EVALUATING THE IMPACT OF COVID-19 PANDEMIC ON THE FINANCIAL SUSTAINABILITY OF NORTHERN CAPE LOCAL MUNICIPALITIES

by

Lalelani Hintsa

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Supervisor: Prof Tania Ajam

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DECLARATION

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ABSTRACT

As a result of the Covid-19 outbreak, most institutions, including municipalities, suffered disruptions in service continuity and financial devastation. Economic activities came to a grinding halt, resulting in the rise in unemployment, slow growth and unsustainable service delivery. The purpose of this study was to assess the impact of the Covid-19 pandemic on financial sustainability of Northern Cape municipalities. The researcher identified financial ratios, Medium-term Revenue and Expenditure Frameworks and analysis of financial management capacity as key variables to evaluate local government financial sustainability. Through the review of academic and policy literature, many compelling definitions of these variables emerged and evolved.

The study utilised a case study research approach within the context of social science paradigm context. A purposive sampling technique was employed in selecting the Northern Cape local municipalities to participate in the study. The study applied a mixed method approach based on deductive and inductive reasoning rooted in quantitative and qualitative research approaches, following an explanatory sequential analysis of data. The mixed method information gathering approaches informed the descriptive and explanatory mechanisms of research design. Financial ratio trend analysis and interviews with municipal financial officials and a questionnaire were utilised as data collection methods.

The findings of the study revealed the extent to which the responding municipalities were affected by Covid-19 pandemic relative to their performance before the pandemic. The results are indicative of an ailing state of financial affairs and unsustainable operations. The responding municipalities failed to meet crucial financial obligations with evident failures in systems and processes, both before and after the pandemic. Furthermore, the findings depicted deteriorating financial sustainability and health before the pandemic, and the financial condition worsened, thereafter, during the Covid-19 lockdown.

The limitation of the study was its sample size which did not allow for statistical analysis, consequently, the results cannot be generalised. Further research is required that would broaden insights in this area of research, including addition of variables such as the dynamics of the political-administrative interface.

Key words: Financial sustainability, fiscal sustainability, Covid-19 pandemic, municipalities, local government, ratio analysis

OPSOMMING

As gevolg van die Covid-19-uitbreking het die meeste instellings, insluitend munisipaliteite, onderbrekings in dienskontinuïteit en finansiële verwoesting gely. Ekonomiese aktiwiteite het tot stilstand gekom, wat gelei het tot die toename in werkloosheid, stadige groei en onvolhoubare dienslewering. Die doel van hierdie studie was om die impak van die Covid-19-pandemie op finansiële volhoubaarheid van Noord-Kaapse munisipaliteite te evalueer. Die navorser het finansiële verhoudings, mediumtermyn inkomste- en uitgaweraamwerke en ontleding van finansiële bestuurskapasiteit as sleutelveranderlikes geïdentifiseer om plaaslike regering se finansiële volhoubaarheid te evalueer. Deur die oorsig van akademiese en beleidsliteratuur het baie dwingende definisies van hierdie veranderlikes na vore gekom en ontwikkel.

Die studie het 'n gevallestudie-navorsingsbenadering binne die konteks van die sosiale-wetenskaplike paradigma-konteks gebruik. 'n Doelgerigte steekproeftegniek is gebruik om die Noord-Kaapse plaaslike munisipaliteite te kies om aan die studie deel te neem. Die studie het 'n gemengde metode-benadering toegepas gebaseer op deduktiewe en induktiewe redenering wat gewortel is in kwantitatiewe en kwalitatiewe navorsingsbenaderings, na aanleiding van 'n verklarende opeenvolgende analise van data. Die gemengde metode-inligting-insamelingsbenaderings het die beskrywende en verklarende meganismes van navorsingsontwerp ingelig. Finansiële verhouding-tendensontleding en onderhoude met munisipale finansiële amptenare en 'n vraelys is as data-insamelingsmetodes gebruik.

Die bevindinge van die studie het aan die lig gebring in watter mate die munisipaliteite wat reageer deur Covid-19-pandemie geraak is, relatief tot hul prestasie voor die pandemie. Die resultate is 'n aanduiding van 'n sieklike toestand van finansiële sake en onvolhoubare bedrywighede. Die antwoordende munisipaliteite het versuim om deurslaggewende finansiële verpligtinge na te kom met duidelike mislukkings in stelsels en prosesse, beide voor en ná die pandemie. Verder het die bevindinge verswakkende finansiële

volhoubaarheid en gesondheid voor die pandemie uitgebeeld, en die finansiële toestand het daarna versleg tydens die Covid-19-inperking.

Die beperking van die studie was die steekproefgrootte wat nie vir statistiese ontleding toegelaat het nie, gevolglik kan die resultate nie veralgemeen word nie. Verdere navorsing word vereis wat insigte in hierdie navorsingsgebied sal verbreed, insluitend die toevoeging van veranderlikes soos die dinamika van die politiek-administratiewe koppelvlak.

Sleutelwoorde: Finansiële volhoubaarheid, fiskale volhoubaarheid, Covid-19-pandemie, munisipaliteite, plaaslike regering, verhoudingsontleding

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LIST OF ABBREVIATIONS

AFS	Annual Financial Statement
AO	Accounting Officer
BTO	Budget and Treasury Office
CFO	Chief Financial Officer
CODESA	Convention for a Democratic South Africa
COVID-19	Coronavirus Disease of 2019
FRP	Financial Recovery Plan
FBS	Free Basic Services
FFC	Financial and Fiscal Commission
GASB	Governmental Accounting Standards Board
IDP	Integrated Development Plan
LGSE	Local Government Equitable Share
NC	Northern Cape
NT	National Treasury
MFMA	Municipal Financial Management Act
MM	Municipal Manager
MPAC	Municipal Public Accounts Committee
mSCOA	municipal Standard Charts of Accounts
MTBPS	Medium-Term Budget Policy Statement
POPIA	Protection of Personal Information Act
SCM	Supply Chain Management
SOP	Standard Operating Procedures
WHO	World Health Organisation
YoY	Year on Year
NERSA	National Electricity Regulator of South Africa
ES	Equitable Share

CHAPTER 1: INTRODUCTION TO THE STUDY

1.1 Introduction

This chapter sets out the research background and problem statement that inspired the study. The chapter also describes the research question, objectives of the study, and the research design and methodology which outline the procedures followed in conducting the study.

1.2 Background

On 15 March 2021, President Ramaphosa declared a national state of disaster in South Africa due to the Covid-19 pandemic outbreak (Republic of South Africa, 2002:28; Merten, 2020), bringing the economic and social activities to a complete halt except for essential services. Prior to the president's announcement, the World Health Organisation (2020) had declared the Covid-19 virus as a global pandemic, heightening fear among the global community. All spheres of government (national, provincial and local), parastatals and private sector were affected. The local government sphere, which is at the forefront and epicentre of service delivery, not only experienced disruption in service delivery but was also placed under severe financial strain and could not collect projected revenues to fund expenditure. The national state of disaster spanned over two years and came to end on 04 April 2022, when the President made a public proclamation (The Presidency, 2022).

The local government sphere, as an institution, is placed close to the people and plays a crucial role in the country's governance as mandated by section 151-156 of the Constitution (Republic of South Africa, 1996:63-65). The local government sphere comprises 257 municipalities, of which 31 are located in the Northern Cape province. The municipalities are distinguished by different categories; category A refers to metropolitan municipalities, category B to local municipalities and category C to district municipalities as outlined in the Municipal Structures Act, 1998 (Republic of South Africa, 1998:9).

The Constitution empowers local government to provide various services including the basic services (water, sanitation, refuse removal and electricity). The tariffs from the sale of basic services are a primary source of own revenue generation of municipalities; therefore, it is crucial to ensure that municipalities are in a good state of functionality and services are delivered uninterruptedly (FFC, 2015:4). In addition, local government is empowered by provisions in the Constitution and Property Rates Act, 2004 to impose taxes on properties (Republic of South Africa, 1996; Republic of South Africa, 2004) for the sustenance of services. These sources of revenue are imperative in maintaining and financially sustaining municipal operations, in order to keep afloat and financially healthy.

However, the deteriorating state of local government as a going concern poses a serious threat to and raises concerns on its survival. Concerns about a municipality's "going concern" status raised during audit of its annual financial statement is an indication of a substantial doubt about the organisation's capacity to continue operating within the foreseeable future (Feng and Neely, 2017: 176). According to Auditor-General (2018:10), a "combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities disclosing in their financial statements that they might not be able to continue operating".

In the Northern Cape particularly, the situation has continued to deteriorate. Some municipalities have regressed to the disclaimer audit opinion (*see page 10*) with only one municipality achieving a favourable audit opinion with no findings (Auditor-General, 2020:99). In addition, the municipalities performed poorly on good governance ratings published in the government performance index in South Africa (GGA, 2019:2). These revelations are worrisome since local government is best placed to address the immediate community service needs; hence, its operational and financial sustainability is a pertinent question.

The Auditor-General audit outcomes on local government, coupled with community unrest and failures to meet financial obligations, have painted a gloomy picture about the financial state of affairs of local government, and raise legitimate concerns about whether municipalities are financially viable to remain sustainable in the long run and deliver on their mandate.

When the finances of municipalities threaten their ability to meet their financial obligations or deliver services, this can trigger financial interventions by national or provincial government. The municipalities that are not financially viable are required to adopt certain legislative measures as intervention, such as a financial recovery plan contemplated in section 141 of the Municipal Finance Management Act (MFMA), 2003 (Republic of South Africa, 2003:110), to salvage the situation. In a worst-case scenario, a municipality can be put under administration. A financial recovery plan (Republic of South Africa, 2003:111) can be referred to as a strategic mechanism designed to redress a municipality's financial condition and steer the organisation to a positive recovery trajectory, and gaining stability after it has been declared financially unsustainable and unviable. The plan aims to elevate a municipality to a financially sustainable and sound position. The financial intervention primarily finds its expression and mandate in terms of section 139 of the Constitution (Republic of South Africa, 1996:58). This means that for a limited period of time, a particular provincial government, through appointing an administrator, takes over the functions of the municipality in order to resolve the issues that impede it from operating properly (Brand, 2018).

The financial sustainability and viability of local government have been overlooked and downplayed while indications suggest that municipalities are in dire financial crisis, and urgent attention needs to be given to this phenomenon.

As more municipalities are failing to fulfil their civic responsibility to communities, which has caused plethora of challenges (Ncube and Vacu, 2013), a financial sustainability model is required as a remedial measure that can capture early warnings of financial unsustainable and distressed municipalities. Various measurement models which can diagnose municipalities that are in financial distress exist, including the "Ten-point test" (Brown, 1993) and measuring financial condition (Wang, Dennis and Tu, 2007). However, their compatibility with and practicality for the South African local government landscape have not yet been adequately tested.

In view of the challenges highlighted above, this study aims to assess and gain insight on financial sustainability and the underlying factors influencing the financial health of local municipalities in the Northern Cape, and recommend pragmatic and viable solutions.

The study also attempts to establish whether municipalities in the Northern Cape are financially sustainable and viable, and have the ability to generate sufficient income to meet operating payments, debt commitments and allow for growth while maintaining service levels (PLO, 2015). The sustainability of a local municipality relies on vibrant economic activities within its jurisdiction, which stimulate the growth of property tax revenue, trading services and secondary revenue sources. In local municipalities with low levels of economic activity, and high levels of unemployment and poverty, the opposite unfolds.

1.3 Research Problem Statement

Local government has, over the past years, been engulfed by service delivery challenges manifested in protests, inability to pay salaries, poor financial performance, poor audit outcomes and unsustainable provision of services. Many municipalities are operating at a deficit (Auditor-General, 2019), meaning that their operational expenditure exceeds their revenue, making them unable to honour their financial obligations and /or payments, including salaries, bulk electricity and water. The Northern Cape municipalities' financial health, in particular, has been on a downward spiral with no responding remedial mechanisms in place. The province has been considered to be in a prolonged state of undesirable audit results, with both administrative and political leadership not responding to the plethora of challenges confronting local government (Auditor-General, 2020:14). In some cases, solutions, remedial and mitigation measures exist, however, they are not being implemented, and accountability avenues are not pursued.

These challenges are exacerbated by lack of accountability and political oversight, and inadequate financial management capacity to safeguard municipal resources and public funds. Mantzaris (2014) and Auditor-General (2012) argue that the current state of municipalities is an outcome of many causal factors that are directly associated with poor financial management. The Auditor-General (2019) report has revealed that insufficient oversight and poor financial management are direct causes of the problems facing local government.

The country's economic situation is worsening; with a negative outlook motivated by deteriorating economic growth and weakened fiscal strength (CNBC Africa, 2020), and of concern, municipalities are already plagued with many challenges that are pertinent to their survival. The negative economic outlook has a far-reaching impact on the country; a rise in sovereign debt, declining access to potential funding and repelling the interest of prospective foreign investors, as well as debt affordability. This means that intergovernmental transfers might be substantially cut and municipalities that have become more reliant on this source of financing could be severely affected. Additionally, the revenue collection of municipalities will possibly reduce, due to job losses and unemployment upsurge, as a result of slow economic growth.

Another concerning factor is that the coronavirus came at a time when the Northern Cape had also been declared a drought-ravaged province (Davis, 2020). This adversely affected farmers' food production and livestock, coupled with a decline in economic activities and revenue growth. Droughts have a dire impact on the natural resources, community, viability and sustainability of farming and local economies (Jordaan, 2012:43). In furtherance, the drought impact had possibly dampened the revenue forecast and collection of the affected local municipalities as their tax bases shrunk. A steep decline in revenue growth posed a threat to sustainable service delivery by municipalities.

In practice, the Covid-19 pandemic has added and compounded the challenges that are facing local government. However, the pandemic emerged at a time when the municipalities were already on a trajectory of financial catastrophe and this condition is likely to have deteriorated even further since. All these developments have exacerbated the question of financial sustainability of local government, and its future existence and viability. In addition, the Northern Cape municipalities received poor ratings on the local government performance index, recording a representation of only four municipalities in the top twenty of municipalities accredited with good governance in South Africa (GGA, 2013:2).

1.4 Research Question

Based on the background and problem statement above, the research question for this study is:

> *What has been the impact of the Covid-19 pandemic on the financial sustainability of local municipalities in the Northern Cape to date and how is it likely to impact over the medium term?*

1.5 Research Objectives

The objectives of this research study are to:

1. Develop a conceptual framework for analysing financial sustainability in Northern Cape municipalities before and after the pandemic;
2. Assess financial position ratios as indicators of financial sustainability of local municipalities;
3. Analyse the implications of the pandemic on the Medium-term Revenue and Expenditure Framework (MTREF) and the financial sustainability of Northern Cape local municipalities;
4. Assess the effect of financial management capacity on the financial sustainability of local municipalities, and;
5. Recommend practical solutions for municipalities to enhance their financial sustainability after the Covid-19 pandemic.

1.6 Research Design

According to Babbie and Mouton (2020:74) “a research design is a plan or blueprint of how you intend conducting the research”. Research design entails a strategy path that a study will deploy in pursuit of credible evidence in order to reach an informed conclusion, based on factual data. In essence, it is a roadmap of the research project. This study adopts the mixed method and evaluation research designs to answer the empirical theoretical research question. The study focuses on analysing hybrid data which harnesses both the numerical and textual data, as well as qualitative data extracted from interviews and questionnaire to evaluate the unit of analysis. The study analyses the responding municipalities as a group or collective rather than at individual level.

1.7 Research Methodology

The study adopts the case study methodological approach in order to answer the research objectives, based on mixed methods. According to Teegavarapu, Summers and Mocko (2008:5), the case study approach is an “empirical research method used to investigate the contemporary phenomenon, focusing on the dynamics of the case, within its real life context”. The approach is considered as a robust research method when a comprehensive in-depth investigation is pursued and is appropriate for social science research (Zainal, 2007:1).

The approach was based on mixed methods which means that both qualitative and quantitative research techniques were employed in the process of data collection, focusing on existing secondary data and primary data, respectively. The study utilised financial ratios analysis as the quantitative research method, as well as interviews and questionnaire to provide rich qualitative data on the underlying factors that drive the financial outcomes in a municipality.

The analysis of the secondary financial data and literature review identified constructs and key variables which were validated and triangulated with interviews and questionnaire. Edwards and Bagozzi (2000) and Petter, Straub and Rai (2007:625) consider constructs as abstractions that “describe a phenomenon of theoretical interest”. Kaur (2013:36) defines a variable as “a property that takes on different values or a logical grouping of attributes”.

The sampling description, and the reliability and validity of measurement instruments take the form of a mixed approach, as will be discussed further below.

1.7.1 Sampling description

The research study adopted a non-probability sampling technique, employing a purposive sampling method to select the respondents. The study primarily focuses on six (6) selected local municipalities from a total number of thirty-one (31) municipalities in the Northern Cape province. Of the 31 municipalities, five (5) relate to district municipalities which do not generate own revenue and rely almost exclusively on intergovernmental grants, and are consequently irrelevant and excluded from this study. Purposive sampling was utilised rather than random sampling due to the fact that the number of municipalities is too small to permit statistical inference, and therefore random sampling was not appropriate. Purposive sampling also allowed the study to focus on those municipalities which are hardest hit by the coronavirus pandemic. However, while the ratio analysis was conducted on all 6 sample municipalities, only 5 were available for the interviews or responded to the questionnaires.

The sampled municipalities were grouped according to size and capacity; small sized municipalities were codified as B1, medium as B2 and high as B3. This categorisation is based on the capacity classification of National Treasury (Ajam, Burger, Quinot, Isaacs, Botha and Douglas, 2021:35). The municipal size takes into consideration the geographic area and population of the municipality. The municipal capacity takes into consideration the economic environment, the revenue base, and expenditure relative to employment, collection and spending.

Whilst generalisations cannot be made from the study due to its non-probability sampling approach which does not lend itself to statistical inference, the exploratory insights relating to a virtually unprecedented phenomenon such as a pandemic are valuable and could inform further quantitative research and policy responses. The sampled municipalities were selected to provide a fair picture of the financial state of affairs in order to make an informed conclusion.

The selection of the Northern Cape province was based on the continuous poor audit performance outcomes, with only one municipality that attained a clean audit opinion with no findings and some municipalities even regressed to a disclaimer audit opinion (Auditor-General, 2020:99). A disclaimer audit opinion means that the quality of financial information was so poor that the Auditor-General could not form and render any opinion on the financial health and position of the municipality, based on the data presented.

However, in a year that a municipality obtained an audit opinion with a disclaimer, such period was excluded from the study. Meaning that such municipality would not have credible and reliable data for the respective period. The study places significant reliance on independently verified data; unaudited data may significantly compromise the final results. Moreover, a disclaimer in itself tends to be an indicator of severe financial stress and poor financial governance in a municipality.

1.7.2 Data extraction

The study relies on objective data collection to analyse the secondary data from annual financial statements. Data are raw facts that have not yet been converted into their purposeful intended meaning (Maritz, 2003). The study utilises audited Annual Financial Statements (AFS) as its data source and point of reference, to obtain quantitative data. Financial statements are referred to as official financial records that depict the activities, performance and position of an entity, in this case, local municipalities. The data was extracted from various components of the financial statements, namely; financial position, income statement, changes in equity and cash flow statement. The AFS are used for decision-making, particularly financial sustainability. The data was collected from the National Treasury database, which can be found on the National Treasury website at the following URL (http://mfma.treasury.gov.za/).

The data collection for this study is largely limited to the official numeric data published by Auditor-General and National Treasury. The two institutions are the primary official custodians of the data sources. National Treasury hosts the data for public access and Auditor-General serves as an independent assessor of the AFS. Only audited financial data was considered for processing, since it has been independently verified for accuracy and reliability, and meets acceptable accounting standards. In addition, where Auditor-General could not express an opinion on a data source, such data was excluded from the study.

Ncube and Vacu (2013:117) emphasise that early warning fiscal distress should rely on a credible and accurate dataset, and must not be susceptible to manipulation.

The study also conducted relative comparative analysis of quarterly financial performance of sampled municipalities before and after Covid-19 pandemic to measure its impact on financial sustainability. The study covered 8 quarters of the financial years; 4 quarters relate to the year before and 4 quarters relate to the year after the pandemic had commenced. The quarterly comparative analysis covered the period commencing from 01 April 2020 until 30 March 2021 and was compared with similar period from the prior year. The periods were paired together to gauge the impact of the pandemic. To attain this, the study utilised the MFMA section 71 reports to extract financial data for quarterly comparative analysis. Section 71 reports are financial performance reports submitted by municipalities on a monthly basis to the National and relevant Provincial Treasury (Republic of South Africa, 2003:65). The National Treasury gazettes the report for municipal public accountability.

Before publication, municipalities are required to confirm and verify the figures with National Treasury, and sign off (by the Municipal Manager and Chief Financial Officer) to confirm credibility and accuracy of financial data contained in section 71 reports. The section 71 information is accessible to the public in the National Treasury database, on the National Treasury website.

It is noteworthy to indicate that there might be variations between section 71 reports and audited figures due to several reasons. The reasons include, for instance, material misstatements at the time of section 71 information compilation that were only corrected in the audit findings, as well as municipal Standard Chart of Accounts (mSCOA) classification issues. According to Auditor-General (2019:3), material misstatements refer to “errors or omissions that are so significant that they affect the credibility and reliability of the financial statements”. mSCOA is a National Treasury initiative which prescribes a standardised and uniform financial transaction classification framework (Republic of South Africa: 2015). Therefore, the quarterly financial results were triangulated with data from qualitative interviews and questionnaires to validate credibility and reliability of the outcomes. Interviews and questionnaires, as data collection methods, are discussed below.

1.7.2.1 Interviews

An inductive research approach, as a qualitative method, was utilised to collect and analyse data. In this approach, the researcher develops findings from the data analysis of the collected data. In-depth individual interviews were used to collect data in this research study and analysed to gain insight from interactions with municipal officials to validate the findings of the ratio analysis. The interviews probed financial sustainability variables; financial management capacity and the MTREF.

Officials from the selected responding municipalities were consulted and invited to participate in the study. A total of seven (7) finance officials, including Municipal Manager (MM) and the Chief Financial Officer (CFO) in some cases, were interviewed from each of the 5 selected municipalities. These officials were selected based on their key functions in the municipality, in relation to the study. The MM is accountable for the overall functionality of the municipal administration, and the CFO is accountable for the management of the Budget and Treasury Office (BTO). The interviews were utilised to maintain reliability and validity of the measurement instrument, which in turn, resulted in production of reliable and valid outcomes. In consideration of the risk exposure to Covid-19 pandemic, video-conference meetings were conducted as an alternative to face-to-face contact interviews.

1.7.2.2 Questionnaire

The study also collected data through a questionnaire in consideration of participants that did not have video conferencing facilities or technology. The questionnaire was disseminated electronically via email to six (6) respondents. This method of data collection has high probability of achieving reliability and acceptability. Responses were kept anonymous, which enabled the participants to express themselves freely without fearing reprisal, resulting in more honest responses.

1.7.3 Data analysis

The researcher adopted quantitative data analysis to analyse the existing and numeric data, applying the deductive approach. The existing data in this case is the financial statements, covering the period as defined in the study, and was sourced from National Treasury and Auditor-General, as indicated above. The financial statements were utilised as source documents to extract numeric data in order to conduct an in-depth analysis of financial ratios to evaluate financial sustainability. The numeric data was examined and translated into different meaningful information. The data was analysed and interpreted utilising selected financial ratio indicators. The financial ratios comprise numerous formulas that are used as origins to populate the data. The data was then computed, through the formulas, to arrive at the results.

The results are interpreted in relation to predetermined norms and standards relating to each ratio as promulgated in circular 71 by National Treasury (National Treasury, 2014). The sustainability status of the municipality was determined by measuring the results against the standard norms set for each financial ratio. The ratios were calculated for each year to track regression, stagnation or improvement in the results for various ratios.

In analysing the data, the study considered numerous possible financial sustainability ratios but the focus was on those subsets of ratios that are most important. The ratios include the cash coverage, collection rate, current ratio, net debtors days, remunerations, creditors payment days, distribution losses, capital expenditure; irregular, fruitless and wasteful, and unauthorised expenditure. These ratios cover all the crucial aspects required to determine and establish whether a municipality is financially sustainable. While the excluded ratios form part of financial sustainability ratios, they are not key and their exclusion would not affect the outcomes of the study.

The computation of ratios was completed according to National Treasury circular 71 (National Treasury, 2014). Nevertheless, in the event where a municipality used a different method, the municipality would be engaged. Any anomaly in the method of calculation would give rise to an interaction with the municipality to find clarify why such differences arose and how the ratio should be interpreted accordingly.

The study employed coding to analyse the qualitative data. Data coding in qualitative research is utilised to organise, interpret and convert data into meaningful theory. According to Creswell (2015:156) and Elliott (2018:2850), "coding is the process of analysing qualitative text data by taking them apart to see what they yield before putting the data back together in a meaningful way". With data coding, observations and clarifications can be structured into persuasive concepts. In this study, coding was conducted on raw data extracted from interviews with participants. In order to code the data, the researcher analysed the data, allocating codes to passages or excerpts. The codes were grouped into categories that are similar to one another, relating to the same subject or concept. The researcher generated themes according to the grouped data codes categories. The themes were then interpreted and analysed to ultimately reach the research outcomes and/or findings in relation to this study's research question and objectives.

1.7.4 Reliability of the instrument

Reliability refers to the quality of the measurement technique that would yield the same outcomes when applied repeatedly to the same object (Babbie and Mouton, 2020:119; Gounder, 2012:3). Reliability measures the extent of precision or consistency with which the tool measures the unit of analysis. The reliability of a study results ascertains that if the study measurement method is replicated elsewhere by other scholars, a similar result can be attained. The study outcomes can be retested using municipalities with comparable characteristics and traits to this study sample to clarify consistency and accuracy. Inconsistencies may surface where unaudited data is used to conduct a retesting of the measurement instrument.

1.7.5 Validity of the instrument

Validity refers to how accurate the model measures what it is supposed to measure (Uys and Basson, 2002:80). The study population representation is widely spread, from small size to large size municipalities. In the process of conducting a study, validity threats are inherent in the research method selected. The threats to validity can emerge and emanate from respondent and researcher bias, which are likely to reduce the validity of the study. However, to neutralise bias, the study engaged mixed method approaches and data triangulation to enhance validity. The secondary quantitative data results were validated through triangulation with qualitative data extracted during interviews and questionnaire to increase validity of the research findings. Triangulation of data serves to eliminate weaknesses and biases that exist when single-data sources and single-method approaches are employed (Raich, Müller and Abfalter, 2014:739).

According to Yin (2002) and Yazan (2015:146), in order to enhance validity in case studies, a researcher must assure construct validity through diverse sources and chains of evidence triangulation. Also, each population results should not influence the outcomes of other populations. For instance, unfavourable outcomes for one municipality have no impact on the outcomes of other municipalities.

1.8 Research Ethics

When conducting research, the researcher should take due consideration and care, and prioritise the safety and rights of respondents and institutions used in the study. Keeney, Hasson and McKenna (2006:12-13) argue that researchers must take reasonable care and safeguard the rights of the respondents when performing research. The rights of the study focus group or respondents must always be preserved and not violated. The right to protection of privacy of respondents in this study were prioritised and protected in compliance with the provisions stipulated in the Protection of Personal Information Act No 4 of 2013 (POPIA).

Ethical and moral principles were observed as required in research studies, during the course of conducting this study. The data and information that was utilised for the study, is in part, available in the public domain and accessible for consumption by the members of the public. Another fraction of the data was collected through conducting interviews with respondents. However, before conducting the interviews were conducted, informed consent was obtained from respondents agreeing to voluntarily participate in the study. In addition, the researcher explained the contents embodied in the informed consent form and clarified any questions that arose from the prospective respondents before signing the document. A written consent to conduct the interviews was attained from the sampled respondents. Furthermore, ethical clearance was granted as required before the researcher could proceed with the implementation of this research project.

1.9 Limitations of the Study

The researcher extracted data from different sources; the MFMA section 71 reports, AFS, interviews and questionnaires. Firstly, the researcher cannot control the data collection and extraction errors from section 71 and AFS. Section 71 database is collated by National Treasury on the basis of information provided by municipalities. Secondly, the AFS information is independently verified and appraised by a certified professional body (Auditor-General), and must also meet internationally recognised standards to pass the test of credibility and reliability, diminishing the risk of data errors. However, the researcher had control over the data extracted through interviews and questionnaire. The data was meticulously scrutinised to identify omissions, contradictions, obscurities and vagueness to ensure accurate capturing and analysis of the data.

In addition, municipalities that acquired a disclaimer audit opinion for a certain financial year, falling within the period of the study, were excluded in order to keep potential errors at a very minimal. This mitigation mechanism is motivated by the fact that an opinion cannot be expressed on such an audit outcome, and the correctness and validity of the data and information contained in the AFS were therefore not certified.

For the MTREF financial sustainability variable, unapproved annual budget data may be a barrier, however in such instances, a responding municipality would be substituted with a similar sized municipality.

1.10 Outline of Chapters

The study is organised in a sequence of six chapters, outlined as follows:

Chapter One contains the brief background, rationale of the study, problem statement, research question, objectives of the study, research design and methodology, sampling description, data extraction and analysis, as well as ethical considerations and research limitations.

Chapter Two discusses the contextual legislative and policy framework of the research, outlining the legislative roadmap and conceptualisation of literature, relevant to the study.

Chapter Three presents the literature review that examines various literature relating to financial sustainability in local government. In addition, the chapter considers several ratio calculations that can be utilised to evaluate financial sustainability including the bearing effect of financial sustainability on service delivery, outlining and interrogating the measurement indicators of the study.

Chapter Four outlines a case study which evaluates the financial sustainability of sampled local municipalities in Northern Cape province.

Chapter Five provides a pragmatic analysis of the results of the research study. Results are presented under central themes and relate to the research objectives and question.

Chapter Six draws conclusions of the study in its totality, from all the data that has been interpreted. Furthermore, the chapter concludes with recommendations and possible strategic solutions to the pertinent problems facing the financial sustainability of local government.

1.11 Conclusion

This chapter outlined the basis of this research study and encapsulated a plethora of challenges confronting local municipalities in the Northern Cape province. The research seeks to evaluate financial sustainability in view of these challenges facing local municipalities in the province during the Covid-19 pandemic. The background, rationale of the research, problem statement, research question and study objectives were clarified.

Furthermore, the chapter provided the research design and methodology that depict how the study will be conducted, and how the data and information will be sourced and analysed. This chapter also included the data sampling technique and data collection procedures that the study will employ, as well as the ethical considerations and limitations of the study.

The next chapter discusses the legislative, regulatory and policy basis that influence the study.

CHAPTER 2: LEGISLATIVE AND POLICY FRAMEWORK FOR FINANCIAL SUSTAINABILITY

2.1 Introduction

Since the dawn of democracy, the South African government has promulgated numerous pieces of legislations to regulate the formation, operations and governance of local government, including its financial governance. These regulations have transitioned the local government into a democratic South African institution and enabled plural participation of all citizens in its affairs. As a local sphere of government, the institution is a pillar and champion of service delivery at the grass root level and has paved a significant path for transformation post-apartheid era. In addition, the legislations provide checks and balances in the process of operations and governance in the local government space, and establish a basis for accountability for those that are involved in those processes.

This chapter delves into the legislative implications and policy framework that inform the research objectives that the study sought to address and ultimately achieve. The legal framework was analysed and contextualised based on its relevance to financial sustainability in local government.

2.2 Local Government: Transition Act 209 of 1993

This piece of legislation was essential and fundamental in the transformation of local government. The legislation was aimed at instigating and giving effect to instantaneous change and restructuring of an ailing local government system but was not a blueprint for new local government systems (Republic of South Africa, 1998). These developments occurred during an era when the other government spheres were also going through an extensive transformation. The Act was provided basically for guiding and harmonising transformation from the apartheid era to a democratic South Africa, while concurrently addressing inequality and encouraging social cohesion. The legislation was considered as a tool to guide change while waiting for the local government's final constitutional dispensation.

Given the complexity of transformation, the legislation adopted a three-phase approach; namely, the pre-interim, the interim and the final phase. The Local Government Transition Act was later repealed after carrying the process until at the brink of the final phase.

2.3 The Constitution of the Republic of South Africa, 1996

The local government derives its mandate from legal prescripts. The Constitution is a supreme law of South Africa and the local government extracts its directive from section 152 of the Constitution of the Republic of South Africa, 1996.

In the South African Constitution, Section 151 makes provision for the formation of a democratic local government sphere, placing it closest to the people it governs. The local government is co-dependent and interconnected with the provincial and national spheres of government, whilst enjoying the autonomous status and maintaining good intergovernmental relations.

Section 152 of the Constitution makes provision for the objectives and roles of local government, and places emphasis on the need to ensure that services are rendered in a sustainable manner to communities, promotes socio-economic development within its jurisdiction, fosters democratic and accountable administration to local communities, encourages a healthy and safe environment; and encourages communities and community organisations to participate in the affairs of their municipalities (Republic of South Africa,1996:63).

Section 229 of the Constitution empowers local government to impose taxes and service charges in order to financially sustain its operations, and uninterruptedly provide services to communities (Republic of South Africa, 1996:101). The taxes and service charges include property rates, trade services and economic services, and also secondary income sources. This effectively means that local government should be able to fund its financial affairs and not rely on intergovernmental transfers, with the exception of district municipalities.

In cases where financial sustainability and health are under severe constraints and local government cannot effectively execute its constitutional mandate due to maladministration, poor governance or mismanagement of public finances, the Constitution provides a recourse to salvage the situation. Section 139 of the Constitution (Republic of South Africa, 1996) may be invoked and intervention of the provincial government becomes mandatory to remedy and recuperate the financial situation. The intervention is definite and fixed until the situation has been turned around and attained fruition. However, if the municipality persists to yield unsatisfactory and poor performance, due to maladministration or deficiency in political leadership or oversight, the section further permits for a complete dissolution of the municipalities. A new council and administration are elected and appointed, respectively.

The Constitution also subjects local government finances, governance and compliance to an independent audit. Section 188 empowers and entrusts Auditor-General to carry this function (Republic of South Africa, 1996). In fulfilling its constitutional mandate, the Auditor-General assesses and evaluates numerous areas of the function of local municipalities. An independent opinion is rendered on the status of affairs including the financial, sustainability, health and going concern of municipalities. Additionally, parliament amended the Public Audit Act to give Auditor-General additional powers, which aim at strengthening financial and performance management, and enhance accountability (Auditor-General, 2019:16). With additional powers conferred to the institution, municipal managers will be held accountable for inaction to redress material matters raised in the audit opinion.

2.4 Intergovernmental Fiscal Relations Act No 97 of 1997

The Act strengthens intergovernmental cooperation and stimulates consultation in relation to revenue, nationally. The legislation activates and outlines the procedure for allocation of revenue generated among the three spheres of government. The Act provides for the formation of a Budget Forum, which gives a platform to discuss and deliberate on local government matters as part of the national budget process. The process informs the bases for allocations that will be transferred to municipalities. Additionally, the Act gives effect to section 214 of the Constitution which makes provisions for ES and allocation of revenue to spheres of government.

2.5 The White Paper on Local Government, 1998

The White Paper, within the confines of the Constitution, is a founding masterpiece for the new developmental local government systems which harness social cohesion, spatial integration, community participation, decent standard of living and meet economic needs of citizens. The parliament propagated numerous legislations in pursuit of the developmental local government agenda and promote the principles adopted in the White Paper on Local Government (1998). Some of these legislations are concisely outlined and reflected on, below.

2.6 Local Government: Municipal Demarcation Act No 27 of 1998

As part of the local government transformation, the Municipal Demarcation Act 27 of 1998 gives rise and effect to the provisions of section 155 of the Constitution (Republic of South Africa, 1996). The Act also formalises the policy established on the demarcation of municipal boundaries as contemplated in the White Paper on Local Government (Republic of South Africa, 1998) for developmental local government systems. The Municipal Demarcation Act 27 of 1998 authorises the Municipal Demarcation Board to regulate boundaries and categories of local government, as well as the amalgamation of municipalities. Amalgamation is the consolidation of local government (Faulk, Schaal and Taylor, 2013:81). The consolidation normally occurs to give financial stability and functionality to municipalities that are financially unviable and unsustainable. Slack and Bird (2013) argue that the consolidation of local government is regularly perceived as one way to ensure that municipalities are financially and practically proficient to deliver services, efficiently and effectively to a wider territory.

The Act was also promulgated purposefully to redress spatial segregation, create social cohesion among communities, and create financially sustainable and viable local government. Municipal demarcation enables seamless integrated planning and development that addresses the social and economic needs of communities, and the delivery of services in an efficient and effective manner.

2.7 The Local Government: Municipal Structures Act No 117 of 1998

The legislation provides for the creation of local government in accordance with the requirements concerning types and categories of municipalities to be in line with the democratic and developmental local government vision of South Africa. The local government policy discourse provides for local government to be centred around the needs of the people and to ensure that provision of services is oriented on development. The policy aims to leverage the reliance of local government on intergovernmental grants and ease reliance of local populations on national and provincial governments. Moreover, the development-orientated local government signified a determination to change the values and principles of local government. The policies emphasise the crucial role of local government in accomplishing socio-economic development to meet the desires of the people, and putting in place performance management systems that are entrenched in realising constitutional goals and objectives.

2.8 Local Government: Municipal Systems Act No 32 of 2000

This legal prescript lays out the basis on which the implementation of the new local government systems is deeply rooted and finds its comprehensive expression. The Act is the consequence of the need to establish core values, processes and mechanisms that: give meaning to developmental local government, empowering municipalities to move gradually towards the social and economic upliftment of communities, and provision of sustainable and quality basic services to its citizens (Waldt, 2018:67).

The Municipal Systems Act 32 of 2000 was promulgated under the premise to implement the primary vision of the new developmental local government expressed in the White Paper (Republic of South Africa, 1998). Furthermore, the legislation adopted the principles that govern and regulate essential municipal systems such as public participation and partnerships, people-centred and empowerment, and developmental planning local government.

As part of the sustainable services delivery drive, the legislation requires municipalities to approve a tariff policy for service fee levies, and credit control and debt collection policy for billing and collection of revenue due for services (Republic of South Africa, 2000). However, the municipalities must first publish by-laws to give effect to these policies before they can be implemented.

The Act further provides that tariff cost levels must facilitate financial sustainability of the services. The Act espouses that municipalities must set tariffs that are cost reflective; thus, tariffs cost must at least cover maintenance, operating and capital costs. The legislation also protects poor household against exuberant tariffs, suggesting special tariffs for such consumers.

2.9 Local Government: Municipal Finance Management Act No 56 of 2003

The Municipal Finance Management Act 56 of 2003 (MFMA) was unveiled in 2003 to restore municipal financial management and lay a foundation for a sound and sustainable financial management for a long-lasting delivery of services and give effect to the vision of a developmental local government (Republic of South Africa, 2003). The act enables compliance with the constitutional responsibility by ensuring that municipalities prioritise sound financial management plans, budget implementation activities, and reports are appropriately aligned with service delivery goals and objectives. In addition, the MFMA seeks to ensure that service delivery plans are funded and implemented in a sustainable manner while keeping checks and balances for those who are responsible and accountable for the implementation of programmes and actions.

The MFMA covers a set of prescripts that offer transparent governance with a number of mechanisms for strengthening accountability for financial sustainable and viable local government. The act forms the basis for development of policies, circulars and regulations that aim to foster and ascertain accountability, transparency and appropriate lines of responsibilities. The act emphasises the importance of funding MTREF budget from realistic anticipated revenues. The act proclaims that municipal budgets may only be financed through cash-backed surpluses, borrowings and realistic anticipated revenues.

Moreover, the legislation makes provisions for the management of revenues, expenditures, assets and liabilities, and the management of financial dealings which are key components for financially sustaining a municipality (Waldt, 2018:71). Section 83 of the act advocates for professional financial officials that meet competency levels to capacitate financial management. It includes training and upskilling of financial officials in line with prescribed minimum competency levels framework.

In terms of section 126 (1) of the act, municipalities are required to prepare and submit annual financial statements to Auditor-General, every year, not later than 31 August (Republic of South Africa, 2003). The Auditor-General renders an independent assessment of credibility, accuracy and reliability of the information provided in the financial statements. Of importance, municipalities are provided with an opinion about the financial status and going concern of their affairs, as well as institutional governance.

The Act regulates the roles of the Mayor, Accounting Officer (AO) and CFO. The Act makes provisions for a Mayor to provide political oversight on fiscal affairs, budget preparation and implementation, and report to council on financial affairs of the municipality. The Mayor is also responsible for identifying early warning of financial problems. The act entrusts the AO with financial management, and ensuring that expenditure and revenue are spent in accordance with the approved budget. The act also assigns the AO to take all reasonable measures to ensure fiscal sustainability of the municipality. The CFO is administratively responsible for the operation of the BTO. The CFO’s roles, in part, include debt management, cash management and fiscal management to maintain sound fiscal affairs and sustainable service delivery.

In the cases where a municipality is embroiled in financial irregularities and maladministration, impeding services delivery; the act makes provision for provincial intervention. Moreover, the act pursues all types of legislative avenues to bring back municipal operations to normalcy. The interventions range from discretional to mandatory provincial intervention emanating from serious financial challenges. The act sanctions municipalities to develop Financial Recovery Plans (FRP). The FRP is a comprehensive plan that outlines how the municipality intends to turn around the financial challenges and improve fiscal sustainability.

In addition to FRP, the Act allows municipalities to apply for debt relief and restructuring. The Act, in terms of section 152-154 and circular 95, enables municipalities to temporarily avoid legal proceeding, debt relief and suspend financial obligation until the financial situation has been rectified (Republic of South Africa, 2003:122; National Treasury, 2019:2-3). Most significantly, in terms of the Constitution, it is the council which is finally accountable for the municipality's solvency.

2.10 Local Government: Municipal Property Rates Act No 6 of 2004

Another substantial portion of own revenue generation for municipalities (normally metropolitan and local municipalities) is derived from property taxes. The act regulates the authorities of municipalities to impose property rate taxes. Municipalities are required to determine market related values of properties through a valuation roll, and taxes are charged on each property utilising a tariff approved by council. The municipalities are also required to formulate or review Property Rates Policy that includes provisions for rebates, exemptions and reductions for certain properties, and must be approved by the council. The revenue that is derived from property rates is used for various services including, but not limited to, maintenance of municipal roads, streetlights and salaries.

2.11 Electricity Regulation Act 4 of 2006

The Act mandates the National Energy Regulator of South Africa (NERSA) to issue licences for electricity distributors (Republic of South Africa, 2006). The setting and approval of tariffs and other related rates and prices may be subjected to conditions relating, among others things, transparency and affordability of such tariffs. NERSA approves electricity tariffs of municipalities (also known as licensees). The Act requires municipalities to adhere to section 15 which sets out tariff principles and must be taken into account when NERSA considers applications for tariffs approval.

2.12 Water Services Act 108 of 1997

The Act provides for the rights of access to supply of basic water and sanitation, and setting norms and standards for tariffs (Republic of South Africa, 1997:2). The Act empowers, in terms of section 10 (1), the Minister of Water Affairs (in conjunction with Minister of Finance) to regulate norms and standards for water services tariffs in respect of municipalities.

2.13 Municipal Fiscal Powers and Functions Act 12 of 2007

The municipalities are mandated to generate their own revenue and find new sources of revenue streams to sustain service delivery, and operate efficiently and effectively. The act regulates municipal powers and functions to impose surcharges on services rendered. The legislation strives for openness, transparency and certainty in the process of application of surcharges. The legislation guards against and oversees that municipalities exercise their fiscal powers and functions in a manner that does not have substantial and negative implications on national government fiscal policies, municipal cross boundary economies or movement of goods or services. The act gives effect to the provisions of section 229 of the Constitution (1996), regulating the authority of municipalities to impose municipal taxes and surcharges on fees of services rendered.

2.14 Division of Revenue Act No 2 of 2013

The act regulates the allocation of transfers to the spheres of government. The legislation provides for reasonable division of revenue collected nationally and allocate between the spheres of government. The grants transfers are distinguished between conditional and unconditional grants. The act regulates how these grants may be utilised and the conditions attached thereto. In local government, conditional grants are typically earmarked for infrastructure projects whilst unconditional grants finance municipal operations. Examples of conditional and unconditional grants include Municipal Infrastructure Grant (MIG) and Local Government Equitable Share (LGES), respectively. The LGES subsidises own municipal revenue to finance Free Basic Service (FBS), administration and institutional costs (Ajam *et al.*, 2021:9) to sustain service delivery.

2.15 Local government By-laws

The local government is required to pass by-laws to give effect to the implementation of own revenue related policies such as credit control and debt collection policy. The by-laws are laws enacted to govern and regulate municipal affairs and provision of its services within the demarcated area. Only the municipal council has the power to pass by-laws into law. The Constitution (1996) entrusts the powers to pass by-laws to the municipal council. In furtherance, the MFMA (2003) obligates the municipal council to adopt tariff policy before it can be implemented and enforceable to the public. The tariffs charged for trading services and other revenue are contained and detailed in this policy. Tariffs are a key element in projecting own revenue estimates. The revenues are expended on operational expenditure, and maintain operational sustainability and health of the municipality.

2.16 Conclusion

The local government operates under an array of legislation. The institution is highly legislated and regulated, which sometimes is perceived as overly rigid. The legislation ranges from its founding principle and mandate, oversight and operations. In addition, municipalities have regulations, by-laws, policies and circulars governing their functions and operations. The municipal budget and reporting regulations are key elements in regulating and imparting best practices to ensure transparency and accountability in the financial affairs of municipalities. These regulations aim to foster sound and sustainable financial management, and establish uniform budget and reporting standards that are entrenched on accountable financial governance.

However, it is also imperative to note that these pieces of legislations become inefficient without supporting finance policies. Annual budgets must be tabled with finance related policy. The policies guide the operations of municipalities budget spending and revenue management, and foster adherence to the relevant legislation and standard operating procedures.

The primary aim of these legislations, regulation and policies is to protect and safeguard public resources and sustain service delivery. They strive for good governance, sound financial management and sustainable local government.

The significant part of financial sustainability can be accomplished under the auspices and enforcement of these legal prescripts. Therefore, all role players in municipal affairs are expected to stringently adhere to and apply all these legal documents in totality and entirety.

The following chapter outlines financial sustainability conceptual framework and variables employed in this research study.

CHAPTER 3: TOWARDS A CONCEPTUAL FRAMEWORK: FINANCIAL SUSTAINABILITY IN LOCAL GOVERNMENT

3.1 Introduction

The severity of fiscal challenges and debt that local government has accumulated over the years has prompted evaluation of local government fiscal sustainability (Kim, 2018: 876). This could enable municipalities to render stable provision of public services (Kim, 2018: 877; Rodríguez Bolívar: 2017) in a sustainable manner. The assessment of financial sustainability could allow municipalities to gauge and comprehend the extent of their financial vulnerability or strength. Financial sustainability examines the fiscal ability, policies capacity and long-term sustainability of local municipalities. The ability of a municipality to amass more revenue streams at its disposal advances the financial sustainability of the institution.

The chapter details the financial sustainability indicators and conceptual framework research objectives. The is divided into two sections; firstly, financial sustainability conceptual framework from local government perspective and, secondly, conceptualising local government fiscal sustainability indicators is discussed in earnest.

3.2 Financial sustainability conceptual framework: the local government perspective

In recent years, interest in financial sustainability has gained traction and prominence in local government, especially when financial distress and deteriorating financial health appear. The concept of financial sustainability came to the fore when United States faced financial crisis (1970s and 1990s) and re-emerged when the European Union block countries imposed austerity policy measures to local government following international financial crisis (Sinervo, 2020:4). Consequently, studies from scholars and research institutions have since gained momentum.

The International Federation of Accountants (IFAC) (2013:7) argues that fiscal sustainability of local government can be achieved through its power to significantly maximise tax, access to borrowing and making service delivery levels decisions. In essence, local government should fend off sustaining or incurring financial deficit over a long period in order to be viable and sustainable. However, Chapman (2008) cautions that financial sustainability can be challenged by pressures such as population surges, demographic changes, urbanisation, migration and intergovernmental transfers contractions. Furthermore, expanding expenditure and decrease in revenue as a result of economic or services delivery pressures can undermine the fiscal sustainability of local government. The strategic management of local government finances is crucial in realising long-term fiscal sustainability of public services. For a municipality to be financially and operationally sustainable, it must have the capacity to sustain current expenditure and revenue policies, meet mandatory service delivery and financial obligations while keeping solvency intact (Ajam *et al.*, 2021:96).

The local government's core function is embedded in the delivery of services to local communities, in particular, the basic services which are the primary source of own generated revenues. Lubbe and Rossouw (2009:19) argue that local government plays a more significant role on daily basis than other government spheres in providing basic services and infrastructure for local community development. In order to provide these services continuously, it is pivotal to maintain a financially sustainable condition and to remain viable.

The concept of financial sustainability in local government has had a share of inquiries and different scholars have come with various definitions, and yet to some extent, there are some similarities and commonalities. The concept received more emphasis and attention in government due to international financial crisis (Rodríguez Bolívar, 2020:1; Afonso and Jalles, 2015). Since then, the concept of fiscal sustainability in local government has gained pace and prevalence in research inquiries.

Financial sustainability is an instrument that measures the financial health and distress of local government over a particular period of time. Rodríguez Bolívar (2020:1) describes financial sustainability as the ability of public administration to continue current policies now and in the future, without causing the debt to rise continuously; while Cabaleiro, Buch and Vaamonde (2012:733) define financial sustainability as the extent to which a municipality can maintain current operations and service its existing debt without increasing the level of indebtedness.

Frequently, financial sustainability is also referred to as financial soundness or financial solvency (Hildreth, 1996; Turley, Robbins and Mcnena, 2015:5). Turley et al. (2015:5) define fiscal sustainability as ability to meet fiscal obligations within the revenue limitations, and service present and future debt . Bahl and Bird (2018:11) consider a municipality financial sustainable if spending is financed with its own revenue over time. A municipality is considered fiscal sustainable when the expenditure is covered from its own revenue, and a reduction on reliance on intergovernmental transfers is realised (Bird, 2014:11-12). This emphasises that balancing revenue and expenditure is a key element of fiscal sustainability. It becomes imperative for municipalities to deploy expenditure containment and revenue growth measures. Fiscal sustainability addresses and takes into consideration economic, socio-political and environmental needs of current and future generations (Kim, 2018:4) and intergenerational equity (Rodríguez Bolívar, 2020:12). The quality-of-service delivery hinges on the degree of a municipality's fiscal health and sustainability.

Financial sustainability requires, to the most part, a vibrant and strong revenue base, and the deployment of stringent control measures to guard against excessive spending that may put pressure on the reserves of the municipality. However, Rodríguez Bolívar, Galera, Muñoz and López Subirés (2016:33; 2014) define financial sustainability as the determination of local government's capability to manage the anticipated financial risks and shocks over long-term financial forecasting, without having any pressure to augment revenue.

Dollery and Grant (2011) contend that there is no consensus, among scholars, on the universal definition of financial sustainability and propose that financial sustainability be defined as:

> a council's long-term financial performance and position is sustainable where: (i) continuation of the council's present spending and funding policies; (ii) likely developments in the council's revenue-raising capacity and the demand for and cost of its services and infrastructure; and (iii) normal financial risks and

> financial shocks, altogether are unlikely to necessitate substantial increases in council rates (Dollery and Grant , 2011:7).

Other theory governing financial sustainability is found in numerous studies. Subires, Muñoz, Galera and Bolívar (2019:8) define financial sustainability as the capacity to continue with the current policy without changes to taxes and public services while containing the debt from rising. Sinervo (2020:1) defines the concept of fiscal sustainability as the capacity to meet continuous financial commitments and service obligations in consideration of resource flow and stock, extracted from annual fiscal information. She further proposes that to achieve financial sustainability (1) deficit should be short-term to stabilise the economic cycle (2) maintain stable debt over economic cycle (3) the debt should have surety of an asset with an equal value as a guarantee.

A municipality is considered financially sustainable if there is adequate revenue to finance spending and is able to provide quality services, satisfactorily (Sinervo, 2020:13). Financial sustainability provides an early warning of financial distress to municipalities. The early warning signs enables municipalities to activate intervention measures such as curtailing spending, exploring additional sources of revenue streams, increasing tariffs or reprioritisation of services.

Previous literature reveals that many scholars have focused their interest on financial sustainability of local government. Many theories have been either evaluated, described, explored or analysed, reaching similar or contrasting conclusion and results. Municipal amalgamation has been one of the strategies to sustain ailing municipalities; thus, integrating unsustainable municipalities with municipalities that are viable and sustainable. Municipal amalgamation refers to the consolidation or merging of two or more municipalities. The amalgamation considers financial viability, administrative capacity and redistribution of resources of the merging municipalities (Republic of South Africa, 1998:10). Slack and Bird (2013) evaluated the impact of municipal consolidation in strengthening financial sustainability and viability. They found that municipal amalgamations have a nominal effect on improving financial sustainability or capacity. Faulk et al. (2013:81) agrees with these findings, and adds that municipal consolidation does not result in cost saving and fails to reduce financial strains. However, Bekink (2006:212) suggests that the municipal boundaries have crucial effect on social and economic upliftment.

Other literature propose that financial sustainability comprises three dimensions: expenditure, revenue and debt (IFAC, 2013; Subires et al., 2019:3) and Rodríguez Bolívar *et al.* (2016:3) analysed economic and demographics as drivers and risk factors of financial sustainability for municipalities. Subires et al. (2019) conducted a study on the influence of socio-demographics on fiscal sustainability and surmised that variables concerning population size and dependant population are expected to be beyond the control of government, and are worrisome factors for fiscal sustainability. In their study for assessment of fiscal sustainability, Zafra-Gòmez, Lopez and Hernandez (2009a) confirmed debt as a crucial component of financial condition for government.

3.3 Conceptualising local government fiscal sustainability indicators

Financial sustainability and fiscal sustainability will be used interchangeable in this study. The section discusses and analyses literature relating to MTREF, financial ratios and financial management capacity as indicators impacting on financial sustainability of local government which set out the objectives of the study. In particular, a key focus was ascribed to the literature review pertaining to the research objectives (section 1.5 paragraph 2-4).

3.3.1 Medium Term Revenue and Expenditure Framework

Fritz, Verhoeven and Avenia (2017: xi) utilising fiscal resources is crucial for equitable development. The trio suggests that countries are faced with compelling expenditure pressures due to increasing and improving service delivery quality, infrastructure development as well as developing the ability to respond to economic shocks and natural disasters. While still attempting to recover from economic shocks of the pandemic, fiscus budget expansions are less desired, particularly in third-world countries and developing economies which are still reeling from the aftermath. Financial management reform in numerous countries yield more effort in strengthening relationship between policy intentions and budgeting, introducing medium-term outlook that support budget planning and allocation, and financial sustainability (Fritz et al., 2017:57).

As result, MTREF budget planning and preparations have become a thoughtful and strenuous agonising process to meet competing strategic priorities, however, the effort is not normally reciprocated with effective budget execution and implementation. Andrews (2010:13) posits that African countries tend to prepare better budgets than implementing them. The level of transparency is frequently higher at budget preparation and often low when it comes to external accountability and implementation (International Budget Partnership, 2008; Andrews, 2010:13). Fritz et al. (2017:60) argues that public financial management reforms should evolve around budget execution including putting systems in place to manage expenditure streams such as cash management, payroll and commitments controls to defray payments and setting standard operating procedures. Municipal budgets seek to appease many service delivery priorities competing for scarce fiscal resources exacerbating expenditure pressures. It becomes critical for MTREF budget forecasting to prudently reflect the realistic fiscal health that the budget assumptions are based.

The MTREF represents a three (3) year budget plan, consisting of the current year and two (2) outer years (Ajam *et al*., 2021:49). This annual budget framework underpins the planning, projection and spending for revenue and expenditure. Revenue and expenditure are allocated based on priorities identified, relating to local community needs and linked with national priorities. Community needs and service delivery priorities are documented in the municipal Integrated Development Plan (IDP), funded through the MTREF budget model, and national priorities are documented in the National Development Plan (NDP). The MTREF budget gives effect to the municipal strategic priorities documented in the IDP (South Africa, 2007:5).

The IDP is a municipal strategic document encompassing its area development plan, which outlines its comprehensive developmental-oriented goals and objectives. It establishes development planning for a short, medium and longer periods (Republic of South Africa, 1998:29). Valeta and Walton (2008:375) consider the IDP as a five-year strategic plan in which a municipality prepares its strategic development planning. On the other hand, NDP is a government plan for the country that identifies the role various sectors of society need to play in eradicating poverty and reducing societal inequalities (South Africa, 2011). Fine (2016) suggests that the NDP offers an inclusive vision that would benefit the country with laudable emphasis on prioritising the impoverished and marginalised society. The MTREF and IDP public participation are key platforms to identify community needs. Of equal importance, the MTREF is informed by the Medium-Term Budget Policy Statement (MTBPS) issued by the Minister of Finance.

The MTBPS sets out the economic outlook and fiscal policy proposals, and outlines government priorities for the coming three years which include proposed fiscal allocation to the spheres of government (PMG, 2019). Fiscal allocations for the local government sphere include intergovernmental transfers, and form part of revenue for MTREF budgets. The fiscal transfers particularly, play an essential role in funding local infrastructure priorities. In most cases, due to depleted fiscal capacity, municipalities are normally not in a favourable financial state to finance these priorities from their own generated revenues.

Municipal revenue and expenditure are the drivers and form the bases for the MTREF budgets. Municipal expenditure is funded through four dimensions of revenue sources: own revenue streams, borrowing, intergovernmental transfers and in-kind revenue. In-kind revenue includes donations, gifts and goods which have immediate or future economic benefits to the recipient institution. In the case of local government, in-kind revenue is acquired from individuals, the private sector and other public institutions, and may be in cash or otherwise. Own revenue comprises property taxes, service charges (also known as trading services) other levies and taxes. Trading services include electricity, water, waste and refuse, and form a large portion of own revenue generation. Trading services are operated in good business principles and sustain municipal service delivery (National Treasury, 2011:41). Cost reflective tariffs should be set and charged for these services including the short-term and long-term operating costs of upgrade and maintenance associated with rendering the trading services (Republic of South Africa, 2000:71). This would ascertain that tariffs levels facilitate the financial sustainability of the services being rendered. However, in doing so, municipalities are expected to take into consideration provisions set out in the Electricity Regulation Act and Water Services Act (highlighted in Paragraph 2.12 and 2.13), when determining electricity and water tariffs. On the other hand, municipality may utilise electricity as debt management tool to collect arrears, even for other services. Municipalities may cut-off electricity when a consumer has contravened payment conditions which must also be clearly articulated in its debt collection policy or tariff policy (National Treasury, 2011:41).

Municipal borrowings (long-term) finance capital projects. Municipalities are allowed to engage in short-term borrowings to finance operational expenditure, however, in terms of the MFMA 45, the loan must be repaid within the same municipal budget year (Republic of South Africa, 2003:50). The short-term borrowings are mostly discouraged by National Treasury. Borrowings (short term) to finance operational expenditure pose the greatest risk and confirm unsustainable financial operations, and poor revenue collection and expenditure controls. Dollery and Graves (2009:105) oppose borrowings for operational purposes and posit that such borrowings create a risk of unsustainable operations. More frequently, municipalities tend to fail to pay back these short-term loans within the legislated timeframes due to fiscal constraints and vulnerability. During the peak of the pandemic, some municipalities utilised capital reserves to circumvent financial pressure imposed on the fiscus. The municipalities had to utilise capital reserves as an alternative when borrowing was too risky due to the pandemic. However, the move has futuristic implications, municipalities will need additional own revenue to replenish capital reserves and fill the financial gap sustained. Ajam et al. (2021:vii) reflect that utilising capital reserves has operational ramifications of replenishing capital reserves, which would require an increase in tariffs to stimulate operating surplus in future.

The local government also fulfils its mandate through intergovernmental transfers allocations (conditional and unconditional grants) from other spheres of government. Conditional transfers are funds earmarked for a specific expenditure or purpose, while unconditional transfers refer to funds that are not earmarked for a particular purpose and can be allocated for all public expenditure within a municipality (Bahl and Bird, 2018:57). Unconditional transfers augment and subsidise own revenue to finance operational expenditure, for instance, Local Government Equitable Share (LGES). The LGES are general purpose transfer allocations that are intended to diminish fiscal disparities originating from asymmetric matching of revenue and expenditure functions (Amusa, Mabunda and Mabugu, 2008).

The equitable share finances free basic services (FBS) for low-income households and underprivileged municipalities (National Treasury, 2021:63). Consumer households that are unable to pay for service charges apply and follow specific criteria outlined by the municipality to qualify for FBS. The equitable share considers three components when allocating funds, comprising basic services (targeting poor households), institutional support and community services (funding for services that benefit communities) (National Treasury, 2018:35-36). For instance, a portion of municipal employee costs and revenue collection is funded through this subsidy. However, despite municipalities having an equitable share, MTREF operational spending assignment is not aligned with revenue.

In relation to understanding fiscal devolution, Yemek (2005:9) concedes that despite national interventions in local government, disparities between expenditure allocation and fiscal resource capacities are still prevalent. The equitable share is supposed to bolster fiscal efficiency and capacity of municipalities but this has not yet been achieved due to ineffective and poorly planned budget processes. The lack of thoughtfully planned MTREF budgets hampers services delivery and will continue to exert strains on the national budget.

Municipal MTREF spending comprises capital and operational expenditure. The capital expenditure relates to capital projects and operational expenditure relates to operations. The operating expenditure key cost driver variables are mainly personnel costs, bulk purchases, and repairs and maintenance (South Africa, 2008:120). Personnel costs (remuneration of councillors and officials) take an enormous chunk of the operational expenditure budget and places pressure on the whole municipal fiscus. Regarding municipal funding for sustainable development in local government, Hendriks (2018:767) argues that personnel costs constitute the main portion of operational expenditure, and suggests that they should be contained and restricted to avoid threatening fiscal sustainability of the operational budget.

When personnel costs grow, more revenue is required to finance the excess. In this regard, personnel costs will necessitate growth in municipal taxes or additional equitable share. The behavioural relationship between employee costs and municipal taxes creates an extra debt burden in local government characterised by a culture of non-payment of services. Similarly, an increase in equitable share can promote fiscal irresponsibility on the part of the municipality, and national government fiscal budget instability (Schoeman, 2011:2; Amusa *et al*., 2008). If this behaviour is encouraged, municipalities can impromptu increase MTREF personnel costs, counting on equitable share funding, adding constraints on already shrinking national fiscus.

The revenue and expenditure frameworks, with key variables that influence their behaviour, are fundamental and core functions for municipal MTREF budget. Case, Rosen and Hines (1993) and Doamekpor (2007:3) argue that fiscal stress is caused by revenue and expenditure levels; Lynch (1990) raises that fiscal environment, organisational and human demands influence fiscal performance. Factors such as institutional, political and social are crucial and influential (Doamekpor, 2007:3; Bretschneider and Gorr, 1992) including consultation with various municipal stakeholders for inputs in the fiscal projection (Bretschneider, Gorr, Grizzle and Klay, 1989). In financing local government spending, factors such as size, economic environment, urbanisation and demographic composition must be factored in and synchronised with the fiscal planning strategic approach (Freire and Garzón, 2014:148; Slack, 2009).

Revenue and expenditure are fundamental elements and drivers of the MTREF budget. The sustainability and viability of the MTREF budget are dependent largely on the accuracy and credibility of the revenue and expenditure projections or assumptions. The MTREF budget forecasting should be well thought out, conservative and realistic process. Any over optimistic revenue projection and understatement of expenditure could probably result in a budget deficit or unfunded budget, affecting financial sustainability. The shortfall or deficit between revenue and spending compromises service delivery and defrayment of fiscal obligations.

The budget deficit can be bridged through municipal tax increase (adversely affecting consumers) or reduction of expenditure. Excessive spending results in higher taxes in the future (Ram, 1988:2). The MTREF Budget deficit may be translated and interpreted to reflect early signs of a financial unsustainable or distressed municipality. Some scholars suggest that budget imbalances relating to revenue capacity to meet expenditure needs is a symbol of a municipality in a critical financial state (Cohen, Costanzo and Manes-rossi, 2017:236; Inman, 1995; Pagano and Moore, 1985). Revenue and expenditure historic performance data is a reliable method for future projections. Bahl, Edward, Cupoli and Liro (1977:2) confirmed that extrapolation of previous revenue movements is a primary technique to be utilised to accurately forecast future revenues.

However, Reitano (2018:1) suggests that projections or forecasting are unfavourably affected by economic downturns and volatility, leading to inaccurate revenue and expenditure estimates. When projecting MTREF, for instance, expectations of the decrease in revenue should be matched with a decrease in expenditure to avoid municipalities depleting their reserves. According to Morrell and Kopanyi (2014:216), systems control should be employed to ensure revenue projections are realistic and the spending is aligned with revenue forecasts. This means that revenue must influence the expenditure behaviour, not expenditure influencing revenue.

The unfunded MTREF budgets have been a threat and reason for concern in the fiscal sustainability of the Northern Cape local government. Unfunded MTREF refers to a budget plan projecting a deficit. Oftentimes for municipalities, realistic anticipated revenue projections to finance the planned expenditure are not sufficient (National Treasury, 2020:74). Municipal councillors have continuously adopted unfunded budgets unabated (National Treasury, 2018:90; 2019:8) and without ramifications. National Treasury (2020: 74), in the budget review report, argues that corrective measures to address the situation have been employed, however, the interventions have not yet received fruition and achieved the desired outcomes. As a result, fiscal sustainability persistently continues to deteriorate. The Auditor-General report (2021:147) also raises similar concerns, stating that the majority of municipalities in the Northern Cape province are in a dire state and are operating on unfunded budgets. An unfunded MTREF budget can be flagged as one of the eminent threats to the financial health and sustainability of local government. Another contributing factor to unfunded budget or deficit is attributed to the inclusion of non-cash expenditures (depreciation, debt and asset impairment) in the budget. Non-cash items inflate spending projections and have no real bearing on cash flow. Some municipalities argue that non-cash expenditures should be excluded from budget since there is no real spending actually incurred for these items. Non-cash items are determined through asset management policy of the municipality (Ajam et al., 2021:39).

Due to excessive expenditure adversely impacting on the MTREF, it was essential to introduce expenditure reforms and assignments to explore revenue streams in order to address growth disparities. Several measures have been employed to address the situation and engage in fiscal corrections, including cost containment regulation, policy and circulars (National Treasury, 2019). These reforms are aimed at curtailing unnecessary expenditure, wastages and prioritise services delivery oriented or inclined expenditure (National Treasury, 2019:3; National Treasury, 2016).

Cost containment is an effective expenditure control tool when constantly implemented and monitored. However, lip service has hindered the success and benefits of this framework. The inception of cost containment was well embraced and frequently communicated, however, it has not necessarily been clearly operationalised within all circumstances (Ajam et al., 2021:100). The expenditure reforms involve reducing personnel costs, discontinuing noncritical vacancies, and dealing with irregular, unauthorised or fruitless spending. For instance, the cost containment regulation provides legislative accountability and specific affected expenditure items that must be capped, while the circular provides guidelines on cost containment measures to be implemented.

The MTREF budget is severely affected by irregular, unauthorised or fruitless spending. Irregular spending is due to expenditure incurred in violation of or noncompliance with the law, while unauthorised spending is sustained due to over spending of approved budget (National Treasury, 2019:5). When a municipality incurs these expenditures, deficit and expenditure increase, and consequently, cash flow constraints arise. In some instances, these expenditures might be due to corrupt or inappropriate activities. National Treasury (2015:14) concedes that, in some events, the expenditures arise as a result of criminal, corrupt and fraudulent activities. While Rena and Mothupi (2018:406) posit that irregular spending can be attributed to budgetary control lapses on the part of officials; Ajam et al. (2021:6) point out that poor Supply Chain Management (SCM) has propensity for irregular, fruitless and wasteful expenditure, inflated costs, and ultimately corruption and fraudulent activities. Nevertheless, the impact on the MTREF worsens when fruitless and wasteful expenditure comes to light. Fruitless and wasteful expenditure occurs when spending is incurred without exercising reasonable care and was made in vain, and would have been circumvented (National Treasury, 2019:6).

Municipalities must investigate these expenditures and hold officials accountable, including recovering monies wasted and irregularly spent. In most cases, municipal councillors condone the expenditure without repercussions for culprits. Magagula, Mukonza, Manyaka and Moeti (2020:5) attribute this to lack of accountable local government officials. Van Niekerk and Dalton-Brits (2016) state that councillors fail to take measures on issues of financial misconduct, irregular, fruitless and wasteful, and unauthorised spending.

Another area that requires attention is the variables that simultaneously affect revenue and expenditure behavioural tendencies. In the MTREF budget fiscal planning, a municipality should take into consideration drivers and risk factors that simultaneously influence revenue collection and spending. Daomekpor (2007) investigated indicators that concurrently affect revenue and expenditure forecasting, and concluded that unemployment rate, population size, long-term debt and inflation are the most reliable indicators for estimating both revenue and expenditure. These indicators minimise the probability of errors and adjustment of figures. In most cases, local government planning is characterised by short-sightedness and the political landscape makes it impossible for officials to pay attention due to uncertainty inspired by what might happen after elections (Shroeder, 1982:123). The stability of the political environment has a direct impact on MTREF budget planning. The municipal political structures support administrative decisions such as adding new revenue streams or cutting excessive spending. An unstable political environment creates uncertainty on fiscal planning, resulting in overoptimistic MTREF projections.

The financial sustainability of local government is adversely affected by the culture of non-payment of service charges and an increase in consumer debtors. The MTREF planning takes into consideration consumer debtors when preparing the annual budgets. The culture of non-payment for services rendered by local municipalities has soared, leading to the unprecedented increase in outstanding debt. Defaulting on payment of services, may in some cases, signal dissatisfaction demonstrated through resistance to pay or wanting to pay less for more service (Hildreth, 1996:323). There are contributing factors relating to this challenge, including lack of political will, unemployment and fiscal policies. Lubbe and Rossouw (2009:3), in their study on the debt of local government, suggest that politicians regularly prevent implementation of credit control and debt collection policy to gain popularity and re-election from communities at the expense of financial sustainability of the municipality. For instance, municipal councillors may instruct officials to refrain from cutting off electricity from defaulters.

This affects credit rating and, subsequently, the ability of the municipality to borrow from financial institutions. The International Revenue Fund (IRF) guidelines recommend that the local government exclude outstanding debts when granting credit because the debt disturbs credit rating figures (Schutte, 1997:16)

Also, there is no doubt that unemployment affects the ability to pay for services. A rise in unemployment intensifies the probability of non-payment of services and debt burden for local government. Recent national statistics indicate that unemployment rate has ascended to 34 percent (Statistics South Africa, 2021) and payment of services may be unfavourably affected. Unemployment poses another possible challenge, that is, a decline in own revenue and a rise in grant reliance, which puts more pressure on the already strained national fiscus. In this scenario, a significant portion of municipal budget financing comes from the national government fiscus as opposed to own revenue, without strict monitoring on spending (Schoeman, 2011:2).

Amusa et al. (2008), when conducting an empirical analysis of fiscal illusion in local government, cautioned that higher dependence on intergovernmental transfers enables fiscal negligence by municipalities. Furthermore, municipal grant dependence may severely constrain the national government budget. In studying local government productive efficiency, Monkam (2014:294) concluded that it is crucial for municipalities to be self-sufficient while taking into account wide socioeconomic imbalances across municipalities, including their capacity to generate own revenue. Municipalities face more financial risks when they are dependent on transfers, even if funding support is guaranteed from the national government; public funds are likely to be misappropriated due to immoral conduct (Padovani, Iacuzzi and Jorge, 2021:389). Local municipalities may rely on grants to finance operational expenditure due to their rural nature, lack of economic activities, high unemployment and other challenges beyond their control. Nevertheless, excessive expenditure is due to lax budget controls, and deficiency in administrative and political leadership.

Given the current economic realities, municipalities cannot survive without intergovernmental subsidies and transfers, and will probably be plunged into a long-term MTREF budget deficit. From a fiscal sustainability perspective, the problem with disparities in expenditure growth and revenue results in an upsurge in deficit and debt (Schoeman, 2006:124).

The fiscal policy strategic approach plays a key role in sustaining local government fiscus and funding the MTREF annual budget. However, municipalities must sustain the fiscal policy of current affairs without the debt burden exploding and crashing (Schoeman, 2011:6). In order to achieve this balance, the local government must keep expenditure and debt low, while encouraging revenue growth to avoid MTREF falling on the deficit.

In their literature on financial performance and sustainability, Bröthaler, Getzner and Haber (2015:522) affirm that fiscal policy rules include controlling the growth of expenditure and liabilities, and reducing debt to eliminate and restructure deficit. Municipalities can maneuver around their fiscal policy planning to fund and sustain the MTREF budget. It is for this reason municipalities are obligated to table annual budget financial related policies, for instance, funding and reserve policy, and long term financial sustainability policy. Hajilou, Mirehei, Amirian and Pilehvar (2018:84) argue that fiscal policy is sustainable only when the present value of future primary surpluses balances with the current burden of debt. When a municipality maintains this fiscal condition, avoids unwarranted debt upsurge, the risk probability of insolvency is very low (Krejdl, 2006:2). A fiscal sustainable and sound municipality must be based on current fiscal policy that can detect whether the debt burden will increase excessively. The municipal policymakers must always be in a position to make amendments when they make fiscal unsustainable policy decisions that could have long-term implications on the MTREF budget. However, Bröthaler *et al*. (2015:523) argue that local government decision-makers have failed on implementing efficient fiscal and debt management policies. The challenges facing municipalities are indicative of imprudent fiscal policies, leading to gradual financial collapse and unsustainable provision of public services.

Municipalities need to strengthen budget control processes and planning priorities to avoid inappropriate budget allocations. Inappropriate budget allocations are exacerbated by a lack of assessment of expenditure patterns. Mkhize and Ajam (2006: 760), in their study on critical assessment of new budgeting approach ascribe lack of basic services to inappropriate budget allocations. They argue that inappropriate budget assignments and expenditure patterns contribute to the lack of basic services, affecting the quality of everyday life of citizens. It becomes appalling when municipal budgets fail to efficiently allocate for basic services.

3.3.2 Financial Ratios as Indicators of Financial Sustainability

When industries assess the financial performance and position of their enterprises, they employ the use of financial ratios as a measurement tool, and municipalities are not an exception. Prompted by the global concern on sustainability of local government, Turley et al. (2015:405) proclaim pertinence of financial ratios to measure the financial performance. They argue, particularly, that solvency, liquidity, collection proficiency, autonomy and operating performance ratios emerged habitually across numerous global studies. Whilst Sinervo (2020:4) adds that ratios such as cash solvency, long-term debt and revenue structures best explain fiscal sustainability in determining financial condition of local government.

Financial ratios, in the context of local government, are instruments used to analyse and evaluate the financial performance and position of municipalities to ascertain financial sustainability. Zehms (1991) argues that financial ratios are a key tool for analysing annual financial reports. The ratios can be utilised to aid municipalities to gauge their deteriorating fiscal health. They are a key element in identifying and establishing signs of financial insolvency (Turley et al., 2015) and warn municipalities to deploy necessary remedial actions.

National Treasury (2014) and Auditor-General (2020) evaluate financial sustainability and health, respectively, using several indicators including debt cash coverage ratio, liability management ratio, net debtor days, the collection rate and the current ratio.

The sustainability of local government rests on keeping checks and balances on the spending of revenue on the daily operations. Any slippage in monitoring, evaluation and oversight may cause a dire threat to operations and livelihood of the community, and often has resulted in community unrest, inability to pay salaries and maladministration. To keep abreast with the status of local government financial affairs, assessment of financial affairs on a biannual or annual basis is critical to ascertain the going concern status of the institution.

In order to achieve this, it becomes imperative and prudent to test the financial sustainability of a local municipality, of which the assessment outcomes can caution the decision-makers and external stakeholders about its state of affairs.

Several studies have been conducted that propose indicators that can establish the financial sustainability and health of local government. Financial sustainability is tested using numerous models to predict financial distress including early signs of deteriorating financial health of a municipality. National Treasury (2014:1) has promulgated a list of indicators to assess the financial position of local government in order to track the status of its finances. These uniform financial ratios were introduced as a fit and applicable across the local government spectrum, to enable and ensure sound financial and sustainable management of the fiscal of municipalities. Also, the National Treasury and Auditor-General utilise these ratios when assessing the financial sustainability of municipalities (Mbulawa, 2019:3).

In the study on “understanding the impact of financial sustainability on South African municipalities”, Mbulawa (2019) recognises that financial indicators published by National Treasury are key evaluation indicators for testing fiscal sustainability and viability. However, they fall short of addressing financial conditions of municipalities as contemplated by the Governmental Accounting Standard Board (GASB) of the United States of America. According to GASB (2004:20), financial condition is the ability of a municipality to deliver services continuously and fulfil its obligations. Mbulawa (2019:3) argues that service delivery is a core function of local government and strongly suggests that a financial condition that incorporates service delivery solvency should form part of the evaluation for financial sustainability. In his critique, he contends that some of the financial indicators do address the financial condition of the municipality but do not robustly engage service delivery as a core business. While Mbulawa (2019:3) advocates for the inclusion of service delivery insolvency; Gorina, Maher and Joffe (2018:79), in their study of local fiscal distress, used similar financial condition ratios but excluded service delivery solvency, observing that it tends to be compromised every time the government experiences fiscal distress.

Mbulawa (2014:9) concludes that National Treasury has failed to accept that municipalities have a transitional structure unlike the other spheres of government. He cautions that if National Treasury continuous on this path, it may reach an unprecedented level whereby the national fiscus can no longer support municipalities as required, failing on its core mandate. While these claims cannot be disregarded completely, the analysis of ratios to determine financial sustainability and establish the probability of financial distress is complex. In view of that, the financial ratio indicators cannot be interpreted in isolation from the outcomes of other ratios, to reach a more persuasive and sounder deduction. The financial ratios that are interconnected should be analysed together to reach a more meaningful and informed conclusion, and assist to avoid ambiguous findings (National Treasury, 2014:1).

Another competing financial indicator for assessing financial condition is the “Ten-point test”. Brown (1993) developed the model to address the requirement for a reliable financial condition assessment tool and enhance comparative data for municipalities. The model is based on 10 ratios and allows comparisons of a municipality’s financial ratio with other municipalities of similar size. The ratios of these municipalities are analysed and outcomes are compared against other similar-sized municipalities.

However, Brown’s model only compares the financial condition of a municipality with others and shies away from addressing the question of financial sustainability. Another challenge is that the model focuses on the comparison of ratio outcomes of a municipality with other municipalities, in contrast with the model utilised by National Treasury, where individual municipal finances are interrogated to ascertain economic and financial sustainability. Mbulawa (2019) asserts that Brown’s method weighs all ratios equally without considering that other ratios have more or less impact on financial sustainability, which may lead to ambiguous conclusions.

Wang, Dennis and Tu (2007) tried to verify the reliability and validity of the measure of financial condition, utilising government-wide financial information as required by GASB statement no. 34. The GASB statement no. 34 establishes new requirements for financial reporting (Lu, 2007:3). The trio also measured and made comparisons of their financial condition model with that of other state institutions. They concluded that the measure of financial condition is relatively reliable and valid, and useful in evaluating government financial sustainability. In addition, the study found that financial condition significantly vary from state to state and noted that much improvement is necessary in this respect (Wang *et al*., 2007:21). By contrast, National Treasury had faced a similar challenge of having a variety of financial ratios used to test the financial sustainability and health of municipalities. In an effort to circumvent this hurdle, a set of standardised financial ratios were developed and introduced to bring about parity and uniformity in interpretation (National Treasury, 2014:1), and application across all municipalities.

What needs to be appreciated is that National Treasury applied the concept of financial ratios to test financial sustainability and probability of financial distress of local municipalities to establish the financial health, vulnerability or viability. The ratios were customised based on the needs, diversity and complex nature of South African local government. It also needs to be brought to light that the structural configurations of local municipalities are not similar, which prompted a need to modify the financial ratio framework to suit South Africa's perspective of local governance. Cohen, Doumpos, Neofytou and Zopounidis (2012:271), in their study on evaluation of financial distress where bankruptcy is not an option for local municipalities in Greece, concluded that their performance evaluation model could be useful for European Union countries due to similarities they share in financial reporting and local government framework. This perception is not a posture to dismiss the importance and downplay the role of financial condition as a financial sustainability measure as envisaged in GASB no. 44. However, it is rather to convey the fact that the financial ratios as prescribed by National Treasury are conducive and reliable to evaluate financial sustainability, and a valuable tool to indicate early warnings of financial distress and deterioration.

In other previous studies, Bisogno, Cuadrado-Ballesteros, Santis and Citro (2019:134) assessed the budget solvency of local government and surmise that the welfare of citizens improves when current expenditures are controlled, and communities can be supported on taxes and current revenue. They emphasise that maintaining checks and balances between current expenditure and revenue can reduce the degree of reliance on external funding, ultimately enhancing sustainability levels. On the other hand, Rodriguez-Bolívar *et al*. (2014:1), in their study to identify factors that may influence financial sustainability, found that the budget results are a key determinant of local government financial sustainability. They suggest that budget expenditure should be strictly controlled to prevent viability challenges in the future. Furthermore, Rodríguez-Bolívar *et al.* (2016:18) conducted an investigation on the potential influence of demographics and social factors on the sustainability question, examining the risk factors and drivers of financial sustainability. Their results showed that an increase in unemployment and population may jeopardise financial sustainability and maintaining the provision of services in local government. Meaning that an increase in unemployment curtails the ability to pay for services, whereas a rise in population is likely to result in an upsurge in the demand for public services. This is likely to adversely affect the financial sustainability and viability of local municipalities that are already experiencing financial constraints.

Another financial sustainability evaluation model was introduced by Gorina *et al*. (2018), on their prediction and measure of the local government financial distress construct, and suggested that operationalisation of fiscal distress through government behaviours has more construct validity compared to methods that are only based on ratios. However, their findings conceded that their method is biased towards bigger municipalities with exceptional revenue base, higher debt and less dependence on property taxes (Gorina *et al*., 2018:89) in comparison with the standardised assessment method (National Treasury, 2014:1) that cuts across all municipalities of different sizes, suggesting that their evaluation model is not conclusive and reliable to evaluate financial sustainability of a small to medium-sized local municipality.

This study tests financial sustainability utilising the data and information derived from the financial statements. Financial statements are financial records comprising cash flow (actual revenue and expenditure), balance sheet, income statements and changes in equity. The statements are determinants of local government going concern status and a cornerstone for decision making on the state of financial affairs of local government, for politicians, managers, citizens and interest groups. Rodríguez Bolívar *et al.* (2016) highlight the importance of financial statements in evaluating financial sustainability. They consider financial statements as imperative in ascertaining the understanding of the current state of local government finances.

The study aims to contribute to the existing body of literature, using National Treasury (2014) financial position financial indicators as an evaluation model to assess financial sustainability. The outcomes of this study can be used by the municipal councils, the Provincial Legislature, organised community groups, non-government organisations and private citizens in establishing and reaching conclusions on the financial sustainability and distress of local government within the Northern Cape province.

3.3.2.1 Financial sustainability ratio indicators: definitions and interpretations

The study utilises the MFMA No 56 of 2003, Circular 71 Financial Ratio Indicators as a basis for evaluating financial sustainability. For liquidity management indicators, the study uses the current ratio and cash coverage ratio. The *current ratio* is used for evaluating the capacity of a municipality to pay back its short-term commitments utilising short-term resources. The higher the ratio, the greater the probability that the municipality is capable of fulfilling short-term financial commitments when they are due, and vice versa.

The *cash coverage ratio* is used to evaluate the capability of a municipality to pay its fixed monthly operating obligations without requiring any extra revenue. The ratio uses disparities of net cash flow from operating activities to evaluate whether the municipality has a capacity to service its current debt against its entire debt service commitments. A lower ratio suggests that the municipality is in a financially vulnerable state and needs additional funds to meet its financial obligations. A lower ratio also means that the municipality carries a high risk of compromising the provision of basic services and commitments.

The *collection rate* is used as debtors' management indicator to evaluate the revenue collection trends in order to measure the payment level for services charges, compared to billed revenue. When the revenue collection rate is low, it actually indicates that mitigative and corrective actions must be urgently implemented to augment revenue. The ratio indicates that there is a high probability of excessive expenditure, putting more pressure on the municipality's financial sustainability and fiscus.

The *net debtors' days ratio* evaluates the number of days a municipality takes to collect monies due for services from consumers. A lower number of debtors' days (30-days standard norm) indicates that the municipality's revenue internal controls are sound, and credit control and debt collection measures are effectively implemented. The number of net debtors' days is linked with the collection rate and they have an adverse relationship; the lower the percentage of revenue collection ratio, the higher the number of days it takes the municipality to collect outstanding revenue. A municipality must maintain low debtors' days and a high collection rate in order to avoid undesired financial pressures.

The *liability management* indicator utilises debt to total operating revenue ratio to assess the extent of total borrowings in comparison with the total operating revenue. The ratio evaluates the capacity to access additional borrowing; if the ratio analysis derives forty-five percent or less, the municipality can expand funding from borrowings. The ratio affords a guarantee that a municipality will generate adequate revenue for reimbursement of liabilities.

3.3.2.2 Analysis of financial sustainability measurement synopsis

This research adopts financial sustainability and health indicators of National Treasury (2014) and Auditor-General (2019), respectively. The indicators work as follow:

- The measurement indicators are defined and interpreted. For instance, the liquidation management indicators utilise the cash coverage ratio to evaluate the ability of a municipality to pay its fixed monthly operational operating obligations. The ratio uses disparities of net cash flow from operating activities to measure whether the municipality has a capacity to service its current debt against its entire debt service commitments (Mbulawa, 2014:15).

- Then, poor and satisfactory performance can be distinguished. From the example above, a ratio that equals 1 or more, is viewed as good, and a ratio of less than 1, is viewed as poor. A ratio of less than 1 means that the municipality is not able to finance its monthly operational obligation and may resort to external funding to finance its activities.
- Each individual municipality receives a score, from 0 to 1. A municipality that performs exceptionally (decent score) is green-flagged and scores 0, while poor performance is red-flagged and scores 1.
- All ratios for each municipality are based and computed on annual audited data. A municipality with many red-flagged outcome indicators shows a poor financial position. Poor performance in the first year of the study indicates an early warning of financial distress and sustainability.
- If the poor performance trend persists to two outer years, the indicators show a worsening financial health, despite mitigating measures and interventions that might have been deployed to remedy the situation.

3.3.3 Financial Management Capacity

The capacity of a municipality refers to the administration and council's ability to perform their functions and responsibilities efficiently and effectively, without transgression. The Auditor- General (2020) considers capacity as the municipal administration or councils' ability to adequately fulfil their obligation by virtue of functions and responsibilities, either in governance, oversight, financial management, financial resource or personnel competency. In this aspect, the study narrows the focus to financial management capacity. Capacity challenges have plagued municipalities and have constantly come out strongly in the Auditor-General audit outcomes. Municipalities have found themselves wanting in the process of executing financial management functions. The Auditor-General (2018:71) observed that the failure of municipalities to attain unqualified audit opinion is attributed to poor state of financial management.

Previous literature has dealt with factors influencing financial management capacity. Factors such as good political-administrative interface, leadership, institutional stability and cohesive management strengthen financial management and fiscal sustainability of local government (Ajam et al., 2021:50). The Auditor-General reports have, on numerous findings, strongly raised the importance and role of these factors in ensuring financially sound and sustainable service delivery. Gargan (1987), in his study of local government financial management sustainability capacity, identified financial management, quality of finance managers and political environment as crucial factors defining the financial management space. He continued to observe that tensions are inevitable between the administration and political roles for as long as political factors substantially influence and define the environment of government. Political interference or undermining of administrative functions is rife, considering that senior officials are normally deployed by political parties, ruling the municipality.

Over the years, local government interventions have been introduced to strengthen financial management capacity and enhance operational capacity, using government support structures. The interventions, in most part, originated from national and provincial government municipal support structures and capacitation programmes.

The financial management capacity programmes include Municipal Financial Management Intern Programme (MFMIP), Municipal Competency Levels, Municipal Finance Improvement Programmes (MFIP), Financial Management Grant (FMG) and Municipal Financial Management Technical Assistance Programmes (MFMTAP) (South Africa, 2020). The main objectives of the programmes are to assist municipalities to implement financial management changes, placing experts, graduates training and work experience, and competence requirements. Cammack (2007: ix) emphasises that building capacity through financial management is a pathway to realising a more efficient and effective organisation. A municipality with strong fiscal management capacity has a sustainable grasp of its own financial affairs and is devoid of fiscal uncertainty. However, in the study on imperfect transition, Powell (2012) observed that national policy deliverables perpetually exceed financial management and administrative capacity. Similarly, Schoeman (2006:111) alludes that fiscal decentralisation has compounded local government challenges; most municipalities have skills deficiency and lack financial management capacity. More often than normal, municipalities lack technical skills to effectively implement their function and big projects. Lack of skills and expertise has amplified the usage of consultants, adding to mounting budget constraints.

In the report for local government outcomes, Auditor-General (2019:7) has on continuous occasions emphasised that consultants are not a sustainable solution to bring desired changes, and are often exorbitantly priced and ineffective. The deficiency in administrative capacity, especially in senior and middle-management levels, has been a matter of concern and flagged as a high risk in municipal performance (Amusa et al., 2008:12). This essentially means that the national government should take capacity constraints into consideration when transferring national programmes for implementation at the local level. The reliance on consultants is a short-term solution to capacity challenges and can be a redundant exercise when skills, particularly in financial management, are not transferred to municipal officials. In addition, under capacitated financial management limits the capability of most municipalities to collect revenue and spend budgets, not only in the Northern Cape but also country-wide. The potential outcomes for lack of financial management capacity are non-adherence, and flouting of financial management and accounting framework prescribed by the Municipal Financial Management Act, 2003. In emphasising capacity constraints in local government, Dollery and Graves (2009:103) and Brand (2007:11) argue that capacity challenges exist in all government sphere, however, they are more acute in municipalities. Moreover, they allude that the situation is aggravated by serious poor performance in certain municipalities, leading to service delivery unrests and protests.

Despite the introduction of new reforms and support programmes concentrated on municipalities to curb capacity constraints, the challenges have continued to emerge, undermining all the support and reforms provided to municipalities. The latest Auditor-General report shows no improvement in this area, in particular, in the Northern Cape province. In the Northern Cape, the Auditor-General (2020:02) report emphasises that administrative leadership has capacity deficiencies and is nonresponsive to challenges facing municipalities in the province. The capacity challenges, to some extent, are attributed to the overreliance on consultants in the finance units and are not reciprocated with a transfer of skills (Auditor-General, 2020:104). Vacant senior positions also contribute to the capacity deficiency factor, and where positions are filled, the incumbents find it difficult to perform their responsibilities efficiently and effectively. Furthermore, the Auditor-General (2020:14) found that despite having the required qualifications, administrative leadership struggle to fulfil their mandatory obligations or functions. Moreover, the lack of capacity for accountability committees has persisted to be a cause for concern, despite being capacitated over the years (Auditor-General, 2020:102).

Another intervention that has become a regular practice is the secondment of officials from provincial government and District municipalities to fill the capacity gap at local municipalities. This intervention to capacitate municipal administration is encouraged when there is no fiscal capacity to appoint personnel. Municipalities need to improve fiscal capacity to appoint skilled officials with the required expertise, particularly in financial management. The personnel secondment is a short to medium term solution, but municipal capacity challenges require sustainable and long-term solutions. This is in effect a temporary strategy to meet shortages in human resource capacity. Hussein (2006:378) avers that the commitment of the seconded officials tends to be undermined because they often exhibit loyalty to their principal institutions. Seconded officials are inclined to show loyalty to their employer, with whom they have a contract of employment. Also, their accountability for their decisions and actions while seconded waivers; they can be withdrawn from the secondment when they are supposed to account, leaving a trail of unjust decisions unaccounted for and municipalities in tatters.

Financial management capacity issues have become more evident in the most recent Auditor-General report. The local municipalities had a poor audit performance outcome. The Northern Cape province recorded only three clean audit outcomes and were all district municipalities. The Auditor-General (2021:147) argues that seventeen municipalities were utilising the services of consultants due to lack of skills in the key performance areas of the municipality. The report also revealed that the use of consultants does not seem to be improving the performance because these municipalities either received declaimers or qualified audit opinions.

Sound financial management capacity indicator is an essential key factor and indicator for long-lasting financial sustainability (South Africa, 2011), and any weakness in this process upsurges the risk of irregularities and misappropriation of resources. The capacitation of financial management becomes urgent to ensure that controls and processes are employed to lay a sound financial foundation to sustain the delivery of services. This is achievable through placement of competent finance managers and a conducive political environment, which are crucial variables for financial management measurement success. Mantzaris (2014) argues that a lack of effective and efficient financial management is due to a deficiency in skills, capacity and accountable leadership from those responsible for control processes and implementation.

3.5 Conclusion

Financial sustainability is at the centre and heart of local government's longevity and must always be nurtured to maintain the going concern of its financial affairs and operations. The MTREF budget and financial management capacity are crucial indicators to assess fiscal sustainability, especially when forward-looking research is conducted. The two indicators emphasise credible projection or forecasting and capacity as essential to ascertain a degree of fiscal sustainability. The study takes a retrospective approach through analysing financial ratios to assess past events. The MTREF budget and financial management capacity indicators are valuable in the sense that they merge and evaluate the historic, present and future fiscal sustainability position.

The findings of this study will contribute to public leadership research and provide pragmatic public management solutions by considering the importance of effective fiscal sustainability in supporting local government service delivery ethos.

The next chapter evaluates the impact of Covid-19 on the financial sustainability through comprehensive analysis and interpretation of quantitative data.

CHAPTER 4: EVALUATING THE IMPACT OF COVID-19 PANDEMIC ON FINANCIAL SUSTAINABILITY OF SAMPLED MUNICIPALITIES

4.1 Introduction

This chapter analyses and evaluates financial sustainability of the sampled municipalities, concentrating on the research objectives that seek to assess the financial ratios and implication of the pandemic on the MTREF. As a result, financial ratio indicators are analysed to assess the annual financial performance leading to and during the pandemic to validate its impact. AFS were used to compute financial ratios, utilising financial sustainability ratios as defined by the National Treasury.

The MTREF budgets were also assessed to analyse possible implications of Covid-19 pandemic on future sustainability of operations of the sampled municipalities. Financial ratios and MTREF budgets including financial management capacity are analysed and assessed as key drivers influencing financial sustainability. Financial ratios and MTREF budgets are further evaluated together with financial management capacity indicators to determine the impact of unfilled vacancies and insufficient skills on financial sustainability in the BTO. The profile and three variables (financial ratios, MTREF and financial management capacity) of the sampled municipalities are discussed in detail in the following sections.

4.2 Profile of Sampled Municipalities

The section highlights the economic and social factors that influence the demand and rendering of public services. This includes the total number of the population receiving services, indigent consumers subsidised, dependency and classification of the sampled municipalities, and as well as audit outcomes performance. Profiling provides insight of the sampled municipalities in respect of living standards, local economic development prosperity and growth, and unemployment impacting on revenue growth.

The Northern Cape is the largest province in South Africa, covering an area of 372 889 km² and a home to a population of 1 193 780. The sampled municipalities are located in various district municipalities. Hantam, Khai-Ma and Karoo Hoogland municipalities lie within the Namakwa district; Kareeberg and Emthanjeni municipalities in Pixley Ka Seme district; and Dawid Kruiper municipality in ZF Mgcawu district.

Of the total population of 1.1 million, the sampled municipalities account for and services 206 364; Dawid Kruiper: 101 161, Emthanjeni: 45 404, Hantam: 21 685, Karoo Hoogland: 13 009, Kareeberg: 12 772 and Khai-Ma: 12333.

The sampled municipalities are distinguished based on categories and size of operational budget, in accordance with Ajam et al. (2021:2-3).

- Hantam, Khai-Ma, Kareeberg and Karoo Hoogland municipalities are small category B municipalities;
- Emthanjeni municipality is a medium category B, and;
- Dawid Kruiper Municipality is large category B.

The municipal categories are classified according to the Constitution, section 155 (1) (Republic of South Africa, 1996). However, this classification does not distinguish between urban and rural municipalities. In order to distinguish the development status of municipalities, National Treasury classifies municipal categories into subcategories.

Table 1: Municipal classification into categories for analysis

Classification	Characteristics
A	Metros
(B1)	All local municipalities referred to as secondary cities
(B2)	All local municipalities with an urban core.
(B3)	Local municipalities have a relatively small population and a significant proportion of urban population but with no large town as core
(B4)	Local municipalities which are mainly rural with, at most, one or two smal towns in their area
(C1)	District municipalities that are not water services
(C2)	District municipalities that are water service providers

Source: Ajam, Burger and Quinot, 2021; National Treasury classification

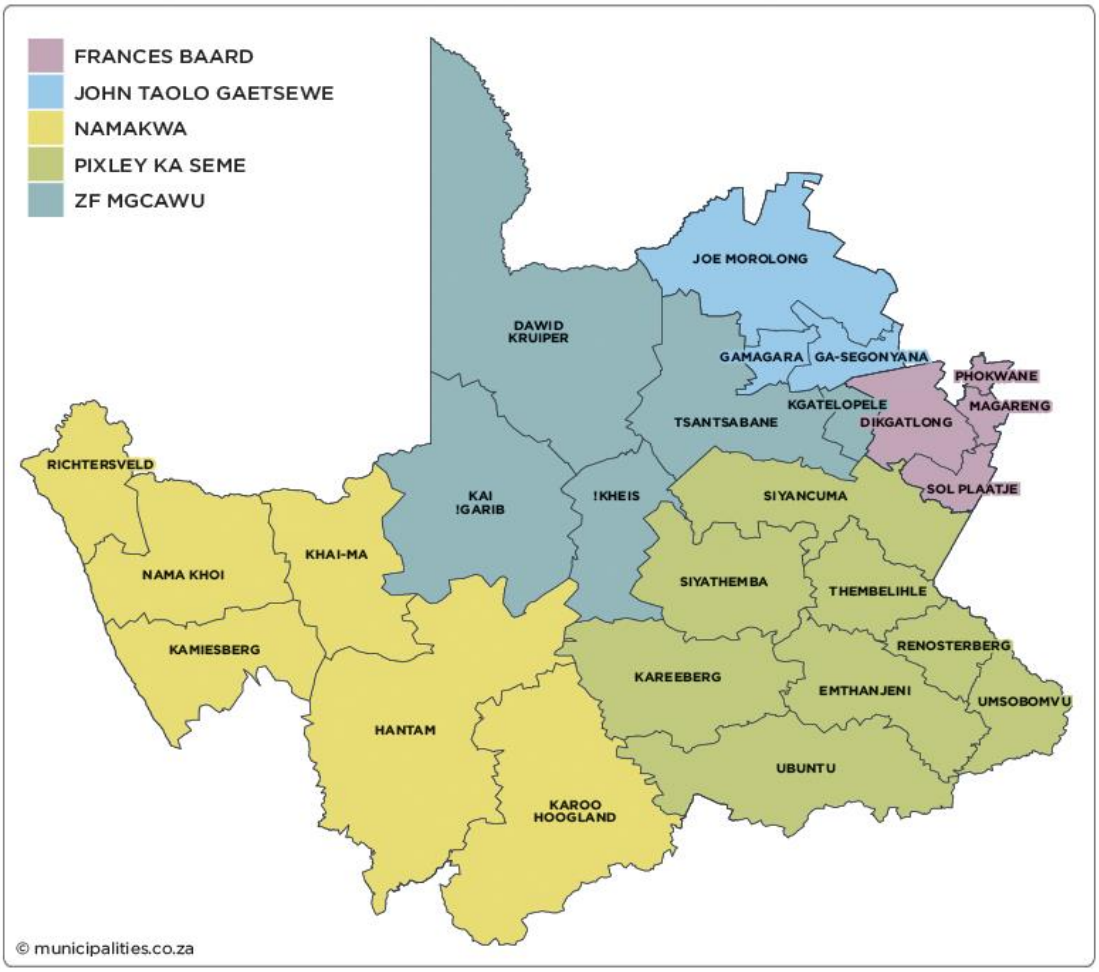
In line with table 1 above, the sampled municipalities fall within the following classifications:

- B2, high capacity: Dawid Kruiper local municipality
- B3, medium capacity: Emthanjeni local municipality

- B4, low capacity: Hantam, Khai-Ma, Karoo Hoogland and Kareeberg municipalities.

The capacity (high, medium and low) of sampled municipalities is also based on National Treasury classification.

Figure 1: Map of the sampled municipalities in the Northern Cape



Source: www.municipality.co.za

The diagram above depicts the location of the municipalities. As indicated previously, municipalities range from category A to C, and each category has powers and functions attached that they must perform. Category A are Metropolitan municipalities, Category B are local municipalities and Category C, district municipalities. The Northern Cape has 31 municipalities; consisting of 5 district and 26 local municipalities.

Table 2: Audit performance outcomes of the sampled municipalities

Municipalities	2019/20	2018/19	2017/18
Hantam	Financially Unqualified	Financially Unqualified	Qualified Audit
Kareeberg	Financially Unqualified	Financially Unqualified	Financially Unqualified
Emthanjeni	Qualified Audit	Qualified Audit	Financially Unqualified
Dawid Kruiper	Financially Unqualified	Financially Unqualified	Financially Unqualified
Karoo Hoogland	Financially Unqualified	Qualified Audit	Financially Unqualified
Khai-Ma	Qualified Audit	Qualified Audit	Qualified Audit

Source: Auditor-General, 2020; Own Table

Table 2 highlights the audit performance outcomes of the sampled municipalities. From 2018 to 2020, the municipalities reflect stagnant audit outcomes. Even for municipalities that were financially unqualified, the Auditor-General had other material outstanding matters. None of the sampled municipalities regressed to a disclaimer audit opinion.

Table 3: Dependency ratio of the sampled municipalities

Municipalities	2016	2011
Hantam	50%	56%
Kareeberg	45%	50%
Emthanjeni	47%	60%
Dawid Kruiper	52%	55%
Karoo Hoogland	56%	61%
Khai-Ma	40%	46%

Source: STATS SA, 2016; Own Table

The dependency ratio measures the number of non-working age (under 14 and over 65) against total working population (age 15 to 60), within the municipality.

Table 3 depicts statistical analysis within the jurisdiction of the sampled municipalities. The dependency ratios of the municipalities have improved when compared with the status quo in 2011. Even though the ratio has decreased, over 40 percent of the non-working age population is still dependent on and a burden to the working population. The working population faces a greater burden of supporting the non-working population. The impact of dependence ratio derives a greater meaning when outcomes are read together with the percentage of consumers receiving Free Basic Services (FBS).

Table 4: Percentage of households of the sampled municipalities receiving FBS

Municipalities	Total Households	Number of FBS Houdeholds	% Number of FBS Households
Hantam	6 993	3 681	**53**
Kareeberg	3 779	2 288	**61**
Emthanjeni	12 183	6 221	**51**
Dawid Kruiper	29 446	14 680	**50**
Karoo Hoogland	4 764	2 744	**58**
Khai-Ma	4 185	2 123	**51**

Source: National Treasury database; Own Table

Table 4 depicts the number of indigent consumers receiving FBS from equitable share allocation. Indigent consumers refer to the proportion of total consumer households who are regarded as poor and therefore received subsidised services. Over 50 percent of households consumers of each sampled municipality are indigents and cannot afford to pay for municipal services. When pairing the dependency ratio with the percentage of indigent consumers, a clear picture emerges to indicate that these municipalities will not be able to financially sustain provision of basic services without heavily relying on intergovernmental transfers. In other words, these municipalities had limited revenue capacity even before the pandemic, and revenue capacity is expected to decline even further post pandemic. The effects of this can also be factored in the national fiscus; the FBS subsidy from national government will have to increase to adequately cover the indigent consumers. Only job creation within these municipalities can reduce indigent households and ease pressure on the national fiscus, and ensure financial sustainability.

Table 5: Free Basic Service allocation as per Local Government Equitable Share (ES)

Free Basic Services allocation							
Code	Municipality	Category	Electricity	Water	Sanitation	Refuse	Total Basic Services Allocation
NC065	Hantam	B	3 863 745	5 957 257	4 475 458	3 751 697	18 048 157
NC066	Karoo Hoogland	B	2 880 027	4 440 526	3 335 996	2 796 507	13 453 056
NC067	Khâi-Ma	B	2 228 992	3 436 737	2 581 888	2 164 351	10 411 968
NC073	Emthanjeni	B	6 530 692	10 069 249	7 564 638	6 341 303	30 505 883
NC074	Kareeberg	B	2 401 795	3 703 171	2 782 049	2 332 143	11 219 158
NC087	Dawid Kruiper	B	15 410 144	23 759 898	17 849 895	14 963 252	71 983 188
TOTAL			**33 315 394**	**51 366 839**	**38 589 924**	**32 349 252**	**155 621 410**

Source: National Treasury database

Table 5 shows the ES for FBS allocation to fund basic services for poor households. The FBS revenue allocation subsidises own revenue generated by the sampled municipalities. The nexus between high dependency ratios (see table 3) and indigent households intensifies fiscus pressures on the national government funding model. The possible reaction for national government would be to increase income tax to keep up with the FBS expanding bill. For instance, job losses as a result of the pandemic could consequently lead to more paying consumers rendered indigent and therefore triggering a need for additional funding for FBS. So, it becomes crucial that local economy during post-Covid 19 recovery creates job opportunities for these municipalities to be sustainable. Over 50 percent (see table 4) of consumer households for each sampled municipality are subsidised through FBS which is a worrying factor for long-term financial sustainability.

Table 6: FBS: ES allocation vs Annual Budget allocation of sampled municipalities

Code	Municipality	Category	Free Basic Services		Variance
			ES Allocation	Municipal Annual Budget	
NC065	Hantam	B	18 048 157	-	18 048 157
NC066	Karoo Hoogland	B	13 453 056	4 483 900	8 969 156
NC067	Khâi-Ma	B	10 411 968	34 020 448	-23 608 480
NC073	Emthanjeni	B	30 505 883	26 966 080	3 539 803
NC074	Kareeberg	B	11 219 158	10 025 983	1 193 175
NC087	Dawid Kruiper	B	71 983 188	30 203 957	41 779 231
TOTAL			**155 621 410**	**105 700 368**	**49 921 042**

Source: National Treasury database; Annual Budget 2021/22

Table 6 highlights the ES allocation for FBS and how the sampled municipalities projected for FBS in their respective annual budgets. The figures from the table show a significant disjuncture in funding for FBS. The variance shows that the FBS allocation component of the ES exceeds the amount the sampled municipalities have actually budgeted for FBS. This suggests that National Treasury may be overfunding the sampled municipalities for FBS. On the other hand, this suggests that municipalities are under budgeting for FBS, which may possibly affect the ability to have realistic MTREF projections. Another possibility is that National Treasury may investigate the reasons for this anomaly and decide to fund FBS per the annual budget figures of these municipalities. The prospect of that happening would inflict financial devastation and plunge the municipalities into serious financial distress. Furthermore, municipalities may also deliberately seek to limit the number of indigent registrations so that they can allocate the excess ES funds for their own priorities. Public Affairs Research Institute (2021:11) makes remarks that municipalities have a leeway of utilising the FBS allocation balance, where the national budget for indigent households is more when compared with their own annual budgets for FBS. This means municipalities are taking advantage of the gap since the FBS allocation is part of the discretional ES. Eventually, this leaves well deserving indigent households without receiving the FBS subsidy.

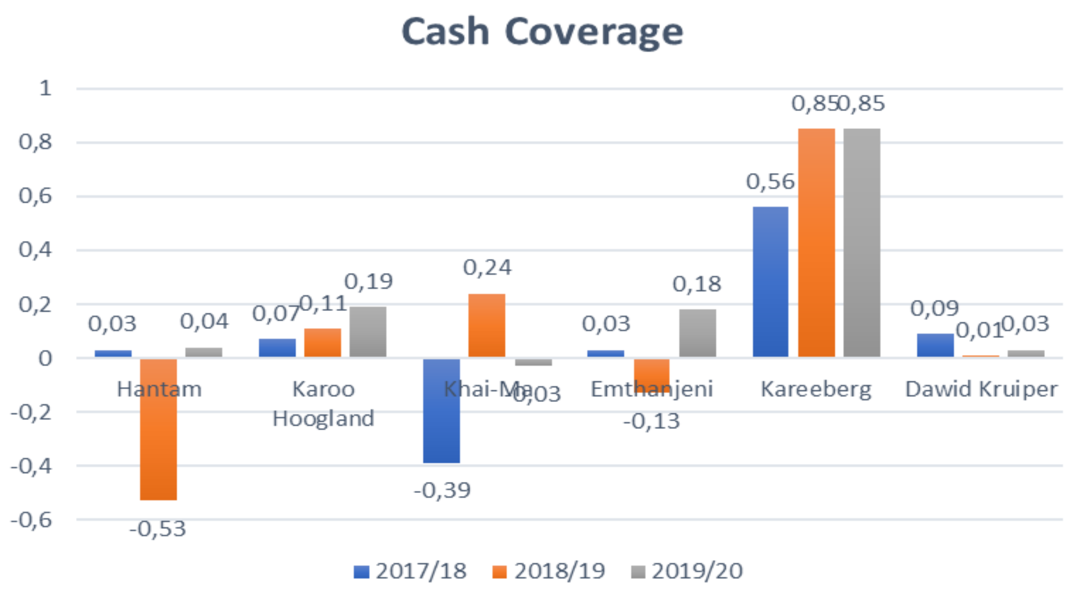
Khai-Ma municipality exceeded the ES allocation extensively which suggests that the difference of these figures must be internally funded or subsidised from elsewhere. However, the performance outcomes of the financial ratios are indicative of a financial distressed municipality and the excess FBS budget portion may not be cash backed by the municipality.

4.3 Measuring Financial Ratios as Indicators of Financial Sustainability

In local government sphere, fiscal sustainability and viability serve as guarantors for operations continuity and provision of public service delivery to its localities. Meanwhile, continual assessment and analysis of financial ratios provides municipalities with the state of financial health and early warnings of financial distress towards financial sustainability. Turley et al. (2015: 205-406) adapt Carmeli's (2002) framework which is regarded as important by other scholars, when utilising financial ratios to assess financial performance. Whilst Brown (1993) developed the 10- point test of financial condition, Groves, Godsey and Shulman (1981) financial indicators for municipalities, and Zafra-Gòmez, Lòpez-Hernàndez and Hernández-Bastida (2009b) assessed financial performance with fiscal ratios. Many other scholars have measured and assessed financial ratios to determine fiscal sustainability and health including Kloha, Weissert and Kleine (2005), Rivenbark, Roenigk and Allison (2010), Cohen et al. (2012) and Cabaleiro et al. (2012) for local government. As indicated in 3.3.2.2, the study adopts National treasury (2014) financial indicators to measure fiscal sustainability. The study nominated fiscal ratios that cover liquidity, solvency, expenditure and liability management, and distribution losses.

This section analyses financial ratios of two financial cycles (2017/18 and 2018/19) prior to the pandemic, and one financial cycle (2019/20) during the pandemic.

Figure 2: Cash coverage ratio of sampled municipalities: 2017/18 - 2019/20

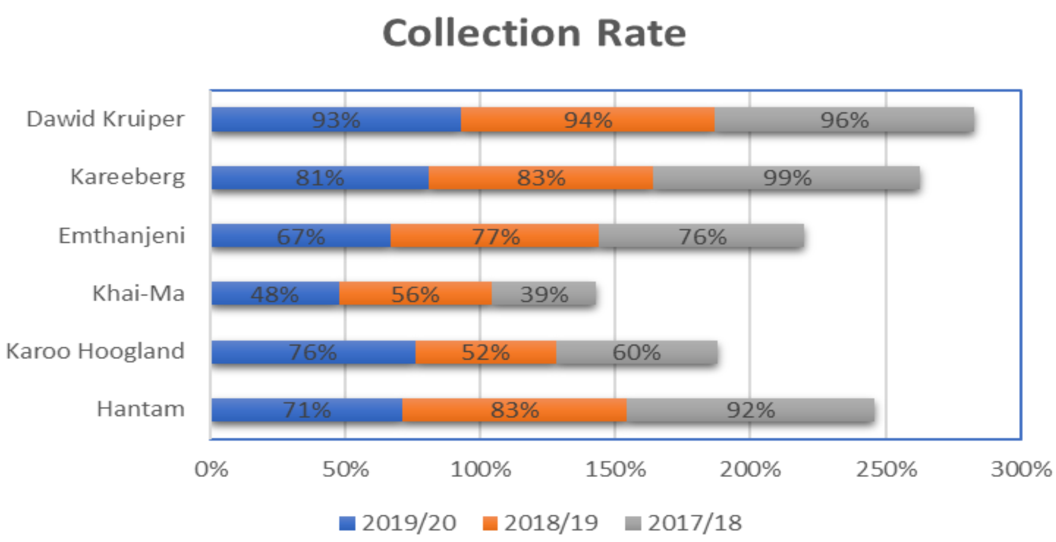


Source: Own calculations

According to National Treasury (2014:7), a municipality must at least have a norm of one to three months cash flow available to meet its service delivery mandate and obligations. This suggests that municipalities that have more than three months cash to cover provision of basic services are in a more favourable cash flow position and are less susceptible to financial shocks. In order to avert the risk of cash flow challenges, the sampled municipalities must amass more cash reserves. Accumulating more cash reserves ensures continuous defrayment of monthly obligations and reduces cash flow constraints. This suggests that a municipality can sustainably render services without financial stress.

Figure 2 depicts cash coverage ratio for the sampled municipalities. As indicated in the figure, the municipalities recorded zero for cash coverage ratio outcomes. The ratio outcomes are less than the required norm, which reflects that all sampled municipalities are under severe cash flow pressure and have possibly emptied their cash reserves. Of severe concern, Khai-Ma recorded a negative cash coverage for periods 2018/19 and 2019/20, while Emthanjeni municipality has a negative cash coverage for 2019/20 financial year, during the start of the pandemic. The cash coverage ratio results depict an image that even before the pandemic, the municipalities experienced severe cash flow challenges. Whilst this ratio paints a concerning picture of the state of these sampled municipalities, the cash coverage ratio outcomes should be analysed in unison with debt management ratios to fully gain insight on the extent of cash flow risk (National Treasury, 2014:7).

Figure 3: Collection Rate of sampled municipalities: 2017/18 – 2019/20



Source: Own calculations

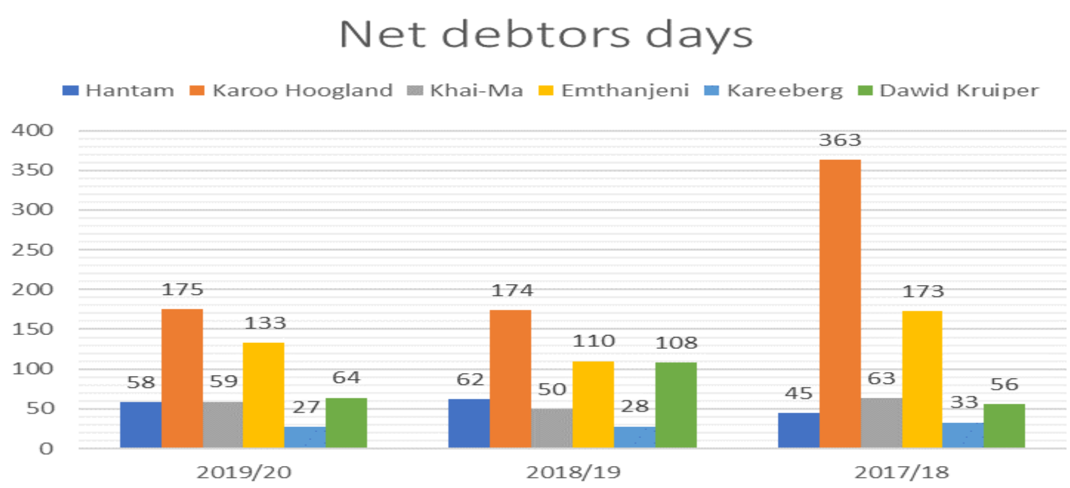
The National Treasury (2014) circular 71 recommends the collection rate norm of 95 percent. The ratio provides answers to questions such as whether credit control and revenue management measures are efficiently and effectively employed, and implemented. Where a municipality reflects a collection ratio below the recommended norm, it is an indication that corrective mechanisms should be employed to collect and manage revenue. According to National Treasury (2014:5), municipalities with overdue consumer debt must aim at attaining more than 100 percent collection rate.

Figure 3 shows the collection rate performance results. The ratio relates to performance of property rates and service charges. For the 2017/18 financial period, some municipalities attained collection ratio that is within the norm. Kareeberg attained the highest collection rate at 99 percent, followed by Dawid Kruiper at 96 percent and Hantam was slightly lower than the norm at 91 percent. Karoo Hoogland, Khai-Ma and Emthanjeni municipalities, by contrast, reflect poor performance, showing 60 percent, 39 percent and 76 percent collection ratio, respectively.

However, for the 2018/19 and 2019/20 periods, a different image emerged; municipalities which attained a collection ratio within the norm in 2017/18 financial period, degenerated. All the municipalities failed to reach the targeted revenue collection rate norm, while a slight improvement was registered for municipalities which have had a bad collection ratio performance in 2017/18 financial period. The deterioration in the collection ratio may be due to numerous reasons, including poor implementation of credit control, revenue management and internal controls. Also, the deterioration in collection rate is normally complemented by a surge in consumer debtors, an undesirable situation for a municipality. Recently, the Covid-19 pandemic amplified the revenue collection woes.

The Dawid Kruiper Municipality seems to be the only municipality that has consistently achieved above 90 percent collection rate, the lowest being 93 percent, that is 2 percent shy of the norm; and the debt and revenue collection targets were not severely compromised despite the conditions of the pandemic lockdown. The municipality may have managed to resist and withstand the pandemic financial pressures due to its developmental state of towns, payment culture and reliable own revenue base as compared to other sampled municipalities. Even though other sampled municipalities did not meet the required revenue collection rate norm, their collection rate shows positive signs of improvement during the pandemic year (2019/20), except for Khai-Ma Municipality.

Figure 4: Net Debtors Days of sampled municipalities: 2017/18 – 2019/20



Source: Own calculations

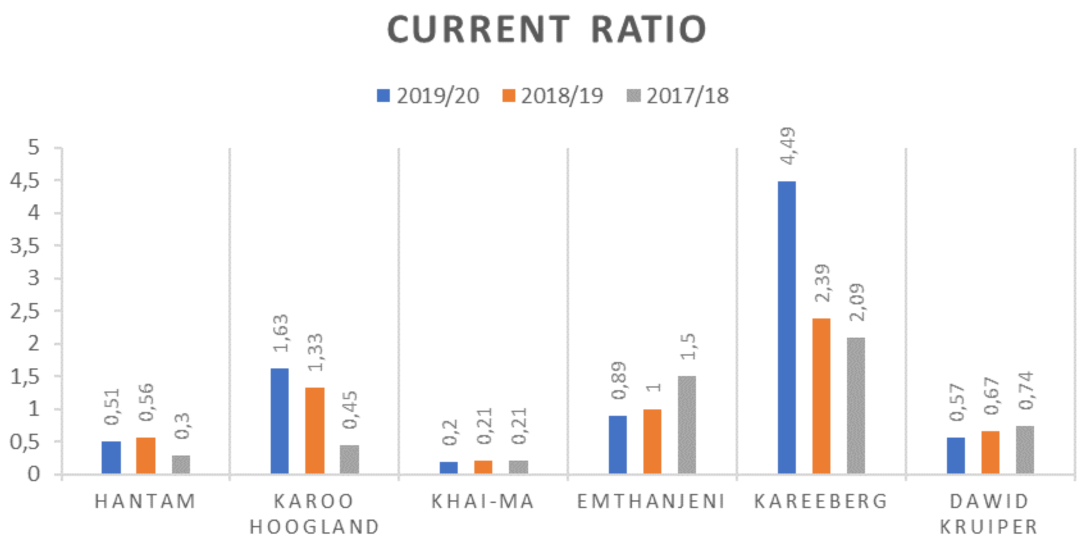
The net debtors days ratio measures the number of days a municipality is expected to take to collect revenues or receive payments from consumers for consumption of municipal service charges and property rates. The revenue relates to property rates and service charges. The ratio is measured at a norm of 30 days. For instance, if a municipality takes 30 or fewer debtors days to collect outstanding debt, that indicates that the credit control and debt management policy are effectively implemented.

Figure 4 reflects that it takes more than 30 days to collect revenue, with the exception of Kareeberg municipality. In Kareeberg Municipality, only 2017/18 fell outside the required norm with a small margin and for the periods 2018/19 and 2019/20 improvement was realised, registering 28 and 27 debtors days, respectively. Karoo Hoogland, Emthanjeni and Dawid Kruiper municipalities achieved net debtors days of over 100 days during the financial years under review, while Dawid Kruiper displays a significant improvement in 2019/20 financial year.

Interpreting the net debtors days, in view of the results of the collection rate (see figure 3) and the cash coverage ratio (figure 2), indicates that the sampled municipalities are exposed to significant and substantial cash flow risks. In addition, the low collection rate and zero (and negative) cash coverage ratio are due to the longer period it takes for these municipalities to collect overdue debts. It is also evident that the municipalities have likely deviated from complying with revenue management, internal controls and credit control policies.

During the 2019/20 period, net debtors days did not surge significantly when compared with previous years before the pandemic. This correlates with the collection rate which also did not significantly drop. The net debtors days outcomes suggest that the sampled municipalities were struggling to collect overdue revenue prior to the start of the pandemic. The pandemic has just exacerbated this tendency.

Figure 5: Current Ratio of the sampled municipalities: 2017/18 - 2019/20



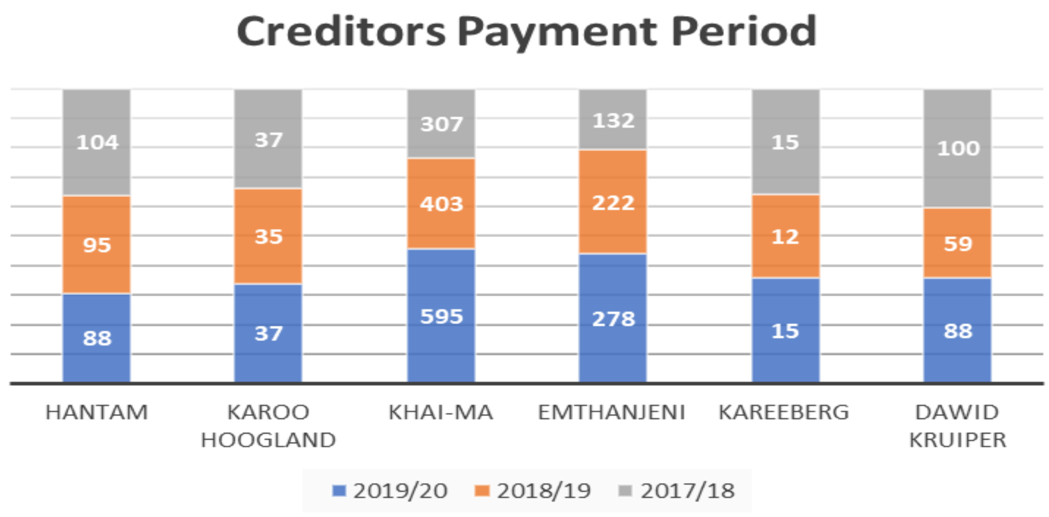
Source: Own calculations

The norm for current ratio ranges from 1.5 to 2:1. The ratio assesses the ability of a municipality to repay short-term obligations utilising short-term assets. A higher ratio indicates that a municipality is in a capable financial state to meet current expenditures. Furthermore, a higher financial ratio enables municipal operations to continue uninterrupted at optimal levels.

Figure 5 illustrates the current ratio results of the sampled municipalities. The Emthanjeni and Kareeberg Municipalities recorded strong liquidity positions for the financial years 2017/18, 2018/19 and 2019/20, depicting ratios between the range of 1.5 and 2, respectively. However, in 2019/20, the liquidity position of Emthanjeni Municipality suffered severe cash flow constraints, indicating a decline to 0.89 financial ratio. Karoo Hoogland Municipality shows possible liquidity challenges in 2017/18, however, a gradual improvement was captured in 2018/19, and eventually in 2019/20 the municipality managed to improve cash liquidity, falling within the norm at 1.6.

With the exception of Emthanjeni, Kareeberg and Karoo Hoogland Municipalities, all other sampled municipalities contracted financial ratios of less than 1. This indicates that these municipalities will not be able to repay current liabilities. Ajam et al. (2021:66) point out that municipalities with a liquidity ratio below 1 are cause for concern and may not be able to meet current financial liabilities unless long-term assets are liquidated. This is evident in the number of days the sampled municipalities take to pay creditors (see figure 6 below). The failure to pay creditors on time may be perceived as early warning signs of financial distress or poor cash flow management. As it can be perceived from figure 5, these municipalities have been in a downward slump in respect of managing current assets and liabilities. The pandemic seems to have further compromised the already weakening liquidity of these municipalities, with the exception of Karoo Hoogland and Kareeberg that have improved during this period.

Figure 6: Creditors payment period of sampled municipalities: 2017/18 – 2019/20



Source: Own calculations

National Treasury (2014:16) sets the norm for creditors payment period ratio at 30 days which correlates with the provision of the MFMA (Republic of South Africa, 2003:60). The ratio reflects the number of days a municipality takes to pay creditors. Where a municipality takes longer periods to pay creditors; that typically, is the first indication of cash flow challenges. The reason for late payment of creditors may be manifold, including invoice disputes resulting in payments delays, ineffective controls and expenditure management or inadequate management of working capital.

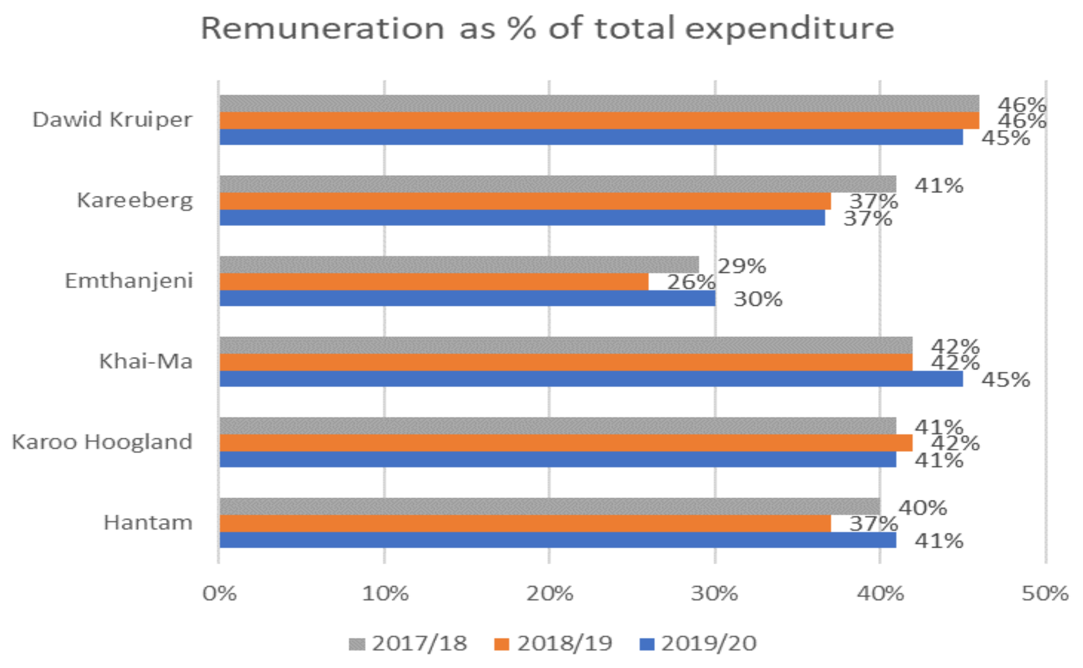
Figure 6 indicates the number of days the sampled municipalities take to disburse payments to overdue creditors. The Kareeberg Municipality attained a very commendable number of days to pay creditors, sitting comfortably within the norm for 3 consecutive years. This indicates that Kareeberg Municipality pays creditors timeously, which may be due to effective credit control measures as indicated by low net debtors days and efficient cash management.

The performance of other municipalities raises concerns as figure 6 shows that these municipalities have failed to pay creditors on time. The low collection rate and high net debtors days may have significantly contributed to the cash flow devastation. Notwithstanding that, it is noteworthy to highlight the improvement made in 2018/19 by Dawid Kruiper, Hantam and Karoo Hoogland Municipalities. However, in 2019/20 the same municipalities took a knock and realised a surge in the number of days taken to pay creditors. This surge is likely attributed to the national hard lockdown due to the pandemic.

Severe concerns are clearly visible in Khai-Ma and Emthanjeni municipalities, recording the highest creditors payment days for three consecutive years under review, respectively. For instance, these two municipalities take over 200 days to pay their creditors. This dismal performance is also evident in cash coverage ratio results; Khai-Ma achieved negative cash coverage for 2017/18 and 2019/20, Emthanjeni for 2019/20 (figure 2). In simple terms, these municipalities cannot meet their monthly obligations and short-term liabilities. This also heightens the risk of utilising conditional grants for operations.

Whilst these municipalities were already not complying with the 30 days required to pay creditors, the municipalities' creditors days upsurged even further. This increase could be the effects of the hard lockdown. Municipalities had to defer payments of creditors during the initial stages of the pandemic.

Figure 7: Remuneration as a percentage of total expenditure: 2017/18 – 2019/20



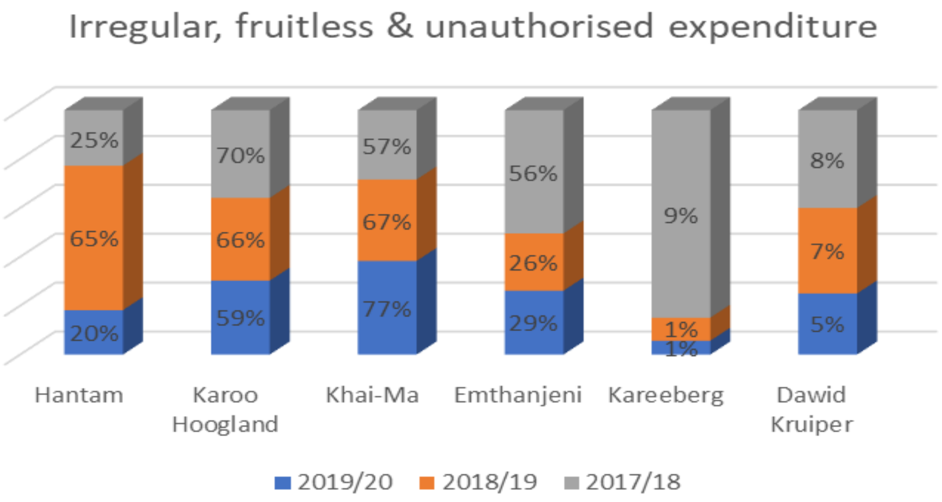
Source: Own calculations

The ratio determines the percentage allocation attributed to employee costs from total municipal spending. The norm for this ratio ranges from 25 percent to 40 percent. When a municipality manages to maintain employee costs within or below the norm, it suggests that expenditure controls are effectively and efficiently employed.

Emthanjeni municipality shows a positive ratio performance for all the years under study, attaining a salary bill that remains constantly within the recommended norm. This suggests that the municipality is able to enforce and comply with expenditure controls aimed at containing the salary bill. Hantam and Kareeberg municipalities only managed to control employee costs for 2018/19 period and reflect over spending for 2017/18 and 2019/20 periods. Karoo Hoogland, Dawid Kruiper and Khai-Ma municipalities show excessive spending on the salary bill expenditure, recording more than 40 percent on employee costs. The results suggest that these municipalities may have a bloated staff complement, inefficient monitoring of overtime costs and deviation from expenditure to deliver nonessential services. In addition, the salary bill may be increased by filling of unfunded positions or vacancies that are not in the approved organisational organogram. In some cases, this happens when a political party pays patronage as a reward for support of a political mandate or policy.

The remuneration of employees' ratio remained the same in 2019/20, when the pandemic commenced. It is worth noting that the salary bills of these municipalities did not decrease regardless of whether employees were working or not, full salaries were disbursed. However, the sampled municipalities should have had savings on overtime costs, travelling costs and subsistence allowances. The sampled municipalities do not show savings on employee costs during the pandemic hard lockdown since the spending is on a consistent path with the previous years.

Figure 8: Irregular, Fruitless and Wasteful, and Unauthorised expenditure of sampled municipalities: 2017/18 – 2019/20



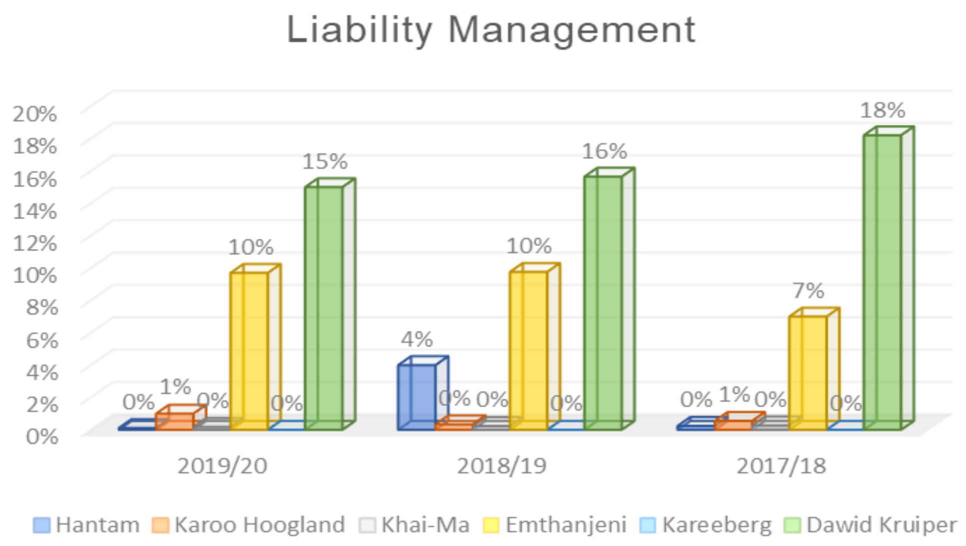
Source: Own calculations

The norm for this ratio is set at zero percentage. Any ratio above zero is forbidden and must be accounted for by municipal officials. If a municipality incurs this kind of expenditure, investigation must be instituted and acted upon. Figure 8 depicts that all municipalities achieved ratio outcomes above the acceptable norm. The ratio outcomes paint a perturbing image, suggesting gross laxity in expenditure and budget controls. Irregular, Fruitless and Wasteful, and Unauthorised expenditure is incurred through deviation from approved annual budgets spending and prescribed legislative frameworks.

As indicated in figure 8, Karoo Hoogland and Khai-Ma Municipalities are the worst transgressors, achieving a spending of over 55 percent of their budget on unauthorised, irregular, fruitless and wasteful expenditure. It is worth noting that this expenditure could have been avoided, and there is probability that it was not spent on essential service delivery functions and mandates. This expenditure is normally not part of the IDP strategic service delivery priorities. The ratio outcomes suggest that the municipality should institute an investigation to establish the root cause and ensure that culprits are accountable for their actions. In this case, accountability may include recovering monies from responsible officials or opening criminal investigations. It is important to account for this spending, as irregular expenditure is often associated with flawed SCM processes.

In addition, the wasteful and fruitless expenditure is normally incurred due to interest paid on late payments of overdue invoices. As illustrated in figure 6, the number of days to pay creditors is beyond the prescribed norm and MFMA regulation. Meaning this forbidden expenditure could have been prevented had these municipalities exercised due diligence and reasonable care, and employed effective cash flow management plans.

Figure 9: Liability management of sampled municipalities: 2017/18 – 2019/20



Source: Own calculations

The norm for this ratio is set at forty-five percent. The ratio evaluates whether a municipality is in favourable financial position to augment its revenue through borrowings. Any ratio results below forty five percent indicates that a municipality can still source additional finance through borrowing without undue risk. The ratio assures that a municipality, in future, will have the capacity to generate sufficient revenue to finance obligations and commitments. It gauges the extent of total borrowings against total operating revenue and debt repayment affordability to operating revenue of the municipality.

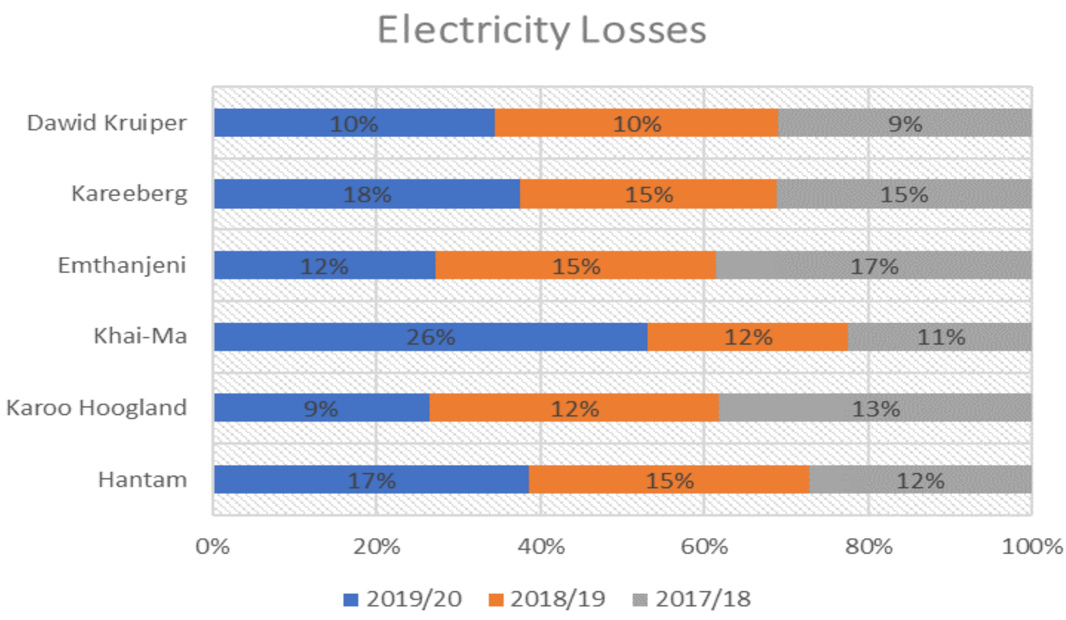
Figure 9 above shows the 2017/18, 2018/19 and 2019/20 ratio outcomes for the periods under review. The outcomes indicate significant lower ratios which signals that all the municipalities have the capacity to expand financing with borrowings. However, National Treasury (2014:9) argues that municipalities must consider cash flow requirements when considering additional funding with borrowings.

However, the liability management ratio outcomes should be noted with scepticism and cannot be justified in isolation from other financial sustainability ratio outcomes. The collection rate and upsurge in debtors days indicates a dwindling revenue protection base with deficiency internal controls of the sampled municipalities. In addition, the poor cash coverage ratio outcomes attained by the sampled municipality envisages cash inflow deficit, deficiencies in cash management and planning. This escapes the premise that sufficient revenue will be generated to meet obligations in foreseeable future. Also, considering that payables are part of the liabilities, only Kareeberg managed to disburse payments to creditors in time, the other five municipalities have failed to meet their obligations (repay liabilities) as shown in figure 5. When analysing the liability ratio in unison with other relevant ratios, the outcomes depict municipalities in severe cash flow constraints and to some extent a gross dereliction in sound financial management practices.

Distribution losses (Percentage)

Losses are incurred for electricity and water services. The distribution losses ratio measures the extent of potential revenue of water and electricity services. The ratio is derived from units or kilolitres purchased and generated but were never sold due to losses (National Treasury, 2014:13). These losses are incurred due to various undertakings including water/electricity thefts through illegal connections, tampering or incorrect metering, dilapidating infrastructure, wastages and poor management. Of importance, losses have a direct impact on collection rate; the higher the losses, the lower the collection rate. This is why municipalities are required to dedicate 8 percent of their operating budget to repairs and infrastructure maintenance (National Treasury, 2014:4) to ensure uninterrupted service delivery. The distribution losses are distinctively analysed below.

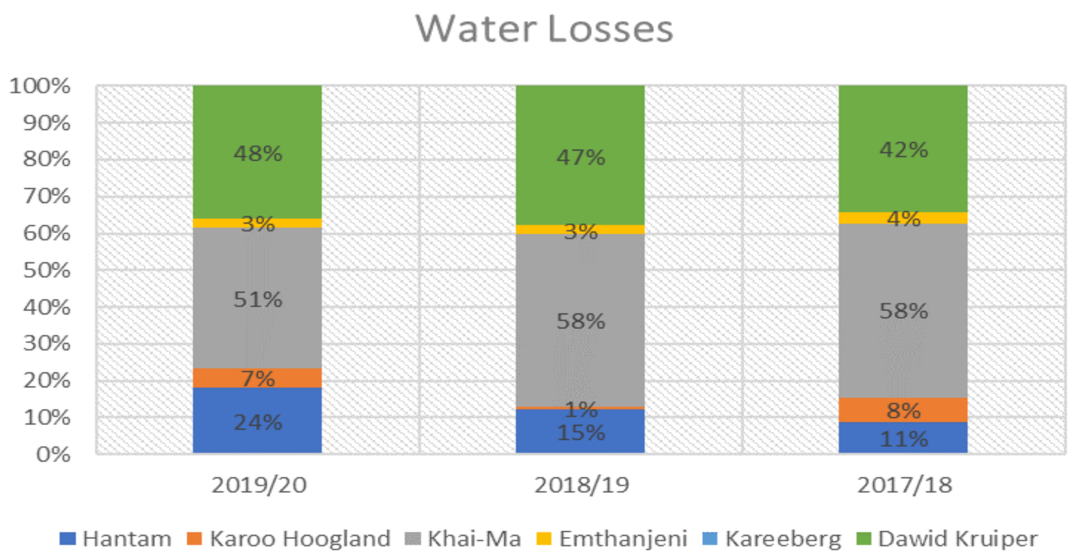
Figure 10: Distribution electricity losses of sampled municipalities: 2017/18 - 2019/20



Source: Own calculations

The ratio assesses electricity service charges attributed to losses. The norm for this ratio is set between the range of 10 and 12 percent. Figure 9 depicts the performance of sampled municipalities in managing electricity services losses. Dawid Kruiper Municipality achieved ratios within the tolerable norm for all financial years, while other sampled municipalities fluctuated throughout the 3 financial years. Dawid Kruiper Municipality performance can be translated to good management of electricity losses. The other municipalities' ratio results suggest that control mechanisms are in place to manage electricity losses, however, they are not constantly and stringently adhered to. If these municipalities persist to accept relapse in management of losses, the provision of electricity services may become unsustainable. For instance, Hantam Municipality (2020:87) indicated in their AFS that electricity losses incurred were due to theft on pre-paid meters and offenders were fined. This shows that efforts are undertaken to curb electricity losses but are not enough and inconsistently applied. Excluding Dawid Kruiper, the sampled municipalities exhibit dismal capability to manage and control electricity losses, before and during the pandemic. As a result, revenue envisaged from electricity is reduced significantly due to these losses.

Figure 10: Water losses of sampled municipalities: 2017/18 – 2019/20



Source: Own calculations

The ratio determines losses of potential revenue from water services and the norm is prescribed at 15 - 30 percent. Figure 10 shows percentages of water losses. All sampled municipalities managed to remain within the norm for three consecutive years, except for Khai-Ma and Dawid Kruiper Municipalities. The two municipalities show a dismal management of water losses, recording over 40 percent losses for all the years under study, far above the required norm. The water losses of the two municipalities continue to escalate unabated. Khai-Ma municipality (2020:87) stated in their AFS that water losses are as a result of leakages and normal pipe bursts, while Dawid Kruiper municipality (2020:106) indicated that a master plan is being devised to address the water losses.

Leakages and pipe bursts are normally due to deteriorating and dilapidating infrastructure, and lack of infrastructure maintenance. Astonishingly, Dawid Kruiper displays poor management of water losses while managing electricity losses effectively. For the sampled municipalities, the water losses have a direct negative impact on the forecasted revenue. Even for the municipalities that are within the norm, the ratio may prove to be very high, considering that the Northern Cape province was once declared a drought-stricken province.

The water and electricity distribution losses signal lack of maintenance and repairs of infrastructure for these service charges coupled with inadequate and delay in responding to water leaks and illegal electricity connections.

4.4 The Impact of Covid-19 Pandemic on the Financial Sustainability of Sampled Municipalities before and after the pandemic

The global public financial management reforms serve as cushion and resistance towards financial shocks and risks. This is realisable when financial reforms employed are actually executed by those entrusted with such responsibility. Fritz et al. (2017:60) argues that public financial management reforms should evolve around budget execution including employing systems in place to control spending streams such as cash management, salaries and commitments controls to disburse payments, and setting and employing standard operating protocols to safeguard resources. The budget implementation is crucial to assess performance of revenue against spending. However, prolonged and long-term MTREF budgets deficit suggests some deliverables may not be achieve due to excessive expenditure.

This section analyses section 71 quarterly reports to gauge the impact of the pandemic and MTREF budgets projections tabled in May for 2019/20. The section also classifies categories of the sampled municipalities into subcategories, according to National Treasury classification.

4.4.1 Short to medium term impact on MTREF of sampled municipalities

The tables below show quarterly operating revenue, expenditure and transfers of sampled municipalities. The tables also indicate surpluses or deficits which are reflected as percentage of operating revenue. A performance comparison of 4 quarters before the pandemic and 4 quarters since the start of the pandemic is reflected. The quarters include: 2019/20, Q4 (01 April to 30 June 2020); 2020/21, Q1 (01 July to 30 September 2020); 2020/21, Q2 (01 October to 31 December 2020); and 2020/21, Q3 (01 January to 31 March 2021). The periods are paired with the same previous periods prior to the pandemic.

Table 7: Quarterly budget balances Year on Year (YoY) changes of sampled municipalities

Category	Capacity	Municipality	R millions	Post-Pandemic				Pre-Pandemic				Surplus/Deficit as percentage Operating Revenue			
				2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3	2018/19-Q4	2019/20-Q1	2019/20-Q2	2019/20-Q3	2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3
B2	HIGH	Dawid Kruiper	Operating Revenue	117.2	166.2	192.8	174.3	129.0	-	164.0	174.1				
			Operating Expenditure	150.4	205.5	170.2	164.1	143.8	-	173.5	164.5				
			Surplus/(Deficit)	(33)	(39.3)	22.5	11.1	(14.7)		(9.4)	11.1	(28%)	(24%)	12%	6%
			Transfers and susbsidies- capital	7.9	193.0	13.3	2.7	12.9		13.4	6.4				
			Surplus/(Deficit) after capital transfers	(25.2)		35.9	13.9	(1.8)		3.9	16.0				
B3	MEDIUM	Emthanjeni	Operating Revenue	20.7	76.7	66.1	46.2	34.5	72.5	47.2	35.2				
			Operating Expenditure	39.2	58.2	60.6	42.1	122.5	51.3	44.1	39.2				
			Surplus/(Deficit)	(18.5)	18.5	5.4	4.1	(88.0)	21.2	3.1	(3.9)	(89%)	24%	8%	9%
			Transfers and susbsidies- capital	-	-	-		-	-	-					
			Surplus/(Deficit) after capital transfers	(18.5)	18.5	5.4	4.1	(88.0)	21.2	3.1	(3.9)				
B4	LOW	Hantam	Operating Revenue	12.8	28.0	11.5	14.2	11.8	26.1	14.4	15.0				
			Operating Expenditure	18.2	19.4	21.4	21.0	22.5	17.8	21.4	21.5				
			Surplus/(Deficit)	(5.4)	8.6	(9.9)	(6.8)	(10.6)	8.2	(6.9)	(6.4)	(42%)	31%	(86%)	(48%)
			Transfers and susbsidies- capital	7.1	-	-	-	-	-	18.8	29.3				
			Surplus/(Deficit) after capital transfers	1.7	8.6	(9.9)	(6.8)	(10.6)	8.2	11.8	22.8				
B4	LOW	Khai-Ma	Operating Revenue	6.2	23.9	12.1	7.9	6.8	22.2	14.0	11.6				
			Operating Expenditure	10.2	11.8	12.9	12.1	10.3	9.7	15.0	13.1				
			Surplus/(Deficit)	(4.0)	12.1	(1)	(4.2)	(3.5)	12.5	(1.0)	(1.4)	(65%)	51%	(7%)	(53%)
			Transfers and susbsidies- capital	-	-	1.7	2.4	6.8	-	1.0	-				
			Surplus/(Deficit) after capital transfers	(3.2)	12.1	1	(1.8)	3.2	12.5	0	(1.0)				
B4	LOW	Karoo Hoogland	Operating Revenue	6.8	19.1	17.4	14.7	7.8	5.8	40.8	9.6				
			Operating Expenditure	11.8	11.0	16.7	13.9	6.1	9.5	19.5	12.1				
			Surplus/(Deficit)	(5.0)	8.1	1	1	1.9	(3.7)	21.2	(2.5)	(74%)	42%	4%	6%
			Transfers and susbsidies- capital	-	-	-	0	-	-	-	2.0				
			Surplus/(Deficit) after capital transfers	(5.0)	8.1	1	1.2	1.4	(3.7)	1	(1)				
B4	LOW	Kareeberg	Operating Revenue	5.2	19.0	21.4	13.3	9.1	19.3	32.1	1				
			Operating Expenditure	18.1	11.6	11.8	13.4	17.6	17.8	15.5	6.7				
			Surplus/(Deficit)	(12.9)	7.4	9.6	(0)	(8.4)	1.4	16.5	(5.9)	(248%)	39%	45%	(1%)
			Transfers and susbsidies- capital	1.8	-	1.6	1	6.1	2.8	2.7	1.5				
			Surplus/(Deficit) after capital transfers	(11.0)	7.4	11.3	0	(2.3)	4.3	19.3	(4.4)				

Source: Own calculations; Own table; National Treasury database

Table 7 depicts 2019/20 - Q4, the first quarter of the pandemic, where all the sampled municipalities suffered severe financial shocks, showing deficit at the end of the quarter. The Kareeberg, Emthanjeni, Karoo Hoogland and Khai-Ma municipalities were the most affected, indicating deficit of 248 percent, 89 percent, 74 percent and 65 percent, respectively. Dawid Kruiper Municipality was the least affected at 28 percent compared to others. This municipality seems not to have been significantly affected by the complete lockdowns. For other sampled municipalities, it seems that as a result of lockdowns, credit control and debt collection policies were not enforced to collect revenue.

However, this changes in 2020/21 - Q1, showing a significant improvement in all municipalities except for Dawid Kruiper municipality. Even though the deficit decreased slightly, Dawid Kruiper was comfortable sitting at a deficit of 24 percent. Operating revenue showed resistance against operating expenditure in this quarter, this may be due to easing of lockdown restrictions. The revenue was also boosted by ES transfers to municipalities, since the first tranches is normally transferred in July, beginning of the municipal financial cycle.

The positive performance continues in 2020/21- Q2, moving Dawid Kruiper out of deficit, while Hantam and Khai-Ma regressed, and plunged into deficit. The two municipalities seem to have suffered more as they continued with the downward trajectory even in 2020/21-Q3, despite easing of lockdown restrictions and ES transfers.

Table 8: Quarterly operating revenues YoY changes of sampled municipalities

Municipality	Operating Revenue R'000 000'											
	Post-Pandemic				Pre-Pandemic				% Change YoY			
	2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3	2018/19-Q4	2019/20-Q1	2019/20-Q2	2019/20-Q3	2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3
Dawid Kruiper	117.2	166.2	192.8	174.3	129.0	-	164.0	174.1	(9%)	-	18%	0.1%
Emthanjeni	20.7	76.7	66.1	46.2	34.5	72.5	47.2	35.2	(40%)	6%	40%	31%
Hantam	12.8	28.0	11.5	14.2	11.8	26.1	14.4	15.0	8%	7%	(20%)	(5%)
Khai-Ma	6.2	23.9	12.1	7.9	6.8	22.2	14.0	11.6	(9%)	8%	(14%)	(32%)
Karoo Hoogland	6.8	19.1	17.4	14.7	7.8	5.8	40.8	9.6	(13%)	(229%)	(57%)	53%
Kareeberg	5.2	19.0	21.4	13.3	9.1	19.3	32.1	1	(4%)	(2%)	(33%)	1 581%

Source: National Treasury database; Own calculations; Own table

Table 8 shows operating revenue YoY changes during Covid-19 pandemic over 4 quarters, using the previous year's similar periods as a benchmark. The blank space indicates a period during which a municipality did not report.

The sampled municipalities exhibited poor revenue collection performance and only Hantam Municipality reflects resilience at 8 percent positive collection rate at the end of 2019/20-Q4. The revenue collection of Hantam was enhanced by good performance in service charges, which may also be an indication that effective measures were put in place to mitigate hard lockdown. During this quarter, Emthanjeni municipality appears to have suffered significant shocks, achieving a negative performance of 40 percent. The poor performance was attributed to non-payment of property rates.

For 2020/21-Q1, 2020/21-Q2 and 2020/21-Q3, Dawid Kruiper and Emthanjeni recovered very well, and recorded positive results. These municipalities owed these outcomes to good performance in property rates and service charges. While Hantam managed to absorb the hard lockdown shocks, in 2020/21-Q2 and 2020/21-Q3, the municipality relapsed, recording a regression of negative 20 percent and 5 percent, respectively.

Karoo Hoogland and Kareeberg appeared to be in a prolonged state of financial shock, achieving negative outcomes for 2020/21-Q1 and 2020/21-Q2, and a positive sign of recovery start to emerge in 2020/21-Q3.

The rental of facilities, licences, fines and permits contribute a small margin of own revenue and make no significant difference towards revenue collection.

Table 9: Quarterly operating expenditures YoY changes of sampled municipalities

Municipality	Operating Expenditure R'000 000'											
	Post-Pandemic				Pre-Pandemic				% Change YoY			
	2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3	2018/19-Q4	2019/20-Q1	2019/20-Q2	2019/20-Q3	2019/20-Q4	2020/21-Q1	2020/21-Q2	2020/21-Q3
Dawid Kruiper	150.4	205.5	170.2	164.1	143.8	-	173.5	164.5	(5%)	-	(2%)	0.2%
Emthanjeni	39.2	58.2	60.6	42.1	122.5	51.3	44.1	39.2	68%	(13%)	(37%)	7%
Hantam	18.2	19.4	21.4	21.0	22.5	17.8	21.4	21.5	19%	(9%)	-	2%
Kha-Ma	10.2	11.8	12.9	12.1	10.3	9.7	15.0	13.1	(0.9%)	(22%)	14%	8%
Karoo Hoogland	11.8	11.0	16.7	13.9	6.1	9.5	19.5	12.1	(93%)	(16%)	14%	15%
Kareeberg	18.1	11.6	11.8	13.4	17.6	17.8	15.5	6.7	(3%)	35%	24%	(100%)

Source: National Treasury database; Own table, Own calculations

Table 9 highlights the YoY change in operating expenditure before and during the pandemic. Overspending is depicted in brackets. Overspending can be seen during the start of the pandemic, at the end of 2019/20-Q4. More noticeable is Karoo Hoogland municipality, overspending with 93 percent in operating expenditure. Other overspending municipalities include Dawid Kruiper at 5 percent, Kareeberg at 3 percent and Khai-Ma at 0.9 percent. Emthanjeni and Hantam managed to control spending or were inadvertently controlled by economic meltdown credited to hard lockdowns.

For 2020/21-Q1, the sampled municipalities did not exhibit any signs of slowing down on over spending. Emthanjeni and Hantam municipalities' expenditure controls relapsed and joined the pack with overspending. Dawid Kruiper did not report for 2020/21-Q1 and Kareeberg shows a retrain in spending appetite in this period.

The 2020/21-Q2 and 2020/21-Q3 periods show improvements on spending within the budget; while Dawid Kruiper and Emthanjeni municipalities show persistence on overspending, and Kareeberg's overspending surged on operating expenditure to 100 percent. The improvement realised, with other municipalities, may be due to easing of lockdown restrictions, which allowed economic activities to resume, enabling these municipalities to enforce credit control and debt collection policy, and collect revenue to circumvent spending.

For all the periods under review, overspending was attributed to salaries (employee costs and remuneration of councillors), bulk purchases, contracted services and other expenditure. The municipalities may have been forced to continue with bulk purchases (water and electricity) expenditure due to numerous reasons which include keeping lights on for communities and running of essential services as well as spending on bulk water to tend to community basic needs despite not collecting revenue to mitigate spending.

Also, unlike the private sector, the sampled municipalities did not freeze employee benefits, or cut or retrench workers. The salary bill remained the same, while revenue inflow was minimum due to hard lockdown disruptions.

The contracted services are one of the expenditure items that was overspent, meaning municipalities had to continue disbursing payments to consultants to provide certain services even during lockdown. The sampled municipalities' excessive spending on other expenditure could have been attributed to emergency procurement of Personal Protective Equipment (PPE) and sanitary material to curb the spread of the pandemic.

4.5 Conclusion

The sampled municipalities have high number of indigent households funded through ES which indicate a reliance on grants to augment limited own revenue. This is supported by the high dependency ratio and the excessive FBS allocation from the national fiscus. With low economic activities, the situation is likely to persist for a longer period, considering the rural nature of the sampled municipalities.

The financial ratios of the sampled municipalities were evaluated and the results cast uncertainty on financial sustainability. These municipalities were barely surviving before the pandemic and were rescued by the intergovernmental transfers. The financial ratios assessments outcomes during the pandemic are consistent with previous years. Not only do the ratios show signs of financial distress but also that the MTREF was severely affected before and during the pandemic.

The financial performance of MTREF indicated severe strains on revenue collection and excessive spending. The analysis showed slow revenue growth complemented with excessive spending. The property rates and service charges, as primary sources of own revenue, were influential in the low revenue collection; while major drivers of overspending were employee costs, bulk purchases and other expenditure. The low revenue performance was possibly not entirely attributed to the pandemic; even the collection rate for previous years were significantly below the required norm. In essence, the pandemic exacerbated an already ailing financial health and deteriorating financial sustainability of the sampled municipalities. Even though there may be signs of improvements in some municipalities, they are still way below the comfortable zone, especially considering that the pandemic threat has not elapsed.

The next chapter analysis the results from qualitative data interpretation.

CHAPTER 5: QUALITATIVE RESEARCH RESULTS

5.1 Introduction

This chapter outlines the outcomes of the case study conducted through questionnaire and interviews with municipal officials in the BTO. The chapter deliberates on the approaches utilised in conducting the research study in order to reach and conclude on the outcomes. This includes elaborating on data extraction methods and sampling pursued, and data analysis and interpretation of the results. In addition, the chapter discusses the perceptions of responding municipalities on financial sustainability. This includes analysis of responses from various interviews and questionnaire to gain insights on respondents' observations and assessments of the responding municipalities' financial affairs. Due to the requirements of the study to protect respondents, pseudonyms were allocated to protect their identity. Each respondent was allocated a case number that was utilised to emphasis certain points where the researcher needed to cite a response from a particular respondent.

5.2 Research Design

The entire research was steered within the framework of the social science paradigm, using case study research. The study applied deductive and inductive reasoning rooted in quantitative and qualitative research approaches. The researcher employed the mixed method approach information gathering techniques, informed by descriptive and exploratory mechanisms of the research design. According to Creswell (2013:5) and Yin (2009:29) "The design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions".

An explanatory sequential design was adopted, in which a quantitative approach was followed by a qualitative approach. According to Wisdom and Creswell (2013:2), the design "typically involves two phases: (1) an initial quantitative phase, followed by (2) a qualitative data collection phase…". The study expands or elaborates on the outcomes from one research technique with another method (Creswell, 2003:16) In this study, the first phase of the study conducted a quantitative analysis of financial ratios (literature review and

Chapter 4) and in the second phase, the researcher followed through by administering a qualitative questionnaire and conducting interviews. The qualitative approach develops directly from the quantitative results or the quantitative outcomes are described and explained through the qualitative data gathering and interpretation.

The researcher used an unstructured questionnaire and semi-structured interviews to ask open-ended and in-depth questions. An unstructured questionnaire generates more contribution and assistance from respondents since they can express their own opinions. Respondents use their own words to answer open-ended questions, hence, more cooperation is required on their part. Semi-structured interviews are a useful method for knowledge acquisition that is proven, dependable and trustworthy.

5.3 Limitations of the Study

The study was conducted under extremely difficult conditions and times when direct contact with participants was prohibited due to the widespread Covid-19 pandemic, restrictions and nationwide lockdowns. As a result, the researcher had limited options of data and information gathering methods. Apart from the pandemic, the researcher encountered setbacks with certain responding municipalities.

The researcher experienced some challenges in two responding municipalities, Emthanjeni and Dawid Kruiper. The researcher requested interviews with three respondents of Emthanjeni municipality and none of them were available due to conflicting schedules with the times of local government elections preparations. Consequently, only quantitative results of the concerned municipality were analysed and the results are limited to that extent. However, the quantitative outcomes remain crucial as they provide a tentative sense of the financial affairs of the respondent and necessitate further research.

Regarding Dawid Kruiper municipality, the researcher had envisaged to interview three respondents. Only one interview (with the Acting CFO) was successful due to the unavailability of respondents at the time of the interviews. The respondents were not available due to Covid-related demises and illnesses of finance personnel. Subsequently, the Acting CFO was also acting in three other posts (Revenue, Expenditure and Asset Manager). Nevertheless, the study focuses on the municipality as the unit of analysis, not the respondents.

5.4 Sampling

Sampling is the process of choosing a group of individuals derived from a certain population to represent the population for a specific study. Samples are selected for the reason that it would be unfeasible to consider all members of the target group (Brewerton and Millward, 2002:15).

As indicated in 1.7, the study applied purposive sampling using non-probability sampling method. Purposive sampling, also known as judgemental sampling, is based on the researcher's judgement relating to the characteristics of the sampled representatives (Babbie, 2004:183). Brink (1996) elucidates that in purposive sampling, a topic that is being researched or representatives of the phenomenon who are conversant about the inquiry at issue is founded on the researcher's judgement regarding objects and subjects. In simple words, the researcher selects the respondents based on his or her judgement while bearing in mind the aim of the study (Showkat and Parveen, 2017:8).

Based on the knowledge of representative population, the research assignment objectives and research questions were raised, it was decided to include small, medium and large municipalities from the population. The study was confined only to the selection of respondents who are finance professionals and working within the BTO of the sampled municipalities.

After the target population was sampled, the researcher submitted a formal written request, followed by telephonic correspondence, to each prospective municipality (addressed to the AO) seeking permission to conduct the study. Subsequently, written consent permitting the researcher to proceed with the study was received from the respective municipalities.

5.5 Data Collection

The study applied a mixed method approach to data collection. Data and records for the study were attained from reports, books and literature. As indicated in 1.7, the mixed method was selected based on the methodological approach. Hybrid data was attained and categorised as primary and secondary (existing) data.

The existing quantitative data was attained from extensive literature review and analysis of financial ratios in Chapters 3 and 4, respectively. The literature review was undertaken to gather a comprehensive understanding of the financial sustainability conceptual framework and financial ratios analysis in local government.

The qualitative primary data was gathered through in-depth individual interviews. The interviews were held with finance personnel including CFOs and AOs, in some cases. Most of the respondents that were interviewed were reporting directly to the CFOs. During the interviews, where respondents were inaudible or had technical glitches, they were requested to repeat their responses to enable the researcher to fill the identified gaps.

To validate the construct emerging from the literature review and financial ratios, a set of questionnaires were issued to responding municipalities. The questionnaire was only sent to respondents that preferred responding via questionnaire over an interview, or did not have equipment or technology for Microsoft Team video conferencing. The questions from the questionnaire were similar to questions asked during interviews with other respondents. This was conducted to ensure parity and consistency between the qualitative questionnaire and interview outcomes.

5.6 Data Analysis

In this study, data analysis started with textual data created through semi-structured interviews. The researcher interviewed seven participants. The researcher listened attentively to all the recorded responses of interviewees several times. This was conducted to develop and construct a comprehensive understanding of the contextual concepts from interview responses. The views, statements and opinions of respondents were considered and extracted from the data to comprehend the personal experiences of respondents. The data generated from interviews were analysed and categorised into groups. This was done to establish the existence of prevalent and common themes.

Common themes were identified and integrated into appropriate constructs. The constructs were utilised to shape the theoretical framework of the study.

The researcher summarised responses according to the consolidated themes. This was done to create a composite view from corresponding responses of the clustered interview themes, instead of providing summaries per respondent from the responding municipalities (Ajam et al., 2021:96). However, emphases were made on specific circumstances where unique aspects arose from interviews pertaining to a certain municipality. This means that acknowledgements were considered only when an exclusive situation of a particular municipality emerged.

The responding municipalities were identified in order to understand the impact of financial sustainability due to the shock of the Covid-19 pandemic. The selection of municipalities ranged from small, medium, to large. In order of sequence, the interviews commenced with Hantam (small), Karoo Hoogland (small) and Dawid Kruiper municipality (large). The interviews took place between 04 October and 30 November 2021. The respondents were CFOs and/or managers from various finance units. The respondents that were interviewed possessed certain knowledge, skills and experience in their respective fields, and provided more insight on the subject under study. The interview questions were shared with the respondents on the eve of the interviews. This was done to afford the respondents time to prepare for the interviews. However, the interviews were not limited to the interview schedule; sub-questions and points of clarity were raised during interviews. This led to valuable information that was utilised as part of the content derived from the in-depth individual interviews (refer to 1.7.2.1). The respondents were introduced to each question and permitted to have leeway when responding to interview questions. This included making corrections or additions to responses on previous questions when the respondent was reminded of important points that were not clearly articulated.

Subsequently, five (5) themes emerged from the analysis of the interview responses. The themes were identified based on their importance to understanding the plight of financial sustainability in responding municipalities.

The clustering of themes was also influenced by the measurement construct of the study in question. The following themes are based on the data produced from interviews and the categorisation of identified concepts into associated themes:

- Financial sustainability and performance
- MTREF budget planning
- Tariffs and trading services
- Competency capacity levels
- Financial ratios

5.6.1 Analysis of key themes from interviews with responding municipalities

5.6.1.1 Financial Sustainability

In a local government context, financial sustainability is the ability to meet financial commitments and service delivery with sustainable current spending and revenue policies without increasing the level of indebtedness. Respondents were asked to rate their financial sustainability and performance before and since the start of the Covid-19 pandemic. They rated themselves on a scale of 1-5; 1-being very poor, 2-poor, 3-good, 4-very good and 5-exceptional.

Two (from three) of the responding municipalities rated themselves on a scale of 2 in both scenarios. This, in reality, means the municipalities were in poor financial position before the pandemic commenced. The poor financial sustainability emanated from poor or ineffective revenue and expenditure policy implementation. The respondents indicated that their financial condition is only manageable when own revenue is supplemented with transfers, suggesting a high degree of grant dependency.

Since the beginning of the pandemic, the respondents noted contractions in revenue due to the enforcement of lockdown but did not see a change in expenditure. They indicated that this was attributed to monthly standing obligations such as Eskom and salaries, and other contractual payments. The responding municipalities had to continue disbursement of payment despite not collecting or enforcing their credit control and debt management policy. In contrast to other respondents, Dawid Kruiper municipality selected a scale of 3, which suggested good financial sustainability in both scenarios. The municipality’s responses were consistent with the positive collection rate outcomes for all the years under evaluation (refer to figure 3). The policy trajectory of the municipality was able to cushion financial controls against the devastating effects of the pandemic.

It is noteworthy to mention that Dawid Kruiper is a large municipality while the other responding municipalities range from small to medium. The common thread between these municipalities is their rurality and small revenue base, in contrast to Dawid Kruiper which has a more diversified revenue base which supports its greater economic resilience. This could have left these smaller or more rural municipalities more vulnerable to the financial shock of the pandemic and susceptible to severe financial constraints with little reserves to draw on as financial leverage against the pandemic. More importantly, two of the responding municipalities (Karoo Hoogland, Khai-Ma and Hantam) are located in the Namakwa district, which was designated as a drought-stricken area. As a result, these municipalities rely on farming as the main economic activity and job creator. The pandemic came at a worse time when revenue base was already dwindling due to drought, hence their financial sustainability was most affected by the Covid-19 pandemic.

Whilst this was not limited to the responding municipalities, the respondents noted job losses that have resulted in an upsurge in unemployment and economic growth decline in their jurisdiction, coupled with long-term consequences.

The respondents proceeded to acknowledge that the responding municipalities are unable to sustain daily operations without intergovernmental subsidies. In essence, this means the responding municipalities rely on transfers to perform daily operations. The respondents explained that the reliance on transfers started before Covid-19 and continues during the pandemic. This is in contrast with the Constitution (Republic of South Africa, 1996:100) which allows municipalities to impose property rates and taxes, and in principle to be self-sufficient.

The responding municipalities' financial sustainability position could be aggravated should the national government continue with budget cuts in line with cost containment regulations or decrease equitable share grants due to national deficit pressures. Apart from the budget cuts, the economic situation of the country does not permit flexibility or liberty in budget allocation and appropriation, owing to the pandemic and prior economic challenges. Moreover, the national government has no obligation to rescue municipalities that do not generate adequate revenue with their fiscal capacity.

5.6.1.2 MTREF budgets planning

The MTREF spans over a period of three years (current and two outer years). The respondents were asked if they had accessed cash reserves or borrowings to fund their budget due to Covid-19. None of the responding municipalities had cash reserves or borrowings to supplement budget constraints at the start of the pandemic. This was supported by respondents indicating that they had approved unfunded MTREF budgets. While it was clear that the exhausted cash reserves were the results of poor revenue collection and a surge in debtors, the responses were not distinct. The respondents could not affirmatively indicate whether borrowings were not accessible due to poor credit ratings or if they tried but were rejected. However, the evidence suggests that the responding municipalities were already on a downward financial trajectory.

When asked if operational revenue was adjusted downwards significantly whilst operational expenditure was adjusted upwards, respondents indicated that revenue was the most affected due to the Covid-19 pandemic. Moreover, respondents commented that municipalities had to continue incurring operational expenditure to pay salaries even during a total shutdown. However, this was not the case for revenue collection; consumers received payments holiday for service charges. The capital projects remained stagnant, affecting spending on capital revenue and expenditure. The prospect of returning unspent conditional grants had to be filtered into the adjustment budget. The budget adjustments signify that the two outer years would be impacted and modified, owing to the pandemic. This suggests that the responding municipalities are likely to increase the budget deficit and remain unfunded, unless pragmatic financial and economic recovery plans are developed to resuscitate revenue.

The financial and economic recovery plans need to be complemented with effective cash management controls. However, when respondents were asked whether cash management was aligned with spending and revenue, the respondents were adamant that they had prepared cash management plans but it was difficult to align the plans with cash flow due to financial constraints. This is in agreement with the number of days the responding municipalities take to pay creditors or collect revenue from debtors (figure 4 and figure 6). Kareeberg municipality was an exception, creditors appeared to have been paid on time, and credit control and debt collection seem to be effective.

Despite conceding to have evident financial constraints and challenges, the responding municipalities highlighted that they have been able to pay salaries and third parties on time. However, in the medium to long-term, the situation may change; the potential increase in the budget deficit, stagnant economic growth and rise in unemployment could inflict severe financial turmoil. Another scenario is that the responding municipalities may have to serially default on disbursement of creditors payments, and prioritise salaries and third parties. It should be borne in mind that the creditors' payment period is already high, falling outside the prescribed 30 days.

5.6.1.3 Tariffs and trading services

Trading services include electricity, water, sanitation and refuse. The services are provided through set tariffs, which include the maintenance of infrastructure, charged to consumers. The respondents were asked whether any of the trading services' tariffs reflect the cost of providing the services. All the responding municipalities conceded that their tariffs are not cost-reflective. They proceeded to indicate that they are working on rectifying their tariffs, to reflect the real cost of providing the services.

Cost-reflective tariffs are very crucial for budget financing, particularly the proportion of own revenue. In order to achieve such, the tariffs must cover the cost drivers of cost centres providing the service charges. However, it is important to note that tariffs must be affordable to consumers or at least break even. With the debtors increasing in responding municipalities, this suggests that trading services tariffs may be unaffordable and a contributing factor to the surging debt. The increase in unemployment and economic decline are clear indicators that the standard of living is becoming unaffordable, and moderate tariff settings should be taken into consideration. In addition, unemployment inevitably gives rise to indigent households. A surge of indigent consumers becomes the burden of the national government and, by extension, taxpayers.

Own revenue growth has been stifled not only by the Covid-19 pandemic but also because the enforcement of revenue policies has been lagging. While respondents made remarks that revenue growth has been affected by the pandemic, they did not clarify how to rectify the situation. The responding municipalities need to explore new own revenue sources to augment the current sources. This can be achieved, for instance, by benchmarking own revenue sources with that of other municipalities of similar size and nature. This could assist the responding municipalities to identify new own revenue sources that have not yet been explored and commissioned.

5.6.1.4 Competency capacity levels

According to the responses from interviews, all the respondents possess appropriate qualifications required for their respective positions and meet the minimum competency requirements. Additionally, vacancies were filled, except for Karoo Hoogland municipality. The CFO of Karoo Hoogland indicated that some officials in the finance unit do not have the required qualifications and are too old to pursue further studies. The CFO meets the competency levels. One of the challenges facing rural and small municipalities is that they normally find it difficult to attract the required skills. Ajam et al. (2021:33) note that it is difficult for small municipalities in rural areas to attract and retain essential skills. However, this observation should not be perceived as disqualification of officials (without formal qualifications) as incompetent. Some of the officials started working at the municipality at the dawn of democracy with only matric, which was permissible at the time. This pattern is prevalent in municipalities of this nature and is not only unique to Karoo Hoogland.

The Dawid Kruiper municipality was under-capacitated and had an acting CFO, at the time of the interviews. The acting CFO indicated that key senior managers in finance had succumbed to Covid related illnesses. This was a reminder that the pandemic does not only have a negative financial impact but can also cripple the staff complement, leaving the institution vulnerable. The vacant position had not been filled or advertised due to Covid restrictions. The pandemic brought forcible and undesired change management, which is a delicate process that needs to be managed with care.

The respondents were asked whether they have sufficient skills in financial management, and all of them indicated challenges with the implementation of mSCOA and assets management. The respondents explained that officials have not familiarised themselves with mSCOA which is expensive to acquire, and not compatible with certain financial systems. Even though mSCOA was launched on 01 July 2017, municipalities are still transitioning and significant data anomalies are prevalent. Another challenge was that some municipalities had to configure financial systems to host mSCOA or abandon them and migrate to a different system. This hindrance poses a threat and possible setback once municipalities start to be audited on mSCOA compliance.

The respondents raised asset management as another area where they lack capacity. The unbundling of assets has been a challenge for municipalities and they opt to outsource the function to consultants. While municipalities procure services of consultants to unbundle assets, significant findings and qualifications from AG have often arisen from assets. This raises doubt on whether any benefit or value for money is derived from appointing consultants to perform this function.

5.6.1.5 Compliance: Financial Ratios

Seeking to understand the degree to which responding municipalities utilise financial ratios to measure financial sustainability, the researcher asked municipalities to rate themselves on a scale of 1-5 on this aspect; 1 = never, 2=once a year, 3= bi-annually, 4=quarterly, 5= more than four times a year. All the respondents indicated that they use financial ratios only once a year. The respondents proceeded to point out that financial ratios are merely used for compliance when required by NT from time to time. The respondents further alluded that none of their stakeholders, other than NT, use financial ratios to assess financial sustainability or for any other purpose in their recollection.

It can be surmised from the responses that early warning signs of risks to financial sustainability and health are overlooked and disregarded. Hence, the responding municipalities are struggling to pay creditors, and have low-income growth and high salary bill. Mitigating mechanisms available to detect deteriorating financial state are ignored with no consequence management in place. This may be a deliberate act on the part of officials or a matter of not understanding the impact and importance of financial ratios as a financial sustainability assessment instrument.

The lack of application of financial ratios by municipal stakeholders may be a depiction of insufficient consultation with and engagement of stakeholders by the municipalities. It should be noted that financial ratios are an accountability tool available in local government and play a key role in fostering transparency on financial affairs of municipalities. For instance, accountability bodies such as Audit committees, executives and Municipal Public Accounts (MPAC) should take into account financial ratios performance when dealing with financial affairs.

Another challenge with rural and small municipalities is evading accountability due to a lack of stakeholders with intellect specialised skills. In particular, financial ratios require stakeholders who are savvy in accounting, and understand their interpretation and relationship with financial sustainability. Furthermore, local professionals migrate to bigger cities or towns seeking greener pastures that are not available in their localities. This deprives municipalities of local talent and robust public participation.

5.6.2 Analysis of qualitative questionnaire results

As indicated earlier, a qualitative questionnaire was utilised as one of the data collection tools. All the data sourced from respondents through a questionnaire must be scrutinised and thoroughly examined before analysis.

Once the questionnaire responses were obtained from respondents, the researcher followed a thoughtful sequence of editing each questionnaire to identify errors, ambiguities, contradictions and omissions. This exercise simplified data analysis without distorting and misrepresenting the data interpretation.

The researcher sent questionnaires to participants of the responding municipalities to address the research question and objectives, and determine their insight on financial sustainability. In October 2021, the questionnaire was distributed through email to six respondents. All the respondents completed and submitted the questionnaire to the researcher.

The results emanating from the questionnaire are summarised as follows:

- The respondents were required to rate financial sustainability before and during the pandemic. All six respondents rated the financial sustainability of the responding municipalities. Five (83%) respondents reported that their financial sustainability was poor and only one responded that it was exceptional.
- The respondents highlighted that their municipalities cannot financially sustain and fulfil daily operations without intergovernmental transfers. Notwithstanding this reality, the respondents made remarks that salaries and third parties were paid constantly during the start of the pandemic.
- All six respondents indicated that the pandemic impacted MTREF budgets, resulting in adjustment of projections. They revealed, however, that creditors were paid on time and no borrowings were acquired as a result of the pandemic. All the respondents were of the view that revenue collection was the most negatively affected by the pandemic.
- All the respondents indicated that the responding municipalities have incurred irregular, unauthorised and wasteful expenditures in the last two

years, as shown in table 10. Respondent Case#12 made remarks that the municipality continues to incur this expenditure due to inaction from the part of council to address the expenditure. This essential means lack of political accountability also contributes to the perpetual incurrence of this forbidden expenditure.

Table 10: Irregular, unauthorised, wasteful and fruitless expenditure: 2018/19 to 2019-20.

Sampled Municipalities		Financial Years	
		2018-19	2019-20
NC065	Hantam	67 629 490	20 240 841
NC066	Karoo Hoogland	42 043 899	40 810 406
NC067	Khai-Ma	39 544 918	46 462 017
NC073	Emthanjeni	85 632 953	90 229 720
NC074	Kareeberg	837 958	393 913
NC087	Dawid Kruiper	51 062 943	36 152 619
Total		**286 752 161**	**234 289 516**

Source: National Treasury database; Own table

- Concerning cost-reflective tariffs of trading services, the researcher received mixed responses on whether their tariffs were cost-reflective. Three (50%) respondents answered no, two (33%) respondents answered yes and the remaining one (17%) was not sure.
- The respondents indicated that revenue growth had declined and became stagnant due to the Covid-19 pandemic. They conceded that the number of debtors' days to collect overdue debt had increased drastically as a result of lack of enforcement of credit control and debt collection. Respondent Case#9 stated that revenue growth has been severely affected,

  > After Covid-19 it became more challenging in the sense that business which previously paid their services on time and to date either closed or are facing financial difficulties which had an impact on the municipality with generating its own revenue.

- Respondents were asked whether they possess minimum competency requirements. Five (83%) participants met the minimum competency levels, while one (17%) did not meet the requirements.
- With regards to staff complement, 5 or 83 % of the respondents have full staff complement.

- All the respondents identified asset management and mSCOA as the areas they are under capacitated on.
- Regarding the extent to which the respondents use financial ratios to evaluate financial sustainability, all six respondents indicated that they have never utilised financial ratios to assess financial sustainability for the responding municipalities.

5.7 Conclusion

Chapter 5 explained the research methods used in the study. The chapter provided and deliberated on the research design and chronological methodology guiding the case study research, together with the techniques utilised in extracting data. A mixed research method was pursued for data collection through conducting interviews, qualitative questionnaire, and secondary financial ratio analysis and literature review. The research process also encompassed data analysis and disclosure of limitations of the study. Additionally, themes were generated from interviews and completed questionnaires, and results were interpreted to capture the perceptions and experiences of respondents.

The respondents are of the view that the responding municipalities were financially unsustainable, either before or during the Covid-19 pandemic. Furthermore, respondents acknowledged a growth of debtors and decline in own revenue; non-payments of creditors which contravenes the requirements of the legislation; consistent unauthorised, irregular and wasteful expenditure incurred in transgression of legislation; unfunded MTREF budget; capacity deficiency to perform specific functions; overspending of resources; and reliance on transfers.

Of significant concern is that other than for routine compliance submission to NT, respondents seldom utilised financial ratios to assess and determine financial health and sustainability, leaving the responding municipalities vulnerable. This finding underscores the importance of financial ratios as an important measurement tool in determining early warnings and financial risks to sustain service delivery. Also, the findings highlight the lack of sufficient consultation during the rollout of financial ratios to sensitise officials and emphasise their role in gauging financial sustainability.

The next chapter deals with the overall conclusion and recommendations of the study.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6. 1 Introduction

This chapter provides the overall inferences and observations of the study in its totality. Like other spheres of government, the local government finds and sources its legislative mandate and existence from the Constitution (1996). The Constitution also confers local government with the right to generate its own revenue and find new revenue streams for its financial sustenance. In order to give effect to the Constitution, the Municipal Fiscal Powers and Functions Act (2007) regulates local government to impose surcharges on services rendered, and many other legislations (refer to chapter 2) governing and normalising own revenue generation for local government to be self-sufficient and financially sustainable.

The main purpose of the study was to assess the impact of the Covid-19 pandemic on financial sustainability. To achieve this, the researcher was compelled to first examine the evolution and definitions of financial sustainability concepts from a local government perspective. Through the review of literature, many compelling definitions emerged and evolved. However, the literature review suggests that there is no universal consensus on the definition of financial sustainability among authors. In this study, financial sustainability is defined as the fiscal ability of a municipality to sustain its services and financial commitments within revenue limitations without soaring debt and defaulting on its core mandate.

The overall study was directed within the social science paradigm framework using case study research. The study applied deductive and inductive reasoning rooted in quantitative and qualitative research approaches. The mixed method information gathering approach informed the descriptive and explanatory mechanisms of research design. An explanatory sequential approach was followed in reaching the conclusions.

6.2 Recapitulating the Objectives of the Study

The next sections outline the analysis of each research objective and the process followed to achieve the outcomes.

6.2.1 Conceptual framework for analysing financial sustainability

The first objective of the study was to develop a conceptual framework for analysing financial sustainability before and after the pandemic. The study established the conceptual framework based on previous literature, focusing on key elements that influence and impact on financial sustainability and health. The researcher identified financial ratios, MTREF and financial management capacity as imperative and crucial variables when analysing financial sustainability. The variables cover and provide the basis and baseline for assessing and analysing the overall conceptual framework for the financial sustainability paradigm. For a more balanced and comprehensive view of financial sustainability, the researcher developed the conceptual framework navigating through a mixed methodological and design approach.

6.2.2 Assessing financial ratios

The second objective was to assess financial ratios as indicators of the financial sustainability of local government. This objective was partly unpacked through literature review which included existing information on financial ratios. Various literature was reviewed when investigating financial ratios, from history to the present day. Eventually, the study adopted NT financial ratios, selecting key financial ratio indicators deemed to be more relevant and important for the study.

Financial ratios were dealt with in detail in Chapter 4 when assessing the financial sustainability of the sampled municipalities. The selected financial ratios indicators were computed based on formulas promulgated by NT and the interpretation was benchmarked accordingly. The financial ratios outcomes and analysis painted a very gloom picture on the financial performance and sustainability of the responding municipalities. The results depicted municipalities that are under financial distress and incapable of delivering sustainable services. However, this was only the quantitative component of the research outcomes. The researcher still had to triangulate the quantitative results with qualitative interviews and questionnaire.

The financial ratio outcomes were sequentially followed by interviews and questionnaires to validate the results. Subsequently, the results from the qualitative data interpretation coincided and correlated with the outcomes of the financial ratios analysis. The responding municipalities also revealed that financial ratios are not utilised to assess financial sustainability and are only used for compliance purposes when required by NT. Furthermore, it became clear that the responding municipalities are aware of the contribution of financial ratios to financial accountability, however, they are deliberately disregarded, used for malicious compliance and are not afforded the necessary attention.

6.2.3 Implications of the Covid-19 pandemic for MTREF and municipal financial sustainability

The third objective of the study was to analyse the implications of the pandemic on the MTREF and the financial sustainability of local government. When delving through previous literature, many elements came into play that affect and impact on the MTREF budget. What became clear was that the budget must be based on realistic projections or forecasts. The literature review emphasised spending within available revenue and means, and employing comprehensive spending controls and effective revenue management. If revenue projections are benchmarked on incorrect historical figures, future projections would probably not be credible. This is one of the inclinations which have been perpetuating unfunded budgets coupled with overspending and deliberate flouting of internal controls, thereby widening budget deficits. This has been a fundamental contributor to unsustainable MTREF budgets.

The findings of this study further revealed that Covid-19 pandemic exacerbated these pre-existing structural challenges in many municipalities. The responding municipalities are not an exception. The financial ratios results showed a deteriorating state of financial affairs. The responding municipalities acknowledged adjusting MTREF budget due to declining and stagnant revenue growth. The municipalities also recognised that the pandemic will probably maintain the status quo of unfunded MTREF budgets and expand budgets deficits in the foreseeable future. The implications for the MTREF and financial sustainability have been demonstrated by mediocre to poor performance on financial ratios. The responding municipalities realised low collection rates, poor liquidity positions, a higher number of debtors days and creditors payments periods, as well as high wage bills. However, these undesired outcomes cannot be solely attributed to the pandemic since the responding municipalities were already on a downward financial trajectory prior to the pandemic. These findings emanate from an analysis of financial ratios results before the start of the pandemic.

The pandemic implications are also likely to undermine the NT efforts and drive to have municipalities eradicate unfunded budgets. The NT, in this initiative, went as far as withholding LGES segments transfers to force and pressure municipalities to pass funded MTREF budgets. As a result of the pandemic, NT may be expected to strike a conciliatory tone and apply lenience on municipalities passing unfunded budgets, which is likely to ease pressure and inadvertently worsen the situation.

When validating the results from financial ratios with qualitative data to enhance reliability and credibility, a similar image emerged. The results from the interpretation of qualitative data vehemently showed financially unsustainable municipalities. The responding municipalities rely on grants, were financially unsustainable before the pandemic, and showed depleted revenue growth, high debtors' book with no cash reserves and non-payments of creditors. Furthermore, the municipalities continue to incur unauthorised, irregular and fruitless expenditure unabated without repercussions and consequence management, which in its form also shows a deficiency in adherence to internal controls and legislations. In essence, the implications of Covid-19 on MTREF and financial sustainability have worsened an already ailing financial health.

6.2.4 The effect of financial management capacity

The fourth objective was to assess the effect of financial management capacity on the financial sustainability of local municipalities. During the review of the literature, numerous factors that influence financial management capacity, including accountability, control process, capacity building, management and political leadership were examined. As a result, it was inferred that inadequacies in administrative capacity, financial and internal controls, and incohesive leadership hinder the implementation of sound and effective financial management.

The finance officials of responding municipalities overall meet the minimum competency requirements as promulgated in terms of municipal regulations on minimum competency levels (Republic of South Africa, 2007). However, despite meeting the competency levels, significant transgressions in financial management were prevalent. The transgressions include unauthorised, irregular, wasteful and fruitless expenditure, which in most instances may be tantamount to financial misconduct. It would be expected that when officials possess the necessary competencies, they would have the capacity to execute their financial management functions effectively and efficiently. However, this is not always the norm, as exhibited by the responding municipalities. This may be due to other exacerbating factors such as deficiency of electronic accounting systems or management deficits such as the absence of (customised) standard operating procedures (SOPs). Moreover, this may suggest that the minimum competency requirements are set too low for what is required to achieve effective financial management.

The responding municipalities have no vacant positions in finance. This indicates that the municipalities have full staff complements. However, the disregard for financial management internal controls raises a number of serious questions on whether officials are maliciously flouting internal controls and regulations or are incapacitated in the positions they currently hold. The former seems to be more fitting than the latter. The minimum competency requirements cover all financial management areas, and training and skills development entails continuous development of officials. With this in mind, it may suggest that the responding municipalities are maliciously disregarding financial management controls and related regulations. In addition, the responding municipalities do not pay significant attention to financial ratios, which could be construed as deficient financial management capacity.

In conclusion, deficient financial management capacity was noted in the responding municipalities despite having full staff complements and being in possession of minimum competency requirements. Lack of financial management capacity has a direct negative effect on the financial sustainability. In this case, noncompliance with financial management internal controls and regulations has resulted in a reoccurrence of forbidden expenditure which frustrates financial sustainability.

6.3 Recommendations

The fifth and last objective was to provide practical solutions and recommendations on how the responding municipalities can enhance their financial sustainability after the Covid-19 pandemic. The following recommendations emanate from the overall findings and observations of the study:

6.3.1 Revenue collection and enhancement

(a) The municipalities should prioritise resuscitation and maintenance of dilapidated infrastructure to address, reduce and curb high distribution losses. This should include improving turnaround times for responding to pipe bursts, monitoring electricity theft and ensuring culprits are held accountable.

(b) Alternatively, to revamp municipal services infrastructure, the responding municipalities should seek and bid for funding from the national government. The infrastructure overhaul should modernise the provision of municipal services including smart metering technology which can detect leaks and pipe bursts, meter tampering and electricity theft.

(c) The municipalities should search for new and additional revenue streams to augment the current declining own revenue in order to sustain operations and service delivery strategic deliverables. To achieve this, the responding municipalities should undertake a benchmark expedition to other municipalities of similar size and nature to investigate revenue streams that have not been explored and tapped into.

(d) The responding municipalities should review the trading services and existing tariffs, particularly water and electricity, and set tariffs that reflect a realistic cost of providing each service including maintenance and cost centre operational expenses. The municipalities must strive to set cost-reflective tariffs that at least reach the breakeven point of providing and sustaining services.

(e) The municipalities should embark on a debt collection drive focusing on consumer service payment awareness campaign. The campaign should bring the attention of the consumers to the role of payment of services in uplifting and sustaining their communities while alluding to the pros and cons of non-payment of services. The campaign should take place in parallel with stringent credit control and debt collection enforcement.

(f) The municipalities should consider reconfiguring the prepaid electricity vendor systems to allocate a certain percentage to outstanding debt whenever a defaulting consumer purchases electricity. This effort will ensure that credit control and debt management work in tandem and are mutually reinforcing.

6.3.2 Expenditure management, control and containment

(a) The municipalities should reduce, control, contain and delimit the salary bill to align with the predetermined norms and guidelines espoused by NT to improve financial sustainability. Notwithstanding this, municipalities may seek exemption on conditions of service from South African Local Government Association (SALGA), as conditions of service are largely a competence of the association. Moreover, the sampled municipalities must, in the short term to medium term, apply cost-containment measures on overtime and prioritise appointments on key strategic service delivery vacancies, and review and discontinue nonservice delivery vacancies from the organogram in order to have a sustainable salary bill.

(b) Considering the magnitude of unauthorised, irregular and wasteful expenditure that has been incurred continuously, the municipalities should review and strengthen internal controls to circumvent the weaknesses in spending processes and authorisations.

(c) The responding municipalities should review and customise the expenditure management standard operating procedures to leverage the weakness in internal controls systems.

(d) The municipalities should develop, verbalise and implement creditors' payment plans to prioritise the disbursement of payables. The plan must include clear targets and timeframes for payment of creditors, for instance, all undisputed invoices must be paid within 7-14 days, which would ascertain payments are made within the 30 days prescribed by the legislation.

6.3.3 MTREF budgets

(a) The sampled municipalities should investigate baseline information to enhance budget projections which will assist to ensure and ascertain MTREF budgets figures are based on credible, and reliable data and information.

(b) The municipalities must not be overly optimistic when preparing IDP to ensure service delivery deliverables are funded from realistic MTREF budget and curb overspending.

(c) The municipalities must reconcile annual budget with IDP to ensure that service delivery plans are based on realistic budgets. When budgets are not cash backed and realistic, service delivery strategic goals are doomed and susceptible to imminent failures.

(d) In order to reduce the operational deficit and ultimately have a surplus; the municipalities must develop unfunded budget plans that have realist prudent targets which would move the budget from deficit to surplus or a break-even point.

6.3.4 Skills competence capacity

(a) Even though the municipalities meet the minimum competency requirements, training on financial ratios is necessary to capacitate officials on the impact and role of financial ratios in determining financial sustainability. In addition, the municipalities should train and keep officials abreast with existing and new reforms in finance to enhance financial management capacity performance. In order to contain costs (by avoiding the use of consultants), the municipality can consult and request the relevant Provincial Treasury to render training on financial ratios at no cost, as a proactive warning system.

6.4 Conclusion

The findings of the study are compelling as a fact-finding enquiry and a framework to measure the impact of the Covid-19 pandemic on the financial sustainability of the responding municipalities. Of significance, the study focused on key financial sustainability variables (the MTREF, financial ratios and financial management capacity) that reflect the fiscal health of local government.

The study also provided recommendations as substantive solutions to the responding municipalities to navigate the challenges they are facing. The recommended solutions are essential mechanisms to turnaround the fiscal health, enroute to financial recovery.

The limitation of the study was its sample size which did not allow for statistical analysis; consequently, the results cannot be generalised. Further research is required that would broaden insights in this area of research, including the addition of variables such as the dynamics of the political-administrative interface.

Even though the results cannot be generalised to other municipalities, the conceptual framework developed by the study can be utilised as a benchmark by other municipalities and studies for policy decisions and quantitative research, respectively.

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ANNEXURE A: INTERVIEW GUIDE

INTERVIEW TOPIC:
EVALUATING THE IMPACT OF COVID-19 PANDEMIC ON FINANCIAL SUSTAINABILITY OF NORTHERN CAPE PROVINCE LOCAL MUNICIPALITIES

Interview guide

Semi-Structured interviews: Budget and Treasury Office (BTO) officials

Name of interviewer:

Respondent Name: Case #0

Place of interview:

Date and time of interview:

Interview Questions

1. Before the Covid-19 pandemic, can you describe how was the state of financial sustainability of the municipality, from a scale of 1-5.

1=Very poor ☐ 2=Poor ☐ 3=Good ☐ 4=Very Good ☐ 5=Exceptional ☐

2. What has been the financial performance of the municipality since the start of the Covid-19 pandemic 15 March 2021? (a) Please rate from a scale of 1-5

1=Very poor ☐ 2=Poor ☐ 3=Good ☐ 4=Very Good ☐ 5=Exceptional ☐

(b) Please explain your answer in relation to the municipality's performance before the pandemic?

……………………………………………………………………………………………….

3. How has the medium-term budget planning been adjusted as a result of Covid-19 pandemic? Please relay your answer in relation to the following topics:

a) Operational Revenue management

………………………………………………………

b) Operational expenditure management

……………………………………………………

c) Capital budget: revenue and expenditure

……………………………………………………

d) Borrowings

……………………………………………………

e) Debtors and Creditors, and;

……………………………………………………

f) Cash management.

……………………………………………………

4. a) In the Medium-Term Revenue and Expenditure Framework budget projections, does the municipality have an operational surplus or deficit in the current year and for the 2 outer years?

b) If it's a deficit, how are you intending to reduce or eliminated it?

………………………………………………………………………………

c) If there are surpluses, what are the factors resulting in the projected surpluses

………………………………………………………………………………………

5. In the previous two (2) Financial Years, has the municipality incurred the following expenditures? In your answer, please include actions taken to rectify the situation and mitigations to prevent this from reoccurring in future.

a) Unauthorised expenditure

………………………………………………………………………………

b) Irregular expenditure

………………………………………………………………………………

c) Fruitless and Wasteful expenditure

………………………………………………………………………………

6. In relation to revenue, are the tariffs for trading services of the municipality cost reflective? Please provide your suitable answer by ticking in one of the boxes

a). Electricity: Yes ☐ No ☐ I don't know ☐

Please explain your answer………………………………...

b). Water: Yes ☐ No ☐ I don't know ☐

Please explain your answer………………………………...

c). Sanitation: Yes ☐ No ☐ I don't know ☐

Please explain your answer………………………………...

d). Refuse: Yes ☐ No ☐ I don't know ☐

Please explain your answer……………………………….

7. How has the revenue growth been affected due to Covid-19 pandemic?

………………………………………………………………………………………

8. Since the start of the Covid-19 pandemic, has the municipality struggled to fulfil its operational obligations in the following areas?

(a). Has the municipality failed or struggled to pay Salaries and Wages in any month?

………………………………………………………………………………

(b). Has the municipality been able to pay Creditors within the prescribed period? If no, how long does it take the municipality to pay Creditors?

………………………………………………………………………………

(c) Has the municipality been paying Third-parties constantly?

………………………………………………………………………………………

9. (a) How long does the municipality take to collect overdue consumer debtors?

(b) What are the reasons for this outcome?

…………………………………………………………………………………………………

(c) How much debt does the municipality write off, and what are the reasons for this.

…………………………………………………………………………………………………

10. Is the municipality able to adequately sustain its daily operations with own generated revenue without intergovernmental subsidization? Your answer must be in relation to the following periods

a) Before the Covid-19 pandemic

………………………………………………………………………………………

b) After the Covid-19 pandemic

………………………………………………………………………………………

11. What are the financial management capacity challenges that significantly impedes the BTO from performing its functions, efficiently and effectively?

a). Unfilled vacancies? If yes, how many over the 2 years?

……………………………………………………………………………………..

b). Insufficient skills? If yes, in which areas of financial management?

……………………………………………………………………………………..

c) MSCOA and financial systems?

…………………………………………………………………………………….

d) Other

…………………………………………………………………………………….

12. (a) Do you meet the minimum competency requirements?

……………………………………………………………………………………….

(b) Do the other officials in the unit meet minimum competence?

……………………………………………………………………………………….

(C) If the answer is no, in either case: what are the factors preventing you or your colleagues from meeting the minimum requirements?

……………………………………………………………………………………….

13. What can the municipality take from previous year audit performance to improve 2020-21 audit opinion?

……………………………………………………………………………………………

14. To what extent does the municipality utilise ratio analysis in order to assess its financial sustainability? (a) On a 5 points scale:

1 = never ☐ 2=once a year ☐ 3= bi-annually ☐ 4=quarterly ☐ 5= more than four times a year ☐

(b) Which stakeholders use the ratio analysis?

……………………………………………………………………………………………

15. What has the municipality been doing to contain costs since the beginning of the pandemic? What more can be done in this regard? And how has cost containment impacted on service delivery?

……………………………………………………………………………………………

15. What can be done to enhance financial sustainability of the municipality in future?

……………………………………………………………………………………………

16**.** Is there anything else which you think is relevant which we have not covered in this interview?

……………………………………………………………………………………………

ANNEXURE B: QUESTIONNAIRE

1. Before the Covid-19 pandemic, can you describe how was the state of financial sustainability of the municipality, from a scale of 1-5.

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a). Electricity: Yes ☐ No ☐ I don't know ☐

Please explain your answer……………………………...

b). Water: Yes ☐ No ☐ I don't know ☐

Please explain your answer……………………………...

c). Sanitation: Yes ☐ No ☐ I don't know ☐

Please explain your answer…………………………….…

d). Refuse: Yes ☐ No ☐ I don't know ☐

Please explain your answer……………………………..

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(c) Has the municipality been paying Third-parties constantly?

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(b) What are the reasons for this outcome?

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(c) How much debt does the municipality write off, and what are the reasons for this.

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(b) Which stakeholders use the ratio analysis?

……………………………………………………………………………………………

15. What has the municipality been doing to contain costs since the beginning of the pandemic? What more can be done in this regard? And how has cost containment impacted on service delivery?

……………………………………………………………………………………………

15. What can be done to enhance financial sustainability of the municipality in the future?

……………………………………………………………………………………………

ANNEXURE C: INFORMED CONSENT

UNIVERSITEIT•STELLENBOSCH•UNIVERSITY
jou kennisvennoot • your knowledge partner

CONSENT TO PARTICIPATE IN RESEARCH

Dear Colleague

My name is Lalelani Hintsa and I am Master's student in Public Administration. I would like to invite you to participate in a research project entitled; **evaluating the impact of Covid-19 pandemic on financial sustainability of Northern Cape municipalities.**

Please take some time to read the information presented here, which will explain the details of this project and contact me if you require further explanation or clarification of any aspect of the study. Also, your participation is **entirely voluntary** and you are free to decline to participate. If you say no, this will not affect you negatively in any way whatsoever. You are also free to withdraw from the study at any point, even if you do agree to take part. The researcher will destroy the data and information obtained from the interview or interactions **unless you give consent** that the researcher can use the data collected as part of the study, up until the point you raise your intention to withdraw.

This study aims to assess and gain insight on financial sustainability and the underlying factors influencing the financial health of local municipalities in the Northern Cape and come up with pragmatic viable possible solutions. The study seeks to stablish to what extent municipalities were affected by Covid-19 in relation to their financial health and sustainability. Bearing in mind that municipalities were already in financial constraint before the pandemic emerged.

Please take not of the following undertakings:

- The nature of the study has no potential for negative experiences or risk of harm, including discomfort, inconvenience, psychological stress or stigmatisation at your expense
- The study has a potential to unlock solutions that may be essential to resolve challenges that are facing the municipality and capacitate personnel.
- Voice recordings of the interview will be accessible and made available if required to the participants.
- The right to protection of privacy of respondent will be prioritise and protected in compliance with the provisions stipulated in the Protection of Personal Information Act No.4 of 2013 (POPIA).
- The participation in the study is completely or wholly voluntary and you are free to withdraw at any time during the interview can occur without any negative consequences in your part; you are free to choose not to answer certain questions and still remain in the study.

If you have any questions or concerns about the research, please feel free to contact me on 083 283 4962 or my research supervisor, Professor T. Ajam on 021 918 4124.

DECLARATION BY PARTICIPANT

By signing below, I ……………………………….………………. agree to take part in a research study entitled……… **……………….** and conducted by …… (Name of Researcher)

I declare that:

- I have read the attached information leaflet and it is written in a language with which I am fluent and comfortable.

- I have had a chance to ask questions and all my questions have been adequately answered.
- I understand that taking part in this study is **voluntary** and I have not been pressurised to take part.
- I may choose to leave the study at any time and will not be penalised or prejudiced in any way.
- I may be asked to leave the study before it has finished, if the researcher feels it is in my best interests, or if I do not follow the study plan, as agreed to.
- All issues related to privacy and the confidentiality and use of the information I provide have been explained to my satisfaction.

Signed on …………...………...............

....

Signature of participant

RIGHTS OF RESEARCH PARTICIPANTS: You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research study. If you have questions regarding your rights as a research participant, contact Ms Maléne Fouché [mfouche@sun.ac.za; 021 808 4622] at the Division for Research Development. You have right to receive a copy of the Information and Consent form.

If you are willing to participate in this study, please sign the attached (below) Declaration of Consent and hand it to the investigator.

SIGNATURE OF INVESTIGATOR

I declare that I explained the information given in this document to ___________________ [*name of the participant]* [*H*e/she] was encouraged and given ample time to ask me any questions. This conversation was conducted in [*Afrikaans/*English/*Xhosa/*Other*] and [*no translator was used/this conversation was translated into* ____________ by ________________________]*.*

________________________________ ________________

Signature of Investigator **Date**