe criticism, especially from provincial government. Amongst the points of critique raised are the following:

- Because MINMECs were responsible for most line function co-ordination between national and provincial departments, there remained relatively little for the IGF to do.
- Agendas of the IGF contained few matters of substance or importance and they lacked focus.
- There was a feeling that most IGF meetings were of an informative rather than of a consultative and deliberative nature.
- Ministerial attendance of IGF meetings was poor, particularly on the part of national ministers, and this reflected the lack of importance attached to this structure by the National Government.
- Relationship between the IGF and other IGR structures, MINMECs in particular, was unclear and confusing.
• Large number of MINMECs necessitated numerous meetings and this led to poor attendance or attendance by low ranking officials.
• MINMEC agendas were dominated by issues which should more properly be dealt with by technical committees.
• MINMEC meetings were dominated by the National Government and did not really lend themselves to consensual decision-making.
• Management of meetings, the preparation of supporting documentation and the conduct of proceedings were poor.
• Lack of clarity over the decision-making authority of MINMECs and insufficient capacity to implement decisions.

Notwithstanding these constraints, MINMECs did have an important role to play in promoting IGR, and a number of departments were attempting to overcome the deficiencies identified. A more effective means for promoting multi-sectoral co-ordination between MINMECs was, however, clearly necessary if the present fragmented and uni-sectoral approach to policy formulation was to be overcome.

2.8.11 Technical IGR Structures: Uneven Performance

The technical committees and structures were set up to facilitate IGR had mixed success. While some were clearly functioning well and were actively promoting the development of integrated government systems, others appeared to be functioning with little effect or not at all. Technical structures set up to co-ordinate activities between national and provincial line departments were generally functioning well, but inter-sectoral committees had only limited successes. The technical Inter-governmental Committee, for example, was severely criticised for its failure to promote more effective IGR at the national level.

Special task teams, however, had been successful in bringing together inter-sectoral teams from national and provincial departments. The success of these teams appeared to stem from their results orientation, their specific terms of reference and set time frames.
2.8.12 Role of the Department of Cooperative Governance

In an effort to address the above shortcoming, the Department of Cooperative Governance and Traditional Affairs assumed a proactive role in promoting inter-sectoral IGR. However, this was an intervention that had not been welcomed by all other departments and could, if not carefully pursued, aggravate rather than promote IGR. This was because there should have been a clear distinction between the Department's defined role of promoting IGR and its presently assumed role of coordinator. At present the two roles are blurred, and it is doubtful whether the Department carries sufficient political stature to be able to fulfill the role of coordinator. Some steps have, in any event, been taken at the national level to promote more inter-sectoral co-ordination. These include the establishment of the Budget Council (an expanded version of the Finance MINMEC, which includes Directors Generals of the Departments of Finance, State Expenditure and the Treasury Committee). This collective involvement of departments and local government, with a stakeholder role to play in co-ordination, should be encouraged.

2.8.13 IGR within the Provinces: Failure in Co-ordination

Failure to co-ordinate policy at the national level has had a “knock-on” effect in the provinces. Perhaps the most glaring examples of the shortcomings of uni-sectoral IGR are to be found in the sphere of budgeting. Broad agreement on sectoral policy in areas of concurrent responsibility is generally reached through the various MINMECs. Provincial budgets are, on the other hand, approved through the Budget Council (the Finance MINMEC) applying formula derived by the Financial and Fiscal Commission (FFC). However, as there is no formal institution through which the Budget Council and individual MINMECs are able to discuss policy implementation, there is invariably a mismatch between available funds and the programmes agreed upon by the MINMECs. This is a serious deficiency that needs to be addressed urgently by government.

Inter-sectoral co-ordination within the provinces is limited and the development of integrated programmes is not taking place. This is due partly to the confusion that
prevails in certain provinces over the co-ordinator role of the provincial DG, but it is also
due to a failure of institutionalise inter-sectoral meetings, to co-ordinate policy
formulation, and to ensure that policies are implemented collaboratively. In a number of
provinces there appears to be poor co-ordination between the treasury and line
departments and this leads to a situation where programme budgets do not match
available funds.

A further constraint at the provincial level relates to poor co-ordination between policy
makers and administrators. Officials interviewed at national and provincial level spoke
of the problem of policy decisions being taken without consideration being given to local

2.8.14 IGR and Local Government
Very few IGR structures have been set up to promote co-ordination between local
government departments and the other two spheres of government. Despite the
provision of the 1996 Constitution, local authorities have yet to be integrated as a
distinct sphere into the broader system of government. Formal institutions to promote
inter-governmental relations between local and national and provincial governments are
not effective. As a consequence, where concurrent responsibilities extend to the local
level, these are generally not integrated with national and provincial programmes. Part
of this had to do with the fact that the focus of IGR thus far has been on the relations
between national and provincial governments, but it also has to do with the variable
capacities of local government.

2.8.15 Impact of Financial Systems on IGR: Mismatch of Budgets
The formula and procedures for the financing of the different spheres of government are
However, mention must be made of the impact which the financial regiment is having on
IGR and on the performance of provincial and, to a lesser extent, local governments. A
failure to co-ordinate sectoral programmes with national and provincial budgets is, in
particular, an ongoing problem in many of the provinces.
Many of the dimensions of IGR between and within the three spheres of government continue to be shaped by legislation derived from the previous political order. Much of this is inappropriate for a democratic non-racial society, especially as it serves to perpetuate the fragmentation of service delivery. It is self-evident and not mutually exclusive of government taking a lead in guiding the development of IGR in a balanced way. The coming into effect of the Intergovernmental Relations Framework Act 13 of 2005 and the Intergovernmental Fiscal Relations Act 97 of 1997 has gone a long way in managing IGR legal framework.

2.8.16 The Commission’s Concerns regarding IGR

Current policy concerns relate to the following issues:

- Extent to which the national departments should be responsible for the implementation of co-operative government
- Type of policy instruments required to fulfill that responsibility
- Timing of policy and legislation
- Scope, goals and objectives of policy
- Establishment of a balance between the natural evolution of IGR and the need for prescription
- Content of policy

2.8.17 Evolvement of the IGR framework

In time, the intergovernmental framework grew more complex. Venter (2001:193) argues that the utility of older institutions has been called into question. For example, the Presidential Review Commission of 1998 recommended that the role and responsibility of the IGF be reviewed, and that if necessary, the body be scrapped entirely (Presidential Review Commission, 1998:19).

A host of other institutions particularly in the area of intergovernmental fiscal relations sprang up alongside those that already exist. The proliferation of the network of intergovernmental forums in South Africa prompted the then Department of
Constitutional Development to produce a discussion document on intergovernmental relations, which included amongst its proposals that a national audit of all such forums be undertaken (Venter, 2001:193). Two local scholars, Norman Levy and Chris Tapscott (2001) were tasked with the audit. They presented the case for the audit to a Conference on Intergovernmental Relations and Provincial Government held in March 1999. The audit aimed at how these institutions work in practice on the ground.

Venter (2001:193) contends that the indications for the emphasis in intergovernmental relations are that provincial governments will be brought under much tighter control by the presidency. In late 1999, a permanent forum of the nine provincial Premiers and Local Government, under the direct chairmanship of the president, was established. The forum is called the Presidential Coordinating Council (PCC). The forum meets every two months and has on its agenda all matters concerned with, inter alia, performance management in the provinces; the application of the powers contained in Section 100 (for Provinces) and Section 139 (for Municipalities) of the Constitution; the implications of local government demarcation; local government elections; provincial development strategies and integrated development planning and financial and fiscal issues (Mthombothi, 1999:40, in Venter, 2001).

All forum meetings are followed by of the provincial DGs, who deliberate on the implementation of the forums' decisions. The establishment of the Presidential coordinating Council, (PCC), has relegated the IGF to an annual conference for all provinces and national government.

Mthombothi (1999:40 in Venter, 2001) warns that the new forum has the potential to return South Africa to a more centralised form of government. Venter, (2001:193) argues that the basis for this concern appears well-formed. The forum may reinforce the shift towards upward accountability by premiers, namely, away from the provincial executive and legislative structures to which the governance of provinces is constitutionally entrusted.
Interestingly, a similar concern has arisen over the MINMECs. Members of the Executive Council (MECs) too, have found themselves accounting to their respective National Ministers through the institution of the MINMEC.

2.8.18 Debate on continuity of provincial government in South Africa

Venter (2001:196) avers that three trajectories might affect the continuity of the provincial government. The first is that the requirement of national consolidation, reconstruction and development might increase the tendency towards national centralisation. Where the centre to become dissatisfied with the progress or capacity of provinces to deliver on development needs, or where provinces were increasingly inclined to operate outside the broad policy sanction of national government, the latter may choose to contain the autonomy of provinces. Secondly, a greater degree of regionalisation may develop over time that erodes the centre and strengthens the political autonomy of the provinces. Thirdly, the larger proportion of South Africa’s nine provinces suffers from pronounced underdevelopment and could not exist without the financial, administrative and political support from the centre that they are guaranteed under the present constitutional dispensation.

Venter (2001) quotes President Mbeki (Mbeki, 1999:5-6). on the topic of provinces:

Indeed the very future of provinces has become a topic of public debate, with calls for changes to the structure and powers of the provincial sphere, and even the number of provinces. It is true that the establishment of nine provinces has brought government closer to the people, created more space for regional diversity and provided a mechanism for the implementation of national policies. At the same time, serious concerns have been raised about the state of provincial governance, underscored by the instances of financial crisis and the failure of delivery institutions, which we have experienced during the last five years.

In the minds of many scholars and politicians, provincial government has, unfortunately, become synonymous with inefficiency, wastage, duplication and corruption.
Unscrupulous civil servants have been able to manipulate accounting and control procedures and to appropriate for themselves illicit goods at public expense.

For Venter (2001:197), on the other hand, the utility of provincial institutions should not necessarily be judged by the inadequacies of the people who staff them. Some provinces invariably those that inherently enjoy greater resources and infrastructure (Gauteng, Western Cape and KwaZulu-Natal) have established stable administrations and have begun to carry out their constitutional mandates. Instead, Venter (2001:197) finds that it might be more appropriate to endeavour to enhance the capacity of the underperforming poorer provinces than to suggest significantly downsizing or even scrapping provincial institutions in their entirety.

It, therefore, remains to be seen, whether the asymmetrical approach to federalism can be taken in South Africa as per the recommendation of the Presidential Review Commission (1998:2.4.2.12). If the asymmetrical approach is taken, some provinces will operate with greater autonomy than others.

**Concerns and Recommendations of the Presidential Review Commission:**
The following section deals with issues that emerged as concerns and recommendations from the Presidential Review Commission, as well as the areas of improvement and structures that were put in place since the commission.

The most significant issues to emerge from the PRC’s review of IGR are summarised as:

- Commission’s review of the multiple structures established to promote IGR in the public service, suggests that in and of themselves they are probably adequate to redress the diverse dimensions of inter-governmental relations. The requirement is the more efficient operation of these structures, and a better understanding of their objectives.
• Institutionalisation of procedures (processes) and the routenisation of meetings is essential. There will also need to be some sanction to ensure compliance with regulations.

• Improved information flows between and within sectors in all three spheres of government is a matter of considerable importance. It is evident that provincial officials and political office bearers are often not well briefed before entering into negotiations with other level of government. Because of this, they commit provincial departments to the implementation of policy which they lack the administrative and finance capacity to fulfill.

• There needs to be greater attention paid to the strengthening, and where necessary creation, of mechanisms to engage civil society in the processes of inter-governmental relations.

• It is widely recognised internationally that the codification of IGR in legislation is in no way a sufficient condition for improved inter-governmental co-ordination.

• Constitution required that there be an Act for inter-governmental relations and the settlement of inter-governmental disputes; this is a mandatory requirement and the National Government has no discretion in this regard. It must be observed in this regard that the Intergovernmental Relations Framework Act is in place.

• Co-operative government is a legal norm governing all official conduct and creating positive and negative obligations for all spheres of government which is enforceable in court. If government does not take the lead in providing a coherent interpretation of this regime, a justifiable norm will be established. That is to say, the interpretation presented to the Constitutional Court on the day will be established as the legal precedent that will shape policy choices, with potentially far reaching practical consequences.

• There is already in existence an informal, pre-constitutional system of inter-governmental relations, which is regularly criticised for its inefficiencies. Positive legal steps need to be taken to alter this system.
• Right time for policy and the completion of an appropriate evolutionary cycle are facts that are necessary.

• Inter-governmental relations between local government and the other two spheres of government are weak and will need to be strengthened as a matter of urgency.

• Communication is poor. It is evident that decisions taken at the highest policy levels (the Cabinet, IGR, and MINMECs) are not always adequately conveyed down to the implementing departments. Alternatively, decisions taken are not adequately monitored and followed up. In that respect, the IGF is not functioning well and it should be either restructured or abolished.

• There is a strong need for the development of a coordinating mechanism at national level.

• Considerations should also be given to the creation of a stronger portfolio for the Secretary to the Cabinet as the head of the civil service. There is a need for an effective mechanism to follow up decisions taken by the Cabinet in order to ensure that policy is being implemented and that it is being implemented in the correct manner.

• There is no institution assigned responsibility for overall planning at either the national or provincial levels; this will need to be addressed. In the provinces, such an activity should be vested in the Director General’s office. It should be observed that currently there is the National Planning Commission (NPC).

• There is a pressing need for the transmission of a coherent national vision for development from the National Government.

• There needs to be far greater clarity on the responsibilities of the different national departments, and a clearer demarcation of responsibilities to avoid unnecessary overlap, duplication and conflict.

• There needs to be a review of political portfolios at national and provincial level in order to ensure that there is congruence between them. The present configuration of portfolios appears ad hoc, and creates problems for IGR and inter-sectoral co-ordination.
• There needs to be greater clarity on the obligations of different spheres of government where there are concurrent responsibilities. This will require both detailed discussion and, in certain instances, legislation.

• Review of legislation on operational matters is a matter of urgency in many sectors, and may call for the blanket repeal of certain acts.

• It needs to be recognised that a lack of capacity exists in all three spheres of government (but particularly at provincial and local levels). This is a serious constraint to efficient IGR and that this will need to be addressed.

• Serious consideration should be given to the asymmetrical devolution of functions (namely, the devolution of some of the functions to provinces and municipalities where there is capacity to undertake services rather than delaying such devolution until there is capacity overall. This could go some way to redress problems of capacity without violating the provisions of the Constitution.

• Closer integration of budgeting processes with sectoral and inter-sectoral planning processes is vital to the implementation of more effective IGR.

• Further expansion and development of Internet and e-mail systems and extensive training in their usage would help to facilitate information flows between officials in the different spheres of government.

As a consequence to the concerns and recommendations of the 1998 Presidential Review Commission on the intergovernmental relations, there are currently new and restructured IGR formations as well as a legal framework. The IGR framework system as it stands currently is a great improvement since the publication of the 1998 PRC findings.
Areas of improvement in IGR post the Commission’s recommendations:

Current IGR structures

- **Presidential Coordinating Council (PCC)**
  Initially, the Intergovernmental Forum (IGF) sought to bring together all the role players of the intergovernmental relations system. This forum, encompassing the national cabinet, provincial executives and organised local government did not do well in coordinating government activities and policies. It was replaced in 1999 by the Presidential Coordinating Council (PCC). The PCC is composed of the President, the Minister of Cooperative Governance and other ministers, Provincial Premiers, South African Local Government Association (SALGA), Director-General in the Presidency and Provincial Director-Generals. This is a consultative structure that deals with cross-cutting issues and presents an opportunity for provinces and organised local government to impact on national policy and to ensure coordination and integrated implementation of national policies and programmes at provincial and local level.

- **MINMEC**
  Since 1996, informal IGR forums have been formed along departmental/sectoral lines, consisting of national ministers, provincial executive councils (MECs) and SALGA. These structures discuss issues relevant to their ministries as well as coordination of national and provincial programmes and policies. They are used for information sharing and consultation.

- **Budget Council and Budget Forum**
  The Intergovernmental Fiscal Relations Act established the Budget Council and the Budget Forum. The Budget Council comprises the National Minister of Finance and the nine MECs responsible for Finance in the provinces. The Budget Forum consists of the budget council and representatives of organised local government. The function of both structures is to facilitate cooperation and consultation in the budget process.
• **Premier's Coordinating Forum**

This is the structure where the Premier and EXCO sit with the Executive Mayors of districts and the metros supported by their administrative heads and functionaries intended to discuss issues of common interest of an inter-sphere nature as well as approaching to advancing seamless service delivery to the people. The management of, and secretariat services for this structure, rest with the Office of the Premier (OTP) with minimal participation of the MUNIMEC support structures. As a result of this, there is no continuity and linkages of issues discussed at the PCF with those discussed at the MUNIMEC which results in duplication of work and failure to utilise decision-makers time productively.

• **MUNIMEC**

This is a structure where the MEC for Local Government and Traditional Affairs sits with the Executive Mayors and Mayors supported by their administrative heads and functionaries intended to discuss issues of common interest and critical in advancing service delivery to the people. Participation of the OTP in this structure is currently minimal since the complete management including secretarial services of the structure is the sole responsibility of the Department of Local Government and Traditional Affairs (DLGTA). Supporting the MUNIMEC is the Technical MUNIMEC which is chaired by the Superintendent-General (SG) for DLGTA and composed of Municipal Managers of the various District Municipalities including the Metro.

• **Cabinet Committees**

These are Committees set up by the Executive Council for coordination of its work in between sessions. Work that gets dealt with at this level is work that is of a provincial nature looking broadly on issues that have an impact on achieving provincial objectives. These committees directly report to the EXCO and further and further monitor implementation of its decisions and resolutions of EXCO. Theoretically, they are supposed to be linkages between the issues discussed at the PCF and those discussed here especially if they have to go to EXCO.
• **Clusters**
These are structures also set up by EXCO, that are intended to give real meaning to intergovernmental relations and seamless service delivery at a cluster level. By their design, these structures include all the three spheres. Clusters do link up their work with the Cabinet Committees.

• **District Mayors Forum (DIMAFO)**
The DIMAFO consists of Mayors from district and local municipalities to discuss matters of common interest within a particular district are of jurisdiction. DIMAFO is chaired by the Executive Mayor of the District Municipality. DIMAFO is usually coordinated by the Municipal Manager of the district and would meet other municipal managers of local municipalities ahead of DIMAFO meeting.

• **IDP Representative Forum**
The forum is composed of local structures which include local business formations, community based organisations (CBO’s), Non-Governmental Organisations (NGO’s), sector departments, District Municipal Officials, IDP Steering Committee composed of the Municipal Manager and municipal officials and various stakeholders. This structure is chaired by the Executive Mayor/Mayor of the municipality. In this forum, they discuss planning and prioritization of developmental issues. Support to this forum is usually provided by the municipal manager’s office.

**Legal framework**

• **The Constitution**
The Constitution provides the basic legislative framework for cooperative governance in South Africa. It sets out the basic organisation of the state, the three spheres of government, the distribution of functions across the spheres, the powers and functions of each sphere, and the principles of cooperation and intergovernmental relations governing their functioning. Chapter 3 of the Constitution specifically enjoins the principle of cooperative government and intergovernmental relations. The Constitution
provides for legislation to be enacted to further elaborate the functioning of the system of such as intergovernmental dispute resolution, and interventions in provincial and national governments. While an Intergovernmental Relations Framework Act has been implemented, there is no legislation on interventions yet.

- **The Intergovernmental Relations Framework Act (IGRFA)**
The IGRFA of 2005 is intended as enabling legislation that, to a large extent, codifies existing practice that emerged over time. The IGRFA is essentially voluntary in nature and does not impose any penalties or sanctions for non-compliance with its provisions. The voluntary principle reflects a belief that cooperative governance cannot be compelled or coerced, and as cooperation is a constitutional obligation, to do so may be inappropriate.

- **Other relevant Policies and Legislation**
While the Constitution and the IGRFA are the central laws governing IGR, there are a range of other policy documents, laws and regulations that provide the framework for cooperative governance. These include the White Paper on Local Government, the Municipal Systems Act, the Municipal Structures Act, the Organised Local Government Act, and the Intergovernmental Fiscal Relations Act. A policy and legal framework has also evolved to address the role of traditional leaders in the governance system as provided for in the Constitution.

This includes the White Paper on Traditional Leadership and Governance, the Traditional Leadership and Governance Act, and the Communal Land Rights Act. Provinces have also enacted legislation governing traditional leadership on their provinces.
2.8.19 Public Participation

Public participations plays a significant role in the arrangement, management and functioning of intergovernmental relations.

According to the DPLG (2008), "Public participation in matters of governance is a cornerstone of democratic government in South Africa, and all three levels of government share a duty to provide for public involvement in their legislative and other processes". Direct interaction between government and communities is provided for in ward committees, through IDP processes as well as through the engagement of Community Development Workers (CDWs). Both Parliament and Provincial Legislatures have a constitutional duty to facilitate public involvement in their processes. The constitution also places a particular obligation on municipalities to involve civil society in local government matters.

The Municipal Systems Act states that the role of a ward committee is to enhance participatory democracy in local government by making recommendations on any matters affecting its ward, to the ward councilor, and through the ward councilor, to the council. The Systems Act further states that a municipality must facilitate the involvement of the local community in integrated development planning, and performance management.

The principle of public participation has been incorporated into other laws such as the National Environment Management Act which prescribes a public consultation process as part of any environmental impact assessment as part of good environmental governance.

The efficacy of public participation and social partnership is often circumscribed by the capacity of communities to organise and engage in participatory processes. The increase in local protests suggests that there are groups that feel excluded from participatory processes, or believe that such processes are not responsive to their
priorities and interests (The Presidency, 2008). Imbizo have also emerged as popular platforms for government to communicate directly with communities.

2.8.20 IGR SWOT Analysis

Intergovernmental relations have got strengths and weaknesses. The following bullet points explain these strengths and weaknesses as well as opportunities and threats. The section also addresses the challenges that IGR face.

- **Strengths**
  - Challenges are now understood
  - IGR Act has been established
  - Enthusiasm amongst stakeholders
  - Emergence of strategic and coherent approach
  - Systems and frameworks are evolving
  - Encouraging political stability and consultation

- **Weaknesses**
  - Limited resources for IGR
  - Insufficient understanding of IGR
  - No IGR units/officers in some departments and organisations
  - Lack of sharing of information
  - Inadequate induction and training on IGR
  - Delays in resolution of disputes

- **Opportunities**
  - Support from Presidency and COGTA
  - Capacity building initiatives
  - Learning and transfer of knowledge
  - IGR Strategy in place
  - Attendance of meetings of IGR structures has improved
Threats

- Community dissatisfaction
- Community protests
- Lack of management of political dynamics
- Corruption and patronage
- Skills shortages
- Misalignment of boundaries
- Negative perceptions of IGR

2.8.21 IGR Challenges

- IGR are not about control and authority
- IGR about interaction and cooperation between spheres
- IGR relations mean that all spheres are seen as equal partners
- IGR performance (or lack thereof) of municipalities is more visible and open to public enquiry because of their closeness to the people they serve (Van der Walt, 2007:110)
- Municipal performance affected by intervention by national government and provinces
- Whilst spheres are equal, national has the power to intervene when provinces under-perform or if there are serious governance issues
- Intervention can be effected in terms of section 100 of the Constitution
- Province can, in terms of section 139 of the Constitution, intervene in a municipality if it fails to fulfill certain executive obligations
- Final approval of this intervention rests with the National Council of Provinces (NCOP)
- Municipal intervention, if not properly managed, can undermine local government’s integrity and respect as sphere
- Province must follow the steps provided in section 139 (1) (a), (b) and (c)
• If a municipality is of the view that the necessary steps have not been followed, it usually runs to courts of law
• Invoking of section 139, in most cases, brings problems which affect their performance.
• Inability to settle disputes
• Constitution stipulates that every reasonable effort must exhausted before courts of law are approached
• Courts of law should be avoided at all costs
• Limited resources
• Resources to activate IGR are not always available
• Lack of money is an obstacle to the success of a municipality (Gildenuys, 1997b:134)
• Big brother approach compromises municipalities
• Municipalities, against all odds, try to please the “big bother”
• Municipalities are generally not self-sufficient
• Municipalities depend on grants and transfers from national and provincial governments
• Fiscal dependency comes as a challenge in terms of the IGR
• Some municipalities, besides being fiscally challenged, are also fiscally distressed (Rabin & Dodd, 1985:164)
• Some municipalities have no IGR units or officers
• Lack of management of political dynamics also contributes negatively
• Skills shortage, misaligned boundaries and negative perceptions of IGR are also challenges
• Government competition
• Overlapping of functions also promotes friction between spheres
• Reluctance of the upper spheres to decentralise and devolve certain functions to municipalities
• Provincialisation of primary health care
• District municipalities, supported by SALGA, argue that primary health care should be devolved

2.8.22 Conclusion

Competition in terms of developmental initiatives will always be there if there is no coordination. Therefore, spheres should complement each other, and the demand for cooperative governance is crucial. Communities are becoming increasingly vocal in expressing their frustrations about pace of service delivery. There is also the question of fraud, corruption and maladministration as well as uneven development. It is imperative that coordination, implementation and monitoring are adhered to. Although there is reason to celebrate progress made regarding IGR, equally there is reason to be worried about tangible implementation of IGR at the local sphere. If IGR as the oil of government machinery is well-managed, it can help make service delivery efficient and effective for the benefit of all the citizens of the Republic of South Africa. Properly coordinated, the IGR system in a democratic South Africa will go a long way in accelerating service delivery.

2.9 PERFORMANCE BUDGETING

Gildenhuys (1997c:516) asserts that performance budgeting emphasises a government’s performance targets and activities and not only the purchase of input resources. Performance budgeting emphasises the cost per activity unit in comparison with the performance of service unit during the fiscal year. Performance budgeting is a system of planning, budgeting and evaluation that emphasises the relationship between money budgeted and results-expected, and focuses on results. Performance budgeting is also flexible, inclusive and has a long-term perspective. As part of addressing the financial ills of municipalities, performance budgeting becomes crucial. Faced with fiscal constraints and demands for more and better public services, governments at every level are discussing new ways of budgeting. The budget is increasingly being seen as a tool to promote government accountability and effectiveness, rather than simply as a vehicle for allocating resources and controlling expenditures.
According to Abedian et al (1998:153), in principle, the closer to the service delivery, the more useful performance budgeting becomes as a tool of service delivery engagement. Equally important, financial planning and management of service delivery can be much enhanced by the application of performance budgeting. The output of performance budgeting should be value for money, that is, efficiency, effectiveness and economical as well as quality product. Although budgeting suggests drudgery and boredom of ledgers, accounts and journals, it is the heart of the political and decision-making process. If politics is who gets what, when and how, then budgeting is the essence of politics. Budgeting is the best statement of public priorities because it allocates money among competing programmes (Rabin & Dodd, 1985:85). Cash flow is also essential in determining and assessing financial quality in any institution, including municipalities.

Ultimately, both equality analysts and credit analysts are interested in a company's ability to generate cash flow. For equity holders, cash flow can be used for re-investment to produce capital gains. For credit holders, this cash can be used for payment of interest and loans. Through the liquidation of assets and expansion of liabilities, cash flow can be generated even in the absence of earnings. Without earnings, however, cash generation is a short-term phenomenon. Assets available for liquidation run short, and sources of credit dry up. Comiskey and Mulford (2000:10) argue that for securing production beyond the short-term, cash flow requires a renewable source, an engine of generation. Earnings provide that engine - a renewable source of cash flow. Thus, the interest of equity analysts and credit analysts in cash flow becomes one of an interest of earnings and earning power. Analysts are interested in a company's ability to generate a sustainable, and likely growing, stream of earnings. Those earnings must eventually result in cash flow. Earnings without the prospect of cash flow are of no value to an equity or credit holder. A company has earning power when it has the ability to generate a sustainable stream of earnings that provide cash flow.
Performance budgeting is essential because tight budgets and demanding citizens put governments under increasing pressure to show that they are providing good value for money. Providing information about public sector performance can satisfy the public's needs to know, and could also be a useful tool for governments to evaluate their performance. According to Organisation for Economic Co-operation and Development (2008:1), the introduction of performance budgeting has been linked to broader efforts to improve expenditure control as well as public sector efficiency and performance. Thus, performance budgeting can be combined with increased flexibility for managers in return for stronger accountability for the results, so as to enable them to decide how to best deliver public services. At the same time, performance information encourages greater emphasis on planning and offers a good indication of what is working and what is not. This tool also improves transparency, by providing more and better information to legislatures and the public.

Nkoana (2009:3) borrowing from Shan and Shen (2007), asserts that performance budgeting is a system of budgeting that presents the purpose and objectives for which funds are required, the costs of the programmes and associated activities proposed for achieving those objectives, and the outputs to be produced or services to be rendered under each programme.

In simple terms, performance budgeting is about shifting emphasis from inputs to outcomes and outputs associated with government expenditure and taking this into account when making decisions on future allocation of resources.

The implementation of performance budgeting in South Africa cannot be separated from broader public service transformation and budgeting and financial management reforms that were introduced after 1994 democratic elections. According to Gildenuys (1997c:516), performance budgeting strives for the most economical, efficient and effective utilisation of personnel and other public resources for rendering public services. To achieve the purposes of performance budgeting requires a wide variety of
information that must be able to be categorised, sorted, aggregated, or disaggregated into different formats to meet the changing needs of decision makers at all levels. Also, it should be realised that, in terms of the Government of Alberta performance overview, performance budgeting has more of a policy orientation. It connects plans, measures and budgets and forces departments and policy makers to think about the bigger picture as well as strengthening legislative decision-making and oversight. It also enhances financial accountability to citizens, decision-makers, and government monitoring agencies.

2.10 PERFORMANCE MEASUREMENT AND APPRAISAL
Performance measurement and appraisal are instruments used to do assessments, effect and improve performance in any institution. This section discusses issues that relate to performance and appraisal. The research devotes more time on appraisal.

2.10.1 Performance measurement
Performance measures go a long way in contributing to good governance, and consequently, sound finances. The objective of establishing and implementing performance measures, and implementing principles of sound public management and administration, is to promote the welfare of communities with limited resources at their disposal (Visser & Erasmus, 2002:243). Visser and Erasmus (2002) aver that performance measures are, therefore, established in an effort to ensure that the public sector obtains value for money, and if this can be achieved, some saving could be achieved in delivering services, resulting in additional funds available for other purposes.

Aronson and Schwartz (1981:104) affirm that management budgeting is work load measurements quantitative indicators of work actually accomplished. Although actual performance must be compared with the existing plan, the establishment of performance measurement is difficult.
The problem lies with finding acceptable norms. According to Gildenhuys (1997c:517), the problem does not lie with the evaluation of performances against performance standards, but with establishing whether the performance standards are the optimal or best standards. A comparison of performance standards with those of other governments performing the same functions, are also not acceptable because, firstly, the circumstances from one jurisdiction to another may differ substantially; and secondly, there is no certainty that the standards of other governments comply with optimality requirements.

Financial management can be defined as all decisions and activities of management, as guided by the financial manager, that impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs (Visser & Erasmus, 2009:243).

Visser and Erasmus (2009:247) list the following as objectives and guiding principles of performance measurement:

- Enabling accounting officers to continually evaluate financial management in their institutions and report on financial management in their annual reports
- Enabling the Auditor General to report annually on financial management performance
- Encouraging the general standard of the financial management
- Promoting a focus on the results, service quality and customer satisfaction
- Achieving customer satisfaction
- Giving each staff member responsibility for quality
- Making continuous improvements
2.10.2 Performance Appraisal

This section discusses performance appraisal and moves further to highlight the challenges in its implementation and, lastly, explains the steps involved in the development of a successful performance appraisal system within local government. The South African Government has introduced several pieces of legislation since 1994, in an era which ushered a new democratic dispensation.

Amongst new legislation introduced was the Labour Relations Act, Act 66 of 1995, Basic Conditions of Employment Act 11 of 2002 and other acts which regulate the employer and employee relations in the work environment. The department charged with the affairs of public sector institutions, known as the Department of Public Service and Administration has also formulated regulations in respect of public administration within the public sector.

Local government in particular, also saw the introduction of new legislation within the local government arena which includes the Municipal Systems Act 32 of 2000, the Municipal Structures Act 117 of 1998 and the Municipal Finance Management Act 56 of 2003.

Work performance in any public sector institution is central due to the fact that public institutions exist to serve communities as per the mandate of government and the main responsibility is to deliver services to communities. The realisation of this goal is mainly depended on public sector employees performing their duties diligently in order for the institutional objectives to be realised (Wikipedia: online)

This, therefore, seeks to say that, for the public sector employees to realise their performance targets, the public sector institutions need to develop systems to ensure that there are clear systems and programmes that will measure the performance of each employee against the set objectives and be able to come to a conclusion regarding the performance of such an employee (Ned, 2012:1).
Cardy and Dobbins (1994:2) assert that performance appraisal is a formal and systematic process by means of which the job relevant strengths and weaknesses of employees are identified, observed, measured, recorded and developed.

The businessDictionary.com defines a performance appraisal system as a process by which a manager or consultant examines and evaluates an employee's work behavior by comparing it with present standards, documents the comparison, and uses the results to provide feedback to the employee to show where improvements are needed and why. Performance appraisals are employed to determine who needs what training and who will be promoted, demoted, retained or dismissed.

Performance appraisals are necessary and should by all means, be formal processes and be done systematically to avoid any misunderstandings, doubts and insecurities about the system itself since there are human elements involved.

Cardy and Dobbin (1994:2) unpack five components that are involved in the entire performance appraisals system, namely:

- Identification: area to be covered in the determination of performance should be clearly outlined for all parties concerned prior to the measurement of performance.
- Observation: all aspects, on which the employees will be appraised, should be clearly demarcated for fairness and this would be a cause for concern if not observed, as employees would feel that issues which were not agreed upon are later brought into the fold at the instance of evaluations.
- Measurement: supervisor and the person being evaluated have to come to a conclusion on the performance of the subordinate and that can only be done when the supervisor scores that employee on his/her performance using the agreed upon tool.
- Recording: documenting all processes involved in the performance appraisals for use in other human resource related activities, in scoring the performance of an
employee. Sometimes it becomes a challenge when performance related activities are not documented or recorded, as there will be no point of reference. The supervisors may sometimes be viewed as being biased or lacking objectivity in the process as they would not have any evidence to back their assessment of the employee’s performance.

• Development: assessment objectives are not merely to identify shortfalls in the employee’s performance and do nothing about such however, there should be interventions adopted in cases where the employee is found to be performing below standard in terms of the expectations of the institution. It, therefore, becomes important to unpack the objectives of a performance appraisal system and why it is necessary in the public sector

According to Swanepoel and Erasmus (2011:267), performance appraisal is necessary for the following reasons:

• To assist all employers to identify poor performance within their employees, in order to employ remedial actions timeously
• To assist managers within the public sector to realise good and outstanding performance and be able to reward such
• To be done in a regulated environment where managers cannot be seen to be subjective in dealing with issues of performance
• To assist public sector institutions with other human resource related activities like career planning and identifying training needs
• To link performance appraisals to other human resource functions and performance appraisals are therefore integrated in nature

The Municipal Performance Regulations of 1 August 2006 further pronounce on the need to have managers concluding performance agreements and being evaluated on their performance (Government Gazette, 2006:26).
Section 39 of the Municipal Structures Act 32 of 2000 refers to the development of a performance management system as follows. The Executive Mayor or Executive Committee of a municipality must:

- Manage the development of the municipalities performance management system
- Assign responsibilities in this regard to the Municipal Manager
- Submit the proposed system to the Municipal Council for adoption

The Public Service Regulations of 2001 further highlight the need of a development of a performance management system and performance assessment.

In terms of the Public Service Act 103 of 1994, it is clearly stated that performance appraisal should be provided for in the public service.

The Public Service Regulations: 2001, chapter 1, part V111, dictates the following:

1. An executive authority shall determine a system for performance management and development for employees in her or his department other than employees who are members of the senior management services, consistent with the principles in regulation V111 A.

2. For each employee other than an employee who is a member of senior management services, an executive authority shall designate in writing:
   - Period in respect of which performance is to be assessed (the performance cycle)
   - Annual date for assessment of performance
   - Supervisor responsible for monitoring, supervising and assessing the employee’s performance

The legislation quoted above demonstrates the legal requirement for all public sector institutions to develop performance management systems and to also ensure that there are performance appraisals undertaken to reward good and outstanding performance
and also identify gaps in employee performance in order to be able to determine the appropriate intervention in trying to assist the affected employees.

All public institutions are expected to develop and implement performance management systems including performance appraisal as dictated by the above legislation.

Flowing from the legislative framework are the following five governing principles:

- 1. Politically driven
  The framework clearly stipulates that legislation clearly defines the tasks and responsibilities for both the legislature and the executive in relation to the monitoring and development of a performance management system thus resting ownership to both.

- 2. Incremental Implementation
  The framework acknowledges that a holistic approach to performance management is acceptable. However, an institution should adopt a phased approach to implementation, dependent on the existing capacity and resources within the municipality.

- 3. Transparency and accountability
  The framework stipulates that the organisation whose performance will be monitored and measured, must ensure that the process of managing performance is inclusive, open and transparent. This can only be achieved by taking effective participation in the design and implementation of the system by all employees affected.

- 4. Integration
  The performance management system should be integrated into other existing management processes in the municipality, such that it becomes a tool for more efficient and effective management tool rather than an additional reporting burden.

- 5. Objectivity
  Performance management must be founded on objectivity and credibility. Both processes of managing performance and the information on which it relies need to be
objective and credible. Sources of data for measuring indicators should be scrutinised to enhance credibility of information and therefore, objective decision making.

Swanepoel and Erasmus (2011: 270) state that it would be safe to indicate that there is no single method or format of performance appraisal that is not subject to limitations. This is evidenced by the fact that there are so many different formats of performance appraisals due to the weaknesses in most systems. It, therefore, becomes important to indicate that the manner in which the system is designed should be suitable for each work environment and instances of adopting a performance appraisal system from another institutions without considering the dynamics of individual institutions can pose challenges and therefore, all systems should be customised for the various institutions to ensure that they achieve the intended objectives.

Swanepoel and Erasmus (2011: 272) state that performance appraisals require public sector managers to observe and judge behavior as objectively as possible. Since both these processes are conducted by humans, the appraisal process is necessarily prone to distortions and biases which confound any attempts at total objectivity.

In the public sector, managers rarely find time to observe employees doing their daily work and in most instances, the two parties meet during the time of performance evaluations. It can, therefore, be concluded that the lack of daily or more frequency observation by managers is limiting the managers in terms of being able to understand and rate the employee performance.

In most municipalities, there is hardly enough time for managers to meet staff at least once in a month due to the tight schedule of meetings which sees managers engaged in meetings for most of their time. This, therefore, has a potential to produce errors when ratings are done.
Managers within public institutions are human beings and, therefore, prone to all factors and challenges that face human beings in dealing with others. The fact that there is limited face to face contact between managers and subordinates, also contributes heavily to the notion of a lack of objectivity in the entire process. The relationship between the manager and the subordinate also plays a role sometimes, in the manner in which manager’s rate or access the performance of their employees.

Managers or human beings in particular, have different work ethic and standards and as a result, their rating of employees will differ based on the performance standards that they subscribe to. This is one of the challenges in the performance appraisals as different managers would rate the same employee differently due to their different work standards (Swanepoel & Erasmus, 2011:273).

Culture plays a very critical role in terms of employee ratings. This becomes a challenge in the performance appraisals as the culture of the individuals has to blend-in with the organisational culture. A practice of involving staff in all management decisions in an institution which has an authoritarian style of management may have a serious impact on how employees are rated during the performance appraisals depending on how they comply with management decisions versus what they believe is right for the institution (www.books.google.co.za).

No linkage between performance appraisals and the rewards for good performance
In the public institutions, performance appraisals are sometimes done twice in a financial year or once in some institutions. The employees, therefore, fail to link the ratings in terms of performance with the compensation or reward for performance due to the frequency of the appraisals. An employee may have performed relatively well during the beginning of a financial year and only be rewarded at the end of the financial year and as a result, fail to link the performance with the reward or compensation.
Most performance appraisal systems involve a lot of paper work and are not computerised and as such, they consume a lot of time especially for a manager with a large number of subordinates. The manager would then have employees as general workers and supervisors. The manager would then have to engage on a “one-on-one” session with each employee to agree on performance targets and thereafter, evaluate each employee, which is very much unlikely to happen, considering the requirements of their job tasks they perform on a daily basis. This illustrates another challenge with the implementation of a performance appraisal system within public sector institutions.

**Steps involved in the Development of a Successful Performance Appraisal System**

To be able to develop an effective performance appraisal system, there are fundamental steps that have to be followed and such are unpacked below. This section depicts such steps in trying to develop a successful performance appraisal system.

As argued earlier, the Performance Management Regulations of 2001, the Public Service Act, Act 38 of 1994 and the Municipal Systems Act, Act 32 of 2000 are pieces of policy and legislation that direct performance appraisals within local government. In order for the employee of an institution to understand the existence of a policy, the policy has to be taken through the relevant institutional structures for approval. What is critical in designing a policy framework is to ensure that the role players are identified. Role players will include and those would be all key stakeholders like the managers, employees, trade unions and all interest groups. Proper consultation has to take place amongst all the affected parties. What is also very critical in this stage, for the institution, to have a successful performance appraisal system, is to ensure that the objectives of the system are clearly outlined in the policy frame work, to avoid any misunderstandings on the purpose of the framework.

The lack of clear objectives in a policy framework, may be interpreted to mean that the system exist to be used as a form of a punitive measure for non-performing staff
members or to be used against certain employees who might not necessarily be liked by a specific manager and as a result, the system may fail to achieve its intended objectives. The policy has to be properly approved by the relevant structure to become official policy of the institution and be binding to all parties. This process would go a long way in ensuring that there is common understanding on the existence of the performance appraisal system (Ned, 2012:11).

According to Swanepoel and Erasmus (2011:275), performance results always link with the rewards and also the improvement and development of employees. If institutions fail to indicate in the performance appraisal policy, what rewards are attached to a particular work performance? Employees tend to have or create their own understanding of what is to be expected at the instance of the reviews, in order to have a successful performance appraisal system; all the issues raised above should be built into the system and agreed upon by all parties concerned before implementation of the system.

The Public Service Regulations of 2001, clearly state that public sector employees specifically the persons appointed to positions of senior management, should be managed in accordance with a performance agreement. It goes further to stipulate that the performance agreement shall apply for one financial year and shall be reviewed on an annual basis (PSR, 2001:49). In terms of the local government sector, individual performance agreements should be aligned to the institutional scorecard which is simply known as the Service Delivery and Budget Implementation Plan (SDBIP). In this way, the municipality would ensure that all employees work towards the achievement of the institutional goals.

To have a successful performance appraisal system, public sector institutions need to ensure that all employees sign performance agreements at the agreed intervals and evaluations are conducted in line with the agreed plan. Swanepoel and Erasmus (2011:284) state that once performance agreements have been signed public sector
raters must make sure that they will be prepared to assess actual performance against the required level of performance. This point is critical in any public sector institution considering that the only way to determine if a particular employee is performing can only be by way of assessment of the employee, on targets that have been agreed upon.

**Areas to be addressed for assessments to run smoothly**

There are a number of areas that must be addressed before assessments run smoothly. This section deals with such areas or concerns.

Swanepoel and Erasmus (2011) indicate that the following concerns have to be addressed in order for the assessments to run smoothly requires:

- **Establishment of an assessment instrument**
  The Public Service Regulations of 2001 provide for different assessment tools which may be employed in the assessment and provide a chance for institutions to customise such to suit their conditions.

- **Frequency of the Interviews**
  It becomes critical for public sector institutions to agree before-hand, on the frequency of the evaluations and such dates should be put in the institutional calendar so that everyone is aware of the ring-fenced dates and is able to honour them. It can be disastrous for institutions not to identify dates for the review process as managers tend to have many commitments which might not allow the evaluations to take place if dates are not identified prior.

- **Performance Appraisals**
  Performance appraisals have to be consistently undertaken to ensure that employees are rewarded in the manner that is stipulated in the performance appraisal system, which has been approved by the Executive.

- **Managing the outcomes of performance appraisal**
Again, the Public Service Regulations of 2001 state that the outcomes of an assessment, shall be communicated to the employee in writing and of importance to note is that, an outcome can either be satisfactory performance or unsatisfactory performance. In a good performance appraisal system, the most important issue is how to manage either of the two to ensure that the entire process is managed correctly and achieves its intended objective.

- Managing Good Performance
Depending on what is contained in the approved performance appraisal system, good performance has to be rewarded in the manner consistent with the provisions of the system. As indicated in the arguments earlier, the involvement of trade unions and staff in general, in the development of the system would ensure that all concerned embrace the system and the rewards that are stipulated in the system, have been agreed upon by all stakeholders. This is one of the cornerstones of a good performance appraisal system wherein the stakeholders participate in determining the rewards. In some instances, where management fails to consult staff in the development of the system, they tend to assume what will make their staff members happy and yet, in most instances, they are off the mark.

- Managing Poor Performance
Once again, the Public Service Regulations of 2001 are clear that, in the case of unsatisfactory performance, remedial action should be undertaken and also, development initiatives that will assist the employee should be adopted. Caution should be exercised not to appear to be victimising employees for poor performance.

This, therefore, seeks to advance the fact that, in developing a good performance appraisal system, the measures to be undertaken in the case of poor performance should be stated clearly. However, caution should be exercised to ensure that such measures are corrective and developmental rather than punitive.

- Reward system
In local government, all employee benefits are decided at a National Bargaining Council level (South African Local Government Bargaining Council) where both the union and the employer are represent. All benefits, including salaries, leave days and others, are bargained and resolved at that level.

In such cases, when developing a reward system, within the appraisal system of a municipality, it would be impossible to introduce extra remuneration or extra leave without the approval of the bargaining Council. It, therefore, becomes important to consider other alternative means of rewarding good performance. What becomes critical in this approach is to involve all stakeholders who will suggest all possible rewards and in that way, everyone would embrace the system and have a sense of ownership.

2.10.3 Conclusion

It can be argued that an attempt has been made to discuss the implementation of performance appraisal system within the public sector in South Africa and also discussed in detail, all the policy and legal framework that regulate the implementation of the appraisal system with the public sector.

Lastly, the researcher unpacked the steps to be followed in the development of a successful appraisal system and made clear examples, in some instances, with the purpose of illustrating the importance of involving all stakeholders in the process of developing a good performance appraisal system.

Performance management and appraisal are indeed central in shaping officials to be able to manage municipal finances well so that municipalities become viable instead of becoming financially distressed.

2.11 MUNICIPAL FINANCIAL MANAGEMENT AND ACCOUNTABILITY

In terms of the Guide to Municipal Finance Management for Councillors (2006:15), implementing the Municipal Finance Management Act thoroughly will lead to better
accountability, oversight and transparency, and there will be more clarity over roles and responsibilities of municipal councils. Under the MFMA, councillors have greater responsibility in overseeing municipal financial management and will need to account to their communities for the financial performance of their municipality. The legislation promotes a more strategic approach to financial management, linking the municipal budget, the integrated development plan and resources. Councillors will be able to assign resources in line with strategic priorities, linking plans and budgets to long-term goals and providing a process that allows resources to be reallocated as policy objectives change.

The MFMA advocates a separation of oversight, fiduciary, operational and other responsibilities of the various stakeholders in order to develop more operational accountability. Operational efficiency will be improved as managers have the authority to run their operations, subject to clear statements of policy and strategy. The Act demands more accurate and timely financial reporting to better inform councils and communities of the results of implementing decisions and the progress made in meeting approved objectives.

As the roles of political office bearers and officials are more clearly-defined with the separation of oversight and operational responsibilities, the various stakeholders will be more accountable for the results produced (A Guide to Financial Management for Councillors, 2006:15). Public financial accountability is an important requirement in public administration. This is especially important where money received from the taxpayers is used to finance public services.

There are a number of kinds of accountability responsibilities, namely:

- Fiscal accountability – responsibility for public funds
- Legal accountability - responsibility for implementing laws
- Programme accountability – responsibility for carrying out multiple programmes
• Process accountability – responsibility for executing processes and procedures
• Outcome accountability – responsibility for results

According to Normanton (in Schwella, 1996:16), accountability in its broadest sense, is an obligation to expose, explain and justify actions. Stone, Dwivedi and Jabbra (1989) highlight various types of accountability as the following:

• Political accountability, which is the accountability of the government, civil servants and politicians to the public and to legislative bodies such as Congress, Parliament or Council.
• Ethical accountability, which is the practice of improving overall personal and organisational by developing and promoting responsible tools and professional expertise, and by advocating an effective enabling environment for people and organisations to embrace a culture of sustainable development.
• Administrative accountability, which refers to internal rules and norms, as well as some independent commissions, which are mechanisms for holding civil servants within the administration of government accountable. Within a department or ministry, behaviour is bound by rules and regulations; and public officials are subordinates in a hierarchy and are accountable to superiors. However, there are independent units to scrutinise and hold departments accountable.

The legitimacy of these commissions is built upon their independence, as that avoids any conflict of interest. Apart from internal checks, some watchdog units accept complaints from citizens, bridging the gap between the government and society to hold civil servants accountable to citizens, and not only government departments (Mulgan, 2000:46). Public accountability of public funds relate to the politics of public expenditure.

2.12 GOOD GOVERNANCE AND CONFLICT OF INTEREST AND CORRUPTION

In order for local government to be financially viable, practitioners and administrators should practice good governance. As part of good governance they will be able to avoid conflict of interest as well as corrupt practices.
2.12.1 Good governance

Good governance and management of conflict of interest and anti-corruption are a step further in the development of a financially-sustainable and viable local government. Governance is broader than government as it requires leaders who are selfless. In managing good governance, leaders must also avoid conflict of interest. In the past, governance was used as a synonym for government. According to Wilson and Game (2002:138), the 1990s witnessed an explosion of interest in governance as a concept. Governance is valuable as an organising framework which enables the better understand of the processes of governing. Local governance brings together governmental and non-governmental agencies in flexible partnerships to deal with different problems by using different strategies. Local governance is not based on a single authority, the provision of a specialised service, or a new set of structures, but on a fusion of different styles and different working relationships.

Good corporate governance is the system by reference to which organisations are managed and controlled and from which the organisation’s values and ethics emerge. Responsible companies regard the ability to demonstrate good corporate governance as a basic requirement of doing business. Shareholders, financial analysts and civil society organisations use corporate governance as a yard stick to judge whether a company is under sound management and is meeting the expectations of its shareholders.

According to SACN (2011:120), the quality of city government has been the focus of growing public concern. Escalating service delivery protests and campaigns about rates bills have fuelled perceptions of dysfunctional municipalities with incompetent leaders. High-profile interventions by national government have reinforced doubts about the technical and managerial capacities of council, the integrity and accountability of city officials and politicians, and their apparent lack of responsiveness to local communities. Governance is the activity of governing, whereas government is the instrument that undertakes it, often in conjunction with civil society or the business sector. The
Constitution also states that municipalities should give priority to the basic needs of the community.

Over the full period of between 2003 to 2008 trust in local government was much lower than in most other state institutions political parties were the only other institutions that consistently received lower public ratings. Municipal mismanagement and corruption are obvious sources of community mistrust (Cities Network, 2011:124).

2.12.2 Conflict of interests and ethical conduct

One of the basic values and principles governing public administration enshrined in the Constitution of the Republic of South Africa, 1996, (Chapter 10) is that a high standard of professional ethics must be promoted and maintained (section 195 (1) (a). According to Fox and Meyer (1996:45 in Du Toit, et al1998:108), ethics is a process by which right and wrong is clarified and acted on what is taken to be right. This is a set or system of moral principles that are generally accepted. Ethics simply means what is right and wrong, what is acceptable or unacceptable which are intertwined with the value system of people.

Ethics can also be seen as being relative, not absolute, as ethical behaviour is in the eyes of the beholder. Be that as it may, ethical conduct and behaviour normally refer to conforming to generally acceptable social norms. Relative to ethics is professionalism which entails a high standard of work and adherence to certain standards and principles pertaining to specific work to be done. Professionalism embodies skills, competence, efficiency and effectiveness. Public institutions exist for the public good and employ public servants to render services to ensure a better life for all.

The welfare of people living in a community is the principle, and the overall objective of any government. Every government, therefore, must endeavour to promote the general welfare of its citizens (De Bruijn & Dicke, 2006:79). When a legislature or parliament identifies a need for a service to be rendered to a community, the legislature or
parliament will create a department to render such a service. Only the legislature or parliament has a right to create, abolish, merge or amalgamate departments. One of the processes of public administration is human resource, thus for services to be rendered by a department there is a need for personnel to be employed and attached to specific posts within the organisational structure of the particular department.

This process is accompanied by amongst others, allocation of functions, delegation of authority, creation of communication channels and behavioural relationships. Such personnel employed, sometimes referred to as functionaries, are charged with the task of ensuring that a department’s or a municipality’s goals are achieved through efficient, effective performance of duties, the requisite for success being ethical conduct and professionalism on the part of the functionaries (Shafritz & Russel, 2005:15). Put differently, there is little or no hope of success in the delivery of services if the public servants are not professional and their conduct unethical.

According to Andrews (1988:35), ethics refers to the standard which guides the behaviour and actions of personnel in public institutions and which may be referred to as moral laws. The adaptation of modernisation of methods and procedures as well as technological progress is useless if the personnel who must apply the procedures and methods do not aspire to high moral standards. According to Gildenhuys (1991:41), maladministration and corruption are among the most important manifestations of unethical conduct. Maladministration and corruption in the public sector are usually widely broadcast and exaggerated largely because the public sector is spending taxpayer’s money. For practitioners in the public sector, especially for public managers, it is important that there be guidelines according to which they must cooperate and administer and according to which they must direct the public service and place subordinates on the right track precisely to prevent corruption and eliminate maladministration.
Ethics is a key component of professionalism, good governance and proper and rational decisions. Bureaucrats are often suspected of lining their own pockets at the cost of the citizens. Opportunities for public servants to be involved in unethical conduct arise from the power they exercise in both the development and administration of public policy (Mle & Maclean, 2011:5). French (1983:128) argues that bureaucrats are often pictured as single-minded automatons which work in little offices in nondescript gray buildings and spend the majority of the working day devising ways to make life miserable for the average taxpayer and businessperson.

In its report on the State of the Public Service, the Public Service Commission (2008) highlighted some areas of concern on the professional and ethical conduct of public servants. There are activities that constitute unethical and unprofessional conduct in the public service. The South African Public Service is often characterised by activities which constitute unethical conduct and the following are examples with a sample being explained:

- Bribery, graft, patronage, nepotism and influence peddling
- Conflict of interest, including such activities as making financial transactions to gain personal advantage, and accepting outside employment during tenure in government without declaring
- Misuse of inside knowledge; for example, through acceptance of business appointment after retirement or resignation
- Favouring relatives and friends in awarding contracts or arranging loans and subsidies
- Accepting improper gifts and entertainment
- Protecting incompetence
- Regulating trade practices or lowering standards in such a manner as to give advantage to oneself or relatives
- Use and abuse of official and confidential information for private purposes
Public assets or the services of public servants may be used for private purposes. However, this, according to Turner and Hulme (1997:66), can be seen as rent-seeking behaviour where the focus is on accessing public resources and services. Larmour (1990:64) makes the point that people have self-interests and are opportunistic maximisers. Public equipment, office supplies, other stock and employees may be used for the improvement and maintenance of a public official's private property.

The delivery of low-quality materials, lower than specified in the relevant contract, is another way of unethical and unprofessional conduct. Higher contract prices for higher quality materials are paid for lower quality materials worth much less, and, as a result, quality service delivery is compromised.

Ghosting together with low-quality materials sometimes happen in Provincial and National Governments. Theft through phantom resources, which means receiving payment for resources not actually delivered, can take several different forms. One method is the ghost employee on the payroll of the employer who receives payment but does not exist, and the paymaster pockets the money. A second method is payment for supplies or services which have not actually been received. A third method is double payment of accounts for stock or services delivered, and a second account is sent for a second payment, long after the first one has been paid (Mle & Maclean, 2011:7).

Procurement fix involves the rigging of bids or supply of contracts. Potential suppliers agree beforehand among themselves on the bid winner and the winning price, and other companies would submit non-competitive tenders at much higher prices. This conspiracy increases the profits of the company as well as the cost to the government. Public officials could be involved and could receive bribes, what is usually referred to as kickbacks, to enlist their cooperation. So rampant is bid-rigging in the public service and in municipalities that those who illegally benefit from this practice are referred to as "tenderpreneurs". According to Fourie (2009:632) this is unethical conduct where
business is not conducted with integrity is unfair and unreasonable. It can also be seen as financial mismanagement which frustrates the achievement of a departmental goal.

Public officials use confidential information to produce profits for themselves. The profit measures the extent to which the public official, through use of inside information, steals from the public by enforcing excess payment for something. A good example is when an official buys land at low present market when he/she knows, based on advance and confidential information, that this land is to be used for a special government project and that he/she will be able to sell it to the government at an exceptionally inflated price, then making a large profit.

Bayat and Meyer (1994) state that people are usually shocked when corruption in a state department is uncovered, or when a politician who occupies a position of public trust is implicated in a scandal. These activities are manifestations of the frailties of men and will be encountered wherever human beings are found. Corruption taints the image of the public service, and it is, therefore, a source of concern to most citizens. It deprives the citizens of services due to them. Bayat and Meyer (1994) mention possible causes of corruption as greed, presence of an ethos of corruption, unchallenged governments, nepotism, patronage, flouting codes of conduct, differing ethical values and norms, emulating corrupt leaders, unwavering trust in political office- bearers, lack of adequate checks and balances and preoccupation with official secrecy.

There is a Code of Conduct in Chapter M of the constitution which encourages public servants to think and behave ethically. It sets out expectations about acceptable behaviour and benchmarks for ethical practices.

It is structured to promote an ethos of dedication and service, evoke a commitment to high standards of professionalism, contribute to more efficient and effective service delivery and eliminate corruption in the public service.
The following are the guidelines on the provisions of the code:

- Relationship with the Legislature and the Executive
- Relationship with the public
- Relationship among employees
- Performance of duties
- Personal conduct and private interest

According to the United Nations Department of Economic and Social Affairs Division for Public Economics and Public Administration (2000:3), scandals involving public officials have captured world attention with the public not distinguishing among those in government whether they are elected or appointed. It is true that any country expects its public service to manifest professionalism and ethics. These are critical elements whose absence can lead to, *inter alia*, the following:

- minimum development of people and nations
- disorderliness and anarchy in a society
- lack of investor confidence, leading to lack of economic growth
- deterioration of trust by citizens

**Factors that may enhance professionalism and ethics in the public sector**

The following may be seen as factors that may encourage ethical conduct and professionalism in the public sector:

- Training in basic skills to carry out official duties. Such training may include financial management so that public servants may manage their finances
- Introduction of a career system based on merit appointments
- Well-articulated and fair human resource policies on remuneration and conditions of service, training and development programmes should be implemented
- Recognise good work through incentives and correct poor performance, thus nurturing professionalism and pride (United Nations, 2000:6)
Legalise the Code of Conduct and Batho Pele principles as these will then be enforced against misconduct, ranging from unethical to criminal act.

Whistle-blowing mechanism needs to be strengthened.

Departments should strengthen their capacity to investigate unethical conduct. The PSC reports that in KZN not enough resources were made available to create posts and employ staff for this purpose (PSC, 2008:19).

According to the PSC (2008:17) financial disclosures in terms of the financial disclosure framework are inadequate. Conflicts of interest are rampant in the public service and in municipalities.

Discontinue dual employment. The PSC (2008) has noted that some public servants also serve as part time councilors and this poses a threat to honesty, especially in bidding.

Exemplary leadership need and political will to instill ethics and professionalism because at times the problems start from the top and permeate the institution. Junior officials take advantage of such situations.

These factors may encourage a public service that adapts to the impacts of globalisation so as to achieve better economic performance through promoting investment and trade (United Nations, 2000:24). Good public servants who are ethical and professional, and who stick to Batho Pele principles, contribute in ensuring:

- Positive image of the public service
- Enhance service delivery
- Citizen confidence in the public service
- Investor confidence
- Efficient and effective utilisation of resources

2.12.3 Conclusion

According to Kernaghan and Dwivedi (1983:157-158), since the dawn of civilization, there has been an expected code of right conduct for public officials different from and in many respects superior to private conduct. All practicing professionals are expected
to follow an agreed pattern of conduct in respect of how they treat other professionals, how they conduct their professional affairs, and how they deal with their clients. For Murray (1997:38), the style of service is a common problem with government bureaucrats, whose staff too often appears to believe that they are there to rule rather than to serve. They are about treating people as significant individuals with feelings, rather than as numbers on a register. One of the prime responsibilities of a government must be to build an environment of justice, of transparency and of trust. Around the world, governments and public administrators face crises of confidence.

Government itself, in the long term, if not immediately, will fail if it does not carry public confidence (Murray, 1997:153). According to Mafunisa (2009:79), the South African public service needs public officials who are competent and loyal to their work. They should use public funds both effectively and efficiently for the benefit of every member of the public. Positive work ethic and attitudes, such as loyalty to public service goals and values do not develop automatically. All interested parties should develop ethical norms and behavioural expectations of public officials.

Public servants are the backbone and heartbeat of the public service, but if this heartbeat is unethical and unprofessional, there will be no blood circulation and the public service will “die”. There is a need for political will as well as ethical exemplary leadership, as senior public servants remain critical to the effective promotion of ethics in the public service. The Code of Conduct, Batho Pele principles and other prescripts that encourage ethical behaviour and professionalism may need to be considered as legislation so that they are enforceable.

This is so because it is unacceptable that much needed job opportunities are not forthcoming through lack of investor confidence, disorderliness characterised by protest action becomes the order of the day, and citizens lose confidence in a government they themselves voted into power. Furthermore, there is a need for training of public servants, intolerance of shoddy service, fair human resource policies, recognition of
good work, strengthening whistle-blowing and protection of whistle-blowers. Public institutions should be capacitated to deal with cases of unprofessional and unethical conduct. Conflict of interest needs to be contained, the Financial Disclosure Framework must be complied with, and dual employment must be discouraged. Key to all is, however, exemplary leadership (Mle & Maclean, 2011:11).

Corruption in the public sector is a breach of faith. It permeates into society at all levels and ultimately creates a loss of confidence by ordinary people in their government. Lack of controls and procedures and proper effective deterrent are major problems. Violence and corruption are defining features of countries in transition and it has been established that South Africa is comparatively on par with other such countries.

Corruption, however, is not only a post-1994 feature, the pre-1994 levels were equivalent to the post-1994 levels. However, corruption was not exposed in a closed apartheid authoritative society. Corruption has resulted from forces which have accumulated over a long period as well and it takes a strong commitment as well as laborious and lengthy efforts to overcome such formidable forces.

The researcher acknowledges that it is a struggle for any government, democratic or despotic, to deal with corruption and conflict of interest. Therefore, public administration as represented by public officials or employees has to have impeccable credentials. An ideal situation would be where administration recognises the rights of citizens, deals honestly with public funds and does not abuse public office. Also the public must have trust and confidence in officials. If officials are not committed and discriminate against the citizens, this could be perceived as corruption. Corruption is always able to be picked up and punished, but conflict of interest is sometimes difficult to prove. Both these problems of corruption and conflict of interest can contribute to the character of governance.
2.13 INTERNATIONAL PERSPECTIVE

Cities in the United States of America are major recipients of federal grants. Dependency connotes some reliance on external sources of revenue to finance functions and activities for which the city is legally responsible. The extent of a city's fiscal dependency can be demonstrated by such measures as the percentage of revenue contributed by non-city government sources. Rabin and Dodd (1985:164), contend that some municipalities, despite being fiscally dependent, are fiscally distressed. Fiscal distress implies an extremely adverse condition under which a city lacks the financial resources to achieve some desired level of performance. Fiscal stress specifically refers to the gap between the needs and expectations of citizens, and the inability of the economy to generate economic growth to expand (Rabin & Dodd, 1985:154).

Local Governments in USA have recently been slow to emerge from the economic recession and there is a gradual worsening decline in property tax revenue. According to Fehr, (2012), top finance officers in California and New York are proposing closer state – level scrutiny of local government budgets to help prevent the distress that has plagued many cities.

The Australian Local Government Association, (ALGA), commissioned in 2006 PricewaterhouseCoopers to undertake an independent analysis of the financial sustainability of local government in Australia. The study was commissioned in order to assist Australian Local Government Association in collaboration with state and territory local government associations to develop a plan to address financial viability of municipalities.

According to the PWC Report (2006:88), a number of challenges to effective financial governance of local government have been identified by the South African Australian inquiry and include: inadequate and incomplete setting of financial goals and targets; low transparency in financial reporting; absence of a medium budgetary framework;
deficiencies in monitoring of financial performance against budgetary targets; absence of effective accountability mechanisms and incentives, and, slow take-up of accrual accounting concepts and reports, and the continued reliance on traditional, and misleading, cash accounting concepts. Where poor financial management practices persist in some councils, this creates the risk of inadequate control on growth in operating expenses, a neglect of essential capital spending and inflexible and inequitable revenue raising. These ongoing challenges have been exacerbated by skills shortage and lack of transparency in decision making and accountability.

However, the PWC Report (2006) also indicates that the financial awareness and understanding of councils continue to improve, as there is evidence of more appropriate analyses of new spending decisions and the use of medium- to long-term infrastructure, asset management and financial planning. Local governments rely on intergovernmental transfers in order to adequately and successfully provide services to local communities. Despite the relative constraints on the financial capacity of state and territory governments, there is significant merit in some states / territories reconsidering the adequacy of their financial support to local governments. Some states and territories should consider the merit of increasing grants in order to maintain the real value of grants to local government. Greater transparency of the funding flows to local government is warranted, explains the PWC Report (2006:93). The PWC Report (2006) quotes the South Australia Enquiry as defining financial sustainability as:

… council finances that can be judged to be sustainable in the long term only if they are strong enough - currently and in the foreseeable future - to allow the council to manage financial risks and shocks over the long-term financial planning period without having to introduce substantial or disruptive revenue (or expenditure) adjustments during the period.

Under this definition, financial sustainability is contingent upon the following conditions:

- Currently healthy council finances, with only minor revenue (or expenditure) adjustment over the short term.
Healthy long-term outlook based on continuation of the councils present spending and funding policies and given likely economic and demographic developments, and Sufficient margin of comfort in the council’s finances, currently and in the foreseeable future, to allow the council to absorb the impact of financial risks and shocks with the necessity of substantial increases in rates or disruptive cuts in spending.

Whilst the majority of councils have indicator results at an acceptable level, there are councils within each category results operating at unsustainable levels. In particular, the higher proportion of the rural agricultural, rural remote and, to a lesser extent, the urban fringe categories are at greater risk of financial sustainability challenges (PWC Report, 2006:101). In general, a council with healthy finances would run a modest operating surplus. An operating surplus indicates that the costs incurred in the year in question are being met by today’s ratepayers, and not being transferred to future ratepayers.

A persistent operating deficit indicates that rate revenue is insufficient to finance current operations, which demands liabilities to be incurred, or assets to be liquidated, in order to finance ordinary operations.

According to the PWC Report (2006:103), the divergent nature of local governing bodies means that there is a wide disparity in their ability to raise revenue, which is largely determined by population size, rating base and the ability/willingness to levy user charges. Urban councils have more scope to extract diverse user charges than their rural and regional counterparts. This is due to the larger variety of services provided by urban councils, compounded by the smaller economic base of rural and regional local governments, which reduces their ability to significantly lift charges and rates to increase revenue for funding purposes. Overall, councils with scale have some advantages in achieving financial sustainability, but strong management is a more important factor for overcoming viability challenges.
Additional government funding alone will not improve the sustainability of some local councils. Some rural and remote municipalities are already highly grant dependent whilst also accumulating infrastructure renewals backlogs and further rises in grant funding are likely to provide only some relief to their situations. The most significant viability drivers appear to be management quality and financial discipline, Management also needs the support via effective governance from councilors who in turn should be held to greater account for the overall delivery on the annual strategy and the financial performance/sustainability. Hence councillors should resist excessive day-to-day management issues, whilst clearly establishing what outcomes a community expects and then monitoring and guiding the management team to deliver on those outcomes. Size is also important. Aside from assisting to reduce costs, larger councils are generally more able to attract better quality staff and can also appoint a diversity of staff with a range of different skill sets and experiences. Hence top-up grants are unlikely to provide a long-term solution for most municipalities facing financial challenges. Overall, additional government funding on its own is unlikely to provide a long-term solution to councillors need to focus on ensuring they provide effective governance to a strong quality management team to improve viability (PWC Report, 2005:116).

According to Olaopa (2002:3), the most severe problem facing public institutions in Nigeria is the fiscal one, particularly in local government. This problem has been provoked by a number of factors, including "over dependence " on statutory allocations from both state and federal governments, deliberate tax evasion by the local citizenry, creation of non-viable local government areas, difference in the status of local governments in terms of rural-urban dimensions, and inadequate revenue and restricted fiscal jurisdiction. For financially healthy local governments to exist, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally. The constitutional provision that recognises local governments' power in this regard must give them full freedom to operate and this must be well guaranteed and adequately protected. These measures, coupled with a review of the revenue sharing formula, the granting of fiscal autonomy and fiscal discipline as well as making
local government responsive, responsible and accountable to the people will set local governments free from the fiscal stress promoted and strengthened by the 1999 constitution, contends Alaopa (2002:3).

Revenue rights are essentially the product of the statutory arrangements relating to the assignment of functions and allocation of tax powers. Quite often, because the conflict between the two major criteria—administrative efficiency and fiscal independence often tend to result in over concentrating of tax-raising powers with the centre, it has been found to make statutory provisions for revenue sharing (this is what is called equitable share in South Africa). This arrangement makes it possible to allocate centrally collected revenues on the basis of given principles or criteria between the different levels of government (i.e. vertically) and within the same levels (i.e. horizontally). In most countries operating a federal system of government, the responsibility for revenue sharing, including the determination of appropriate criteria to be employed, can be handled by high-powered fiscal commissions, established on an ad hoc basis, as was the case in Nigeria between 1046 and 1990, by a permanent body, as in the case of the national revenue mobilisation and fiscal commission in Nigeria, or even semi-permanent as in the case of the fiscal commission in India.

In the exercise of revenue-sharing or revenue allocation, each level of government is guaranteed a percentage from the central pool. In Nigeria, this pool is known as the Federation Account. Furthermore, the allocation of tax-raising powers often results in giving legal authority for a certain tax, while its collection could be entrusted to another level of government. More often than not, this arrangement results in the sharing of the yield of revenue from the particular tax head between the level of government having the legal authority for the tax and the level entrusted with its collection. Thus, whether the revenues of a level of government accrue from sharing the proceeds of the central pool, or from the latter arrangement discussed, or, indeed, any other arrangement statutorily authorised, these revenue sources become the revenue rights of that level of government. In addition, all statutorily designated local taxes become the right of the
local government (Olaopa, 2002:8). The location of tax-raising powers or determining fiscal jurisdiction is essentially a legislative function. Indeed even during the years of military rule in Nigeria, the allocation of tax-raising powers was issued through the instrument of a decree.

An important point to note about the allocation of tax-raising powers in Nigeria is the relative long-term stability of the system as there has been no major change in this structure over the last three decades. The main issues surrounding the tax-raising powers of local government revolve around the inadequacy, in terms of coverage, and the inelasticity of those tax, or revenue heads that fall under the jurisdiction of local government. There cannot be a virile and dynamic local government system without ensuring that functions assigned to local government are properly aligned with tax-raising powers or fiscal jurisdiction, and that designated revenue rights are guaranteed and adequately protected. Local government councils in Nigeria are charged with a number of responsibilities most of which touch on the welfare of living standards of large segments of the country’s population particularly those living in the rural areas, concludes Olaopa (2002:721).

Local government sector is always part of the national economy, so its financial situation and financial management should not be viewed independently of the general economic and financial potential of the country as a whole. Generally speaking, the financial arrangement of local government is primarily influenced by the volume of per capita gross domestic product, the size of the public sector, the relation between the centrally and locally collected incomes, and distribution of the total public receipts between central and local budgets. According to Kamenickova (2005:1), Armenia, Azerbaijan and Georgia are countries, which have been devastated by warfare since each of them declared independence in 1991. They have only limited experience to run their own affairs at all levels. Not only are their economies almost entirely based on a few core commodities, but also to a certain degree they are still sensitive to fluctuations of Russian economy.
The overall situation is therefore not very stable. The foundation of a system of local government is one of the most urgent tasks faced by the country in the on-going process of democratisation.

How difficult this task is can be seen from the fact that no precedent for a comprehensive system of local government can be found in the history of these three countries, although different elements have existed at various points. Under the Soviet Union, local government was exercised solely through local soviets and executive committees as part of the state administration. Contradictions in legislation and inadequate financial support prevent local governments from enjoying the autonomy assigned to them by law. The state retains sweeping powers in the sphere of local government, especially as the ability to determine community property is concerned. A problem also arises from the fact that local government is regulated by laws while central and regional governments are regulated by presidential decrees. It brings among others vitality into the system. Although guarantees of local government exist, there is a gap between legislation and practice and this has adverse impacts on local government functioning, making its environment even less stable and uncertain. All these three countries (Armenia, Azerbaijan and Georgia) are unitary countries.

Their government has a two-tier structure, with most of the administrative powers exercised by the central government. The regional units do exist but they are subdivisions of the state administration rather than a separate tier of public administration, as they lack elected representatives or bodies. Heads of regions are appointed by central government and implement central government policies under almost no discretion.

Financial viability represents an important feature when evaluating the overall situation of the municipal sector. Usually it is the reason for local government to exist. The quality of financial management and the sustainability financial arrangement of municipalities are important in this respect. Financial viability tries to describe municipalities' ability to
manage their budgetary resources so that they can fulfill the legislative requirements, in particular to provide basic local services defined in law. In quantitative terms it may be expressed as sustainable budget balance in the long term. Long-term is perspective important in this sense that a budget deficit itself is not necessarily a sign of breaking financial viability. To a certain degree a lack of money is also not the main restriction for reaching financial viability at local level.

Kamenickova (2005:40) argues that there are certain preconditions that help to achieve financial viability. Clear division of functions among levels of government as well as proper and stable funding arrangement and balance between local government resources and its functions belong among the most important. Sound and prudent public finance management in a country plays a prominent role, while it has a positive influence on local government economy. Municipalities should have the right to decide on at least a part of local revenue budget and discretion over local expenditures. It means that they should have the right to impose local taxes, fees and charges.

Otherwise, it is not very meaningful to speak about local government decision-making and its influence on financial viability.

The sufficient size of municipalities, transparent handling of local affairs and long-term budgeting, particularly in case of capital projects and borrowing, are further aspects important for financial viability. Unified and well defined budget classification help to understand properly the budget execution as well as ongoing analyses. Legislative basis of local finance in all three countries is highly unstable. There have been several amendments to relevant laws. This instability greatly diminishes the actual level of local autonomy. In Armenia, localities decide only on rates of local duties within limits given by law. The total local government revenue splits into own revenue, official transfers and borrowing. Tax revenue includes land and property tax levied on land and property located within the administrative border of municipalities. Three main sources of revenue exist also in Azerbaijan, namely, local revenue, transfers and fees. Local tax
Revenue is generally considered to play an important role in government financial management. Local tax revenues include personal land tax, personal property tax and income tax paid by municipal enterprises (legal entities). Similarly in Georgia, local bodies may introduce local taxes and decide their rate within margins determined by the tax code. Local taxes in Georgia are levied on economic activities, gambling establishments, resorts, hotels and advertisement.

Kamenickova (2005:40) concludes by saying that the destruction of the Communist regime in these countries, as well as others, led to a weakening of the state, to economic chaos, and deterioration of public finance system. But many steps have been taken already to improve the local government situation. In all three countries there are many pieces of legislation under preparation or intended to be designed. For long-term budgeting, for capital project planning and for maintaining efficacy, the stability of local government-setting is crucial. Local governments must have certain discretion over their revenue to be able to react to municipality needs and local citizens’ priorities. Insufficient data and consequent lack of analyses make the work on improving local government financial performance and thoughts of financial viability of local governments very difficult. Training of local officials and exchange of best practices among local sector will contribute to better public service delivery.

According to King (1992:43), local authorities in Spain have a double dependence on finances-on the central government and on the seventeen regional governments. Spanish Local Government Act of 1985 asserts the minimum responsibilities of provincial authorities as to first, offer technical and economic assistance to municipalities, and second to provide what may be considered supra-municipal services. Small municipalities have great difficulties with the provision of many services and also with tax collection and financial management. Municipalities in Spain have no autonomous power to introduce new taxes, which have to be approved by central or regional parliament. Municipal governments are free to set the tax rate they wish to levy, although this is subject to a lower limit, which is the same for all municipalities, and to
an upper limit, which varies according to population. If the population of a municipality is larger, the upper limits of its tax rate will be higher.

In Spain, according to King (1992:48), for many years, the municipalities’ power to tax has been so limited and their resources so scarce that they had to make use of fees and charges, even at times to the point of abuse. With the new limited power to fix tax rates and the growing unconditional grants which municipalities have received since the beginning of the 1980s, fees and charges seem to be receding at a time when local user charges are being considered in many other countries. In recent years an unconditional grant provided by the central government has been the most important source of revenue for the municipalities. Municipalities also receive project grants from provincial governments. In China, local governments have largely been responsible for the large investments that have stoked the economy to double digit growth. Their investments have also been responsible for rampant corruption, waste and environmental damage and practices such as real estate speculation and risky lending that may create a bubble and bring down the entire economy (factsanddetails.com/china).

According to the Economist (February, 2012), China’s local governments carry out over four-fifths of the country’s public spending, but pocket only half of the taxes. To help make up the difference, they rely on expropriating land from farmers and flogging it to bullish property developers. But as developers are struggling, land sales are dwindling. As a result local government revenue is drying up. By some estimates, local government receives half their funding from real estate transactions. Real estate and land seizures proved to be a relatively easy way to make a lot of money.

2.14 ATTEMPTS BY MUNICIPALITIES AT RAISING OWN-REVENUE
The cash/investment position of the cities has increased significantly over the period 2003 to 2006. This is despite relatively low levels of borrowing and high levels of capital expenditure. The significant increases are in respect of short-term investments and as
well as cash and cash equivalents. The improved net cash/investment position might have improved through short-term borrowing and the use of creditors financing (South African Cities Network Report, 2006:37). Municipalities have the responsibility to ensure a good and living environment for all their inhabitants. This they do largely through the provision of key services and the enforcement of planning frameworks. They are charged with providing the services, addressing deficiencies or backlogs; planning for growth and expansion, and, crucially, for ensuring financing for it all. Municipalities have to budget taking into account the poverty and indigent nature of its habitants. Poverty is a multi-faceted phenomenon.

It is fundamentally linked to the structure of the South African political economy. Poverty has multiple dimensions, including low incomes absence of land and capital, and, especially in the urban context, lack of access to adequate housing, services and support. As a matter of public policy, the three spheres of government attempt to provide poor households with a comprehensive set of public services at little or no cost, with the cost of the services being carried on the books of the service provider concerned. Local government has the constitutional responsibility to provide many, though not all the services. Municipal indigent policies must therefore ensure service delivery to, and take financial responsibility for municipal services to indigent households. It is clear that South African Cities will require considerable financial resources in order to be able to adequately confront the challenges they face in respect of poverty, growth and maintenance.

South African cities receive revenues from a variety of sources, including taxes, grants, fees and charges for services. For some of the cities the revenue from property tax has been fairly buoyant over the last few years. Cities have relied upon property tax for many years, but the legal framework governing the raising of property tax has varied across the country. The Municipal Property Rates Act requires that property tax be levied on the full market value of the relevant properties. Until their abolition, the second key source of general tax revenue in the local sphere, along property tax, were the
Regional Services Council levies. These levies were abolished in July 2005. Regional Services Council levies were a form of local business tax. These levies were introduced mainly as a mechanism to distribute fiscal resource from wealthier areas to those with huge infrastructure backlogs. They were not paid to the secondary cities (aspirant metropolitan municipalities), but to districts within those cities.

During the apartheid period, revenue collection in most of the former white local authorities was generally well executed and payment levels high. Enforcement was relatively stringent, while citizens usually had the capacity to pay. But with the changes introduced to combine black and white areas, the problems of revenue administration in the former black local authorities were inherited by the new combined local authorities. Revenue strategy is often regarded as the administration of revenue collection. But it has been argued that building an effective revenue strategy requires a broader approach. Readiness to pay is clearly dependent upon the provision of services. Citizens will demand that there be a reasonable relationship between what they pay and the quality of services provided.

All municipalities offer a range of grants or rebates. In many cases these are provided supposedly on the basis of measuring household incomes. There is a strong political benefit in being seen to provide additional rebates to poor households. While there are significant differences across the country there is a general trend towards charging poorer households with lower levels of consumption less for municipal services overall. Cities Network Report (2006:64) contends that cities manage large and complex revenue streams, based partly on their authority to tax, and partly on services provided. The long-term challenge is to maximise collection rates, and cities have generally made progress on this regard. The Constitution devolves significant power to the local sphere, but also provides for national legislation to create standard administrative processes in order to underpin a coherent governance framework. The introduction of the Municipal Systems Act and the Municipal Finance Management Act necessitated a dramatic organisational and financial modernisation in the local government sphere.
Opinions of the Auditor-General indicate the state of the Annual Financial Statements of the municipalities for each financial year. Qualification means that the financial information presented in the annual financial statements may be unreliable for one or more reasons, for example, basis of accounting, asset management, internal accounting controls, legislative non-compliance, revenue and debtors and others. An unqualified opinion means that the financial statements are a fair reflection of the financial affairs of the municipality based on the accounting standards that have been used by the municipality concerned to prepare its financial statements. An adverse opinion will entail a bad situation or a development that is unsuccessful. A disclaimer opinion entails a situation where the auditor cannot get documents for information and thus is not in a position to make an opinion and thus renounces the information. One of the most important cornerstones of democracy is accountability, if there is no clarity about which entity is responsible for a specific function, it becomes problematic to enforce accountability and to correct poor performance when it arises.

The lack of clarity around the division of functions is exacerbated by the nature of grant funding flowing from the provinces to local government. There is a marked difference between the management of the flow of funds from national to local on the one hand, and form provinces to local on the other. All grants for each recipient province and municipality are published in a Government Gazette not only for the current financial year, but also for the next two years. Grants from provinces are often unclear and unpredictable, and this makes it difficult to plan properly, or to spend the funds timeously when they are received. Unfunded mandates occur where municipalities perform the functions of other spheres of government and hear significant costs out of their own revenue sources. Cities Network Report (2007:80) reports that electricity was introduced into South Africa by Municipal government in the 19th century. In many ways it has been the backbone of service delivery in South African cities ever since. Most residents view electricity supply as a responsibility of city governments holding the city accountable for city interruptions, even when these are caused by failures in generation and transmission, which is the responsibility of Eskom. But the significance of electricity
to cities extends beyond this. Cities have traditionally generated significant financial surpluses from their electricity undertakings, which have been used to cross-subsidise other services. The restructuring and distribution of electricity, called Reds was introduced by the Department of Minerals and Energy in 2001.

This would take away the function of electricity generation and resultant financial gains by municipalities. Cities have not taken kind to this arrangement.

The local state is open to democratic pressure and is concerned to provide services in response to need rather than profit or ability to pay. The local state can therefore be used to achieve real gains and defend real advances, argue Parnel et al (2002:19). Central government usually prescribes the taxes that may be levied at local level. The most common is some form of property tax. Ideally, local taxation should be both progressive and income elastic, so that increasing incomes produce increased revenue.

Toders and Watson (1985:115) argue that local income tax is preferable from most perspectives, not least because local governments which rely on income taxes tend to have the least severe financial problems.

Most local authorities supplement local revenue with loan finance where they have the capacity to do so. Central government transfers to local government, as shown in earlier arguments in the study, may take a number of forms including grants, revenue sharing, tax credits, spatially differentiated national taxes, bonus and direct expenditure at local level.

The restructuring of the electricity distribution industry, at least as currently proposed, is a threat to the financial strength and standing of the cities. There will be a loss of electricity surplus. The cash implications of the loss of the revenue flow is that cities' cash cushions will be removed, and cities may find that their target debt/income and interest/expenditure ratios have been breached once the ring-fenced electricity function
joins the Reds. The other important area of institutional change that impacts on city finances is the initiative to establish a “single public service”. This has far reaching implications for local government finances.

Gildenhuys (1997a:1) argues that municipalities do not exist for the sake of councilors and officials. They are there to serve the public. In serving the public, money is needed. Pauw (2002:276) explains that the ability to pay principle is based on the assumption that rates should be levied on taxpayers in terms of their ability to pay a certain amount of tax, in other words their wealth. Therefore it would not be correct to assume that the fixed property that resident own represent their wealth. Local governments are often seen as sustainable on paper. However, the actual money that is collected for rates and services is often less than the budgeted amounts owing to less money collected than billed.

Compliance with the current financial management system is a constant challenge for many municipalities (Overview Report, 2009:54). There are many examples of exceptional efforts and remarkable success by individual municipalities. While it so, the local government system does not at present appear to be responding to these challenges very effectively. Many municipalities can simply not leverage the funds they need for even moderate municipal functionality. Audit reports are uniformly poor for over half the municipalities. They also struggle to manage their Annual Financial Statements and processes prescribed in the Municipal Finance Management Act. The Overview Report (2009:54) continues to report that the financial environment is further challenged by a poor skills base, weak support form provinces and poor controls that leave the system open to abuse and fraudulent activity.

In 2003/04, metros received 20% of the equitable share, while local municipalities received 64.2% and district municipalities the remainder. In 2006 and 2007, 40% of the total grant went to metros, 37.3% to local municipalities and 22% to the district municipalities. The bias towards the metros is a result of both their large and growing
poor populations and the introduction of the Regional Services Council levy replacement grant, which is transferred through the equitable share mechanism. This replacement grant was also allocated to district municipalities (Overview Report, 2009:58). Service charges are the largest source of operating revenue for municipalities. In view of the service charges being the main source of revenue to municipalities, challenges experienced with enforcing debt collection and an increase in the aged debts, as well as a high level of indigents and the culture of non-payment impact hugely on their financial viability.

Municipalities are showing a poor ability to accurately plan and spend their budgets. A very significant risk going forward is that municipalities' spending plans outstrip realistically collected revenues. One of the basic principles underlying municipal finances is the principle that Local Government is substantially financed by means of own resources. This is an important feature of any democratic local government system. It ensures that municipalities are directly accountable to local residents for the functions they perform and the services they provide. Municipal revenue collection has begun to fall as greater reliance is placed on transfers as a revenue source.

Municipalities continue to face capacity constraints in conceptualising and implementing developmental spending programmes. Growing grant dependency is creating a dependency syndrome, which in future might be unsustainable. It makes sense that government should extend financial freedoms and flexibilities to competent municipalities in order to speed up the provision of services in a manner that can be sustained and to address bottlenecks, backlogs and neglected repairs and maintenance. Conversely, better technical assistance should be provided to municipalities with weak capabilities in financial management, external borrowing, income generation and debt collection. The Overview Report (2009:62) concludes that the assessment has revealed that the financial arrangement in municipalities is highly problematic, at worst, fraught with poor skills base, weak support from provinces, and then open to abuse and fraudulent activity. Many municipalities lacking a tax base, short
of equitable share and with a weak revenue base cannot leverage the funds they need for even moderate municipal functionality.

2.15 MONITORING AND EVALUATION IN ENHANCING FINANCIAL VIABILITY AND SUSTAINABILITY

2.15.1 Introduction
Monitoring, evaluation and reporting are important processes and procedures to execute in the public sector and local government, especially in the management of finances. The writer briefly describes the terms; monitoring, evaluation and reporting. Thereafter the importance of monitoring, evaluation and reporting are explained as well as the advantages of the process. Approaches or recommendations on how to go about monitoring, evaluating and reporting will also be looked at. After conveying the advantages and importance of the processes, monitoring, evaluation and reporting will be critically analysed.

According to Erasmus (2005:153), public sector institutions should develop systems to review and evaluate their performance in all human resource activities in order to ensure that there is feedback from this assessment into the corporate plan.

2.15.2 Monitoring
Monitoring is the process in the public sector that involves collecting, analysing, and reporting data on inputs, outputs, activities, outcomes and impacts as well as external factors in a manner that supports management’s objectives. The key aim of monitoring is to promote transparency and consistent communication to managers and other relevant stakeholders. This is to ensure that there is consistent feedback on progress and challenges that seek to be resolute. The manner of transparency and consistent communication is first-hand monitoring on what has been actually done versus what has not been done (Policy framework on M&E, 2007:1).
2.15.3 Evaluation

Evaluation in the public sector human resource management can be described as a procedure that operates over certain periods of time, which adheres to the specified time-frame. Key objectives of evaluation involve making information available that will assist with guiding decision-makers, whom are the top management in the municipalities or public sector.

Evaluation is influential in public sector human resource management as it assesses issues of relevance and feasibility of HR issues; it assesses efficiency and effectiveness, by articulating whether HR adheres to its HR plans and labour legislation (Policy framework on M&E, 2007:2).

2.15.4 Reporting

The monitoring and evaluation framework, defines reporting as: the systematic and continuous provision of relevant information at periodic periods by the organisation. Reporting provides regular feedback that helps organisations ascertain its strengths, weaknesses, problems and solutions.

Government’s major challenge is to become more effective whilst promoting the general welfare of its citizenry (Policy Framework on M&E, 2007:1). Monitoring and Evaluation processes can assist the public sector in evaluating its effectiveness and identifying the various factors which are important in accomplishing its service delivery outcomes. Monitoring and evaluation is significant as it serves to link the policy priorities with the organisations available resources. Therefore one can submit that monitoring and evaluation promote the goal of minimising maladministration and promote sound government principles of accountability.

As linking policies with resources, shows a high-level of accountability, it also makes a foundation of programmes of implementation, actual services rendered, and most
importantly, how it assists the community, its impact (Policy framework on M&E, 2007:1).

Monitoring and evaluation helps to provide evidence for public resource allocation decisions. It again shows that the process is committed to efficiency and transparency. The process provides sound information about the resources, the quantity of the resources and how they are going to be distributed and whether they have been used properly for their purpose (Policy framework on M&E, 2007:1).

According to McCoy et al (2005:2), monitoring, evaluation and reporting paves way for organisations on how they can effectively promote the change they seek to accomplish. This is done through developing vision and mission strategies for the organisation, planning. Monitoring and evaluations encouraged as it provides a mechanism on how efficiently the organisation is keeping up with dynamics and change. Since a foundation has been established, the vision and mission. It is now imperative to devise and identify action plans, implementation strategies that are consistent with the organisations capabilities (McCoy, et al 2005:2). McCoy et al (2005:2) find that monitoring, evaluation and reporting foster public and political cooperation. Monitoring, evaluation and reporting is advantageous to managers, it provides them with information that can be used for comparing performance according to planned and actual performance.

An approach that the public sector can use to determine whether its programme has been successful or failed is to critically analyse its vision, mission and objectives in line with the final accomplishment. According to Dressang (2002:141), one will be able to ascertain whether HRM has actually implemented what it has documented (plan or programme) through its performance, the outcome. Government has realised that linking objectives with accomplishments is incomplete. This is where reporting in HRM plays a fundamental role argue (Erasmus, et al 2005:117).Erasmus et al (2005:153) stress that consistent communication to the departments on outcomes of HRM planning is imperative in that every public sector institution should communicate the HRM plan to
all the employees and the public where it can easily be accessed. Monitoring and evaluation should be incorporated with reporting as addressed in the Public Service Regulations of 2001, Part III.

According to Public Service Regulations, the human resource report shall be compiled annually and submitted to Parliament, and shall include information on: planning, strategic outline of key objectives and methods to be used and time-frames. Service delivery is governments’ commitment and responsibility to the people. Service delivery information has to be reported on in the HRM report. This must include the types of services to be delivered and how they ought to be delivered. Periodic monitoring and evaluation is important. The organisation should adopt a method, whether it’s monthly or quarterly depending on the work-situation. An advantage that periodic monitoring and evaluation seeks to address is to prevent a lot of situations whereby the organisation does not implement its plans constantly. According to Erasmus et al (2005:17), reviews put the organisation under pressure and the ultimate good performance is accomplished. Human resource audits are a method to hold the organisation accountable for any lack of performance. It is easy for an organisation not to keep up with what it has promised, and therefore HRM audits also increase the level of competence in an organisation.

Dolan and Schuler (1987:59) write that possible criteria or standards for evaluating HRM planning include the measurement of the following factors:

- Actual staffing levels against documented staffing requirements
- Productivity performance against accomplished goals
- Actual personnel flow rates against documented rates
- Programmes, time-frame, successes of implementation strategies, punctuality

The argument against monitoring and evaluation is that its processes are highly complex, multidisciplinary and skill intensive. Monitoring and evaluation is not easy as it is time-consuming and employees at times will have to neglect their jobs in order to
execute monitoring and evaluation, which in the long-run will also affect the performance level of the organisation. The public sector is mostly dominated by generically skilled employees instead of a specialised workforce, it, therefore, means that the public sector will have difficulty in implementing successful monitoring and evaluation processes unless they outsource, which is an expensive measure. Methods that are multi-disciplined in nature are problematic, as HRM might follow a one-sided approach than being multi-disciplined; the disadvantage of being multi-disciplined is not fulfilling all the purposes of the method (Policy framework on M&E, 2007:7).

Monitoring and evaluation requires detailed knowledge both across and within sectors, and interactions between planning, budgeting and implementation. In order to implement monitoring and evaluation successfully, personnel must be fully equipped with strategic visions, budget and its constraints and the strengths and weaknesses of the organisation, at an internal basis. However, it is asserted that in order to be successful one must be fully aware of the happenings within sectors in-detail. One can conclude that monitoring and evaluation is too specific and its bureaucracy can result to lack of implementation (Policy framework on M&E, 2007:7).

Policy framework on M&E (2007:7) has identified another barrier attached to monitoring, evaluation and reporting criticism: Government machinery is decentralised, the powers and functions are distributed in three spheres of government rather than being centralised. The disadvantage of decentralising is a lack of co-ordination, unity and accountability. However, if monitoring, evaluation and reporting was conducted in one sphere of government, the disadvantages will be easily overcome, and government instead would strengthen its transparency and accountability. Intergovernmental structure in the context of monitoring, evaluation and reporting is not feasible in the public sector.
2.15.5 Conclusion

Monitoring, evaluation and reporting are all important in human resources, they foster co-operation and learning, allow the organisation to respond to change. It is important to implement the processes they serve as a point of departure for implementing the vision and strategies of human resources. Monitoring, evaluation and reporting can be accomplished through; HRM audits where lots of questions are expected to be answered in detail, analysing the vision against actual performance and other avenues. It is important that government communicates constantly and monitoring becomes an on-going continuous process. Arguments against monitoring and evaluation are that it requires a lot of skills, which can be time consuming and in certain instances the employees will have to compromise their daily duties. The process is also multi-disciplinary which can put one in a position of implementing a one-sided approach than a multi-purpose approach due to its complexities. However, besides the criticism it is important that public sector human resources facilitate monitoring, evaluation and reporting to measure performance, ensure success and to ensure that the organisation is in line with its strategic visions.

The importance of monitoring, evaluation and reporting on public human resource management processes cannot be over-emphasised. What appears to come across in this research is the notion that good policies and sometimes strategies do exist but strict monitoring and evaluating of these seem not to be taken seriously. Those responsible for implementing monitoring and evaluation but fail to do so go scot free. With the limited resources that must respond to unlimited needs, it is always critical to deliver services efficiently, effectively and economically. However, with lax monitoring and evaluation regime, one is not likely to achieve that goal.

Reporting is often done as a compliance issue and not for decision making. It is a tool of ensuring that government gets value for its human resource investment. The researcher is of the opinion that a dedicated and well-resourced monitoring, evaluation and reporting unit must be established in every public institution and be granted such
powers as may be required to exercise their duties to coerce good monitoring and evaluation practice.

2.16 GOVERNMENT INTERVENTIONS - ATTEMPTS TOWARDS SOLUTION OF LOCAL GOVERNMENT CHALLENGES

Both the national and provincial spheres have on numerous occasions intervened to assist local government address its challenges. This section deals with various ways employed by the other spheres to assist local government.

2.16.1 Introduction

Local Government as a sphere of government has a variety of challenges. These challenges include skewed and unsustainable delivery services, lack of finance and lack of requisite skills. The other problems relate to ineffective public participation and community consultation.

The technological framework and corruption are also challenges. Other spheres of government have made efforts in terms of section 154 of the Constitution to support local government.

In 2006, the then Department of Provincial, Local Government and Traditional Affairs introduced the five year local government strategic agenda in order to improve performance of municipalities. This agenda was an attempt to improve on a previous programme which was called “Project Consolidate”. The agenda had five key performance areas (KPAs) that municipalities had to concentrate on, namely: Municipal Transformation and Organisational Development; Basic Service Delivery; Local Economic Development; Municipal Financial Viability and Good Governance and Public Participation.
2.16.2 Five Year Local Government Strategic Agenda

This section discusses five key performance areas of the Five Year Strategic Agenda. These KPA’s are an attempt to contribute to good governance. Key Performance Area 4 (Municipal Financial Viability and Management) specifically deals with financial viability.

2.16.2.1 Key Performance Area 1 - Municipal Transformation & Organisational Development

This KPA dealt with the transformation and organisational development of the municipalities. It addressed issues like filling of vacant posts for municipal managers as well as:

- How many municipal managers had signed performance contracts and performance agreements?
- How many Section 57 managers’ posts have been filled and, the status of the employment equity of these section 57 managers?

This KPA also dealt with the appointment of Chief Financial Officers (CFOs). However, it has been a struggle for municipalities of smaller size and grade to retain skilled CFOs owing to financial constraints.

2.16.2.2 Key Performance Area 2 – Basic Service Delivery

Basic Service Delivery dealt with service delivery issues like water, sanitation and electricity. This KPA was also linked to the Millennium Development Goals (MDGs). Municipalities had to give an account of how many households have been provided with water and what are the outstanding backlogs. The same process had to be used when reporting on electricity as well as sanitation. Municipalities also had to report on the provision of free basic services on water and electricity and the rolling out of indigent services.

2.16.2.3 Key Performance Area 3 – Local Economic Development

This KPA dealt with the number of jobs created. This was an attempt to force municipalities to be serious about making conditions conducive to create jobs that are sustainable.
2.16.2.4 Key Performance Area 4 – Municipal Financial Viability and Management
This KPA dealt with viability and management of municipal finances. Financial management in municipalities continues to be a problem. In terms of this KPA, municipalities had to report whether annual financial statements have been submitted and how many are outstanding. Also of importance were the Auditor General's municipal audit findings for each financial year. Municipalities were also expected to report on the establishment of Audit Committees. Expenditure patterns regarding Municipal Infrastructure Grant (MIG) were also reported on. Expenditure, especially of MIG is a challenge for municipalities. Lastly was the question of the Municipal property rates where most municipalities are challenged in terms of compiling credible, comprehensive valuation rolls timeously as required by the Municipal Property Rates Act.

2.16.2.5 Key Performance Area 5 – Good Governance and Public Participation
This KPA dealt with good municipal governance and public participation. Municipalities had to report on the establishment of ward committees. Each ward is supposed to have ten ward committee members. Also of importance for this KPA was the appointment of Community Development Workers (CDWs). The intention is that each ward must have a CDW. This is aimed at assisting communities to have access to government services as well as providing the public with an opportunity to engage and participate in issues of governance.

For the purpose of this research, KPA 4 is the most crucial. This KPA for Municipal Financial Viability and Management was an attempt to assist municipalities to improve on financial management. KPA 4 dealt with viability and management of municipal finances. Financial management in municipalities continues to be a problem.

In terms of KPA 4, municipalities had to report whether annual financial statements have been submitted, and how many are outstanding, Also of importance were the Auditor General's municipal audit findings for each financial year. Municipalities were
also expected to report on the establishment of Audit Committees. Expenditure patterns regarding Municipal Infrastructure Grant (MIG) were also reported. Expenditure, especially of MIG is a challenge for municipalities, This KPA also dealt with the question of Municipal Property Rates where most municipalities are challenged in terms of compiling credible, comprehensive valuations as required by the Municipal Property Rates Act.

2.16.3 Local Government Turn - Around Strategy (LGTAS: 2009 – 2011)
This turn- around strategy for municipalities derives from the State of Local Government Report commissioned by the Department of Cooperative Governance and Traditional Affairs in 2009. The Local Government Turn-Around Strategy (LGTAS) indicates commitment to move away from the "one size fits all" approach towards a municipal-specific intervention plan and support (2009:3). LGTAS is a national programme driven by the National Department of Cooperative Government and Traditional Affairs and Provincial Departments of Local Government for the development of a turn-around strategy for local government for the two periods 2010-2012 and 2011-2014. LGTAS is informed by the State of Local Government Report of 2009 and an assessment of all 283 municipalities made in August 2009.

LGTAS is also an interventionist approach meant to make a difference at the local government sphere. It is meant to address the root causes of all the challenges facing local government and to live a legacy of effective and functional municipalities.

2.16.3.1 Key programmes of LGTAS
The following are key programmes of the LGTAS:

- Operation clean audit
- Clean debt
- Clean towns and cities
- Infrastructure and local economic development
2.16.3.2 LGTAS key objectives
The following are key objectives of the LGTAS:

- Ensure that municipalities meet the basic needs of communities
- Build clean, effective, efficient and accountable local government
- Improve performance and professionalism in municipalities
- Improve national and provincial policy, oversight and support
- Strengthen partnerships between communities, civil society and local government

2.16.3.3 Focus areas of the LGTAS process
The following are the focus areas of the LGTAS:

- Institutional transformation and organisational development
- Basic service delivery
- Local economic development
- Financial management
- Good governance and public participation
- IDP
- Spatial planning and development
- Legal services
- Disaster management
- ICT

2.16.3.4 Expected outcomes of LGTAS (Ten point plan)
The following are the expected outcomes of the LGTAS:

- Improved quality and quantity of basic services
- Improved Local economic development
- Improved alignment of IDPs with other sector departments
- Refined ward committee model
- Strengthened administrative and financial capabilities of municipalities
- Create a single window, coordination, monitoring and evaluation of service delivery implementation among all government departments
- Uproot fraud and corruption, nepotism and all forms of maladministration affecting local government
- Develop a coherent and cohesive system of governance and more equitable intergovernmental fiscal system
- Develop and strengthen a political and administratively stable system of municipalities
- Restore the institutional integrity of municipalities

In terms of the resource allocation and commitment, municipalities, provinces and role players engaged within municipal area should endeavour to acquire the necessary skills and to enable implementation.

Principles of value money are critical and innovative, and utilisation of volunteers and local stakeholders will be a central feature of good practice.

In terms of financial management, the turn-around strategy has the following focus areas:

- Revenue enhancement programme should be developed
- Debt management programme should be developed
- Cash flow management programme should be developed
- Funding plan should show capital expenditure
- Clear audit plan should be developed
- Submission of Annual Financial Statements should be developed
- Substantial percentage of Municipal Infrastructure Grant (MIG) expenditure by end of financial year
- Asset management register should be developed
Supply Chain Management policy should be applied in a fair and transparent manner

The strategy must address the municipal financial shortcomings such as the inability to attract financially-skilled personnel, audit requirements that are lacking, increasing municipal debt, lack of commitment to good financial practices, ongoing negative audit outcomes, general collapse in financial governance systems, inadequate financial support, lack of proper monitoring of the visioning for local government system as a whole, lack of systematic research, lack of reporting systems, lack of data management and knowledge management frameworks, non-responsive fiscal intergovernmental relations.

2.16.4 Role of SALGA
The South African Local Government Association (SALGA) is the constitutionally recognised voice of organised local government. It represents, promotes and protects the interests of all 283 municipalities in South Africa. SALGA also assists in the transformation of local government to enable it to fulfill its developmental role. It also develops capacity within municipalities.

With regards to municipal finance, the overall objective of SALGA is to entrench effective municipal financial management and equitable fiscal system. SALGA also strives for fiscal review that aligns funding to local government mandate. The role also involves effective revenue and expenditure management in local government. It also works on strengthening financial management regime for local government (SALGA, 2011:2). Lastly, in helping municipalities, it concentrates on Auditor General’s requirements, billing, revision of municipal fiscal model, and reduction of outstanding debtors.
2.16.5 Role of Finance and Fiscal Commission

The Financial Fiscal Commission’s responsibility is to advise and make recommendations to parliament, provincial legislatures and organised local government on financial and fiscal matters. Its primary role is to ensure the creation and maintenance of an effective, equitable, and sustainable intergovernmental fiscal relations in South Africa. It advises government on the portion of revenue that should go to provincial and local government to subsidise services for poor people. In their public hearings the Fiscal and Finance Commission made some proposals towards financial management and revenue management. Improvement for municipal fiscal effort is through smart and prepaid metering, which would reduce the problems with collecting debt (FFC, 2011:5). The hearings also highlight huge cost of maintaining indigent registers, while the line between affordability and social responsibility also needs to be drawn.

The FFC also suggests that municipalities should be encouraged to borrow sustainably for funding capital projects, to generate income and become self-sustaining and to ensure that funds are used for their intended purpose. Investing in maintenance should be incentivised. Local Government is also represented in the FFC.

2.16.6 Role of National Treasury

National treasury manages national economic policy, prepares the South African government’s annual budget, and manages the government’s finances. It also facilitates budget slice for local government. National Treasury is also responsible for local government legislation, especially legislation that deals with municipal finances. It is also involved in capacity building programmes for municipal officials and councilors. It has also compiled easy to read documents on finances for municipalities. The most remarkable and relevant to the topic of the research is “A Guide to Municipal Finance Management for Councillors” written in 2006.
2.16.7 Role of the Department of Local Government and Traditional Affairs in the Eastern Cape

The research covers selected municipalities in the Eastern Cape, and therefore the role of the Eastern Cape Department of Local Government (DLGTA) becomes crucial. The department assists municipalities to practice good governance. They continue to intensify efforts with Provincial Treasury to provide hands-on support in improving their outcomes (DLGTA, 2012). The department has a reporting framework to monitor performance and impact measurement. It helps towards financial viability by making annual transfers to municipalities. These financial transfers assist in a number of activities as well as the fulfillment of their constitutional and executive obligations.

In terms of section 54 of the Constitution of the Republic of South Africa, the Provincial Department is obliged to give support to municipalities. This support entails financial support as well as human resource. The Department normally seconds officials to the municipalities to attend to certain areas of governance.

The Provincial Government, can, if it so wishes, intervene in a municipality in terms of section 139 of the Constitution. The Constitutions provides for intervention in terms of section 139 (1) (a), (b) and (c). Section 139 is different from section 154 in that it relates to intervention and not support.

The Department in the Eastern Cape developed criteria to determine the financial viability or non-viability of municipalities. The criteria used in determining viability and non-availability of municipalities are outlined in the Municipal Integrated Development Plans Guide for the credibility of the IDPs (DLGTA, 2012:6). For (DLGTA, 2012:8), the criteria are the following:

- Cash as a percentage of operating expenditure
- Persistence of negative cash balances
- Over spending of original operating budgets
• Under spending of original capital budgets
• Debtors as a percentage of own revenue
• Year-on-year growth in debtors
• Creditors as a percentage of cash and investments
• Equitable share consideration (Underfunding)
• Electricity bulk purchase against revenue collection

The DLGTA (2012:8) also lists the following as criteria to determine good governance:

• Ability to promote transparency, accountable, participatory and responsive government to delivery of services to its communities
• Availability of an effective risk-based Internal Audit Unit
• It must have an effective and independent Audit Committee
• Establish Municipal Public Accounts Committee
• It must have effective internal financial controls
• It must have an effective legal and legislative compliance framework

2.16.8 Division of Revenue Act (DORA)
The Division of Revenue Act (DORA) provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for each financial year. It determines each provinces equitable share of the provincial share of the revenue, and any allocation to local government or municipalities from the national government’s share of that revenue. Local government is also represented on the Budget Council.

2.16.9 Conclusion
The literature review provides the detailed context of the work of the researcher on the subject. It is hoped that this piece of work will lead to new knowledge and will have significance in the field of Municipal financial viability. This review has tried to concentrate on the closely related literature as well as current work on the subject. It also dealt with the legislative framework, and discussed extensively the Municipal Finance Management Act. The researcher is not duplicating any work that has been done by someone else on the topic. The researcher has tried to group related debates and topics that have something common together.
In other words, investigation by the researcher will appear in Chapter 3. Statistics and figures that appear on this chapter relate to previously published material.
CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

Chapter 3 highlights how the research design and methodology regarding the study of the selected municipalities in the Eastern Cape was conducted. The study, as was indicated in Chapter 1, employed both qualitative and quantitative research methods. For the qualitative paradigm, the researcher embarked on an enquiry that explored social and human problems and variables which were then interpreted. Chapter 3 also deals with the study’s population selection, sampling and data collection.

Research is the systematic method consisting of enunciating the problem, formulating a hypothesis, collecting the facts or data, analysing the facts and reaching certain conclusions, either in the form of solutions towards the concerned problem or in certain generalisation for some theoretical formulation (De Vaus, 2001:207). Creswell (2002:145) asserts that research is a scientific investigation, a systematised effort to gain knowledge.

3.1.1 Research Design and Methodology

In terms of the general approach to the methodology of the study, both qualitative and quantitative research methods were found useful by the researcher, and as such were employed in the study. In terms of the research design, the methodology chosen was determined by applying purposive sampling which included Mayors, Portfolio Committee Members on Finance and Budget, Municipal Managers and Chief Financial Officers of the selected municipalities. Data was collected through semi-structured interviews and questionnaires. This study was informed by the qualitative paradigm of research. The study, however, presents information and data that was gathered quantitatively since numerical data was also collected. According to Ader and Mellenbergh (2008:136), research design is a plan according to which participants are obtained and information
is gathered from them. The function of research design is to ensure that evidence is obtained which will be instrumental in answering the research questions unambiguously and clearly (Patton, 1990:182).

According to Babbie and Mouton (2011:74), a research design is a plan of how the researcher intends conducting his or her research. Babbie and Mouton (2011:75) contrast design and methodology, and state that research methodology focuses on the process, the type of tools to be used and the procedure to be followed.

There are two approaches to research, namely, qualitative and quantitative research (Neuman, 2006:151). Babbie and Mouton (2011: 270) describe qualitative research as research that focuses on the process rather than the outcomes and is conducted in a natural setting of social actors. Booth, Comb and Williams (2003:174) argue that the strength of qualitative research is the ability to provide complex textual descriptions of how people experience a given research. Kumar (2005:240) argues that the quantitative method focuses on the collection and analysis of numerical data and statistics.

The indicators used to measure financial are, amongst others, efficient delivery of quality services, quality of qualifications of staff and management, strategy and ability to raise own revenue, as well as external factors.

3.2 SCOPE OF THE STUDY
This section deals with the areas covered during the research. These areas are Buffalo City and Nelson Mandela Bay Metropolitan Municipalities, as well as Lukhanji and Ngqushwa Local Municipalities.

3.2.1 Buffalo City Metropolitan Municipality
Buffalo City is situated relatively centrally in the Eastern Cape Province which is bounded to the south-east by the long coastal line along the Indian Ocean (Integrated development Plan, 2011:19). It includes the towns of East London, Bisho and King William’s Town, as well as the large townships of Mdantsane and Zwelitsha. There are
two major urban conurbations within the province, Nelson Mandela Metropolitan Municipality and Buffalo City Metropolitan Municipality (BCMM).

Buffalo City is the key urban centre on the eastern part of the Eastern Cape. It consists of a corridor of urban areas, stretching from the port city of East London to the east, through to Mdantsane and reaching Dimbaza in the west. East London is the primary node, whilst King Williams Town area is the secondary node. It contains a wide band of rural areas on either side of the urban corridor. Buffalo City’s land area is approximately 2,536 km²-square with 68km of coastline. Figure 1 illustrates BCMM’s boundaries.

**Figure 3.1: BCMM boundaries – Source: IDP 2011-2012**

The total population of BCMM is 755,200 with 223,568 households. Blacks make up 85.1% of the population, Coloureds 6.0%, Indian/Asian 0.8%, and Whites 7.7%. In terms of languages, Xhosa is spoken by 76.9%, English by 10.7%, Afrikaans by 7.0% and other, 5.4%. The municipality also has fifty (50) wards.
3.2.2 Lukhanji Municipality

Lukhanji Local Municipality is an administrative area in the Chris Hani District of the Eastern Cape in South Africa. Lukhanji is an isiXhosa name for the mountain that runs the eastern side of Queenstown to the Western side. The municipality has a total population of 190,723 with 51,173 households. Blacks Africans make up 92.6% of the population, Coloureds, 3.8%, Asian/Indian, 0.5% and Whites, 2.7%. In terms of languages, Xhosa speakers make up 84.4%, Afrikaans, 5.4%, English, 4.4% and other languages that are spoken, 4.8%. It covers an area of 3,813 km$^2$ and has 27 wards. Figure 2 illustrates the boundaries of Lukhanji.

Figure 3.2: Lukhanji boundaries - Source: IDP 2011 - 2012 and Census 2011

3.2.3 Nelson Mandela Metropolitan Municipality

Nelson Mandela Bay Municipality is one of the eight Metropolitan (category A) municipalities in South Africa. It is located on the shores of Algoa Bay in the Eastern Cape Province. It comprises of the city of Port Elizabeth, nearby towns of Uitenhage and Dispatch, and the surrounding rural area.
The name Nelson Mandela Bay Municipality was chosen to honour former President Nelson Mandela, although there is no geographical feature in the area by that name. The total area is 1,959 km². The total population is 1,152,115 with 324,292 households. Black Africans make up 60.1%, Coloureds, 23.6%, Indian/Asian, 1.1% and Whites, 14.4% of the population. In terms of languages, Xhosa is spoken by 53.2%, Afrikaans, 28.9%, English, 13.3% and other, 4.6% of the population. The seat is Port Elizabeth and the municipality has 60 wards. Figure 3 illustrates Nelson Mandela Bay boundaries.

**Figure 3.3: Nelson Mandela Bay boundaries** – Source: IDP 2011-2012 & Census 2011

### 3.2.4 Ngqushwa Local Municipality

Ngqushwa, located in the Eastern Cape, is bounded on the East by the Fish River and in the South by the Indian Ocean. The municipality is an amalgamation of two towns, namely, Hamburg and Peddie. It is one of the eight municipalities that fall under the Amathole District Municipality.
The total population is 72,190, and the municipality covers an area of 2,241 km²square. Figure 4 illustrates the boundaries of Ngqushwa.

Figure 3.4: Ngqushwa boundaries – Source: IDP 2011 – 2012 & Census 2011
3.3 POPULATION

Axelson, Bihler and Djert (2009:108) argue that the target population is the population of individuals the researcher is interested in. The target population in this research includes Mayors, Portfolio Councillors on Finance, Municipal Managers, and Chief Financial Officers. Other stakeholders like the Eastern Cape Department of Local Government and Traditional Affairs and the South African Local Government Association (SALGA) in the Eastern Cape have also been included.

3.4 SAMPLING

The researcher has used purposive sampling. According to Babbie and Mouton (2011:166), purposive sampling is about selecting the sample on the basis of the researcher’s own knowledge of the population, the population’s elements, the nature of the research, the aims and the purpose of the study. A purposive sampling was used to identify key participants in the municipalities including Mayors, Portfolio Councillors on Finance, Municipal Managers and Chief Financial Officers. The justification to select these office bearers and officials is that they occupy strategic positions in these municipalities and are, therefore, in a good stead to give legitimacy to the research process. The participants are also central in the management and monitoring of finances in their municipalities.

The municipalities were selected because they represent metropolitan municipalities which have larger revenue bases and compare them to small rural/semi-rural municipalities who are struggling to collect revenue, or have small or no revenue at all. These municipalities were, therefore, selected with a purpose, and include four municipalities, namely, Nelson Mandela Bay Municipality, Buffalo City Metropolitan Municipality, Lukhanji Local Municipality and Ngqushwa Local Municipality. Other partners like the Department of Local Government and Traditional Affairs in the Eastern Cape and South African Local Government Association (SALGA) in the Eastern Cape were chosen because they interact directly with local government.
3.5 DATA COLLECTION METHODS/TECHNIQUES

According to Axelson et al (2009:112), data collection methods refer to the ways by which a researcher gathers data and information pertinent to the study from various sources. The researcher has used both the primary and secondary data. Primary data are original sources from which the researcher directly collects data that has not been collected. An example of primary data is information collected by the researcher through questionnaires. Secondary data is data that has been collected and compiled previously and consists of readily available information which may be used by researchers for their studies (Creswell, 2012:90).

The techniques that the researcher used for data collection included interviews and questionnaires. Data from documents that deal with municipal finances has also been collected. The data collection techniques included financial related document analysis, semi-structured interviews (see Annexure F), with the participants, and the questionnaire technique (see Annexure G).

3.5.1 Interview technique

The researcher used semi-structured interviews which allowed the interviewee some form of flexibility to elaborate and speak their minds. The one-on-one interviews were conducted in a relaxed atmosphere. One-on-one interviews were preferred by the researcher because there was no group pressure or influence in responding to the questions. The researcher did not want to rely on notes and memory alone, but also used tape recording instruments which were later transcribed. As Merriam (1998:185) defines an interview as a conversation, but a conversation with a purpose, the aim of the interviews was to obtain a special kind of information. Descombe (1998:114) argues that people are interviewed to find out from them those things that the researcher cannot directly observe.

Interviews can be structured, semi-structured or unstructured. In this study, semi-structured interviews have been used. Although semi-structured interviews are halfway
between structured and unstructured interviews, the format of semi-structured interviews becomes less structured. In these interviews, the respondents took a leading role in explaining their financial viability or non-viability.

3.5.2 Questionnaire technique
The questionnaire is not some sort of official form, nor is it a set of questions which have been casually jotted down without much thought (Oppenheim, 1992:65). In designing the questionnaire, the researcher used a number of questions which were simple and to the point. These questions were subdivided into subtopics with sub-questions. The respondents were asked directly about the issues concerning financial viability of their municipalities.

3.5.3 Document analysis
As part of data collection, the researcher scrutinised a number of documents that dealt directly with issues of finance, audits, service delivery, planning, accounts, expenditure, as well as general reports on the state of municipalities. The following documents were analysed:

1. Municipal Budgets
2. Integrated Development Plans
3. Auditor General Reports
5. Service Delivery Budget Implementation Plans
6. Standing Committee on Public Accounts (SCOPA) Reports
7. South Local Government Association (SALGA) Financial Reports
8. Municipal Infrastructure (MIG) expenditure Reports
9. Cities Network Reports on Municipal Finances
10. State of Local Government Reports

The outcome of the document analysis was used as a verification process for the research, in line with the principle of triangulation of research findings.
3.6 ETHICAL CONSIDERATIONS
The researcher has done his best to promote ethical conduct in the research (see Annexure A). The privacy of the respondents (where applicable) has been observed. Ethical guidelines serve as standards and as a basis of which the researcher ought to evaluate own conduct (Newman, 2006:247).

According to Cooper and Schindler (2003:121), the design of the research should be in a way that promotes confidentiality, anonymity on the names of the respondents, and respondents should be kept free from intimidation and harm. Therefore, the respondents were informed about the contents of the questionnaire, their confidentiality and the significance of the research. There was confidentiality and voluntary participation by the respondents and there was no threat of harm to respondents. The informed consent was preceded by the participants having full knowledge of who else was involved in the study, and what would happen to the records of the interview once they were completed (see Annexures B-E).

3.7 CONCLUSION
The chapter dealt with the scope, population, sampling, data collection techniques and ethical considerations. These aspects were discussed and explained. Chapter 4 will deal with the actual arrangement, presentation, analysis and interpretation of the data collected during the research. The chapter depicts the situation or scenario regarding financial viability and financial management of the selected municipalities in the Eastern Cape.
CHAPTER 4

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1 INTRODUCTION
Chapter 4 deals with the presentation of the data collected, as well as its interpretation and analysis. Data analysis process empowers the researcher to generalise the findings from the sample used in the research, to the larger population in which the researcher is interested (Bless & Higson-Smith, 2002:137). This chapter reflects a consolidated reporting approach of the issues that were under the scrutiny of the research, and depicts the display and analysis of data. According to Kumar (2005:248), the main purpose of using data display techniques is to make the findings of the research clear and easily understood.

The contents of the data were carefully analysed, and the respondents’ responses correctly recorded. Data has been simplified and broken down for easy reading, employing both qualitative and quantitative data analyses. The respondents were the political office bearers and municipal officials, and consisted of the Mayor, Portfolio Councillor for Finance, the Municipal Manager and the Chief Financial Officer.

4.2 DATA COLLATION AND PROCESSING
The following documents were scrutinised and information processed:

1. Municipal Budgets
2. Integrated Development Plans
3. Auditor General’s Reports
4. Service Delivery Budget Implementation Plans
5. Standing Committee on Public Accounts (SCOPA) Reports
7. Municipal Infrastructure Grant (MIG) Expenditure Reports
8. Cities Network Reports on Finances
9. State of Local Government Reports
10. Submission of monthly budget statements to the Mayor by the Municipal Manager
11. Submission of quarterly budget statements by the Mayor to the Council

4.3 DATA PRESENTATION, INTERPRETATION AND ANALYSIS

This section addresses the presentation, interpretation and analysis of data. The sub-topics that are covered are general financial management, the budget, municipal governance and administration and the 2011 report of the Auditor General.

4.3.1 Buffalo City Metropolitan Municipality

  4.3.1.1 General Finance issues/Municipal Financial Management

Data collected from the municipality showed that it was actively involved in communicating regularly with the community on matters relating to finances and service delivery. The municipality communicated through media newspapers, radios, ward meetings, integrated development plan hearings and indigent registration. The mayor also had quarterly meetings with the community. For the Mayor to be able to cover the entire municipality, the wards were grouped into three clusters, namely, East London, Mdantsane and King William’s Town.

Despite the fact that currently there were a number of vacant director posts, there were acting directors and the municipality was confident that it was capable of taking on new services while remaining sustainable. They were also able to take on new services as long as they did not amount to unfunded mandates. An example of new services was the accreditation of the municipality to plan, budget, process and build human settlements. This accreditation had been granted by the National Department of Human Settlements.
During the interview, the municipality insisted that there was political will and that there was commitment from senior municipal staff, especially in finance. The Mayor has shown political will by setting up a committee to investigate the problems of under-spending and the revisiting of the credit policies. Responding to a question about cash reserves and capital assets, the municipality replied that cash reserves were good and the management of assets was improving.

There were also cost-saving mechanisms employed by the municipality like avoiding giving too many donations, cutting back on the purchase of golf shirts or other items that were meant to market the municipality, as well as cutting back on catering at functions. The municipality responded that there were situations where there were extra costs for unwarranted services. The municipality highlighted that such extra costs for unwarranted services including Primary Health Care that cost R50 million. In terms of how much the municipality had borrowing capacity available, they responded that they had less than 50% of municipal debt limit available. In managing the municipal finances, the city consulted a number of stakeholders which included the public (community), provincial and national governments, political parties, business, non-governmental organisations, traditional leaders and domestic and foreign investors.

The municipality had no cases currently where they went about making financial binding decisions without council approval. The city also had joint partnership in the form of international twinning arrangements. These twinning partnerships are Gavle in Sweden, Leiden in Netherlands and Glasgow in Scotland. These partnerships contributed to the viability and sustainability of Buffalo City, though in a minimal way. The municipality responded that the Auditor-General's opinion for the current financial year was adverse. The municipality had a debt management policy which was approved by council. They also had a customer services centre. The municipality did not envisage a financial situation where they might, at some stage, be unable to render services or pay the staff.
The total budget for the municipality for the financial year 2012/2013 was R4 992 000 000. The breakdown of municipality's source of revenue for the financial year under review was: services, transfers and national revenue (equitable share).

In terms of revenue collected in the financial year under review, the distribution (in percentages) of the following three consumer categories is illustrated in Figure 4.1. The interpretation of figure 4.1, in terms of distribution of revenue collection, indicates that the households are the major contributing factor at 50%. What follows is business at 45% and, lastly, government at 4%. This interpretation amounts to the conclusion that if households and government do not pay for services rendered, the municipality will be bankrupt and financially non-viable. This will led to the collapse of services. (Source: Questionnaire)

![Figure 4.1: DISTRIBUTION OF REVENUE COLLECTION](image)

The debt collection rate in terms of percentage for municipal services and property rates in the financial year under review was 92.4%. Figure 4.2 illustrates the collection rate. (Source: Questionnaire)
The municipality responded that it also made provision of rebates on property rates to approved institutions and specific groups like the elderly, the disabled and the indigent. The municipality also complied with sections 71 and 72 of the Municipal Finance Management Act. The City Manager submitted monthly reports to the Mayor and the Mayor did the same quarterly to the Council.

According to the response of the Municipality, they had a debt management policy which was approved by the council. The municipality employed methods like restriction of services and legal action to deal with defaulters. Accounts were delivered to all users on a regular basis through the post. The city also had a customer services centre where they attended to the complaints, queries and concerns of the community and the users of the services. The municipality received an audit opinion which was adverse. It was an improvement from the previous financial year where they received a disclaimer.

The municipality had a budget forecast of more than one year, and their spending had not exceeded the budget in the last two years. The current municipal debt load in terms
of consolidated long-term debt was 4.7 of capital assets. Seventy four (74) % of the total municipal revenue came from municipal taxes and 26% from other (see Figure 4.3). (Source: Questionnaire)

The municipality experienced significant budgetary challenges like backlogs, revenue problems that were created by capital transfers and high level of indigent population. There was also the problem of under-spending. Despite budgetary challenges highlighted, the municipality was confident that it was capable of continuing to carry out its current functions in a sustainable and viable manner.

The municipality met the deadline to pass the budget in the 2012/2013 financial year. The budget was linked with the integrated development plan (IDP) but was not sufficient to meet the community needs as these needs were overwhelming. Although the city had, having attained 92.4% of the collection rate, just set new targets to collect rates, there were debts owed to the municipality. The section of the consumers that owed the municipality a huge debt was the households. Government also owed the municipality,
and the debtors were the provincial and national governments, particularly the departments of Public works, Education and Health. In an attempt to manage government to solicit payment, the municipality cut services off and negotiated later.

4.3.1.3 Municipal Governance and Administration

Regarding this section, the municipality responded that they had an adequate level of administration and management support. Their city manager was not likely to retire in the next three years and was employed on a five year fixed contract. The city also evaluated the performance of the city manager annually. The city manager, on the other hand, evaluated the performance of the other strategic staff. Managers then evaluated the performance of the support staff. The municipality currently did not have a full time chief financial officer. They had an acting chief financial officer who possessed adequate administrative and financial qualifications.

The municipality provided competitive salaries to its employees, including medical, disability, retirement and other benefits. The municipality was a metro and had hundred (100) councillors which met the requirements of the Structures and the Systems Act.

The council held meeting monthly, and had rules of procedure. The following standing committees were in existence in the municipality, namely:

- Municipal Public Accounts Committee
- Councillor’s Welfare Committee
- Rules Committee
- Ethics Committee

The municipality considered itself efficient and accountable. While it was not always easy to administer the city, there were areas of success. The municipality had offices that were easily accessible to the community and were open at convenient times. The municipality also had the necessary equipment and infrastructure to provide administrative services.
4.3.1.4 Auditor General's 2011 Financial Year Report

The municipality received an adverse opinion, the basis of which was a number of financial issues ranging from property, land and equipment. The value of infrastructure assets, which consisted of electricity, roads, water, and wastewater networks was valued at R5.5 billion as indicated in the financial statements. Land valued at R401.9 million was registered in the name of the municipality. An amount of R207.4 million was disclosed as movable assets which included plant and equipment, furniture and fittings, motor vehicles and office equipment.

Irregular expenditure of R227.2 million was disclosed. The municipality also could not provide sufficient and appropriate audit evidence to confirm that the supply chain requirements were adhered to for goods and services. The municipality also did not have an adequate contract management system in place for the identification, recognition and measurement of capital commitments as required by GRAP 17.

In terms of property rates revenue, the municipality understated the rates revenue. This was because of under-billing and the delayed implementation of the supplementary valuation roll which was used as a basis for calculating property rates. Again, due to inaccurate record keeping, the municipality did not bill certain electricity, water and sewerage services that were rendered during the financial year, and, as a result, service charges (revenue) were understated. Unauthorised expenditure of R8.1 million was disclosed as a result of directorates exceeding their approved budgets. There was also no corroborating evidence to show that measures were taken to improve performance of managers. The reported performance against indicators was declared not valid, accurate and complete when compared to source information. The municipality incurred expenditure in excess of the limits provided for in the votes within the approved budget. The Auditor General indicated that the municipality contravened section 15 of the Municipal Finance Management Act.
The Audit Committee did not advise the council on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(a) (iv) of the MFMA. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review. The municipal manager did not provide job descriptions for some posts in the staff establishment as required by section 66(1) (b) of the Municipal Systems Act. The accounting officer also did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it was earned/accounted for debtors, as required by section 64(2)(e) of the MFMA.

Investigations were not always conducted into all allegations of financial misconduct against officials of the municipality as required by section 171(4)(a) of the MFMA. The general financial and performance activities at the municipality continued to be undermined by the silo effect of management. Consequently, improvement projects yielded minimal results. The Auditor General found that management’s lack of focus on the municipality’s performance management system was symptomatic of the culture of no-performance and was further evidenced by the total disregard for compliance governing this critical area. The high turnover of Acting Chief Financial Officer for the past three years had undermined the need for strategic and operational leadership associated with this position. The disregard for approved financial policies and procedures especially on the municipality’s supply chain policy was a cause for concern. The officials at the supply chain unit were not capacitated to fulfill and execute their duties and responsibilities. In addition, the fraud prevention plan was last reviewed in 2003. The report found that the significance of not reviewing the plan was evident by the numerous fraud cases uncovered by management subsequent to the last review performed.
4.3.2 Lukhanji Local Municipality

This section addresses the presentation, interpretation and analysis of data. The subtopics that are covered are general financial management, the budget, municipal governance and administration and the 2011 report of the Auditor General.

4.3.2.1 General Financial issues/ Municipal Financial Management

The Lukhanji Municipality’s percentage of annual expenditure spending on general administration was less than twenty (20) %. They spent less than 2% of annual expenditure on servicing municipal debt, including principal and interest. In terms of the borrowing capacity the municipality has, it had more than 50% of municipal debt limit available. The municipality had less than 5% of the full value of the reserve funds in terms of annual expenditures. Although there was no reserve fund policy or bylaw in place, they had the ability to complete financial reporting.

4.3.2.2 Budget 2012/2013

The municipality had a total revenue of R524 412 000. The equitable share was R109 210 000. The municipality also had a budget forecast of more than one year, and had been audited in the past financial year. Their spending had not exceeded the budget in the last two years. With regard to the current municipal debt load, R194 556 621 was for short-term borrowing and R78 457 082 was for consolidated long-term debt.

Fifty-three (53) % of total municipal revenue came from municipal taxes and 47% from other. Figure 4.4 shows that Lukhanji Municipality cannot survive if it were to rely only on its taxes. It is just about half of the total revenue. (Source: Questionnaire).
The municipality’s source of revenue for the financial year under review included grants, electricity, refuse collection, rentals, rates, fines, water, sewer and interest on debtors. In terms of revenue collected, the distribution, the distribution of the following categories is illustrated in Figure 4.5. Figure 4.5 indicates that in terms of distribution of collected revenue in Lukhanji Municipality, households are the major contributors at 64%, followed by business at 22% and government at 14%. (Source: Questionnaire).
The debt collection rate for municipal services and property rates in the financial year under review was 80% and 20% uncollected (see Figure 4.6). (Source: Questionnaire).

The municipality also made provision of rebates on property rates to approved institutions and specific groups like the elderly and the disabled. According to the municipality, the Municipal Manager and the mayor submitted monthly and quarterly budget statements to the Mayor and the municipality respectively in terms of Section 71 of the Municipal Finance Management Act.

Lukhanji Municipality had a debt management policy which was approved by the Council. They used electricity blocking and disconnections methods to deal with defaulters. The municipality also delivered accounts to all users on a regular basis through the post. However, the municipality did not have a customer service centre. Although the residents of Lukhanji were prepared to pay more to receive better or more services, the current tariffs and rates were average. The municipality did not have the in-house legal staff or the financial ability and confidence to hire, manage and review the work of lawyers to develop and administer service agreements which constitute...
legal contracts. The audit opinion of the Auditor General for the financial year under review was a disclaimer which was a retrogression on the past audit opinions.

4.3.2.3 Municipal governance and administration
The municipality responded that they had an adequate level of administrative and management support. Although the municipal manager was not likely to retire or leave in the next three years, the performance of the staff had not evaluated in the year under review. The Chief Financial Officer (CFO) had a degree and a financial qualification. The municipality also provided competitive salaries to its employees including medical, disability, retirement and other benefits. The municipality was a local municipality of approximately 4231 square kilometres and shared a boundary with Tsolwana, Emalahleni, Nkwanga and Sakhisizwe local municipalities.

The council met quarterly and rules of procedure of the council were followed in council meetings. The municipality also had a number of standing committees. These committees included Budget and Treasury, Human Resource and Administration, Human Settlement and Land Development, Technical Services, Community Services, Integrated Planning and Special Programmes.

The municipal manager was employed on a renewable contractual basis. The municipality was not yet efficient, but remained accountable. Although the municipality responded that it was not easy to administer the municipality, it considered itself transparent. The municipality had offices that were easily accessible to the public at convenient times. They also had the necessary equipment to provide administrative services. In addition, the municipality compared better in terms of the range of services and level of service with those municipalities who were its neighbours.

4.3.2.4 Auditor General’s 2011 Financial Year Report
The audit opinion for 2011 was a disclaimer. An amount of R710.7 million was disclosed as property, plant and equipment in the financial statements. This amount, according to
the Auditor General, was understated by R183.8 million due to the assets that had not been recorded in the asset register. The annual financial statements did not reflect any disposals during the financial year, and the municipality did not provide sufficient supporting schedules for investment property disclosed as R91.3 million. Accumulated surplus at year end totalling R925.9 million, as disclosed in the statement of financial position, could not be confirmed by the Auditor General due to the uncorrected misstatements.

According to the Auditor General, service charges as disclosed in the statement of financial performance amounting to R130.5 million were understated by R78.9 million due to instances where consumers had not been charged for services or services that had not been levied per the approved tariff. The general valuation was not reconciled with the general ledger.

Employee-related costs amounting to R88.6 million did not reconcile with the payroll, with an unexplained difference of R7.7 million. According to the Auditor General, the municipality did not provide supporting documentation for unspent conditional grants and receipts totaling R15.5 million. Accrued leave was calculated using inaccurate leave records. This resulted from poor maintenance of employee leave records and a lack of monitoring.

Audited payments amounting R6.1 million were irregular as they were made in contravention of the supply chain management requirements. In addition, the accounting officer of the municipality did not assess the performance of the municipality during the first half of the financial year.

Section 72(1) (a) (ii) of the Municipal Finance Management Act requires that the municipality’s service delivery performance during the first half of the financial year and the service delivery targets and performance indicators should be set in the service delivery and budget implementation plan.
The Auditor General found out that the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management of the municipality on matters relating to compliance with the Municipal Finance Management Act. The internal auditor did not audit the municipal performance measurements on a continuous basis.

The Auditor General found that goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of supply chain management (SCM) regulation 17(a) and (c).

Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review as required by section 57(1) (b) and 57 (2) (a) of the Municipal Systems Act. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65 (2) (e) of the Municipal Finance Management Act. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 62 (1) (d) of the Municipal Finance Management Act.

The municipality did not always submit monthly reports to the transferring national or provincial officer on spending and financial performance in respect of the allocations received. The Auditor General found that revenue received by the municipality was not always reconciled at least on a weekly basis as required by section 64 (2) (h) of the Municipal Finance Management Act. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63 (2) (a) of the Municipal Finance Management Act.
The Auditor General found that there was a lack of oversight and accountability of senior management as sufficient monitoring controls were not in place to ensure the proper implementation of policies and procedures. The municipality’s manual and automated controls were not designed and implemented to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. The municipality did not implement the approved and adopted fraud prevention plan, and the auditor general could not determine if a risk management plan, as required by the fraud prevention plan was prepared, approved and implemented during the year under review. The internal audit unit and the audit committee were not fully functional for the entire year. In addition, the audit committee was ineffective due to the multiple resignations during the financial period.

4.3.3 Nelson Mandela Metropolitan Municipality
This section addresses the presentation, interpretation and analysis of data. The sub topics that are covered are general financial management, the budget, municipal governance and administration and the 2011 report of the Auditor General.

4.3.3.1 General Financial Issues/ Municipal Financial Management
The Nelson Mandela Municipality spent 10.44% of annual expenditures on general administration in the 2012/2013 financial year. They spent 4.26% of annual expenditure on servicing the municipal debt (principal and interest). The municipality reached the debt limit in terms of borrowing capacity available and in terms of reserve funds, the municipality had none. However, they had a reserve fund policy in place and had the ability to complete financial reporting.

4.3.3.2 Budget 2012/2013
The total budget for the financial year under review was R8 403 771 000. The total budget was made up of R7 364 312 000 (operating) and R1 039 459 000 (capital). The equitable share was R303 844 000. The municipality followed 2011’s budget, had a budget forecast of more than one year, and were audited in 2011. Their spending had also not exceeded the budget in the last two years. In terms of the current municipal
debt load, they had R1 745 209 538 for consolidated long-term debt. Twelve (12.58) % of total revenue came from municipal taxes.

The breakdown of the municipality’s source of revenue for the year under review is illustrated in Figure 4.7. Figure 4.7 indicates that in terms of sources of sources of revenue in Nelson Mandela Metropolitan Municipality, electricity is the major contributor, followed by transfers, other revenue and water.

![Figure 4.7: DIFFERENT AMOUNTS AS SOURCES OF REVENUE](image)

In terms of revenue collected in the financial year under review, the distribution, in percentages, of three consumer categories, namely, government, business and households is illustrated in Figure 4.8. The figure shows that in Nelson Mandela Bay Municipality, in terms of distribution of revenue, business is a major contributor at 67%, followed by households at 26% and government at 7%. (Source: Questionnaire).
The debt collection rate for municipal services and property rates in the financial year under review was 97.59% and 2.5% uncollected (see Figure 4.9). (Source Questionnaire):
The municipality made provision of rebates on property rates to approved institutions and specific groups like the elderly and the disabled. The city manager and the executive mayor submitted monthly and quarterly budget statements to the mayor and the council in terms of section 71 of the Municipal Finance Management Act. The municipality also had a debt management policy which was approved by the council. In dealing with defaulters, the municipality employed disconnection of services as a method.

4.3.3.3 Municipal Governance and Administration

The municipality had an adequate level of administration and management support. The problem encountered then was that there were a number of vacant senior administrators and managers were in an acting capacity, including the city manager. Neither the City Manager, nor the managers that reported to him were evaluated for performance. The reason was that there was no city manager employed at the time the research was conducted. It could not be established whether the Chief Financial Officer (CFO) had a degree or a financial qualification because there was no CFO employed at the time of the research.

The municipality provided competitive salaries to its employees including medical, disability, retirement and other benefits. The approximate area of the municipality was 1 959 square kilometres. The metropolitan municipality also shared a boundary with Cacadu district municipality, Kouga local municipality and Makana local municipality. The council met monthly and sometimes quarterly and had rules of procedure for meetings.

The council had standing committees, including, Human Settlements, Infrastructure and Engineering, Electricity and Energy, Safety and Security, Budget and Treasury, Corporate Services, Public Health and Economic Development and Recreational Services. The municipality responded that they considered themselves to be efficient, accountable and transparent although they conceded that it was not easy to administer
the municipality. The municipality also had offices that were easily accessible to the public at convenient times and had the necessary equipment to provide administration services.

4.3.3.4 Auditor General's 2011 Financial Year Report
The Auditor General found under material losses and impairments that the municipality was the defendant in a number of lawsuits to the value of R165.2 million. Irregular and fruitless and wasteful expenditure of R63.4 million was incurred during the financial year. Irregular expenditure was incurred in contravention of the supply chain management (SCM) requirements and fruitless and wasteful expenditure was made in vain and could have been avoided had reasonable care been exercised. Water losses of 22,961 megalitres amounting to R135.9 million were incurred during the financial year. Bad debt expenditure amounted to R554.3 million owing to bad debt write offs.

The municipality underspent its capital budget by R154.4 million. The financial statements of the municipality and its municipal entity, the Mandela Bay Development Agency submitted for auditing were not prepared in all material respects in accordance with section 122 of the MFMA. Under procurement and contract management the municipality and its municipal entity procured goods and services with a transaction value of between R10,000 and R200,000 without obtaining written price quotations from at least three different prospective providers as required by the supply chain management regulations. The auditor general also found that the municipality made awards to providers whose directors or principal shareholders were persons in the service of other state institutions in contravention of supply chain management (SCM) Regulation 44. Invitations to competitive bidding were not always advertised by the municipal entity for the required minimum period as per the requirements of SCM Regulation 22(1) and 22(2).
Under expenditure management the auditor general found that money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2) (e) of the MFMA.

The accounting officer of the municipal entity did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure as required by section 62(1) (d) of the MFMA. The accounting officer of the municipal entity also did not take reasonable steps to prevent irregular expenditure as required by section 95(d) of the MFMA. Under human resource management the acting municipal manager did not sign an annual performance agreement for the year under review. The accounting officer of the municipality did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets as required by section 63(2) (c) of the MFMA. With regard to leadership, ethical business practices and good governance was not enforced by top management at all times, resulting in a number of cases of fraud and theft relating to supply chain management (SCM) practices. The municipality also did not implement effective human resources management to ensure that adequate and sufficiently skilled resources were in place and that performance was adequately monitored. A number of key positions including the municipal manager were vacant and were staffed with acting appointments.

The auditor general also found that the municipal entity lacked sufficient monitoring processes to detect contraventions of the SCM policy. Detailed standard operating procedure documents were not readily available to deal with the day-to-day running of the municipality. The municipality did not have an information technology (IT) governance framework to support the reliability of the systems and the availability, accuracy and protection of information.

The auditor general with regard to financial and performance management found that a centralised filing system with respect to the filing of the municipality’s SCM documents was not in place for the full year under review. The fixed asset register of the
municipality was not reconciled on a regular basis to ensure that discrepancies were identified and rectified in a timely manner. The review and monitoring of compliance with laws and regulations by the municipality were not effective, as there were a number of cases of non-adherence to SCM laws and regulations.

The municipality’s entity processes to identify and report irregular expenditure were inadequate. Regular risk assessments, though undertaken, were hampered due to the fact that the municipality’s risk officer position was vacant.

4.3.4 Ngqushwa Local Municipality
This section addresses the presentation, interpretation and analysis of data. The subtopics that are covered are general financial management, the budget, municipal governance and administration.

4.3.4.1 General Municipal Finance Management
The municipality was actively involved in communicating regularly with the communities regarding the budget and service delivery issues. It communicated through the IDP hearings, annual report roadshows and through ward committees. Although the municipality had a strategic plan, they experienced budgetary challenges. Some of the budgetary challenges were that Nqgushwa did not have a strong revenue base and relied and was dependent on grants.

The municipality was not capable of continuing to carry out its current functions in a sustainable and viable manner. It was also not capable of taking on new services while remaining sustainable, and there was no political will to make the municipality viable. The municipality also responded that there was no commitment from senior municipal staff. The municipal assets, including cash reserves and capital assets were not fairly treated in the municipality, and there were also no mechanisms for cost saving. There were situations where there were extra costs for unwarranted services. The municipality listed sector departments, NGOs, community, employees and unions as its stakeholders. The municipality did not always obtain council approval, and the
municipality acknowledged that there were cases where they went about making financially binding decisions without council approval.

The municipality did not have joint partnerships to boost the financial muscle of the municipality. They also did not have national and international twinning arrangements. Although the municipality passed their budget in time in the 2012/2013 financial year, the budget was not always linked with the IDP, and was not sufficient for the community needs. The municipality was also not meeting their target estimation of collecting rates. However, since the municipality had been outsourcing the compilation of annual financial statements, it was in the process of transferring skills from service providers to the municipal officials. The supply chain management was not properly populated to perform to its maximum best. The municipality’s 2011/2012 IDP stated that the skills levels of employees were below the required level and needed to be developed. Financial resources were required to facilitate better service delivery and there should be full implementation of the performance management system.

Ngqushwa municipality had a low income base from assessment rates because it was a rural municipality. As a result, the municipality had to consider ways and means to enhance their own revenue base. In that regard, the municipality had developed a revenue enhancement strategy. Whilst the municipality had a credit control by law, it could not fully implement it because water and electricity were both provided by Amathole District Municipality.

4.3.4.2 Budget 2012/2013
The municipality had a favourable bank balance, and was, therefore, not facing a going concern challenge. The municipality was also in the process of developing a fully compliant GRAP compliant asset register. They had developed policies on development and reviews, internal control and procedure. These policies included investment policy and budget policy. In terms of investing financial skills on personnel, the municipality budgeted R22 569 000.00 for skills development in 2011/2012 and R23
968 000.00 for the financial year 2012/2013. This represented an increase of 8%. In terms of the audit committee, R300 000.00 was budgeted for in 2012/2013. The same amount was budgeted for the internal audit. The researcher observed that in the financial year of 2011/2012, there was no budget for internal audit.

There was provision in 2011/2012 financial year of R540 955 for bad debt and R572 871 in 2012/2013 representing an increase of 6%. There was also a 21% increase for audit fees between the financial years of 2011/2012 and 2012/2013.

Figure 4.10 illustrates the skills development levies budget. The figure depicts that the budget in Ngqushwa Muncipality for skills development has been increasing each financial year. This shows commitment to skills development of the municipality. When the staff and management are skilled, this could lead to good governance and sound financial management. (Source: 2012/2013 budget).
Figure 4.11 illustrates the financial management budget. (Source: 2012/2013 budget).

![Figure 4.11: FINANCIAL MANAGEMENT BUDGET](image)

**4.3.4.3 Municipal Governance and Administration**

The municipality had four standing committees which were chaired by political heads who were portfolio councillors. The committees were planning a community development, corporate services, budget and treasury and infrastructure. The mayor was the political head of the municipality, and there were 25 councillors. The municipal manager is the administrative head and accounting officer. There were also six managers who reported to the municipal manager.

The departments of Infrastructure Development, Community Services, Economic Development, Budget and Treasury and Corporate Services made up the management structure of officials. These officials were directly accountable to the municipal manager.
4.3.5 General comparison of rural and urban municipalities, including those that are not necessarily selected for the topic

In the Eastern Cape, for instance, it was easy to contrast rural and urban municipal financial viability. An example of four rural municipalities and one metropolitan municipality would show the distinction. The five municipalities included Mbashe, Mzimvubu, Ngqushwa, Ukhahlamba and Nelson Mandela Metro. In all these municipalities, the researcher looked strictly at their financial management and viability. The reflection on these municipalities was based on a comprehensive assessment on the State of Municipalities in the Eastern Cape, conducted by the Department of Local Government and Traditional Affairs in August 2010.

For the Mbashe municipality:
- salaries comprised 35% of the operating budget
- disclaimer received in the past financial years
- old financial system had moved to using the venus system
- supply chain management policy and asset management policy existed
- debt collection policy existed, but it could not be effectively implemented because of the challenges of the financial system
- consumers not billed for the whole of 2008 because of the non-existent systems
- monies owed by the government departments
- functional audit unit and audit committee, notwithstanding the fact the municipality had received disclaimers in the past

For the Umzimvubu municipality:
- never had a clean audit report during the past five years
- lack of proper billing
- absence of a fixed asset register
• policies were in place for supply chain management debt management and revenue management
• consumers were not paying rates due to their dissatisfaction with the valuation rolls, until the situation was addressed and rates were now paid
• creditors were being paid within thirty (30) days of submission of their invoices
• managed to spend 100% of their Municipal infrastructure Grant (MIG) in 2008/2009 financial year

For the Ngqushwa municipality:
• generally a rural municipality
• small revenue base and is dependent on grants
• property rates accounted for less than 10% of the income of the municipality
• salary budget accounted for about 42% of the total operating budget
• supply management policy existed
• debtors were too high

For Ukhahlamba municipality:
• almost 94% of income was in the form of grants
• cash flow problems in the past financial years
• salaries comprised 26.7% of the operating budget
• disclaimers received for past five years, adverse and qualified audits
• R29m and 5.4m owed by the Departments of Roads and Transport and Health respectively by August 2011
• financial bailout of R20m received from the Department of Local Government and Traditional Affairs in 2008 when they had serious cash flows

For Nelson Mandela Metropolitan municipality:
• capital budget was aligned to the IDP
• all capital projects were funded
- all required policies were in place and implemented
- some weaknesses in supply chain management
- compilation of an asset register was a challenge
- monthly reports were submitted to council on revenue collection
- revenue collection was 98% in 2007/08 and 2008/9 financial years respectively
- unfunded mandates were library services and health services
- financial management tool had been developed by the Metro

4.4 Conclusion
The chapter deals with the presentation, interpretation and analysis of the data. The chapter is divided into sections such as general financial management, the budget, municipal governance and administration and the 2011 report of the Auditor General.

The chapter highlights the different budgets of metropolitan municipalities, as well as the local municipalities. Whilst there are some differences in terms of financial challenges and administration, there are a number of similarities which are discussed in the following chapter that deals with findings and recommendations.
CHAPTER 5

FINDINGS AND RECOMMENDATIONS

5.1 INTRODUCTION
The chapter deals with the study's findings and recommendations. In arriving at the findings and recommendations, the researcher took into account the responses of the municipalities from the interviews, as well as the responses gathered from the questionnaires. Documents that were consulted, like the Auditor General's reports, the Cities Network reports, the National Treasury, Annual Financial Statements of the municipalities and other financial documents also assisted in crafting the findings and the recommendations.

5.2 FINDINGS
The following bullet points highlight the findings that emerge from the research conducted on the targeted municipalities. The findings are grouped according to specific municipalities as well as general findings.

5.2.1 Buffalo City Findings
- Buffalo City had 92.4% collection rate for municipal services
- Extra costs were borne by municipalities for unwanted services like primary health care agency services which were run by the provincial government
- Buffalo City Municipality, for instance, responded that they had an extra cost of R50 million for unwanted services
- Buffalo City had delayed the implementation of the supplementary valuation roll because of under-billing
• Buffalo City Municipality had not billed certain electricity, water and sewerage services that were rendered during the financial year due to inaccurate record keeping
• Buffalo City municipality had not billed certain electricity, water and sewerage services that were rendered during the financial year due to inaccurate record keeping
• Buffalo City had no clear logical link between reported development objectives, indicators and targets during the audit year
• Buffalo City? municipality had incurred expenditure in excess of the limits provided for in the votes within the approved budget in the year under review
• Buffalo City had not convened a meeting of the finance committee as required by legislation to consider frequent approval of bad debt write-offs
• Formal controls over IT systems remained a concern at Buffalo City municipality.
• Buffalo City municipality had a disclaimer in the year 2010, and received an adverse opinion in 2011, which translates into an improved audit opinion

5.2.2 Nelson Mandela Metropolitan Municipality Findings
• All had households as the main contributor of revenue collected, except Nelson Mandela Metropolitan Municipality
• Nelson Mandela had business as the main contributor in their revenue collection
• Nelson Mandela Metro had 97.59% collection rate for municipal services for the year under review
• Nelson Mandela Metro also used emails and Interactive Voice Response (IVR) system
• Nelson Mandela Municipality was the only municipality that did not have ward committees when the research was conducted
• All were defendants in a number of lawsuits, with Nelson Mandela Metropolitan taking the lead with lawsuits to the value of R165.2 million
• At Nelson Mandela Metropolitan a large number of key positions including the municipal manager had been vacant for more than two years inclusive of the period when the research was conducted

• Nelson Mandela Metropolitan municipality had lost 22,961 megalitres of water amounting to R139.9 million during the financial year audited by the auditor general

• Government debt of R41.2 million was impaired during the financial year

• Bad debt expenditure amounting to R554.3 million was incurred due to bad debt write-offs at Nelson Mandela Metropolitan Municipality

• Financial statements of the municipality and its municipal entity, the Mandela Bay Development Agency (MBDA) submitted for audit were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA

• Invitations for competitive bidding had not always been advertised by the municipal entity, Mandela Bay Development Agency (MBDA)

• Specific to Nelson Mandela Metropolitan Municipality was the fact that the municipality did not have an information technology (IT) governance framework to support the reliability of the systems and the availability, accuracy and protection of information

• Centralised filing system in Nelson Mandela Municipality with respect to the filing of the municipality’s SCM was not in place for the full year under review

• Fixed asset register of the Nelson Mandela Municipality was not reconciled on a regular basis to ensure that discrepancies were identified and rectified in a timely manner

• Regular risk assessments were undertaken at Nelson Mandela Metropolitan Municipality

• Nelson Mandela Municipality had an unqualified audit opinion in 2010 and maintained the opinion in the 2011 audit year
5.2.3 Lukhanji Municipality findings

- Financial statements did not reflect any disposals during the financial year for the Lukhanji municipality
- Lukhanji municipality had not provided sufficient supporting schedules for investment property disclosed as R91.3 million in the financial statements
- Service charges amounts were understated in Lukhanji due to instances where consumers have not been charged for services rendered
- Property rates revenue was based on the general valuation in Lukhanji which had not been reconciled with the general ledger
- Lukhanji municipality had an adverse audit opinion in 2010 and had a disclaimer in 2011 audit year, and this opinion was in retrogression
- Land valued at R401.9 million was incorrectly omitted from property, plant and equipment when the disclosure was made in the financial statements for Buffalo City Municipality
- No adequate contract management was in place for the identification, recognition and measurement of capital commitments as required in GRAP 17 in Buffalo City

5.2.4 General Findings that are common in all the selected municipalities on financial viability and non-viability

- All municipalities had limited borrowing capacity
- Most had a reserve fund policy or by law in place
- All municipalities had the ability to complete financial reporting
- All municipalities had a budget forecast of more than one year
- All municipalities had not exceeded the budget in terms of their spending
- All municipalities had municipal debt load
- Metropolitan municipalities had budgets that run into billions, while local (category B) municipalities had their budgets in millions
- All municipalities had households as the main contributor of revenue collected, except Nelson Mandela Metropolitan Municipality
• All municipalities provided for rebates on property rates to approved institutions and specific groups like the elderly, the disabled and the indigent

• Local small municipalities depended largely on transfers and equitable share, whereas the metropolitan municipalities had huge revenue income to supplement the equitable share

• All municipalities made concerted efforts to submit monthly and quarterly budget statements to the Mayor and Council respectively

• All municipalities had debt management policies which were approved by their respective councils

• Selected municipalities had similar methods to deal with defaulters

• Similar methods included a restriction of services, electricity blocking, disconnections and legal action

• All municipalities had responded that they had delivered accounts to all users through the post

• Both Metropolitan municipalities had customer services centres, whereas the smaller ones did not

• All had adequate levels of administrative and management support

• Municipal managers were not likely to retire in the next three years

• Provided competitive salaries to their employees including medical, disability, retirement and other benefits

• Some municipalities held their council meetings monthly and others held them quarterly

• All municipalities have rules of procedure for their council meetings

• All municipalities have standing committees, but differ in number, names and modus operandi

• All municipalities are not easy to administer

• All municipalities communicated and consulted communities on certain aspects of governance and service delivery

• All conducted public hearings on the budget and the IDP
• All municipalities experienced significant budgetary challenges

• Metropolitan municipalities were capable of continuing to carry out current functions in a sustainable and viable manner, whereas local or category B municipalities struggled to do so

• Metropolitan municipalities were also capable of taking on new services while remaining sustainable

• While the responses indicated that there was political will to make the municipalities financially viable, the activities and the auditor general’s reports indicated differently

• Assets like cash reserves and capital assets were not fairly treated by the municipalities

• Cash reserves showed signs of improvement while assets remain a problem

• Extra costs were borne by municipalities for unwanted services like primary health care agency services which were run by the provincial government

• Most municipalities did not make financial binding decisions without council approval

• Only metropolitan municipalities had joint and twinning partnerships that boosted their financial muscle

• All municipalities passed their budget on time in the 2012/2013 financial year

• All municipal budgets were linked with their integrated development plans (IDPs)

• Metropolitan municipalities had capacity and means to meet their target estimation of collection rates

• All municipalities had debts owed to them either by the households, business or government

• All municipalities were defendants in a number of lawsuits, with Nelson Mandela Metropolitan taking the lead with lawsuits to the value of R165.2 million

• All municipalities had irregular and fruitless and wasteful expenditure which was incurred during the audited 2011 financial year

• All municipalities were under-spending their capital budgets
• All municipalities had procured goods and services with a transaction value of between R10 000 and R200 000 without obtaining written price quotations from at least three different prospective providers
• Procurement of goods was done in contravention of the Supply Chain Management (SCM) regulations
• Money owing by the municipalities was not always paid within 30 days of receiving an invoice or statement as required by the section 65(2) (e) of the MFMA
• Accounting officers did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure as required by section 62 (1) (d) of the MFMA
• All municipalities still struggled to maintain effective internal control for assets
• Ethical practices and good governance were not enforced by top management at all times, resulting in a number of cases of fraud and theft relating to supply chain management practices
• All municipalities did not implement effective human resource management to ensure that adequate sufficiently skilled resources were in place and that performance was monitored
• Review and monitoring of compliance with laws and regulations by the municipalities were not effective, as there had been a number of cases of no-adherence to SCM laws and regulations
• Weak financial management existed at the level of smaller municipalities
• When the RSC levy was abolished, national government increased the equitable share
• There was growing dependence on grants and transfers from other spheres of government
• Increased dependence of municipalities on grants and transfers weakened the power of local government
• Provincial departments transferred funds in the last months of a budget year, and this was interpreted by municipalities as fiscal dumping
• There was fragmentation of monitoring of municipalities by the other spheres of government
• SALGA’s role in monitoring municipalities was not as drastic as it should be
• Municipal reporting systems did not provide early signs of financial distress or non-viability
• Capacity building for municipalities was not properly coordinated by the other spheres who were supposed to give support to local government

5.3 RECOMMENDATIONS
The following are recommendations which are derived from the research and the findings.

• Municipalities must embark on a process to meet their target estimation of collection of rates in order to improve their cash flow so that they can bolster their limited borrowing capacity
• Municipalities must decrease their debt load
• Small and rural municipalities must decrease their dependence on grants and equitable share by embarking on vigorous revenue collection methods
• Small municipalities must improve their revenue income to supplement the equitable share
• Researched selected metropolitan municipalities must improve on their good collection rate by identifying a number of properties that fail to go through the valuation roll
• Municipalities must, on top of the current methods to deal with defaulters, embark on more innovative ways of getting their money from the defaulters
• Small and rural municipalities must establish customer service centres
• Whilst municipalities conduct public hearings on the IDP and budget, they have to devise more means of public participation so that communities own the IDP processes
• Municipalities must ensure that there are properly and legally established ward committees immediately after elections to avoid what happened at Nelson Mandela Metropolitan Municipality where there were no ward committees during the period of the research
• There must be political will and administrative commitment to improve the auditor general’s audit opinion for all municipalities
• Municipalities should treat fairly the assets like cash reserves and capital assets
• Municipalities should not take unwanted services like health care services which bear extra costs from provincial governments
• Municipalities must try to minimise law suits in which they are defendants
• Municipalities must improve on the under-spending patterns of capital budgets which seem to be a yearly occurrence
• Procurement of goods must be done properly and legally and Supply Chain Management (SCM) regulations must be strictly followed to avoid corrupt practices
• There must be adherence to the payment of creditors within thirty (30) days of receiving an invoice or statement as required by section 65(2) (e) of the MFMA
• There must be improvement of the maintenance of effective internal control for assets
• Top management in the municipalities should enforce ethical practices and good governance to avoid fraud and theft relating to supply chain management practices
• Effective human resource management should be implemented to ensure that adequate sufficiently skilled resources are in place and that performance is monitored
• Municipalities should avoid having a large number of key positions vacant as was the case in Nelson Mandela and Buffalo City Municipalities especially positions of Municipal Manager and Chief Financial Officer
• Metropolitan municipalities should guard against loss of mega-litres of water amounting to millions as was the case in Nelson Mandela Bay Municipality
Bad debt write-offs that result in bad debt expenditure must be avoided by the municipalities

An information technology (IT) governance framework to support the reliability of the systems and the availability, accuracy and protection of information must be put in place

Municipalities must undertake regular risk assessments

Municipalities must work on the shortcoming of always understating service charges amounts owing to instances where consumers have not been charged for services rendered

There must be adequate contract management in place for the identification, recognition and measurement of capital commitments as required in municipal accounting procedures

Municipalities must improve their efforts to fight under-billing which is a contributing factor to the financial health of municipalities

Financial affairs of municipalities should promote cooperative governance and fiscal accountability

Municipalities should strengthen weak financial management so that they complement what they get from grants and transfers

National and provincial spheres should coordinate their support and monitoring of municipalities

SALGA should increase its efforts of supporting and monitoring municipalities

Municipalities must analyse their financial situations and plan appropriately to improve the status quo

Municipalities must develop long-term sustainable financial options

Municipalities must use the census 2011 results profitably so that they help in analysing their financial viability scenarios

Municipalities must strive for a stable and adequate tax base in order to raise their revenue

There must be budget cuts on non-core business
- Municipalities must apply cost reduction methods
- Investment strategies must be developed
- There must be innovation on revenue generation besides the traditional ways like property tax and municipal services income
- Municipalities must devise means to be an attractive employer
- Employer / employee relations as well as labour relations must be improved
- There must be aggressive community engagement and consultation by municipalities
- Municipalities must make use of social media and improve on governance

5.4 CONCLUSION
Chapter 5 dealt with the findings and recommendations. Some of the findings are specific to each municipality, while others are general to all the municipalities that were part of the research. Whilst there are specific areas of concern that certain municipalities have to attend to, there are a number of common financial challenges to all of the municipalities. Metropolitan municipalities have the necessary resources and skills to generate revenue, whilst the local municipalities struggle to raise revenue funds. What is common to all of them is the inability to spend their budgets. Inability to spend the budgets in the midst of service delivery imperatives is a huge failure to fulfill their constitutional obligations.
CHAPTER 6

CONCLUSION

6.1 INTRODUCTION
Generally, most municipalities and the small and rural ones, in particular, are not self-sufficient and depend on grants from national government. Consequently, they are not financially viable and service delivery is badly affected. Municipal governance, therefore, has become increasingly important in communities. Trends in municipal assessment also affect the revenue raising potential of municipalities. A stable and adequate tax base indicates the municipality’s ability to raise sufficient revenue to deliver services at a cost that residents can afford.

6.2 FINANCIAL AUDITING
In terms of financial auditing in municipalities, if auditing is properly established and structured in municipalities and there are sufficient resources, municipal managers as accounting officers can expect a number of financial benefits. Auditing must play a pivotal role in the improvement of financial management. The office of the Auditor-General promotes accountability and transparency through independent auditing and its reporting responsibilities to Parliament. This ensures that instances of non-compliance are reported to the public so that corrective action can be taken. This practice also entrenches public confidence in the auditing profession and ensures that the fundamental values of society are maintained and that municipalities strive for clean audits as part of viability.

6.3 LOCAL ECONOMIC DEVELOPMENT’S CONTRIBUTION TO FINANCIAL VIABILITY
The debate on sustainable development has shown that there is no blue print or generally-accepted theory of development. However, all the theories purport to espouse development.
Local Economic Development (LED) also has a crucial role to play in the financial viability and sustainability of municipalities. For LED to succeed, the following must prevail: Financial viability and sustainability, Quality project management, Capacity and Skills development and Community participation.

6.4 INTERGOVERNMENTAL RELATIONS (IGR) ROLE IN MUNICIPAL FINANCE

Intergovernmental relations also play a central role in fiscal relations. Due to the fact that intergovernmental fiscal relations demand that there should be cooperation between spheres of government, competition in terms of developmental, initiatives will always be there if there is no coordination. As Intergovernmental relations (IGR) dictate that the spheres should complement each other, the demand for cooperative governance is crucial. To avoid uneven development, it is imperative that coordination, implementation and monitoring are adhered to.

If IGR as the oil of government machinery is well-managed, it can help make service delivery efficient and effective for the benefit of all the citizens of the Republic of South Africa. A properly co-ordinated, IGR system in a democratic South Africa will go a long way in accelerating service delivery.

6.5 PERFORMANCE BUDGETING, PERFORMANCE MEASURES AND PUBLIC ACCOUNTABILITY

As part of addressing the financial ills of municipalities, performance budgeting becomes crucial. Faced with fiscal constraints and demands for more and better public services, governments at every level are discussing new ways of budgeting. The output of performance budgeting should be value for money, that is, efficiency, effectiveness and economical as well as quality product. Although budgeting suggests drudgery and boredom of ledgers, accounts and journals, it is the heart of the political and decision-making process.
Visser and Erasmus (2002:243) aver that performance measures are, therefore, established in an effort to ensure that the public sector obtains value for money, and if this can be achieved, some saving could be achieved in delivering services, resulting in additional funds available for other purposes. This implies that as part of improving and sustaining financial viability, performance measures must be in place in municipalities. Performance management and appraisal are indeed central in shaping officials to be able to manage municipal finances well so that municipalities become viable instead of becoming financially distressed. Public financial accountability is an important requirement in public administration. This is especially important where money received from the tax payers is used to finance public services.

6.6 GOOD GOVERNANCE AND ETHICAL CONDUCT

Good governance is the system by reference to which organisations are managed and controlled and from which the organisation's values and ethics emerge. Governance is valuable as an organising framework which enables a better understanding of the processes of governing (Smit, et al 2007:428). According to Gildenhuys (1991:41), maladministration and corruption are among the most important manifestations of unethical conduct. Maladministration and corruption in the public sector are usually widely broadcast and exaggerated largely because the public sector is spending taxpayer's money. Ethics is a key component of professionalism, good governance and proper and rational decisions. However, bureaucrats are often suspected of lining their own pockets at the cost of the citizens. Opportunities for public servants to be involved in unethical conduct arise from the power they exercise in both the development and administration of public policy.

6.7 FINANCIAL MANAGEMENT AND REVENUE COLLECTION

Where poor financial management practices persist in some councils, this creates the risk of inadequate control on growth in operating expenses, a neglect of essential capital spending and inflexible and inequitable revenue raising. These ongoing
challenges have been exacerbated by skills shortage and lack of transparency in decision making and accountability.

According to the PWC Report (2006:103), the divergent nature of local governing bodies means that there is a wide disparity in their ability to raise revenue, which is largely determined by population size, rating base and the ability /willingness to levy user charges. Urban councils have more scope to extract diverse user charges than their rural and regional counterparts. This is due to the larger variety of services provided by urban councils, compounded by the smaller economic base of rural and regional local governments, which reduces their ability to significantly lift charges and rates to increase revenue for funding purposes. Overall, councils with scale have some advantages in achieving financial sustainability, but strong management is a more important factor for overcoming viability challenges.

The local government sector is always part of the national economy, so its financial situation and financial management should not be viewed independently of the general economic and financial potential of the country as a whole. Generally speaking, the financial arrangement of local government is primarily influenced by the volume of per capita gross domestic product, the size of the public sector, the relation between the centrally and locally-collected incomes, and distribution of the total public receipts between central and local budgets. Local government has the constitutional responsibility to provide many, though not all the services. Municipal indigent policies must therefore ensure service delivery to, and take financial responsibility for municipal services to indigent households. It is clear that South African cities will require considerable financial resources in order to be able to adequately confront the challenges they face in respect of poverty, growth and maintenance.

Grants from provinces are often unclear and unpredictable, and this makes it difficult to plan properly, or to spend the funds timeously when they are received. Unfunded mandates occur where municipalities perform the functions of other spheres of
government and hear significant costs out of their own revenue sources. Most local authorities supplement local revenue with loan finance where they have the capacity to do so. Central government transfers to local government, as shown in earlier arguments in the study, may take a number of forms including grants, revenue sharing, tax credits, spatially differentiated national taxes, bonus and direct expenditure at local level. Many municipalities can simply not leverage the funds they need for even moderate municipal functionality. Municipalities are showing a poor ability to accurately plan and spend their budgets.

6.8 MONITORING AND EVALUATION
The importance of monitoring, evaluation and reporting on public human resource management processes cannot be over-emphasised. What appears to come across in this research is the notion that good policies and sometimes strategies do exist but strict monitoring and evaluating of these seem not to be taken seriously. Those responsible for implementing monitoring and evaluation but fail to do so go unpunished.

6.9 SUPPORT GIVEN TO LOCAL GOVERNMENT BY OTHER SPHERES OF GOVERNMENT
The national and provincial spheres of government have, on a number of situations, embarked on programmes to support local government in terms of section 54 of the constitution. The Local Government Turn-Around Strategy (2009) is one striking example of support given to local government. The strategy also makes a great contribution in the debate on financial viability. In terms of financial management, the turn-around strategy has the following focus development programme areas:

- Revenue enhancement programme
- Debt management programme
- Cash flow management programme
- Funding plan should show capital expenditure and clear audit plan submission of Annual Financial Statements
- Substantial percentage of Municipal Infrastructure Grant (MIG) expenditure by end of financial year
- Asset management register
- Supply Chain Management policy applied in a fair and transparent manner

6.10 LITERATURE REVIEW SUMMARY
The literature review provides the detailed context of the work of the researcher on the subject. It is hoped that this study will lead to new knowledge and will have significance contribution in the study of municipal financial viability. This review has tried to concentrate on the closely-related literature as well as current work on the subject. The researcher has also not duplicated any work that has been done by other researchers on the topic by grouping related debates and topics that have common themes.

6.11 METHODOLOGY, DATA COLLECTION AND ANALYSIS
The study employed both qualitative and quantitative research methods. Techniques like interviews, questionnaires and scrutiny of documents on municipal finance were used. The presentation of the data collected, as well as its interpretation and analysis are a summary of the interviews and questionnaire data. Data analysis process empowered the researcher to make specific findings as well as general findings from the sample used in the research, to the larger population in which the researcher was interested (Bless & Higson-Smith, 2002:137). According to Kumar (2005:248), the main purpose of using data display techniques is to make the findings of the research clear and easily understood. The contents of the data were carefully analysed, and the respondents’ views correctly recorded. Data has also been simplified and broken down for easy reading.

Finally, it can be concluded that sound finances play a vital role in the delivery of services by municipalities. Financially viable and sustainable municipalities can fulfill their executive obligations, but financially distressed municipalities will always struggle
to deliver services. If services are not delivered, this always leads to service protests by communities. Small and nonviable municipalities without strong revenue or, must develop revenue-enhancing methods. Without sound financial management systems, local government will be forced to discontinue their operations which are in terms of their mandate given to them by the Constitution of the Republic of South Africa. The study has proved that most municipalities, especially those that are small and rural, are not financially viable and sustainable, and rely on grants and other external funding. Big municipalities like metropolitan and secondary cities can be financially viable and sustainable if they were to have strategic revenue collection methods. This would ensure that the municipalities are able to financially maintain and provide level of services anticipated by its ratepayers and communities.
REFERENCES


Fehr, SC, (2012). *State Officials Propose Ways to Detect Cities Fiscal Troubles Before They Worsen*. Governing the States and Localities Newsletter, USA.


Konrath, LF (2002). **Auditing: A Risk Analysis Approach,** South-Western Thomson Learning, Cincinnati, Ohio.


McCoy, K, Ngari, PN & Krumpe, EE (2005). **Building Monitoring and Evaluation and Reporting Systems**. PACT, USA.


Treunicht, SP, in Coetzee JK, (1986), Development is for People, Macmillan, Johannesburg.


**Acts of Law**


South Africa (Republic), Municipal Electoral Act, (Act 27 of 2000)


South Africa (Republic), Municipal Finance Management Act, (Act 56 of 2003)

South Africa (Republic), Municipal Property Rates Act, (Act 6 of 2004)

South Africa (Republic), Municipal Demarcation Act, (Act 27 of 1998)
South Africa (Republic), **Intergovernmental Relations Framework Act** (Act 13 of 2005)
South Africa (Republic), **Intergovernmental Fiscal Relations Act**, (Act 97 of 1997)
South Africa (Republic), **South Africa Revenue Services Act**, (Act 34 of 1997)
South Africa (Republic), **Financial and Fiscal Commission Act**, (Act 99 of 1997)
South Africa (Republic), **Public Finance Management Act**, (Act 1 of 1999)
South Africa (Republic), **Public Service Act** (Act 103 of 1994)

**Other Publications**
South Africa (Republic), **Local Government Transformation**, (2001), Ministerial Advisory Committee, DPLG, Pretoria.
ANNEXURE A
Permission to do research / Fort Hare

22 August 2011

To whom it may concern

RE: PERMISSION TO DO RESEARCH FIELD WORK: MR SINDISILE MACLEAN : PHD CANDIDATE

Mr Sindisile Maclean is a registered PHD candidate at the University of Fort Hare and is now busy in the field collecting data and conducting interviews. This is solely for academic purpose only.

Kindly allow him to interview your staff. The information collected will enable him to complete his Doctoral studies in Public Administration.

We are expecting him to conclude his studies around November 2011.

Please feel free to assist him.

Yours faithfully

Prof D.R. Thakhathi
Study Leader and Supervisor
Faculty of Management and Commerce
UNIVERSITY OF FORT HARE.
The City Manager

Nelson Mandela Bay Municipality

Port Elizabeth

Dear Sir

PERMISSION TO CONDUCT RESEARCH IN YOUR MUNICIPALITY

I am currently registered with Fort Hare University for a Doctoral Degree in Public Administration. My student number is 200434489. My research topic is: “Assessing Financial Viability of Selected Urban and Rural Municipalities in the Eastern Cape. I request permission to interact with the Mayor, City Manager and chief Financial Officer”. I am going to adhere to professional and ethical considerations of the research. I should have done the interviews last year, as the attached letter from my Supervisor indicates. On the request of the municipality, I will make the findings and the research document available. It is hoped that this research will benefit the municipality.

Yours faithfully

SINDISILE MACLEAN (Mr)
12 December 2012

Mr S Maclean
27 Van Der Zee Crescent
KING WILLIAMS TOWN
5600

Dear Mr Maclean

REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN THE NELSON MANDELA BAY MUNICIPALITY

I wish to refer to your letter dated 04 June 2012 in relation to the above-mentioned request. It appears that your study is an interesting subject and should be beneficial to the Municipality and the region as well.

It is a great pleasure for me to advise that permission is hereby granted to you to conduct your research in the areas indicated. However it will also be appreciated if you can share the outcomes of your final document with this office for our future reference.

Whenever you conduct your study, please produce the correspondence to all staff and councillors, including members of the community if need be of the Nelson Mandela Bay Municipality.

For further enquires, please do not hesitate to contact this office.

Yours sincerely

MS N BAART
ACTING CHIEF OPERATING OFFICER

WORKING TOGETHER FOR UBUNTU
27 Van Der Zee Crescent  
Dale View  
King William's Town  
5600

Date: 24 May 2012

THE CITY MANAGER  
BUFFALO CITY METROPOLITAN MUNICIPALITY  
PO BOX 134  
EAST LONDON  
5200

Dear Sir,

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH STUDY AT BCMM

I am a student at Fort Hare University, completing Doctor of Administration (D.Admin). I am sure you are aware that any post graduate study involves completion of a Treatise or Dissertation or Thesis. It is for this reason that I request your personal and professional permission to partake in my research in directorates and departments within BCMM.

The title of my research Thesis is **ASSESSING FINANCIAL VIABILITY OF SELECTED MUNICIPALITIES IN THE EASTERN CAPE** and is being undertaken under the Supervision of Professor R D Thakhathi.

The objectives and aims of this research are to assess financial viability of selected municipalities in the Eastern Cape. The research study shall make use of interviews/completion of questionnaires with key selected potential participants or respondents, chosen through/according to purposive sampling. The potential participants or respondents would thus include Executive Mayor as Political Head, City Manager as Accounting Officer, and Chief Financial Officer.
The study will be beneficial to BCMM in that it will help BCMM to improve its financial mechanisms, improve policy positions and improve revenue collection methods.

The ethical research principles will be strictly adhered to throughout the research process so as to maintain a high standard of work and a high quality of the research study. The information obtained will be used only for purposes of this study, and will ensure anonymity and confidentiality of potential research participants or respondents. A copy of the full research report, once approved by the University will be handed to BCMM.

I thus request granting of permission to collect the necessary data/information from relevant officials (and Councillors) at BCMM for the purposes of completion of my Research Thesis.

Your kind assistance in granting me permission will be highly appreciated and thank you for taking the time in allowing your staff to be part of this research study as I am sure it will not only be of benefit to me but to them as well..

Yours faithfully,

Sindisile Maclean

----------------------------------------
CITY MANAGER

<table>
<thead>
<tr>
<th>Approved</th>
<th>Not Approved</th>
</tr>
</thead>
</table>
BUFFALO CITY METROPOLITAN MUNICIPALITY

MEMORANDUM

Date: 01 JUNE 2012

From: MANAGER: KNOWLEDGE
MANAGEMENT, RESEARCH & POLICY

To: MR SINDISILE MACLEAN

Our ref: Please ask for Your ref:

DR T NORUSHE
(043) 705 9706

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN BCMM:
MRSINDISILE MACLEAN

It is hereby acknowledged that Mr. Sindisile Maclean, a student at University of Fort Hare doing a PhD Degree has met the pre-requisites for conducting research at Buffalo City Metropolitan Municipality (BCMM) for fulfillment of his degree. He has provided us with all the necessary documentation as per the BCMM Policy on External Students conducting research at the institution.

With reference to the letter to the acting City Manager, permission was requested to conduct research at BCMM for the PhD Dissertation, focusing on "Assessing Financial Viabilities of Selected Municipalities in the Eastern Cape".
This request was acknowledged by the Office of the City Manager and forwarded to the Knowledge Management, Research & Policy Unit for further assistance. Mr. Maclean was asked to provide the Unit with the necessary documentation, which he subsequently did.

The relevant Councilors and Officials to assist in the research were identified and duly informed about the research, and the fact that Mr. Maclean has met the prerequisites. Their contact details have also been provided to Mr. Maclean and he was informed to contact them directly for assistance.

Wishing you good luck in your research endeavor

DR T F NORUSHE
MANAGER: KNOWLEDGE MANAGEMENT, RESEARCH & POLICY
ANNEXURE F

INTERVIEW QUESTIONS

MUNICIPAL FINANCIAL VIABILITY

EXECUTIVE MAYOR/ MAYOR/PORTFOLIO HEAD OF FINANCE

1. Is your Council actively involved in communicating regularly with the community?
2. If yes, how do you communicate with the community?
3. How many members of council have been acclaimed recently?
4. Are there any vacant seats in your council?
5. Does your municipality have a strategic plan?
6. Is voter turnout in your municipality increasing or staying the same?
7. Do you experience significant budgetary challenges?
8. If yes, mention a few.
9. Is your municipality capable of continuing to carry out its current functions in a sustainable and viable manner?
10. Is your municipality capable of taking on new services while remaining sustainable?
11. Is there political will in your municipality to make the municipality financially viable?
12. Is there commitment from your senior municipal staff?
13. Does your spokesperson have the ability to articulate the objectives of your municipality?
14. Are your assets (cash reserves, capital assets) fairly treated in your municipality?
15. Do you have mechanisms for cost saving?
16. Do you have a situation where there are extra costs for unwanted services?
17. Do you engage on public consultation?
18. If yes, when do you consider necessary to consult?
19. Please list your stakeholders.
20. Do you always obtain council approval on certain decisions?
21. Are there cases where you went about making financial binding decisions without council approval?
22. Do you have joint partnerships to boost the financial muscle of the municipality?
23. Do you have national and international twinning arrangements?
24. If yes, do they contribute to the financial viability and sustainability of the municipality?
25. Did you pass your budget on time in the 2012/2013 financial year?
26. Is your budget always linked with the IDP?
27. Is your budget sufficient for the community needs?
28. Are you meeting your target estimation of collection of rates?
29. Are there debts owed to your municipality?
30. If there are, which section of the consumers owes you a huge debt?
31. Does government owe you?
32. If yes, which sphere of government?
33. How do you manage government in an attempt to solicit payment?
34. What was the Auditor General’s opinion this financial year?
35. Do you have debt management policy?
36. Was the policy approved by the council?
37. Do you have a customer services centre?
38. Do you envisage a financial situation where you might, at some stage be unable to render services?
39. If yes, will this affect the payment of staff?
40. How do you rate your municipality in comparison to those who are your neighbours or other metros or local municipalities in the province?
ANNEXURE G
QUESTIONNAIRE ON MUNICIPAL FINANCIAL VIABILITY

Adapted from “Municipal Viability Self-Assessment tool kit”, Prince Edward Island

PART 1: MUNICIPAL FINANCE

a) What is the current overall financial position of your municipality?

<table>
<thead>
<tr>
<th>Total Expenditure (A)</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue (B)</td>
<td>R</td>
</tr>
<tr>
<td>Total Equitable Share</td>
<td>R</td>
</tr>
</tbody>
</table>

b) Did your municipality follow last year’s budget?

YES  NO

c) Does your municipality have a budget forecast of more than one year?

YES  NO

d) Was your municipality audited last year?

YES  NO

e) Has your spending exceeded the budget in the last 2 years

YES  NO

If yes, was the excessive amount more than 5% of your municipality’s overall budget?

YES  NO

Is this a regular occurrence?

YES  NO

f) What is your current municipal debt load?

<table>
<thead>
<tr>
<th>Total Debt</th>
<th>Debt per Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>R</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated Long Term Debt</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Borrowing</td>
<td>R</td>
</tr>
</tbody>
</table>

269
**PART 2: MUNICIPAL FINANCIAL MANAGEMENT**

**General Government Expenditures**

<table>
<thead>
<tr>
<th>What percentage of annual expenditures is spent on general administration?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 15%</td>
</tr>
<tr>
<td>15% to 20%</td>
</tr>
<tr>
<td>More than 20%</td>
</tr>
</tbody>
</table>

**Debt Payments**

<table>
<thead>
<tr>
<th>What percentage of annual expenditures is spent on servicing municipal debt (principal and interest?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2%</td>
</tr>
<tr>
<td>2% to 4%</td>
</tr>
<tr>
<td>More than 4%</td>
</tr>
</tbody>
</table>

**Borrowing Capacity Remaining**

<table>
<thead>
<tr>
<th>How much borrowing capacity does your municipality have available?</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 50% of municipal debt limit available</td>
</tr>
<tr>
<td>Less than 50% of municipal debt limit available</td>
</tr>
<tr>
<td>Debt limit reached/exceeded</td>
</tr>
</tbody>
</table>

**Value of Reserve Fund**

<table>
<thead>
<tr>
<th>The full value of the reserve fund represents what percentage of annual expenditures?</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 10%</td>
</tr>
<tr>
<td>5% to 10%</td>
</tr>
<tr>
<td>Less than 5%</td>
</tr>
<tr>
<td>Do not have reserve fund</td>
</tr>
</tbody>
</table>

**Reserve Fund Policy**

<table>
<thead>
<tr>
<th>Is there a reserve fund policy or bylaw in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>
Financial Reporting

<table>
<thead>
<tr>
<th>Does your municipality have the ability to complete financial reporting?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td><strong>NO</strong></td>
</tr>
</tbody>
</table>

**PART 3: GOVERNANCE AND ADMINISTRATION**

**Administrative and Management Support**

<table>
<thead>
<tr>
<th>Does your municipality have an adequate level of administrative and management support?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td><strong>NO</strong></td>
</tr>
</tbody>
</table>

**Likelihood of Retirement for City Manager**

<table>
<thead>
<tr>
<th>Is your City Manager likely to retire/leave in the next 3 years?</th>
<th>City Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>NO</strong></td>
<td></td>
</tr>
</tbody>
</table>

**City Manager Evaluation**

<table>
<thead>
<tr>
<th>Does your council annually evaluate the performance of your City Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td><strong>NO</strong></td>
</tr>
</tbody>
</table>

**Support Staff Performance Evaluation**

<table>
<thead>
<tr>
<th>Does your City Manager annually evaluate the performance of support staff?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td><strong>NO</strong></td>
</tr>
</tbody>
</table>

**Chief Financial Officer (CFO)**

<table>
<thead>
<tr>
<th>Does your CFO have a degree or diploma in public administration or financial qualification?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YES</strong></td>
</tr>
</tbody>
</table>
Competitiveness of Compensation

Does your municipality provide competitive salaries to its employees including medical, disability, retirement and other benefits?

YES
NO

PART 4: MUNICIPAL GOVERNANCE AND ADMINISTRATION

Geography

a) What is the approximate area of your municipality in Km$^2$?

b) With which municipalities does your municipality share a boundary?

Representation

a) Is your municipality a Metro, District or Local?

Metro District Local

b) How many Council members are there?

Does this meet the requirements of the Structures and Systems Act?

YES NO

Administration

a) How often does your Council meet?

Did your Council hold an annual meeting last year?

YES NO

b) Does your Council follow ‘Rules of Procedure’ for meetings?

YES NO

c) Does your Council have any standing committees? What are they?

1.
d) Is your City Manager employed full time?
   YES  NO

e) Is your City Manager likely to retire in the next 3 years?
   YES  NO

f) Do you consider your municipality to be efficient?
   YES  NO

g) Do you consider your municipality to be accountable?
   YES  NO

h) Do you consider your municipality to be transparent?
   YES  NO

i) Do you consider your municipality to be easy to administer?
   YES  NO

j) Does your municipality have an office easily accessible to the public at convenient times?
   YES  NO

k) Does your municipality have the necessary equipment (i.e. computer) to provide administration services?
   YES  NO

PART 5: COOPERATION/COMPARISON WITH OTHERS
h) How does the range of services and level of service in your municipality compare with those of your neighbouring municipalities?

Provide list of your neighbours

<table>
<thead>
<tr>
<th></th>
<th>Range of service</th>
<th>Level of service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Better</td>
<td>Worse</td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

i) Are residents in your municipality prepared to pay more to receive better or more services?

YES  NO

j) Are current tariffs and rates too high or too low?

TOO HIGH  TOO LOW

k) List the municipalities with which your municipality would be interested in entering into agreements to provide services.

1.

2.

3.

4.

5.

6.

l) Does your municipality have the in-house legal staff or the financial ability and confidence to hire, manage and review the work of lawyers to develop and administer servicing agreements which constitute legal contracts?

YES  SOMewhat  NO
PART 6: BUDGET/REVENUE MANAGEMENT INFORMATION

a) What is the total budget for your municipality for the financial year 2012/2013?

b) Kindly breakdown your municipality’s source of revenue for the financial year under review

c) In terms of revenue collected in the financial year under review, what was the distribution (in percentages) of the following three consumer categories of your municipality

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td></td>
</tr>
<tr>
<td>Households</td>
<td></td>
</tr>
</tbody>
</table>

d) What was your debt collection rate (%) for municipal services and property rates in the financial year under review?

e) Did you make provision of rebates on property rates to approve institutions and specific groups e.g. elderly/disabled?

f) Did the City Manager submit monthly and quarterly budget statements to the Mayor and the Council in terms of section 71 of the Municipal Finance Management Act

g) Does your Municipality have a debt management policy?

h) If yes, was the policy approved by Council?

i) What methods does your municipality employ to deal with defaulters?

j) Does your municipality deliver accounts to all users on a regular basis?

k) What method (s) do you employ to deliver accounts?

l) Does your municipality have a customer service centre?

m) What was the audit opinion of the Auditor General for the financial year under review?
n) Is this opinion a retrogression or an improvement on the past audit opinions?