CHALLENGES OF FINANCIAL SUSTAINABILITY IN A RURAL MUNICIPALITY: THE CASE OF THE MUSINA LOCAL MUNICIPALITY IN THE LIMPOPO PROVINCE OF SOUTH AFRICA

by

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DEDICATION

I dedicate this study to my late grandmothers, Mrs Tshavhungwe Mudzuli Ratshitanga and Mrs Nnzeni Makuya. Thank you for developing me into the woman that I have become today and I will forever love you.

DECLARATION

I, Vhutshilo Jane Tshikundamalema, hereby declare that the work, ‘Challenges of Financial Sustainability in a rural municipality: The case study of the Musina local Municipality in the Limpopo province of South Africa’, presented for the Master of Business Administration Degree, submitted to the Turfloop Graduate School of Leadership, Faculty of Management and Law at the University of Limpopo, has not been submitted previously for any degree purpose at this or another university. It is original in design and in execution, and all reference material contained therein has been duly acknowledged.

Student's Signature:__________________ **Date**: 12/09/2022

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ABSTRACT

Local governments have been identified as the main catalyst for service delivery provisions. However, challenges, such as capacity and lack of financial sustainability, means many municipalities struggle to meet this obligation. This study sought to evaluate the challenges the Musina Local Municipality faces in their attempt to manage their finances for financial sustainability. The study adopted a quantitative approach. A structured self-administered questionnaire was employed as a data collection tool from sampled respondents. Statistical Package for Social Sciences (SPSS) was used to analyse the gathered data. The findings of this study indicate that the main challenge confronting the Musina Local Municipality was the low revenue collection. This is mostly as a consequence of community members' inability to pay for services due to their unaffordability. The findings reveal that the Musina Local municipality made most of its revenue income from property rates, services charged on tariffs and fines. As such, failure by customers often left it in financial distress. The municipality's poor financial position leads to other challenges, such as inability to pay creditors, lack of financial reserves, diversion of grant funding to fund the operation deficits. The study, therefore, concludes that the municipality is not financially sustainable. The study recommends that the municipality should develop a sound billing and revenue collection structure and place more emphasis on revenue collection of monies owed to them for amenities rendered.

Key words: Financial sustainability, service delivery, local government, rural municipality.

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ABBREVIATIONS AND ACRONYMS

AA	Affirmative Action
ASB	Accounting Standards Board
AG	Auditor-General
DoF	Department of Finance
DoRa	Division of Revenue act
DPLG	Department of Provincial and Local Government
GRAP	Generally Recognised Accounting Practice
COGTA	Ministry of Cooperative Governance and Traditional Affairs
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSA	Municipal Systems Act
QFSM	Quarterly Financial Statistics of Municipalities
PFMA	Public Finance Management Act
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SA	South African
SALGA	South African Local Government Association
SAMWU	South African Municipal Workers Union
SARIA	South African Special Risk Insurance Agency
SEZ	Special Economic Zone
SPSS	Statistical Package for Social Sciences
STATSSA	Statistics South Africa
TREC	Turfloop Research Ethics Committee
UNDP	United Nations Development Programme

CHAPTER 1

OVERVIEW OF THE STUDY

1.1. INTRODUCTION AND BACKGROUND

The 2014 Global Network of Cities, Local and Regional Governments (UCLG) Gold III Report highlights the most popular trials confronting local governments around the world in attempting to balance their financial sustainability and the need to provide affordable services for citizens. The report also indicates that the provision of the most basic services is best where authorized local governments have the power, financial means and aptitude to meet their responsibility of service delivery to the local communities. It is only local municipalities that are financially sustainable that can have the means to deliver quality services to their constituencies like water and sanitation, electricity and housing. South Africa celebrated their 26th year of democracy on the 27th of April 2017, and local governments celebrated 19 years of progressive existence on the 5th of December 2019. This crucial event presented a chance for South Africans to reflect on the progress made in deepening and expanding coherent, equitable and developmental outcomes. According to Nyalunga (2006), despite these milestones, municipalities continue to be at different stages of development. Some municipalities are financially sustainable while others, due to their spatial and economic circumstances, are not financially viable and will continue to grapple with their constitutional directive of delivering basic amenities to their people in a maintainable fashion.

Presidential Local Government Summit (2014) noted that Ministry of Co-operative Governance and Traditional Affairs (COGTA) has done a review of 278 municipalities through the approach called ‘Back to Basics’, and three categories of municipalities were identified: the top third of the municipalities, the middle third, and the bottom third. The bottom third are those municipalities that are characterized by poor financial management leading to poor audit opinions by the Auditor-General. These bottom third municipalities are predominantly rural, and have low and inadequate responses to service delivery challenges because of inappropriately skilled personnel. Municipalities in this category are generally characterized by service delivery protests.

Financial management of South African (SA) municipalities’ liberation and empowerment is still regarded as one of the frontier battles (Spring, 2006). Pro-poor budgeting is the most challenging factor. Spring (2006) claim that unethical, corrupt, fraudulent wasteful practices are some of the factors that count against the delivery of pro-poor budgets at the municipal level. Consequently, they are seen as dominant feature that shape the sustainability of municipalities. Inadequate and poor quality of staff for the finance department also makes it difficult to achieve the changing requirements of the country's municipal financial management. If proper monetary management systems are put in place, municipalities would be forced to discontinue their operations. For a local municipality to execute its constitutional obligation of delivering services to its local communities, the impacts of financial challenges experienced by the municipalities should be assessed. This will assist in gaining an understanding of revenue collection capacity needs within the municipality with the aim to explore factors that contribute to financial sustainability within municipalities, which this research study aims to achieve. This study therefore aims at examining some of the main challenges confronting the Musina local municipality. It was envisaged that such an approach will provide possible recommendations that the municipality might consider to help improve its financial sustainability.

1.2. PROBLEM STATEMENT

Every local municipality has an obligation of offering quality amenities to its constituencies in a maintainable way as per its constitutional obligation. A report of the Demarcation Board (2015) indicates that Musina Local Municipality ranks within the first top ten of all the 25 local municipalities in the Limpopo Province with regard to Grant dependency ratio. The province's municipalities are able to make on average, about 57 percent of their entire revenue from their own funding to meet their operating expenditures. However, 60% (15 out of 25) local municipalities have a grant dependency rate. This is beyond the provincial normal threshold of 43%. The statistics then suggest that 60% of local municipalities in Limpopo may not be able to fulfill their lawful duty of offering services to the people in a sustainable fashion without government grants and subsidies, which is a threat to the proper functioning of the municipality resulting into poor service delivery in line with the constitutional obligation upon each municipality. The higher the grant dependency rate within a municipality the more difficult it is for the municipality to remain sustainable.

Over a period of five years, the Musina local municipality received three unqualified audit opinion and two qualified audit opinions from the Auditor-General. The only low light in the reports was under recovery in revenue collection, which has resulted in poor service delivery to the local community and its inability to manage daily operations. In addition, the Musina local municipality has high vacancy rate, a consequence of man senior staff members leaving for greener pastures. For the Musina local municipality to constantly deliver services to its communities according to its constitutional obligation, a sustainable financial management system has to be in place. To achieve this, factors that hamper a sustainable financial management system should be identified so that remedial actions can be put in place.

1.3. AIM OF THE STUDY

This study aimed to assess challenges confronting Musina local municipality in its attempt to manage its finances for the purpose of maintaining financial sustainability.

1.4. RESEARCH OBJECTIVES

The study sought to realize the following objectives:

(a) Explore challenges facing the Musina local municipality in terms of managing their finances,

(b) To assess sources of revenue collection for the Musina local municipality, and

(c) To evaluate whether the employees of the Musina local municipality have the requisite skills and expertise to manage their finances.

1.5. RESEARCH QUESTIONS

The study aspired to get answers to the following questions:

(a) What are some of challenges confronting Musina local municipality in terms of managing its finances?

(b) What is the revenue collection base of the Musina local municipality?

(c) Do the employees of the Musina local municipality have the required skills that would assist them to manage their finances efficiently?

1.6. MOTIVATION/RATIONALE OF THE STUDY

Local municipalities are constitutionally obliged to safeguard the provisions of amenities to constituencies in a sustainable means and to stimulate societal and economic expansion amongst other functions. To achieve this, they are expected to develop and properly administer their admin and costing processes to allow them to prioritize their communities' necessities. However, existing literature reveals that most rural municipalities are experiencing financial viability challenges. Such challenges are exacerbated by both operational issues and lack of financial management capacity. The existence of these challenges means most of these municipalities are failing to fulfill their constitutional commitments like the delivery of quality services for the benefits of the people in a sustainable manner. There is, therefore, a need for studies of this nature to be carried out in order to find long-lasting solutions to challenges currently facing these municipalities.

1.7. SIGNIFICANCE OF THE STUDY

It is expected that the outcomes of this study will add to the existing information on the challenges that organizations, especially local municipalities face in their endeavors to maintain financial stability. This will hopefully add value to financial management. The outcomes of this study, together with the recommendations, may assist municipalities in the development of their policies to improve financial viability. This will enable municipalities to identify gaps in their existing finance policies so that they have the capacity to generate enough revenue of their own rather than rely solely on grants transferred by national and provincial governments for the execution of their constitutional mandate. The study may aid in the formulation and implementation of future financial management policies geared at helping municipalities achieve financial sustenance.

1.8. OPERATIONAL DEFINITIONS OF KEY TERMS

Municipality: The Maryland Municipal League (undated) defines a municipality as a corporate and political entity organized by the residents of a local area to operate within the parameters of a prescribed geographical space for the purpose of providing public services.

For this study, a definition by Francis, et al., (2014:6), was adopted, where they define a municipality as, “an elected local government body that has corporate status and limited self-governance rights and serves a specific political unit such as a town, city or rural area”.

Financial sustainability: This refers to “the ability of public administrations to continue now and in the future current policies without causing the debt to rise continuously” (Bolivar, 2015: np).

Financial sustainability also refers to municipality’s capability to make adequate and consistent revenue to finance its monetary responsibilities in reply to community members’ demand for amenities as mandated by the country’s constitution (Western Cape Government, 2011).

Rural municipality: A rural municipality refers to any municipality categorized as either B3 (small towns) or B4 (mostly rural). B3 municipality is characterized by no large town and consists of relatively small population. On the other hand, a B4 municipality is characterized by the existence one or two small townships in their areas, communal land tenure and hamlets or scattered groups of homes and typically placed in previous homelands (Palmer Development Group, 1996).

1.9. OUTLINE OF THE MINI-DISSERTATION

The study employed the following structure:

- Chapter 1 – Introduction and background: the chapter gives background of the study, outlines the statement of the problem, objectives, research questions and its significance amongst others.
- Chapter 2 - Literature Review: the second chapter gives a detailed description of the existing literature review related to the topic and scholarly views on the financial positions of rural municipalities and its impact on service delivery.
- Chapter 3 – Research Methodology: gives an overview of the procedure used in conducting this study. This comprises its design, study area, its populace as well as the sample and sampling procedure used. Data collection and data analysis methods are also outlined in this chapter. Ethical concerns observed during the study are also presented.
- Chapter 4 – Results: the chapter outlines the presentations and discussions of the results.

- Chapter 5 – Summary of results, conclusions and recommendation: the final chapter outlines the summary of results, conclusions and commendations.

1.10. SUMMARY

Background to the study was outlined in this chapter, giving the reader a general idea on the present state of the subject under investigation. The chapter also included the following aspects: statement of the problem that necessitated this study, motivation and the importance of the study as well as the objectives that the study aimed to achieve. The chapter further covered the definitions of key concepts relating to the study. The subsequent chapter reviews the existing literature in relation to the current study.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter of the study offers a framework of the existing literature that was reviewed concerning the subject under investigation. Aspects that were reviewed include financial sustainability of municipalities in other countries, financial sustainability of municipalities in South Africa, regulations governing municipality finances in South Africa, municipal revenue management and collection, household socio-economic conditions, municipal finance capacity, and factors affecting municipal viability and their impact on municipalities' ability to provide quality amenities to people in a sustainable manner amongst others.

2.2. FINANCIAL SUSTAINABILITY OF MUNICIPALITIES: AN OVERVIEW

Sontag-Padilla, Staplefoote and Morganti (2015) define financial sustainability as the organization's ability to sustain itself financially for a longer period. Bowman (2011) indicates that the trials relating to forming financial capability and financial stability are based on the institutional function. Nonetheless, preserving the knack to be fiscally responsive over an extended period may be particularly key for rural municipalities, provided that they serve several constituencies. Their communities require dependable and persistently provisions of delivery of services which includes   clean water and sanitation, collections of refuses, electricity, and road maintenance). Bearing this in mind, the objective of financial sustainability for rural municipalities is to continue or increase services within the municipal's jurisdiction area while influencing and promoting sustainable development for both short and long term.

Bowman (2011) further explains that sustainability is the capacity of overseers to preserve an organization over a given period of time. However, definition of the finance sustainability might differ broadly among institutions. Generally, financially-stable organizations are defined as those that use excess incomes to accomplish their objectives rather than dispensing them as turnover or surpluses. For all municipalities (both rural and urban), financial aptitude involves possessions that places it in a position to take opportunities and respond to unforeseen threats while at the same time upholding its general operations (Bowman, 2011). Financial aptitude mirrors the level of managerial elasticity to rearrange assets in reaction to openings and fears.

According to Sontag-Padilla, et al., (2015:23), “an organization sustainable in the long term but unsustainable in the short term will be chronically short of cash. Conversely, an organization sustainable in the short term but not in the long term may have adequate cash but inflation will cause the value of its assets to erode over time. This, in turn, will cause the quantity and quality of services to diminish unless capital campaigns periodically bring infusions of new assets”. In terms of the municipality financial sustainability is the rural municipality’s ability to acquire profits in response to demands, in order to sustain fruitful processes. Financial sustainability may be realized at different levels (i.e. project, program or organizational level). Financial sustainability may be used as a tool that helps the rural municipality to achieve its operational objectives and also play significant roles in allowing the rural municipalities in continuing to thrive.

The importance of financial sustainability of a municipality cannot be overemphasized. Sound financial management practices not only enhance municipalities’ ability to generate revenue to meet expenses, but also allow them to provide quality services required by their constituencies in a sustainable manner (Crase and Grant, in Arunachalam, Chen and Davey, 2017). Despite this, most study findings reveal that most municipalities across the world continue to experience financial distress, resulting in poor service delivery (Dollery and Mounter, 2010; Kleynhans and Coetzee, 2019). The situation is particularly dire in South Africa. For instance, in 2015 the Auditor-General found that about 26% of the country’s municipalities were in financial distress with uncertainties on their ability to continue operating going forward (The Auditor-General, 2016).

2.3. FINANCIAL SUSTAINABILITY OF LOCAL MUNICIPALITIES: INTERNATIONAL PERSPECTIVES

Local governments have been identified as the most important pillars of government across the world. Their proximity with the people on the grassroots communities makes them the face of government regarding the delivery of elementary services. Consequently, their finances are key to enhance the standard living of the citizens within their constituencies (Tullock, 2018). According to Martinez-Vazques and Smoke (2010) local government finances across the world are based on two main pillars. Firstly, these authors believe that municipality finances should be directed by the resourceful usage of public assets to meet the citizens' needs. They identified the second pillar as the potential role that local governments can play to address some of the pressing challenges affecting most of the world's countries.

The state of Victoria in Australia considers the financial sustainability of its rural and regional councils as an important matter. The perception is that councils with improved sustainability and viability will be in a position to provide services aimed at improving the lives of regional and rural Victorians (Parliament of Victoria, 2018). Despite this, available evidence shows that rural municipalities with small populations and large areas can have high costs but limited capacity to raise revenue to cover their maintenance and operational costs. This is attributed to several factors, including community members' low capacity to pay for government services, declining populations and fewer own-sourced revenue options (Parliament of Victoria, 2018). The consequence of reduced financial sustainability is that it decreases councils' revenue streams while pushing up maintenance and operational costs. The implications are that these councils constantly depend on grants from other levels of state for them to remain afloat (Parliament of Victoria, 2018).

In the United Kingdom, the country remains amongst the most advanced countries in the world with the Growth Domestic Product per capita of $42.385 (National Audit Office, 2018). The country has a total of 343 local authorities. These authorities are broken down into five major types, namely; county councils, district councils, unitary authorities, metropolitan districts and London boroughs. Most of these authorities are in financial distress. For instance, the Comptroller and Auditor General's 2018 results on the finance sustainability of local authorities revealed that the financial position of most authorities, particularly those with social care responsibilities had worsened in recent years (National Audit Office, 2018). This regression is attributed to a combination of reduced funding and higher demand. According to the report, these two factors meant that an increasing number of both single-tier and county authorities struggled to remain operational within their service budgets and depended on stashes to stabilize their accounts. The challenge with this arrangement is that although it offers relief, it is not financially sustainable over a period of time (National Audit Office, 2018). As a result, most of these authorities' resort to loans to stay afloat. In its 2017 report the National Audit Report noted that local authorities' liability servicing costs have escalated as a percentage of proceeds spending as their revenue resources have fallen. Single-tier and county councils seem to be most affected with about quarter of them spending the same of 9.9% or more of their income expenditure on servicing their debt. This situation is likely to have an undesirable bearing on their service delivery programmes as money meant for service delivery is diverted to servicing existing debt.

In Nigeria, local governments are expected to spearhead government's service delivery programme (Ayobami, 2018). However, these local governments only receive 20.6 percent of their annual budget from revenue accruing to the country's federation while another 35 percent is generated from share of value added tax poll revenue. This means that they are expected to generate almost 45 percent of their annual budget through taxes, levies, and other economic activities within their jurisdiction as prescribed by the constitution (Usang and Salim, 2019). The challenge is that most of these local governments struggle to generate the remaining 45 % of the budget on their own, leaving them in financial distress (Usang and Salim, 2019). The consequence of being in a poor financial state is that local government's ability to provide services to its constituencies is compromised. Usang and Salim (2019) argue that the situation will remain the same for most of Nigeria's local governments unless drastic measures are undertaken to improve revenue generation. Similar findings were found in Zimbabwe where local authorities rely on annual ministerial allocations for financial support necessary for them to provide basic services (Gideon and Alouis, 2013). To supplement their allocation, local authorities are expected to have the capability to embark on revenue generating initiatives as outlined in the Zimbabwe Urban Councils Act [Chapter 29:13]. Section 80 of the Act requires that the monies of a council shall also contain of incomes collected from any action involved in by the council (Gideon and Alouis, 2013). However, research findings reveal that local districts' ability to create self-financing platform is often affected by several factors. This includes limited revenue base, political interference and an institutionalised culture of rent seeking amongst others (Gideon and Alouis, 2013). The implication is that the authorities become over-reliant on government grant for their service delivery programme. Unfortunately, these funds are often not enough for the implementation of all council operations. The condition is further forced by the fact that the central government has significantly reduced grants to local authorities as a consequence of increasing governmental financial responsibilities (Gideon and Alouis, 2013).

2.4. THE ESTABLISHMENT AND ROLE OF LOCAL GOVERNMENT: SOUTH AFRICAN PERSPECTIVE

The establishment of the country's local government system is preserved in Chapter 7 of the country's Constitution. Section 151 of Chapter 7 of the constitution states that, "a municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation, as provided for in the Constitution" (Republic of South Africa, 1996). The state perceives public service provisions as one way of reducing poverty within its populations (Masuku and Jili, 2019). Consequently, the local government system has since been identified as the main method of ensuring that local communities receive much needed services. Through section 152 of chapter 7 of the Constitution, the government expects municipalities to "endeavor, within their financial and administrative capacity, to achieve specific objects that are geared at improving the lives of the people. These objects include ensuring the provision of amenities to people in a consistent fashion; promote social and economic development; and to promote the involvement of people and public structures in local government matters (Republic of South Africa, 1996).

The Constitution further prescribes in section 153 of Chapter 7, that the "municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community" (Republic of South Africa, 1996). The understanding is that the proximity of local governments to people on the grassroots will lead to the provision of quick and efficient service delivery to their citizenry, particularly where poverty is most ravaging (Aransi, 2017; Oyewo, 2003).

2.5. FINANCIAL MANAGEMENT AND GOVERNANCE OF LOCAL MUNICIPALITIES IN SOUTH AFRICA

In South Africa, public finance is viewed as the most important aspect shaping the sustainability of its local government. It is on this basis that Kanyane (2011) argue that municipalities would not be able to operate without thorough financial management systems. To ensure sound financial management processes in municipalities, government has put in place several prescripts and guidelines geared at safeguarding how municipalities manage their finances. Following are descriptions of some of the key regulations that govern how the country's municipalities should manage their finances:

2.5.1. Municipal Finance Management Act no.56 of 2003

The Act was established for the purpose of, "securing sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government and to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith" (Republic of South Africa, 2003:1). According to Kanyane (2011) the Act was introduced with the primary aim of securing meaningful and viable administration of the financial matters of municipalities in government's local spheres. The Act gives directives on how municipalities should conduct themselves in terms of managing their finances. Amongst other directives, the Act directs municipalities to recover all unsettled money payable to it, in agreement with this act and other appropriate laws; and to frame, implement and preserve a credit control and debt gathering policy. It is expected that all relevant stakeholders and interest groups are expected to possess a sound basic knowledge and application of this act to ensure adherence (Kanyane, 2011).

2.5.2. Generally Recognized Accounting Practices (GRAP)

These are accounting standards that have introduced by the country's Accounting Standards Board (ASB). The standards were established in line with section 89 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA). The Act dictates that the Board sets up standards of generally recognised accounting practice (Accounting Standards Board, 2010). They are expected to be put into place by several state organs. This includes departments, public entities, constitutional institutions, municipalities and boards, Parliament and the provincial legislatures amongst others

(ABS, 2010). Directive 4 of the GRAP stipulates provisional requirements for medium and low-capacity municipalities. According to Scott (2008) the implementation of these practices is yielding desirable outcomes to some financial guidelines and applications within the country's municipalities.

2.5.3. Municipal Structures Act No.117 of 1998

This Act was established with the aim of establishing municipalities in accordance with the necessities relating to categories and types of municipalities; to launch measures for shaping the kind of municipality to be developed in an area and to describe the kind of municipality that may be developed within each grouping amongst other things (Republic of South Africa, 1998). The relevance of this Act to the financial viability of municipalities relates to its section 88 titled, "Co-operation between district and local municipalities". The section outlines how local municipalities can co-operate with other structures on financial-related matters. The following are some of the provisions stipulated within the Act on how these co-operations can be executed:

(a) "A district municipality on appeal by a local municipality within its area may offer monetary, practical and administrative support services to that local municipality to the extent that that district municipality has the capacity to provide those support services".

(b) "A local municipality on request of a district municipality in whose area that local municipality falls may provide financial, technical and administrative support services to that district municipality to the extent that that local municipality has the capacity to provide those support services".

(c) "A local municipality may provide financial, technical or administrative support services to another local municipality within the area of the same district municipality to the extent that it has the capacity to provide those support services, if the district municipality or that local municipality so requests"**.**

2.5.4. Municipal Systems Act No. 32 of 2000

The Act was established to, "enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all; to define the legal nature of a municipality as including the local community within the municipal area" (South African Government, 2000),

2.6. FINANCIAL STATUS OF SOUTH AFRICAN LOCAL MUNICIPALITIES

The country's municipalities are mandated by the constitution to distribute amenities to their constituencies and encourage societal and economic development within their constituencies. Achieving these functions in a sustainable manner requires municipalities to have sound financial muscles. However, available data reveal that the financial state of most of the country's municipalities continue to worsen. The findings from the Auditor-General (AG) gave a dire picture of the financial state of most of the country's municipalities. The AG reported in his 2017-2018 financial year general report on the audit results that only 18 out of 257 audited municipalities achieved a clean audit. This represented only 8% of the audited municipalities (Auditor-General, 2018). Perhaps the most disturbing finding was that Limpopo Province was one of the three worst performers, (the others being Free State and North West), with none of their municipalities receiving a clean audit. It is also vital to realize that municipalities' undesirable financial positions do only affect their ability to provide basic services, but also threaten the livelihoods of their employees. In some instances, the situation becomes so dire for some of these municipalities that they struggle to pay workers' salaries. For instance, in 2019 about 30 municipalities admitted that they were unable to pay employee' salaries due to lack of funds (Manyane, 2019).

2.7. CHALLENGES CONFRONTING LOCAL MUNICIPALITIES IN TERMS OF MANAGING THEIR FINANCES

Municipalities have been trusted with the duty of delivering much needed services to constituencies. However, research findings have constantly revealed that the majority of these municipalities struggle to diligently carry out this constitutional mandate (Laubscher, 2012; Tullock, 2017; Moloto and Lethoko, 2018). Tullock (2017) attributes these struggles to challenges such as significant service delivery bottlenecks, poor financial management and corruption, amongst others. It is believed that these challenges have led to many municipalities experiencing dire financial strain, leaving them in a state of paralysis. This has raised further questions concerning their ability to deliver competently on desirable outcomes on a viable manner, and to manage economic blows. Most common challenges confronting local municipalities in South Africa are hereunder discussed.

2.7.1. Lack of financial control

According to Laubscher (2012), South African municipalities find themselves under pressure due to weak financial control and absence of answerability. Thus in turn leads to widespread fraud and financial misconduct with unfavourable repercussions for consistent and well-organized service delivery. According to De Wet (2004) financial control is key in shaping local governments' achievements or failures. Presently, numerous problems exist that hinder efficient financial management at municipalities. There are bottlenecks that actively add towards unproductive and ineffective municipal service delivery. To deal with these challenges, those involved in the management of these municipalities need to confront them in a genuine, truthful and principled way. Furthermore, the must be a strict execution of tighter financial control procedures for public culpability. This is in effect function as an assurance for proper municipal financial administration in the country.

2.7.2. Lack of Expertise in Local Government

Lack of aptitude amongst staff members within the country's municipalities has been a topic of dialogue for the past few years. In 2011 the Local Government Budgets and Expenditure Review (2011) identified deficiency in institutional capacity as one of the principal causes for poor financial management within municipalities. These findings were later validated by those of the Auditor General. The Auditor-General has, on numerous occasions, articulated his worries on absence of knowledge and managerial talent in municipalities to undertake service delivery in a skilful manner. The AG found that of the officials working in municipalities, only 8% can be considered as "highly skilled", while 90% may be regarded as "low or semi-skilled" (Bird and Slack 2013:56).

The issue of capacity was also highlighted the National Treasury which pointed out that most of the country's small municipalities continue to be confronted by capacity, governance, institutional and operational inefficiencies. These inefficiencies often lead to increased debt, a consequence of these municipalities' failure to adequately prepare for funded and implementable budgets (National Treasury, 2017). According to Mantzaris (2014), the country's municipalities have, since 1994, gone through several modifications and renovations. Mantzaris (2014) further indicates that those modifications have been complemented by different segments of rearrangement and alteration as far as municipal councillors and officials are concerned. This has required a vibrant new tactic to development. Regrettably, much expertise has been lost in the process.

Affirmative action was identified as the main reason why experts, particularly White people, left the local government in large numbers (De Wet, 2004). Although Affirmative Action (AA) was meant to redresses the injustices of the past, lack of proper implementation led to spontaneous and appointments of political-connected individuals, an action linked nepotism (De Wet, 2004). Some authors are of the view that AA has resulted in many people elevated to the positions of authority without the necessary skills and qualifications required for these positions. For instance, Fjeldstad and Heggstad (2012) found that there were a number of Chief Financial Officers without relevant experience and aptitude in local government. These findings were later validated by the Department of Cooperative Government and Traditional Affairs (COGTA, 2008). In the COGTA Report (2008) report on capacity within municipalities, the department indicated that an estimated "36% of financial managers in municipalities only possess a grade 12 with a diploma or less (2008:2). The lack of experience among municipal financial officials plays major roles in municipalities to fail to be financially viable and leads to poor service delivery on the grassroots level. Additionally, lack of experience among the officials creates a fertile ground for financial misconduct and fraud. The issue of AA was also highlighted by De Klerk (2000) who stated that the bone of contention should not be on whether there was a need for the policy or not, but rather on the disastrous consequences resulting from reckless and unbalanced actions that occurred during its implementation (2000). Another related factor to the deficiency in expertise in municipalities is the, "tendency to appoint politically-connected individuals as municipal managers and chief financial officers at local government sphere. Too many skilled professionals were being denied job opportunities in municipalities, because they were outside the party political networks that have captured civil service jobs for patronage" (Mantzaris, 2014:67). So long as politically connected personnel without the necessary skills continue to be rewarded with undue earnings and performance extras, municipalities will remain financially unsustainable (Mantzaris, 2014).

2.7.3. Financial Mismanagement

The absence of operational and effective financial management remains one of the most common issues bothering local governments (Maclean, 2012). It is indicated by De Vries, et al. (2008) that financial mismanagement in the South African municipalities plays a bigger role in hampering the country's progress, development and growth. It raises the questions which are geared towards the uprightness and morality of the municipalities, and it disturbs the economy to such a level that if the municipalities lose money through fraud and financial mishandling, they are forced to recoup such losses through higher levies and prices. According to Kanyane (2011) public should try to acquire a measure of control over the way in which municipal monies are utilized by municipal councils. Kanyane (2011) further indicates that there are legislative and policy frameworks that govern and are intended to ensure accountability among the municipal officials. Such legislative framework include: the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA), the Municipal Finances Management Act, 2003 (Act 56 of 2003) (MFMA), and the regulations on municipal performance management. It is, however, essential that the efficiency of these instruments be comprehensively verified in practice (Kanyane, 2011).

2.7.4. Inability to Collect Arrear Debts

South African Municipalities are lawfully obligated to recover all monies due to them from the citizenry. It is important to collect arrear debts that can play significant roles in making the municipality financially sustainable. Failure to carry out this very important function will result in liquidity problems. This could in turn lead to them struggling to fulfil their functions. The issue of debt collection is clearly outlined in the Municipal Systems Act, Act No 32 of 2000. The Act states that:

- Firstly, municipalities must gather all outstanding moneys owed to it by community members as directed by this act and other relevant legislation, and
- Secondly, municipalities must put together, put in place and preserve a credit control and policy for dues collection purposes.

Despite the above provisions, literature reveals that many municipalities struggle to amass revenue from citizens for services rendered (Radebe, 2007 and O'Neill, 2016). According to O'Neill (2016), financial mismanagement within the municipalities is shown by their inability to collect adequate revenue needed for service delivery initiatives. Radebe (2007) points out that majority of municipalities 226 out of 284) were unable to collect sufficient income. The consequence was dire financial unsustainability amongst these municipalities. Following are some of the reasons why municipalities struggle to collect monies owed to them as outlined by Moffat, Bikam and Anyumba (2017):

- Firstly, municipalities have been found to have poor credit control and debt collection measures,
- Secondly, consumers struggle to pay for amenities as a consequence of poverty, joblessness amongst other reasons,
- Secondly, customer accounts are either not mailed out to the recipients or are mailed out to incorrect addresses,
- Thirdly, the authors also identified the existence of non-payment culture where consumers deliberately choose not to pay for services, and
- Lastly, consumers decide to withhold their payments because of their dissatisfaction with services rendered by the municipality.

The situation is made worse by culture of non-payment of services by community members, particularly in rural municipalities (Kanyane, 2011). Non-payment means affected municipalities easily deplete their revenue base, seriously impacting on their ability to render services.

2.7.5. Excessive Salaries and Benefits

Another challenge confronting municipalities relate to the excessive salaries and benefits bestowed to senior officials. Municipalities are not supposed to spend more than 30% of their annual budget on salaries (Wood, 2013). It is expected that the bulk of the budget (70%) must be reserved for the formation and upkeep of physical infrastructure and provision of amenities and this can also promote municipalities to financial sustainability. However, the majority of municipal managers and mayors take home annual salaries exceeding R2 million. Some of those municipalities are very small and are not able to generate enough funds to meet their constitutional obligations. The situation is often made worse by the fact that the country's municipalities function as a separate organs of government. This gives municipal council wielding powers to determine the remuneration packages of employees. The challenge is that some of these councils oversee very poor municipalities that cannot afford to pay their employees excessive salary packages. The result is that paying the executive big salaries eats away on budget earmarked for service delivery initiatives.

2.7.6. Financial Limitations

An increase in the country's population has been found to put a strain in its ability to adequately render services to its citizens. As Nigro and Nigro (1998:352) noted, "even if governments do not add any new services, public agencies will need more resources to maintain present levels of service or they will have to become much more efficient." As such, leaders and officials will have to be creative in utilizing their limited financial resources to address community members' swelling call for adequate provisions of services in an effective and sustainable fashion. The situation is further exacerbated by service delivery bottlenecks which places more strain in municipalities' scarce financial resources. A typical example is the rollout of electricity which is seen as a basic necessity for everyone in terms of the RDP programme (RSA, 1994a). It may be educational to contemplate the large sums of capitally that must be made available for just this single basic need, which could most likely affect the rollout of other key services such as water and sanitation.

2.8. SOURCES OF LOCAL GOVERNMENT REVENUE

Revenue generation plays a critical part in determining the financial sustainability of local governments and their capacity to deliver amenities to their constituencies (Statistics South Africa: STATSSA, 2019). Municipalities have various methods through which they generate revenues they need to provide the much needed services. These methods can be categorized into two main streams: income generated (i.e. services charges, fines and property rates) and fiscal transfers (annual grants) (StatsSA, 2019). Some of these services are discussed below.

2.8.1. Income generated income

Municipalities generate billions of rand in revenues from a cocktail of avenues. This includes amongst others services charges, fines and penalties and traffic and by-law violations. The country's constitution, through its Section 229 permits municipalities to enforce charges on property and charge tariffs and levies for the amenities they render to their respective communities (Republic of South Africa, 1996). Services charges contributions have been recognized as the principal generator of income for most municipalities. According to Statistics South Africa, charges for amenities such as electricity sales and sewerage contribute about 42% of all municipalities' revenues (StatsSA, 2019). Fines and penalties have also been recognized as another key source of income for many municipalities. The most commonly used fines include traffic violations, penalties for the contraventions of by-laws, as well as overdue payments of services (StatsSA, 2019). Available evidence reveals that municipalities generated as much as R1 billion from fines during the December 2018 quarter. This was up by almost 50% from the R547 million collected in the previous quarter (StatsSA, 2019). In addition to the above income generation strategies, it has also been noted that other municipalities supplement their income by hiring out their public facilities such as stadia, recreational centres and halls (StatsSA, 2019).

2.8.2. Fiscal transfers

Section 227 of the Constitution makes provisions for municipalities to receive a share from revenue raised by the central government (RSA, 1996). It is therefore, obligated to make available annual grants to municipalities for service delivery purposes within their respective constituencies. According to StatsSA (2019) grants are usually a non-repayable fiscal transfers provided by either the government at national level or at a provincial level. According to Statistics South Africa, allocations are amongst the biggest sources of income for municipalities after the income generated. It has been found that transfers contributed about 28% of municipalities' income (StatsSA, 2019). These grants are divided into two broad categories namely, indirect transfers and direct transfers. Indirect transfers are not directly transferred into municipalities' accounts. Instead, the money is utilized by national departments on behalf of local municipalities for the benefits of municipalities concerned (National Treasury, 2011).

On the other hand, direct transfers are deposited directly into municipalities' accounts for use in the provisions of services (National Treasury, 2011). Direct transfers are divided into conditional grants and unconditional grants. Conditional grants are those grants that come with conditions on how they must be utilized (StatsSA, 2019). Such grants are often meant to be used for a specific purpose. A typical example of a conditional grant is the Municipal Infrastructure Grant (MIG). The rationale behind this grant is solely to be used for the maintenance of roads, pipes and wastewater treatment plants. Consequently, grants of this nature cannot be used for any other purpose other than the one it was intended for. On the other hand, unconditional grants are usually fiscal transfers that municipalities receive from the national government with no conditions on how they should be utilized. Unlike the conditional grants, municipalities are at liberty to utilize these grants according their needs (StatsSA, 2019). An example of an unconditional grant is the equitable share. Municipalities are at liberty to utilize the grant for purposes that are outside the scope of service delivery provisions such as administration-related expenditures (StatsSA, 2019).

2.9. CONSENQUENCES OF FINANCIAL UNSUSTAINABILITY

If an institution is not financially stable, the following are some of the consequences that may happen as a result.

2.9.1. Poor service delivery

Being financially distressed means most of these municipalities struggle with service delivery provisions like water to their constituencies as directed by the Constitution. Communities from financially distressed municipalities experience a cocktail of challenges which have a negative impact on the daily lives of community members. These challenges include unattended potholes, poorly maintained infrastructure leading to some significant water losses, cumulative backlogs in new infrastructural projects, financial mismanagement and misconduct (The Conversation, 2018).

2.9.2. Service delivery protests

The country's local governments have experienced have seen an increase in service delivery protests by community members over the past few years (Dau, 2010; Shaidi, 2013; Statistics South Africa, 2012; Ngcamu, 2019). In 2018 the Municipal IQ, recorded a total of 237 community protests (Gous, 2018). The sudden increases in these protests are as a consequence of a number of factors such as poor communication between municipalities and their constituencies and inadequate service delivery (Dau, 2010; Statistics South Africa, 2012). Findings of studies conducted over the past decade have identified poor service delivery as one of the main contributory factors that lead to these protests (Pithouse 2009; Netswera and Kgalame, 2014; Ngcamu, 2019). For instance, Pithouse (2009) identifies low productivity, poor communication, poor service delivery, poverty and unemployment as the reasons why community members resort to protests. The community members' discontentment is mostly as a consequence of their local municipalities' inability to provide these basic services in a coherent and sustainable manner. These views are consistent with those of Govender and Reddy (2012:72) who believe that community members use protests as a platform to express their dissatisfaction with their municipalities' poor quality of service delivery. They then resort to taking to the streets as a tool to force the municipality to concede to their demand for better services.

The challenge is that most of these protests become violent as community members vent out their frustrations on both private and public properties. In 2019, the Municipal IQ Hotspot Monitor reported that about 94 % of service delivery protests turned violent (Quintal, 2018). A fact worth noting is that the violence associated with these protests often lead to looting, damage and vandalism of both state and private properties, causing millions worth of damages. For instance, SALGA, using data from the SA Special Risk Insurance Agency (Saria), estimates that the service delivery protests caused over R221 million worth of destruction directed to municipal property for the period 2013 to 2018. Damage to municipal property further exacerbates the financial position of already distressed municipalities as they are forced to find money to fix the damaged property. This is the money that could have alternatively been utilized for the provision of much-needed services to impoverished communities.

2.9.3. Inability to Pay Employee Salaries

Poor financial positions of most of the country's municipalities do not only affect their aptitude to provide amenities to the communities. Available data reveal a substantial increase in the number of cash-strapped municipalities that struggled to pay employees their monthly salaries in recent years (Makhafola, 2019; Sicetsha, 2019). In 2019 SAMWU, a union representing municipal workers indicated that about 30 of the country's municipalities were struggling to pay their employees due to financial distress (Makhafola, 2019). In 2019 reports emerged from North-West Province that the Tswaing Local Municipality was facing a revolt from its employees after it failed to pay their monthly salaries (Sicetsha, 2019). These findings are a clear indication that if financial unsustainability in municipalities is not arrested, not only will it continue to affect their ability to provide basic amenities but will also continue to threaten the livelihoods of those working for these municipalities. There is therefore, an urgent need for both governments to put measures in place geared at enhancing financial sustainability at the municipalities.

2.9.4. Inability to Pay Service Providers and Suppliers

According to the National Treasury (2019) service providers doing business with these municipalities are also directly affected by their financial woes. The law dictates that municipalities pay their creditors within 30 days of rendering the service (National Treasury, 2019). Recent figures reveal that amounts owed by municipalities run into billions of Rand. For instance, Peyper (2017) shows that municipalities owned a total amount of R43 billions to their creditors. Of this amount, R16 billion was owed to Eskom while 6.8 billion was owed to water boards (Peyper, 2017). However, smaller service providers seem to be most affected by municipalities' non-adherence to the 30 day-rule. Most of these providers' cash-flow is heavily reliant on payments from municipalities they are doing business with. This means that they are likely to face financial difficulties if they do not receive their salaries timeously. This could in turn severely threaten their livelihood, with some of them going under as a result (Peyper, 2017). The closure of any business, regardless of its size, is a big blow in a country with high unemployment rates. Another consequence of its failure to pay its providers/suppliers is the litigations costs that these municipalities are forced to pay as a consequence of providers taking legal actions against them. Litigation costs eat away further on their already depleted coffers, thus impacting on their ability to deliver much needed services to their constituencies and meet other obligations. A typical example is that of the Tswaing Local Municipality which failed to pay its employees after a disgruntled provider attached its accounts as forfeiture after failing to settle a debt for services rendered (Sicetsha, 2019). It is therefore, safe to conclude that municipalities' financial woes have a huge negative impact not only on its ability to operate, but on the society as a whole. These findings are a clear indication that municipalities' inability to sustain themselves financially not only affects their daily operations in terms of delivering services, but also threatens the sustainability and profitability of service providers they are doing business with. There is therefore, a need for well-thought after and sustainable strategies to provide long-lasting solutions.

2.10. STRATEGIES TO ENHANCE FINANCIAL SUSTAINABILITY OF LOCAL MUNICIPALITIES

Local municipalities have been diagnosed as having numerous challenges with regard to revenue collection. Many of these municipalities are owed millions by consumers for services rendered.

This situation is mostly attributed to municipalities' lack of effective controls in revenue collection amongst others. Dirie, (2005) indicates that the formulation and implementation of strategies on revenue collection plays significant roles in improving financial management and controls within the municipalities. The purpose of any successful financial recovery strategy entails building or improving the current payment levels and then to recover arrear debt from consumers.

According to Moffat, et al. (2017:34), municipalities, particularly those from the developing world are grappling with challenges of raising their own revenue for sustainable service delivery (Dirie, cited in slack, 2009). "Despite having access to a plethora of own revenue sources, local governments in South Africa are generally perceived to be hard pressed for revenue or fiscally stressed" (National Treasury, cited in Rakabe 2010:132). The 2011 Budget Review states that the belief that certain municipalities will forever struggle to achieve the financial viability status is a distortion of both the plan of the local government fiscal framework and realities of local economies. The fiscal framework is envisioned to safeguard a reasonable spreading of assets between the poor and the rich. However, this does not in any way excuse municipalities of the responsibility to increase property rates and services charges for the well-to-do residing within their constituencies.

Rakabe (2010:137) argues that municipalities' abilities to generate their own revenue, "is not simply a function of having a strong economic base". Rakabe claims that notwithstanding the fact that municipalities are generating revenue enhancement strategies, "fiscal stress persists unabatedly". Consequently, this has been attributed by implementing ineffective and inappropriate revenue enhancement strategies. Facts reveal that measures used to rise own revenue, are not comprehensive instead they are carried out on impromptu basis without considering the important elements of revenue enhancement. Furthermore, municipalities undertake revenue enhancement programmes without critically assessing the challenges confronting them. This therefore results in focusing on wrong objectives, thereby addressing erroneous problems. In addition, there is lack of an execution plan indicating coveted aims and targets (Rakabe, 2010). The following are some of the strategies that municipalities may use in collecting revenue:

2.10.1. Improve Service Delivery Levels

There are measures or actions that the municipality needs to undertake to induce households to pay rates and taxes. A clear picture is emerging that states that if households are not satisfied with the services rendered, they find it easy to boycott payment of rates and taxes. The Local Government Budgets and Expenditure Review (2011:209) backs this assertion by stating that, "there is irrevocable evidence internationally, to substantiate that poor households are willing to pay for a service that they regard as valuable". Expenditures from improved service delivery provisions would aid in enhancing revenue generation of the municipality. On the basis of the `benefit received principle', which states that payment of rates and services should be directly linked to services and benefits thereof; it is clear that households are willing to pay when they receive value for money (Local Government Budgets and Expenditure Review 2011, cited in Manyaka, 2014).

2.10.2. Increased Awareness Campaigns to promote Payment of Rates and Taxes

The general lack of acceptable awareness campaigns by officials negatively affects the municipal's revenue collection. According to Manyaka, (2014), efficient communication is regarded as a key measure necessary to improve municipal revenue generation. Several rural municipalities are faced with communication challenges (Moffat, et al., 2017:34). The Municipal Infrastructure Investment Unit, (2006) points out that effective communication plays a vital part in educating households on the significances and principle of paying for rates and taxes to improve municipal revenue generation.

2.10.3. Use Incentives to Increase Revenue Generation

The lack of incentives to increase municipalities' revenue generation was identified as a constraint to revenue enhancement in the municipality. In order to surmount this problem, municipalities should carry out a feasibility study for the purpose of identifying the kind of enticements citizens need to encourage the culture of payment of rates and taxes. The Fiscal Financial Commission (2013`) (Municipal Managers Forum) adds that, "municipalities need to ensure that their tariffs are cost reflective and sensitive to the indigent profile of municipalities in order to minimise municipal consumer debt levels". Moffat, et al., (2017:34) indicate that if tax incentives on property are put in place majority of households would pay. This is because there are those that may not qualify for refunds, but they indicated that if given tax enticements they are keen to pay for services rendered. Incentives or rewards motivate households to pay for rates and taxes. These are opportunities that municipalities should exploit to enhance their revenues (Malokomme and Berry 2004). The 2002 Municipal Revenue Enhancement Programme initiated by the then (DPLG) and now COGTA found out that most municipalities lack incentives to encourage payment of rates and services hence they fail to enhance their revenue generation, (Kanyane 2011; Rakabe 2011).

2.10.4. Maximizing Revenue Collection from Existing Revenue Sources

To augment municipal revenue collection in rural municipalities, a need exists to maximize revenue collection through mobilizing existing revenue sources. The Mutale IDP 2014/15 points out that there are different types of businesses that are operating illegally e.g., transport operators within the municipality. In addition, it was noted that those that are in possession of permits only 20% out of 633 registered businesses in Mutale renewed their permits. Thus, the municipality is losing revenue from its existing potential sources of revenue hence it is faced with fiscal challenges. The respondents without permits indicated that they felt that there was no need to have permits or trading licences as it might affect or restrict their informal economic activities as they may not meet the required legal standards for approval of their economic activities. Examples of these include small scale informal miners, and impact on their financial viability.

2.10.5. Explore Other Revenue Collection Avenues

Failure to explore other revenue avenues has negatively impacted on the revenue generation of rural municipalities because the municipalities have a low revenue tax base, i.e. the majority of the land owned by Tradition Authorities. In order to enhance Municipalities' revenue generation there is a need to explore other revenue collection avenue such as taxing those undertaking activities in mining (Artisanal and Small-scale Mining), in mining areas, (although some of the mines are declining and about to close down), agriculture, commerce, billing kiosks and rent them to mention just a few (Kanyane, 2011). There is also a need for strategic planning and execution of rural development-based policies, i.e. National Rural Development Strategy, Provincial Growth and Development Strategies, Local Economic Development Strategies etc., not only within the identified planned Nodal points but as well as in various population concentration areas. Economic development in these various areas would attract more businesses; create employment opportunities thereby expanding the revenue base of rural municipalities (Kanyane 2011; Rakabe 2011).

2.11. SUMMARY

This chapter looked at the existing literature on challenges of financial sustainability in a rural municipality and allocation in the public sector. The review was done with a specific reference to the country’s local governments. The chapter also underlined and expounded on several key aspects of challenges of financial sustainability in a rural municipality. A definition of financial sustainability, challenges faced by local municipalities in terms of their finances, revenue bases and strategies that can be used by local municipalities to collect revenues are also presented. The subsequent chapter outlines the methodological procedures adopted the study adopted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

The preceding chapter revised current literature on challenges of financial sustainability confronting rural municipalities. This chapter gives a description of the research method and design employed in this study. This chapter covers features such as the design used, the target population and subsequent sample, as well as methods used for data collection and data analysis respectively. The chapter further outlines the ethical concerns which were taken into considerations to safeguard the wellbeing of the respondents who participated in the study.

3.2. RESEARCH DESIGN

Research is defined as, "a process of steps used to collect and analyse information to increase our understanding of a topic or an issue" (Creswell, 2008:3). It comprises of the following steps: ask a question, gather the necessary data to respond to the question, and give a response to the question posed. Burns and Grove (2001:98) view research methodology as "the total strategy, from the identification of the problem to the final plans for data gathering and analysis". As Kumar (2011:222) notes, "a researcher has an obligation to use appropriate methodology, within his/her knowledge base, in conducting a study".

Some authors consider research design as a conscious decision between qualitative and quantitative research methods. Others argue that research design relates to the selection of specific methods that the researcher makes for data collection and analysis. Research design according to Creswell (2012) is the "set of methods and procedures used in collecting and analysing measures of the variables specified in the research problem". The design of a study gives a clear description of the type of study to be employed, e.g. correlation, semi-experimental or meta-analytic. A descriptive research approach was adopted for this study and applied a quantitative technique to collect data through surveys using a self-administered questionnaire that was designed specifically for this study. Quantitative methods underline objective dimensions and the arithmetical, mathematical investigation of data collected through surveys, questionnaires, or by deploying pre-existing statistical data using computational methods. It uses in-depth studies of small groups of people to guide and support the construction of hypotheses (Creswell, 2012).

3.3. STUDY AREA

Musina Local Municipality located in Vhembe District of Limpopo Province; South Africa was the study area for this study. This is a category B municipality located near the Beit bridge border that borders South Africa and Zimbabwe. The municipality is home to about 132 009 citizens (StatsSa, 2016) . Its population is vastly diverse, comprising of Venda, Northern Sotho, Tsonga, English, Afrikaners, Shona, Indian, Bangladeshi, Chinese and Somali speaking people. Its major economic activities include diamond mining and game farming. It is also well known for its tourism attraction sites, which include the world-renowned Mapungubwe National Park, and the Big Tree. The Limpopo provincial government has earmarked the municipality for the establishment of Special Economic Zone (SEZ). It is envisaged that the Zone will lead to the creation of approximately 19 000 jobs for the local people (Thulamela Local Municipality, 2020). Figure 3.1 shows the Vhembe District Municipality's map, which shows the Musina Local Municipality.

Figure 3.1**: Map of the Musina Local Municipality** Source: www.municipalities.co.za

3.4. TARGETED POPULATION

According to Wild and Dinginess (2013) a population is as a complete number of individuals identified as subjects for investigation. The population can, for example, consist of particular group of characters, homes, businesses or farmers from whom information is needed. The people identified as population for this study consisted of employees of the Musina Local Municipality who are conversant with the finances of the municipality (i.e. managers, councillors, and those working within the financial division).

3.5. SAMPLING

A sample is a part of the population of respondents (Struwig and Stead, 2004). Saunders, Lewis and Thornhill (2009) contend that it is unmanageable to gather the required information from all elements of the population due to issues such as time and budgetary constraints. Instead, a sample that is representative of the targeted population is selected. Two major sampling procedures exist, namely; non-probability and probability sampling techniques. According to Cooper and Schindler

(2003), non-probability sampling is arbitrary and subjective. This is mainly due to the fact that none of the members of the identified population is guaranteed to be in the selected sample. Probability sampling on the other hand, is founded on the notion of random collection that gives all members of the population the same opportunity of forming part of the study sample (Cooper and Schindler, 2003).

For this study, a stratified random sampling method was adopted. Firstly, the targeted population was divided into different strata (Figure 3.2). A stratified sampling is a sampling method which includes the researcher separating the study population into stratum. Such classification can be determined by a variety of characteristics such as race, class, gender, and level of education. For this study, the population was divided into three individual subgroups. Work position was used as a criterion in dividing the population into subgroups (i.e. managers, councillors, and finance staff members).

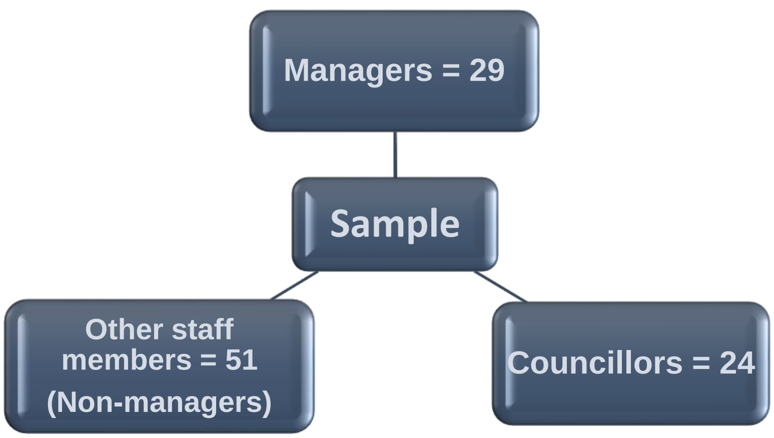

Figure 3. 2**: Strata in the study sample:**

Table 3.1 presents the target population as well as the sample size for the current study

Table 3. 1 Target population and sample

Participants	**Population**	**Sample**
Managers	29	29
Other staff members	117	51
Councillors	24	24
Total	**170**	**104**

After dividing the population into subgroups, a simple random sampling method was adopted to randomly select respondents from each subgroup. Its objectivity relates to the fact that each individual from the identified population has an equal and independent chance of being selected for the sample and that their selection do not in any way affect the chances of selection of another individual (Gay and Airasian, 2000). This is consistent with the views of Elfil and Negida (2017), who state that the method is used when the whole population is accessible, and the investigators have a list of all subjects in this target population.

3.6. DATA COLLECTION

A self-administered questionnaire was utilized as data gathering tool for this study. This method was chosen because it allowed for the collection of data from a large group of people within a limited time. The questionnaire consisted of a Likert-type scale questions (Appendix C). The form was separated into five segments as per the study objectives. Section A contains biographical evidence such as age, gender and educational level of respondents. Section B contains questions regarding the challenges experienced within the municipality. Section C covers questions relating to the revenue collection sources and strategies used by the municipality. Section D contains questions which sought to examine respondents' skills training and development capacity. In addition, secondary data was used to collect the additional data. Secondary data is "research data that has previously been gathered and can be accessed by researchers" (Rouse, 2017:23). Such data is mainly used for its relevance to the study to augment the primary data. Secondary data is also chosen for its efficiency and speed associated with using existing resource (Rouse, 2017). For this study, secondary data used were the municipal billing systems and financial reports. This data was chosen because it is in this secondary data where information on revenue collection can be found.

3.7. DATA ANALYSIS

Creswell (2012) defines data analysis as a procedure that includes the analysis of the collected information by using logical thinking to determine patterns, relationships or trends. The data set captured was cleaned and all errors edited to ensure its accuracy. The original data set was analysed using the IBM Statistical Package for Social Sciences (SPSS) Software Package for comprehensive analysis of data. The study applied descriptive statistics to analyse the data in order to fulfill the study expectations.

3.8. VALIDITY

Validity is defined as the extent to which "a concept is accurately measured in a quantitative study" (Heale and Twycross, 2015:66). A pilot study was used to determine the content validity of the questionnaire used to gather data from participants. Content validity is used to ascertain if the content of research instrument, in this case the questionnaire, adequately covers all the aspects necessary to test a particular variable (Heale and Twycross, 2015). For this study, the researcher carried out a pilot study with participants drawn up from a local municipality with similar characteristics to that of Musina Local Municipality. The aim of this exercise was to determine if the items of the questionnaire were valid in terms of helping the researcher achieve the study objectives and answer the research questions respectively. The dummy questionnaire was given to randomly selected individuals to complete. The results of the pilot study revealed few issues on the questionnaire (i.e. vague questions) that needed to be addressed. The researcher consequently addressed these issues to ensure that the questionnaire was clear of vague items and was error free. The researcher then consulted her research supervisor for inputs on the questionnaire. The supervisor was considered a relevant person to offer inputs on the validity of the instrument due to her deeper understanding of research. This is in line with existing literature on validity. According to Rubio, Berg-Weger, Tebb, Lee, & Rauch (2003) consulting experts to evaluate each expression in the developed measuring instrument in terms of the content of the scale or terms of appropriateness is key in determining the validity of the instrument.

3.10. RELIABILITY

According to Rubio, et al (2003) reliability refers to the constancy of the measuring instrument (i.e. questionnaire) used and its dependability over time. A questionnaire is considered reliable if it is able to give similar results when is applied at different periods. Several strategies were employed to ensure reliability in this study. Firstly, the researcher employed the applicable research process (i.e. sampling, data collection, and data analysis) as prescribed in the literature. The process was clearly presented that it will be easy for another researcher to duplicate it somewhere else and still come up with similar results. Secondly, the research instrument (questionnaire) contained items free of double-barrel, vague and ambiguous items that could confuse the participants. Consequently, participants from another study setting would also find it easier to complete

3.11. ETHICAL CONSIDERATION

Research ethics is one of the most significant facets of research that the researcher must consider while carrying out a study. According to Bell (2007), research ethics refers to the correctness of the researcher's conduct and its effect to the research participants. Babbie and Mouton (2012), state that research ethics relate to a study being compatible to the standards of conduct of a given profession or group. The following ethical issues were taken into consideration in this study:

1) **Ethical clearance:** An ethical clearance certificate was acquired from Turfloop Research Ethics Committee (TREC), prior the commencement of the data collection phase (Appendix A).

2) **Consent to carry out the study:** Prior to conducting the study permission was sought from and approved by the Musina Local Municipality (Appendix D).

3) **Informed consent:** The aim of the study was clarified to the respondents to secure their informed consent before the commencement of the data gathering procedure. Informed consent remains a critical aspect in studies involving human participants. Nijhawan, Janodia, Musmade, Muddukrishma and Bairy (2013:134) put its significance into perspective by arguing that, "it is an ethical and legal requirement for research involving human participants".

4) **Voluntary participation:** The respondents were told that their involvement in the study is voluntary and that they would not be remunerated for participating. They were also informed about their right to withdraw from the study anytime for any reason without negative consequences.

5) **Privacy and confidentiality**: Privacy in scientific investigations refers to steps that the researcher must take to ensure that respondents are protected from intrusion or observation without permission (Al Tajir, 2018). "Every precaution must be taken to protect the privacy of research subjects and the confidentiality of their personal information." (Declaration of Helsinki 2013-Paragraph 24). This includes researchers ensuring that they only access information about a participant that the participant has agreed to divulge (Al Tajir, 2018). For this study privacy of the respondents was preserved by ensuring that both direct attribution (comments linked to a name or a specific role of participants) and indirect attribution (reference to a collection of characteristics that might help identify participants) was avoided.

6) **Anonymity**: Anonymity was safeguarded by using fake names to identify respondents instead of their real names. Secondly, information that could make the respondents' identity easily identifiable was excluded from both the interviews and questionnaire survey. This included physical and postal addresses and the telephone numbers of the participants. This information was explained to the participants' prior the commencement of every data collection activity.

7) **Potential risks:** Researchers are required to guard against exposing respondents to risks such as psychological harm, physical harm and invasion of privacy. For this study risks to the respondents were minimized by employing research ethics such as confidentiality and privacy as outlined above to guard against intruding into respondents' privacy. In addition, the nature of the study did not require respondents to participate in either experiment or medical procedures, thus eliminating any risk of physical, emotional, and psychological trauma.

3.12. SUMMARY

This current chapter outlined the methodology employed in this study. Issues covered include the research design, population of the study and the sampling methods used to sample the respondents. The chapter further discussed the methods used to gather and analyse data. Furthermore, the chapter discussed the research ethics which were taken into consideration prior to and during the implementation of this study.

CHAPTER FOUR

RESULTS

4.1. INTRODUCTION

The importance of financial sustainability of a local government cannot be overemphasized. Sound financial management practices not only enhance municipalities' abilities to generate revenue to meet expenses, but also allow them to provide quality services required by their constituencies in a sustainable manner (Crase and Grant, in Arunachalam, Chen and Davey, 2017). Local governments are constitutionally obliged to ensure consistent provision of basic amenities to communities in a sustainable manner. They are further expected to stimulate societal and monetary development amongst other functions. To achieve this, municipalities are expected to structure and manage their administration and budgeting and planning processes which will allow them to prioritise the needs of their communities. The aim of this study was to assess the challenges that the Musina Local Municipality faces in their attempt to manage their finances for financial sustainability. The preceding chapter gave an outline of the research methodology that was used in the carrying out of this study. This chapter offers the findings of the study as well as their discussions.

4.2. DEMOGRAPHIC INFORMATION

This segment gives the demographic data of the respondents who partook in this project. A total of 104 respondents partook in the study. Their positions within the municipality were 51 ordinary staff members of the municipality, 29 managers and 24 councillors. Information on other demographic factors is presented in the subsections that follow.

4.2.1. Gender of the respondents

The results of the study, as outlined in figure 4.1, show that a lot of respondents were male (56%), while female respondents constituted 44% of the sampled respondents.

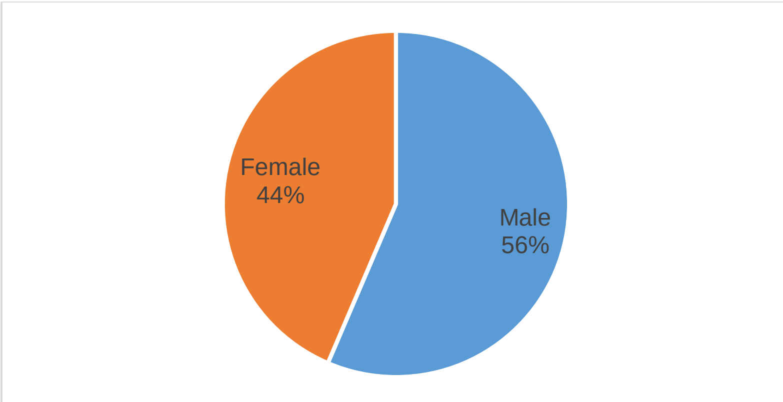

Figure 4.1. Gender of respondents

4.2.2. Language most commonly used in the Municipality

In terms of the language, 43% of the respondents speak English, followed by 28% that speak Sesotho and 21% that speak Tshivenda. Less than 10% of respondents speak other languages such as Xitsonga, isiZulu, IsiXhosa, Setswana, and Afrikaans. The results on the language groups are depicted in figure 4.2.

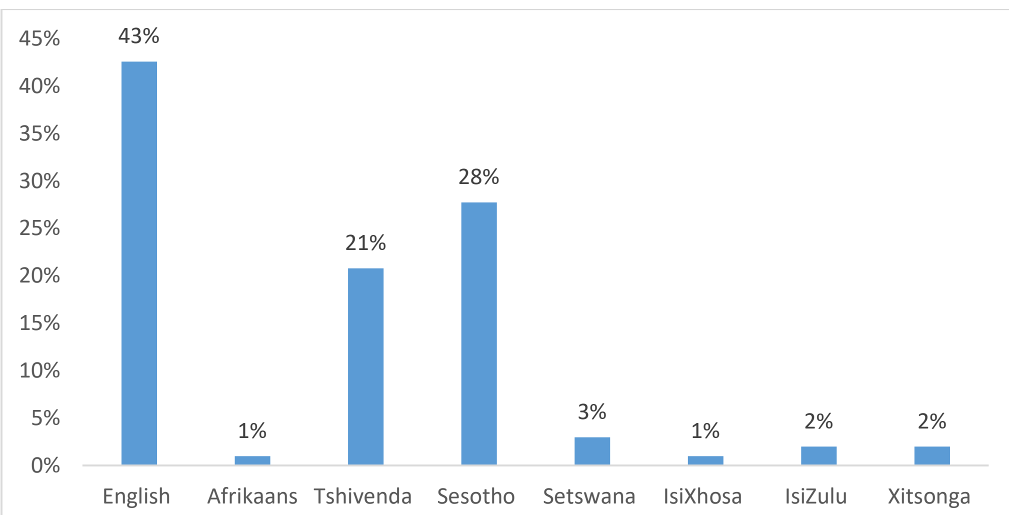

Figure 4.2. Language most commonly used

4.2.3. Age Group of Respondents

The findings show that 52% of the respondents fell between the ages of 30-39, followed by 23% between the ages of 40-49., 14% were between the ages of 50-59, while 11% were above 60 years of age. These results are presented in figure 4.3.

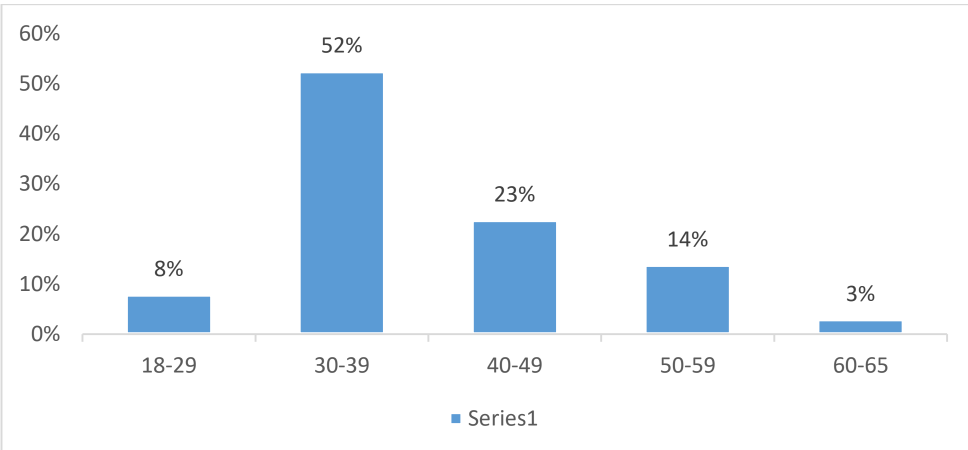

Figure 4.3. Age group of the respondents

4.2.4. Period of service within the Musina Local Municipality

Respondents that constitute the most years of experience related to the jobs they are doing is 35% with between 5 to 10 years of experience followed by 32% with 10 to 20 years of experience while 30% have less than 5 years' experience.

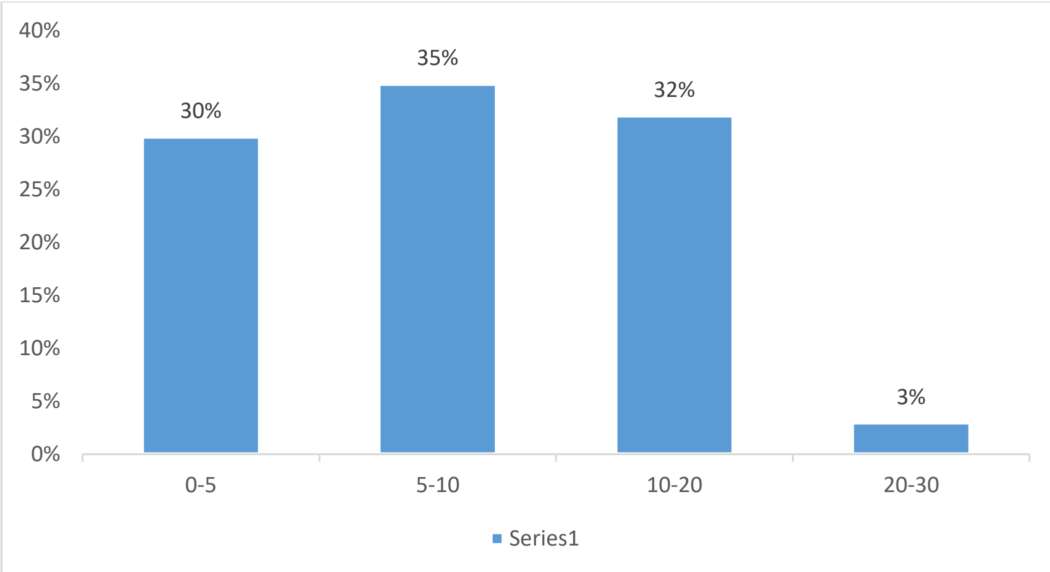

Figure 4.4. Level of experience

The advantage of including respondents who have been with the municipality for an extended period of time was mainly for the purpose of their organizational memory. People with organizational memory are likely to possess in-depth knowledge about the organization. Therefore, they are likely to be in a better position to provide insight and an accurate analysis of the state of that organization with regard to the subject being investigated (Perez and Ramos, 2013). The results show that there is a substantial number of the employees who have been with the municipality for a longer period of time. Researchers have reported that when an organisation is able to retain employees for long periods of time they also retain organisational memory, they increase productivity and save on costs of recruiting and training new employees (Park, McQuaid, Lee, Kim and Lee 2019).

4.2.5. Qualifications of respondents

Figure 4.6 indicates that the highest qualification was a bachelor's degree, represented by 43% followed by diploma by 39%, with 14% of the respondents having Honors degrees, 2% with a Master's degree and 3% of respondents only have matric.

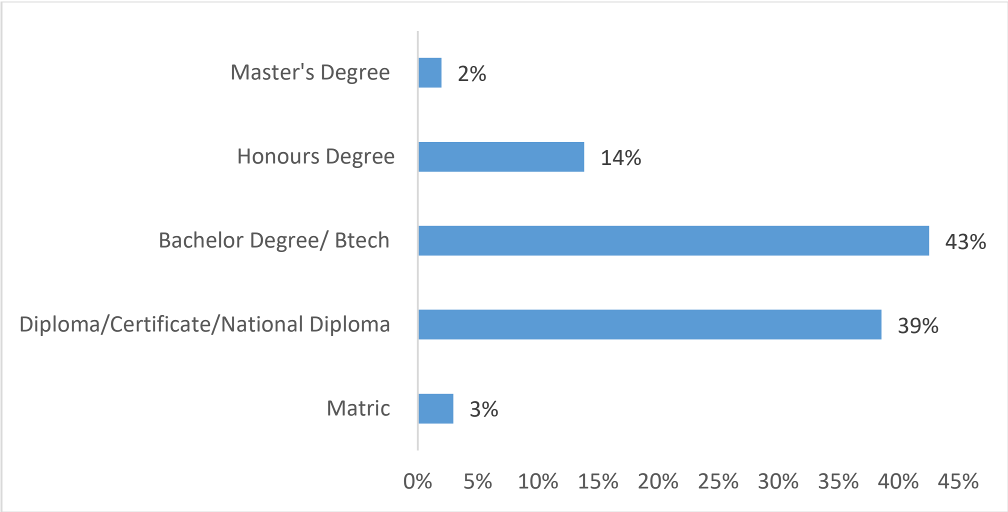

Figure 4. 5. Qualifications of the respondents

4.3. OPINIONS OF THE RESPONDENTS ON FINANCIAL SUSTAINABILITY OF THE MUSINA LOCAL MUNICIPALITY

The study sought to determine the financial sustainability of the Musina Local municipality. To do that, the study has research objectives that were stated in chapter one. This section is going to present the results of the study in line with the objectives. For ease of linking the results with the objectives they are restated here:

- To explore challenges experienced by the Musina Local Municipality in terms of managing their finances,
- To assess sources of revenue collection for the Musina Local Municipality,
- To investigate revenue collection strategies of the Musina Local Municipality, and
- To evaluate whether the employees of the Musina Local Municipality have the requisite skills and expertise to manage their finances.

4.3.1. Challenges faced by the Municipality in terms of Managing Their Finances

The challenges are subdivided into the overall challenges, operational and financial challenges. The presentation starts with the overall challenges the municipality faces.

4.3.1.1 Overall challenges experienced by Musina Local Municipality(Satisfaction Survey)

This section presents findings of overall challenges experienced by the Musina Local Municipality

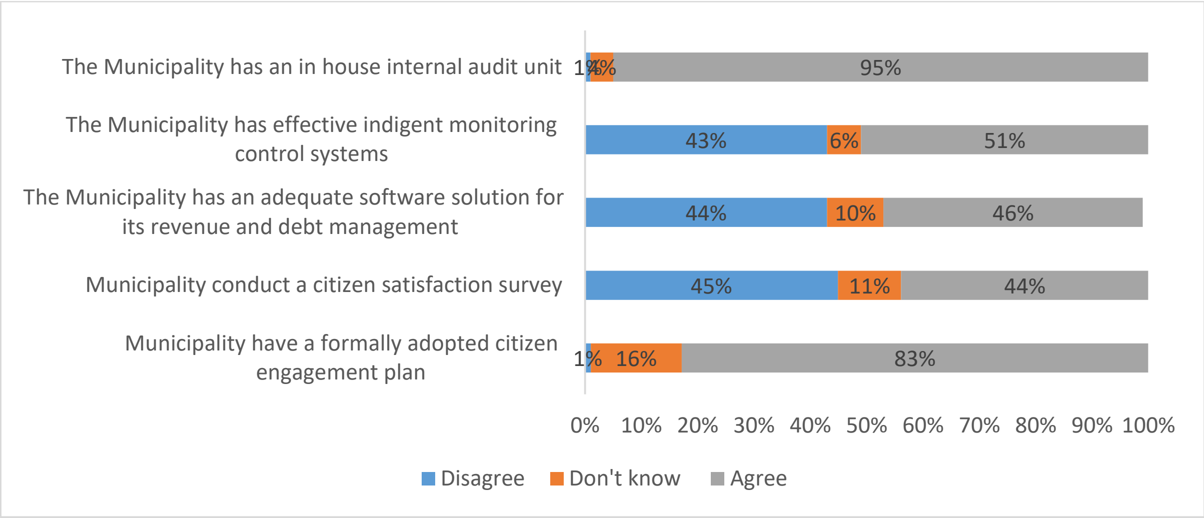

Figure 4.6. Challenges experienced by Musina Local Municipality

a) Challenges relating to in house internal audit unit

Every municipality is expected to have an internal audit unit as per Section 165 of the MFMA. It is expected that this unit should assist the municipality to prepare a risk-based audit plan and an internal audit program for each financial year (Republic of South Africa, 2003). The results of this study show that 95% of the respondents agree that the municipality has an in house internal audit unit, compared to just 1% that do not agree. However, most of these Internal Audit units for most municipalities have been found to be dysfunctional, leading to regress in financial control and service delivery (Auditor-General, 2019). Few factors affect the effectiveness of these units. Firstly, internal audit under-resourced and not given access to appropriate training they need to efficiently carry out their duties. The situation is further exacerbated by the fact that in most cases most of the recommendations made by these units are not taken into considerations by external auditors like the Auditor (Sepuru, 2017).

b) Ineffective indigent monitoring control systems

The Municipal Indigent Policy is planned to provide guidance towards the national initiative to enhance the lives of indigents and to enhance to service provisions (Republic of South Africa, undated). The above figure reveals that about 51% of the respondents believe that that the municipality has effective indigent monitoring control systems as compared to 43% that do not agree. Another 6% did not know whether the systems existed. However, most of municipalities has the indigent monitoring control systems but does not update the system timeously as the status of indigent households might change during the year (Sepuru, 2017).

c) Inadequate software solution for revenue and debt management

The figure above shows that 46% of the respondents agree that the municipality has an adequate software solution for its revenue and debt management, compared to 43% that do not agree, although the municipality has a billing software that provide inaccurate billing statements for consumers.

d) Challenges relating to conduct of citizen satisfaction survey

Figure above reflects that most of the respondents (44%) agree that the municipality conducts a citizen satisfaction survey, compared to 45% that do not agree.

e) Non implementation of adopted citizen engagement plan

Results in figure 4 6. show that the majority (83%) of respondents agree that the municipality has a formally adopted citizen engagement plan, compared to 1% that does not agree. The municipality has an adopted citizen engagement plan; however projects identified by citizens are not fully implemented by the municipality.

4.3.1.2 Operational challenges faced by the municipality

Respondents were asked a few questions to answer the question of operational challenges. The results are presented in Figure 4.7 and explained below.

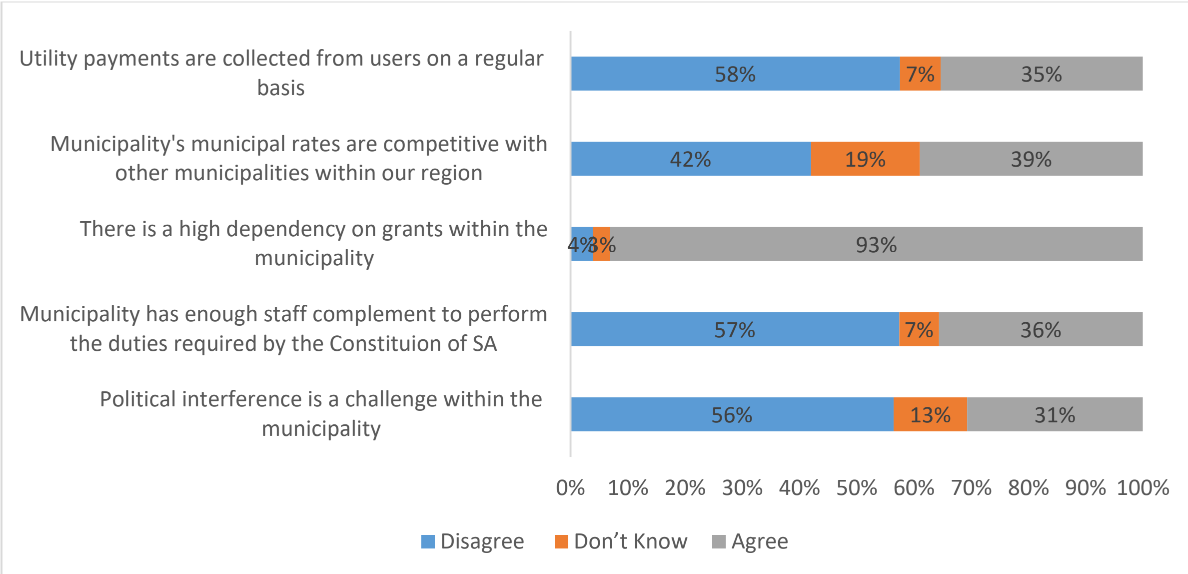

Figure 4.7. Operational Challenges experienced by Musina Local Municipality

a) Irregular collection of utility payments

Sections 95 and 96 of the Municipal Systems Act, 32 of 2000 empowers the Municipality council with the authority to develop proper debt collection strategies to be used in the collection of all the monies due and payable to the municipality (Republic of South Africa, 2000). Regular utility payments are critical in ensuring that municipalities remain financially sustainable (Mbulawa, 2019). Despite the significance of these payments, findings of this study reveal that the Musina Local Municipality is struggling to collect its own utility payments. The above figure reveals that the majority of respondents (56 %) disagreed with the statement, "utility payments are collected from users on a regular basis" as compared to 35 % who agreed with the statement. These findings are congruent with those of earlier studies (Kanyane, 2014 and Enwereji and Uwizeyimana, 2020). Consumer debt remains one of the biggest challenges confronting many municipalities in South Africa. Default payments and non-payment for services rendered by citizens have led to a significant increase in consumer debts in most municipalities (Enwereji and Uwizeyimana, 2020). Earlier findings have attributed irregular collection of utility payments by municipalities to several factors. Firstly, rural-based municipalities like the Musina Local Municipality have been found to be ill-equipped to effectively collect revenue. Shava (2020) attributes this to several issues (i.e. skills deficit, absence of commitment, poor performance management and lack of execution plans).

Secondly, social issues such as poverty and unemployment could also be potential reasons why the Musina Local Municipality struggled with utility payment collection. As it will be shown in the next section, majority of households within the municipality relied heavily on social grant at their main source of income. This submission is supported by Enwereji and Uwizeyimana, (2020). In their study titled, "Municipal Consumer Debt in South African Municipalities: Contexts, Causes, and Realities", these authors identified poverty, unemployment and an increase in the cost of municipal services as some of the principal reasons why municipalities struggled with the collection of utility payment.

Musina Local Municipality' irregular debt collections are likely to lead to other financial challenges. Chetty (2015) noted two of these challenges. Firstly, increased municipal consumer debt means the municipality is unable to generate enough liquidity necessary to fulfill its constitutional obligation of delivering basic services in a sustainable manner. Secondly, monies due to the municipality as a result of non-payment means municipalities build new infrastructure projects, maintain or upgrade existing ones (Chetty, 2015). Based on the findings presented above, it is safe to deduce that the municipality's challenge with irregular collection of utility payments have serious implications on its ability to provide much needed services to its constituencies.

b) Competitiveness of the municipality's rates as compared to other municipalities

The study further sought to find out if the municipality's service rates were competitive when compared with its counterparts within the region. The findings reveal that 42% of the respondents were of the view that the municipality's rates were not competitive. This is in comparison with the 39% of the respondents who believed the rates were competitive. 7% of the respondents reported that they did not know if the rates were competitive or not.

c) High dependency on grants by community members

Revenue collection has been identified as one of the main sources of income for municipalities. Municipalities generate income by billing their residents for services such water, electricity and refuse collection. However, the findings of this study further reveal that social grants were the main source of income for the majority of households within the municipality. 93% of the respondents indicated that there was a high dependency on social grants as the main source of income in the municipality. These findings are consistent with available figures which show that social grants have become a popular means of income for many poor households in South Africa (Statistics South Africa, 2018; Sinyolo, Madhara and Wale, 2017). Reliance on social grants means majority of the municipality's residents are unable to pay for the municipality's services. Non-payment of services by residents has serious implications on the municipality's financial status. The National Treasury has identified residents' socio-economic status as one of the causes of financial challenges in local municipalities (2020). As already shown above, the results of this study identified irregular revenue collection of utility payments as one of the main challenges confronting the municipality. It is therefore safe to conclude that this challenge exists mainly as a result of residents' inability to pay for municipal services due to their poor socio-economic status. The challenge is that residents' non-payment of services affects the municipality's ability to provide services in an effective and sustainable manner (discussed in detail below).

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d) Municipality's capacity to carry out its constitutional obligations

Another finding of this study relates to the Musina Local Municipality's capacity to carry out its responsibilities as mandated by the country's constitution. When asked if they believed that the municipality had the necessary capacity to adequately execute its duties of providing services to communities, the majority of the respondents (57%) disagreed. Only 36% of the respondents agreed, while 7% gave the "I don't know" response.

e) Political interference in the running of the municipality

Political interference in the running of public entities such as local government has been found to have adverse effects on the delivery of quality services to communities. According to Mngomezulu (2020) many of the country's municipalities continue to experience serious challenges in addressing interface between public servants and politicians. However, results of this study revealed that majority of respondents (56%) do not believe there was political interference as compared to only 31%. These results contradict previous research findings which revealed that there was a widespread political interference in most of the country' local municipalities (Madumo, 2012, Akpan and Ekamen, 2013 and Madumo, 2016). Based on these results, it is safe to deduce that the challenges of Musina Local Municipality are not as a consequence of political interference, but are of financial in nature as it will be shown below.

4.3.1.3 Financial Challenges Experienced by Musina Local Municipality

The factors that were identified to define financial challenges faced by the municipality are as presented in figure 4.13.

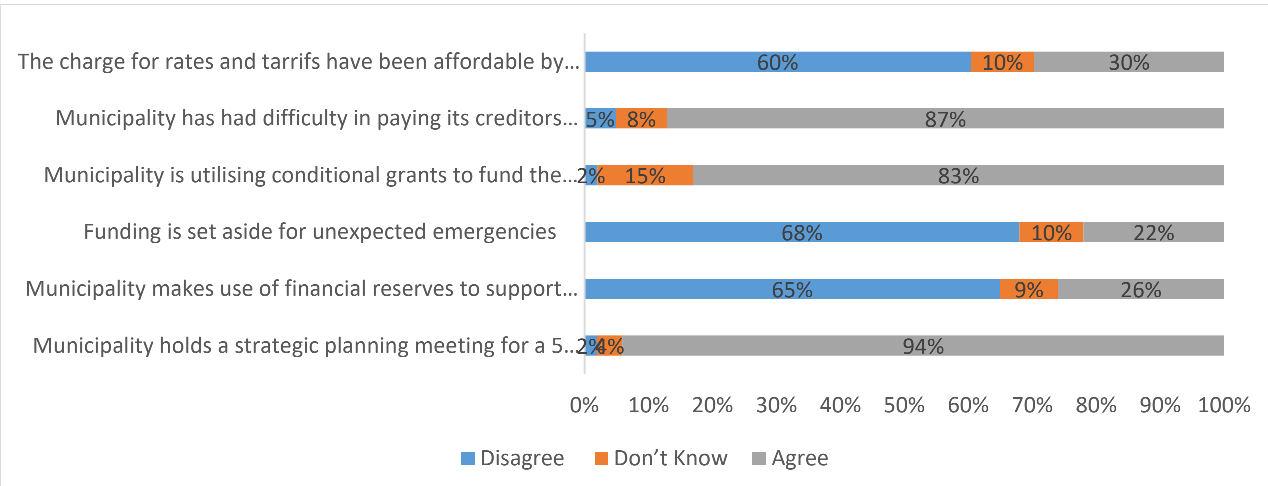

Figure 4.8. Challenges experienced by Musina Local Municipality

a) Affordability of public services by customers

One of the challenges currently confronting the municipality relates to community members' inability to pay for services. Section 229 of the Constitution, 1996, gives municipalities the power to increase their own income through property tariffs and extras for services (e.g., water, sanitation, waste removal and electricity, and the use of municipal facilities such as sports grounds). However, the findings of this study reveal that the Musina Local Municipality might have a problem raising its own revenue. The above graph reveals that the majority of respondents (60 %) were of the view that the municipality's charges for rates and tariffs have been unaffordable for the customers over the last three years. The fact that respondents consider the municipal services to be unaffordable means few households may be paying for these services. The fact that respondents considered the municipal services as unaffordable might not be surprising considering the socio-economic status of most of its people. The municipality is mostly made up of townships, farms and rural settlements with high rates of illiteracy, unemployment and poverty (Musina Municipality, 2020). According to Statistics South Africa, the largest part of the municipality's population is poor, with only a small middle-income group and almost zero high-income groups (StatsSA, 2008). Consequently, the socio-economic status of most households means their primary concern is to put food on the table with paying for government services being relegated into a secondary concern. These findings are consistent with findings from an earlier study by Mavhungu (2011). In studying the non-payment of services in the Vhembe District Municipality, Mavhungu found that the majority of community members perceived public services as unaffordable. In addition, as mentioned, the majority of households in the Musina Local Municipality rely heavily on government's social welfare programmes (i.e. child-support and old age grants) as their main sources of income. Therefore, it can be expected that these households will struggle to pay municipal rates.

b) Municipality's inability to pay creditors within the 30-day period

The findings reveal that the majority of respondents (87%) are of the view that the municipality struggled to pay its creditors within the stipulated 30-day period. These findings are hardly surprising. On the contrary, these findings are a representation of the overall picture playing out in many of the country's municipalities. Prior research findings reveal that many of the country's municipalities struggle to pay their creditors within the stipulated 30-day period (National Treasury, 2020). Figures for the 2019/2020 financial year reveal that the country's municipalities owed their creditors a combined amount of R66.2 billion. This is despite the fact that the MFMA directs that accounting officers pay all payments due to municipality's creditors within 30 days from receipt of an invoice (Republic of South Africa, 2003). Such a directive was also given by the National Treasury (Treasury, 2011). One possible explanation for Musina Local Municipality struggles to pay its creditors is its poor financial status. Findings of this study show that the municipality was experiencing financial distress, owing to poor revenue collections and financial reserves. These findings are consistent with the 2020 National Treasury report which has identified the Musina Local Municipality as one of the municipalities in Limpopo experiencing financial distress (National Treasury, 2020). Financial distress has been identified as the main reason behind many municipalities' inability to meet their financial obligations (Glasser and Wright, 2020).

Government, through certain legislations such as the constitution and MFMA has outlined what constitutes financial crisis. The country's constitution clearly stipulates what constitutes financial crisis. Its Section 139(5) states that the municipality is in financial crisis if it is unable to fulfill its service provision mandate and/or is unable to meet its financial obligations due to its financial obligations (Republic of South Africa, 1996). Section 140(3) of the MFMA adds that the municipality is deemed to be in financial crisis if it continuously or in a recurring manner fails to pay its debts which in turn impacts on its ability to provide services (Republic of South Africa). As with many municipalities across the country, Musina Local Municipality's financial crisis could be attributed problems such to its poor revenue collection, lack of financial reserves and poor internal controls. As shown earlier, one of the challenges confronting the municipality is its poor revenue collection. The results further reveal that the municipality suffered from poor financial reserves (to be discussed in detail the following section. These findings are congruent with those of earlier studies. For instance, in a study titled, "South African municipalities in financial distress: what can be done?, Glasser and Wright (2020) identified under-collection of revenues, resulting in liquidity challenges as one of the main causes of financial crisis in municipalities. This is further supported by the National Treasury (2020) which noted that liquidity challenges were the most common cause of financial distress in municipalities. This in turn leads to them being unable to settle their debts with creditors within the stipulated 30-day period. One can therefore, deduce from the results of this study that the financial challenges confronting the municipality are common challenges that currently confront most of the country's rural communities.

c) Poor financial reserves

Financial reserves are savings accounts used by municipalities to set aside a specific amount of money on a yearly basis. Municipalities use these reserves for a variety of reasons. For instance, municipalities can tap into their financial reserves to avoid debt servicing costs resulting from taking out a loan. Secondly, the reserves can also be used to implement projects which would normally require municipalities from borrowing beyond their legislated limits (Wyton, 2019). Despite the critical role that both restricted and unrestricted financial reserves play in municipalities' service delivery program, findings of this study show that the Musina Local Municipality did not have financial reserves in place. When asked if the municipality had financial reserves in place to support its long-term capital needs/risk mitigations, 65% of the respondents disagreed. Musina Local Municipality is not the only municipality with poor financial reserves. The 2016 figures revealed that about 90% of the country's municipalities were in fiscal distress (Mbulawa, 2019). The challenge is that without stable financial reserves, rural municipalities such as Musina Local Municipality run the risk of financial collapse (Shava, 2020). The consequence of such a collapse could be dire on the municipality's ability to fulfill its service delivery mandate (Morutu, 2017). Musina Local Municipality's poor financial reserves could be attributed to its poor revenue collection. The findings of this study have already shown that the municipality struggles with its revenue collection. This in turn limits its ability to generate enough revenue necessary to build up its reserves. As such it will always be difficult for the municipality to build a solid financial reserve for both emergency spending and long-term capital needs without reliable revenue collection system. Lack of reserves could subsequently affect the municipality's ability to provide services to its constituencies. Poor financial reserves could also be the reason why the municipality struggles to settle its debt with creditors within the stipulated 30-day period as indicated earlier. With many financial challenges currently facing the municipality, it will find it difficult to build up meaningful financial reserves without accumulated surplus. Based on the above results, it is safe to deduce irregular revenue collection as well as the poor socio-economic status of its citizens seriously impacted on its ability to generate enough financial reserves.

d) Lack of funding for unexpected emergencies

Municipalities are first responders to emergencies resulting from natural disasters globally (Glasser and Wright, 2020). Consequently, they are expected to have adequate financial resources to help them to efficiently respond in case of unexpected emergencies such as natural disasters. These resources will be required to provide emergency housing, rebuilding of damaged infrastructure etc. Despite the significance of this emergency fund as shown above, results of this study revealed that Musina Local Municipality did not have emergency. About 68% of the respondents indicated that the municipality did not put aside funding for unexpected emergencies. There are few possible reasons for this state of affairs. Firstly, results revealed that the municipality struggled with the collection of utility payments from its residents. This means that it does not generate enough revenue that allows it to budget for unexpected emergencies. Secondly, the results further revealed that the municipality did not have financial reserves. This in turn means it does not have financial resources from which it can rely on in case of emergencies. The results are a representation of what is happening in many of the country's municipalities. Prior study findings reveal that many of the country's municipalities are experiencing financial distress (Mbulawa, 2019; Grasser and Wright, 2020). About 175 of the country's 257 municipalities are deemed to be in financial crisis. A municipality in financial distress is less likely to be in a position to put aside a budget for unexpected emergencies. Findings in the previous section indicated that the Musina Local Municipality did not have financial reserves in place to fund for both future projects and unforeseen circumstances. Lack of these reserves means the municipality is also not in a position to set up an emergency fund.

e) Deviating conditional grant to fund operational deficits

Perhaps one of the clearest indications that the Musina Local Municipality is in financial distress is its deviation of conditional grant to fund operational activities. The results show that more than two thirds (83%) of respondents confirmed that the municipality often deviate conditional budget from its intended purpose in order to fund operational deficits". Conditional grants are monies that provinces and municipalities receive from the national government's share of revenue raised for specific purposes. These funds are normally allocated with specific conditions that the recipients are expected to adhere to. One such condition is that the allocated budget should not be utilized for anything other than their intended purpose (National Treasury, 2014). However, the fact that the municipality resorted to diverting its conditional grant budget to meet its operational budget is hardly surprising. As it has already been shown in the preceding sections, the municipality faces financial challenges such as irregular collection of utility payments and poor financial reserves. These challenges result in shortfalls on the budget the municipality needs to adequately carry out its constitutional mandate. This is supported by Mahabir and Mabena (2015) who argue that municipalities will often experience shortfalls when the costs required to meet the service delivery demands exceed the generated revenue. Irregular collection of utility payments and poor financial reserves means the municipality often does not have enough liquidity to meet the service delivery needs of its citizens. As a consequence, it resorts to diverting funds meant for specific projects to fund its operational deficits. However, the challenge with this exercise is that it often leads to increase in backlog on the delivery of services that the conditional grant allocation was meant to address. Such backlogs have huge implications on national government's key policy objectives.

4.3.2. Sources of revenue

The second objective of the study wanted to explore the sources of revenue collection for the Musina Local Municipality. Respondents could select more than one choice of what they believe as the source of revenue within the municipality. The choices were property rates, services charged on tariffs, equitable services from national government, or fines. Results (frequencies and percentages) are presented per group as indicated in figure 4.9.

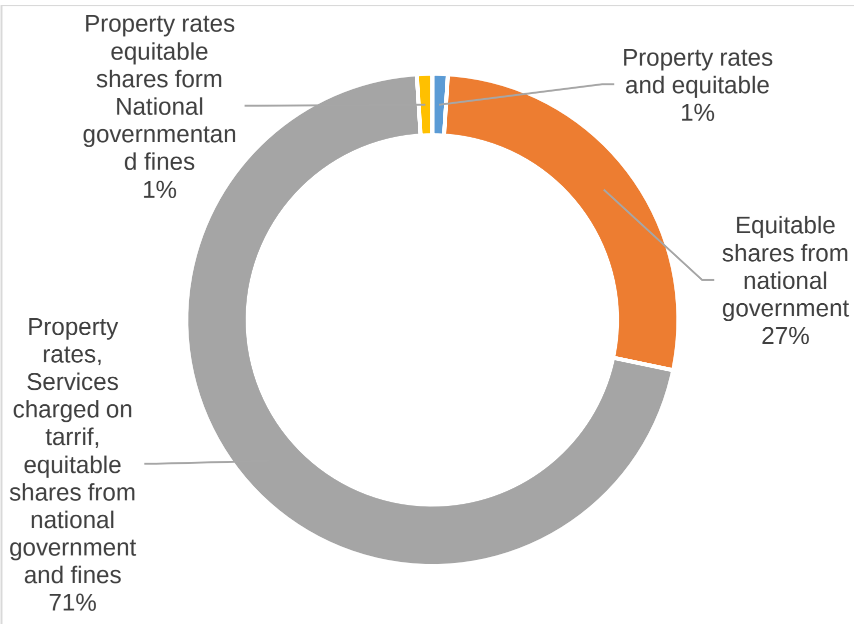

Figure 4.9. Sources of Revenue

The findings of this study on the sources of revenue show that the Musina Municipality generates its income from multiple sources (figure 4.9). About 71% of the respondents indicated that municipality sources of revenue come from property rates, services charged on tariffs, equitable shares from the national government, and fines. About 27% of the respondents indicated that the municipality only generated its income from equitable shares from the national government. About 1% of the respondents have identified property rates and equitable shares as the main sources of income. Another 1% identified property rates and equitable shares from the national government as the municipality's main sources of income. These findings are consistent with findings by Statistics South Africa (2020). According to Statistics South Africa, most of the country's municipalities generate their income from a variety of sources (i.e. property rates, service charges, traffic fines, government grants and subsidies). Financial sustainability remains one of the key determinants of municipality's ability to provide basic amenities to their communities in a maintainable method. It is therefore, not surprising that just like other municipalities, the Musina Local Municipality employs as many revenue collection avenues provided by the law. This is done to ensure adequate financial reserves necessary to deliver services to the poor. Employing a cocktail of revenue collection methods ensures that the municipality is in a good financial position to carry out its constitutional obligations of providing quality services in a sustainable manner. These views are consistent with those of Hajilou, Mirehei, Amirian and Pilehvar (2018), who argued that access to sustainable revenue sources ensures that municipalities properly meet the needs of their people.

4.3.3. Financial management and related skills of municipal employees

This section presents the results of the study in line with the last objective of this study. The section starts by presenting the financial management-related qualifications held by managers employed by the municipality (4:11). The section further presents financial management and related skills that non-managers have that are key in the financial sustainability of the municipality (4:12).

4.3.2.1 Financial management related qualifications held by managers

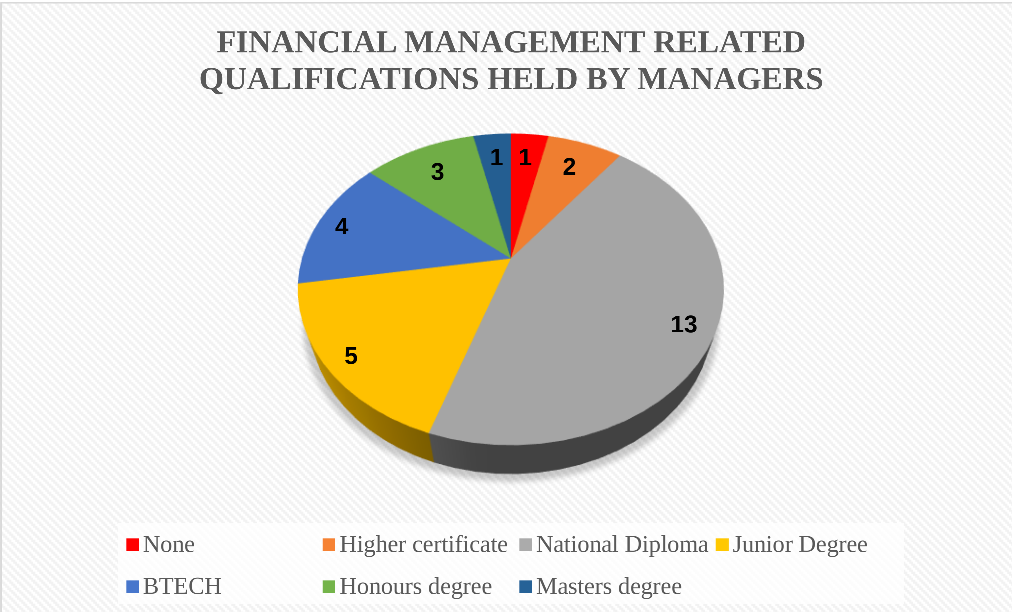

Figure 4.10. Financial Management Qualification Levels of Managers

The above chart presents the financial management qualifications held by municipal managers. The chart reveals that the majority of managers (13, or 45%) hold a National Diploma in financial management. Five (17%) hold a junior degree in financial management. Four (14%) of the managers reported having a financial-related BTech qualification. The chart further reveals that three (10%) of managers reported having a finance related honours degree. Two (8%) of the managers hold a national certificate in financial management. Lastly, one (3%) of managers has a masters degree in financial-management, while another (3%) indicated that they did not have a financial-management qualification.

4.3.3.2 Financial management related skills held by non-managers

Figure 4.11 reveal that a large segment of the sampled respondents (51%) feel very competent in conducting meetings. The results also show that respondents feel that they are competent with the Municipal Finance Management Act and its requirements (55%), procurement policy, its regulations and requirements (54%), and report writing (51%). Furthermore, the results indicate that the respondents believe that the municipality offers opportunities for training and development (58%).

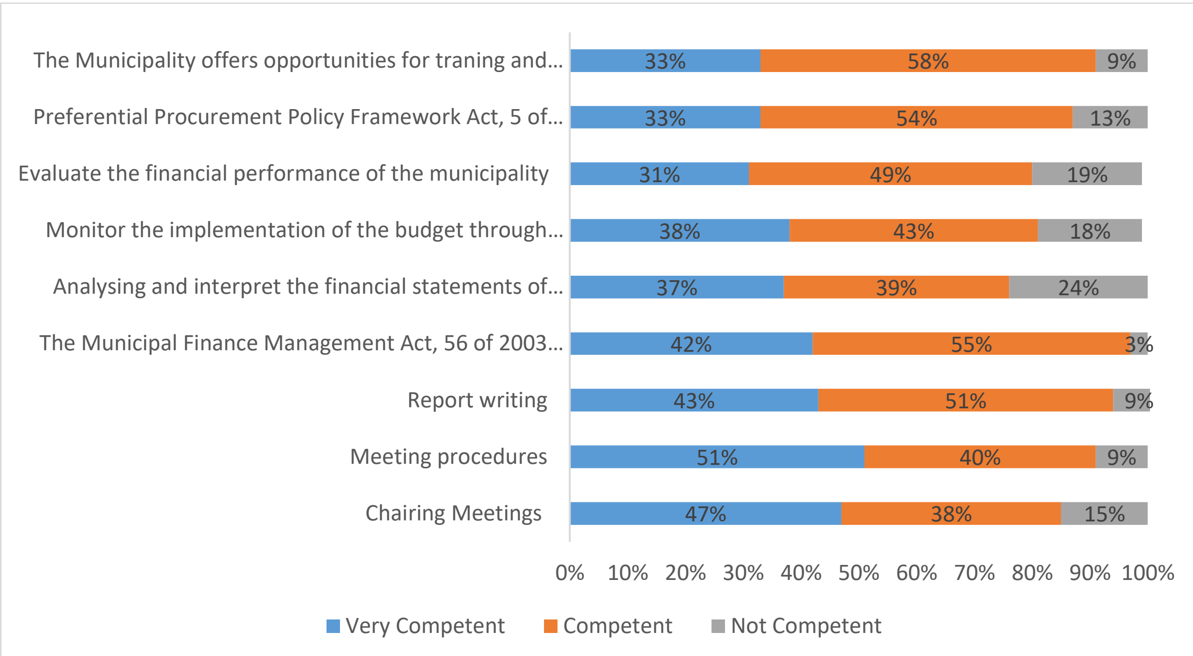

Figure 4.11. Training Skills for Non-Management Employees

4.4 SUMMARY

This chapter presented the findings and interpretation of the study. The Chapter started with demographical information of the respondents, followed by results that are linked to the research objectives as first set out in chapter one. The presentation is linked to challenges experienced by municipality for financial sustainability, sources of revenue and its availability of requisite skills. These findings are presented by means of graphs and tables, frequencies and percentages. The next Chapter will outline the summary of the major findings, make conclusions based on its results, and suggest recommendations.

CHAPTER FIVE

SUMMARY OF RESULTS, CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

The previous chapter presented the findings of the current study. This chapter presents a summary of the study's major findings which emanated from the study. The chapter concludes by offering recommendations and suggests directions for future research relating to the financially sustainability of local governments.

5.2. SUMMARY OF RESULTS

The importance of financial sustainability of a local government cannot be overemphasized. Sound financial management practices not only enhance municipalities' ability to generate revenue to meet expenses, but also allow them to provide quality services required by their constituencies in a sustainable manner. The aim of this study was to assess the challenges that the Musina Local Municipality faces in their attempt to manage their finances for financial sustainability. In line with the first objective that explored challenges experienced by the Musina Local Municipality in terms of managing their finances, the findings of this study have shown that the main challenge confronting the Musina Local Municipality was the low revenue collection. This is mostly as a consequence of community members' inability to pay for services due to their unaffordability. Community members' inability to afford services could be as a result of their socio-economic status. The findings of this study reveal that most respondents were heavily reliant on social grants as their main source of income. As such, failure by customers often left the municipality in financial distress. The situation is exacerbated by the municipality's poor revenue management system.

This finding on revenue collection is corroborated by findings from a study conducted by Kanyane (2011) show that municipal consumer debt and revenue planning are critical challenges in municipalities in South Africa. Rural municipalities are failing to collect revenue effectively due to the lack of employment and poverty that result in non-payment for services rendered. Proper planning is therefore crucial to enhancing revenue management. Nagesso et al. (2018) argue that for rural municipalities to be able to collect revenue there is need for good infrastructure, which includes road networks and telecommunications, among others. The National Treasury (2020) concurs: well-run municipalities must invest in their infrastructure through borrowing against future revenues to be generated by that infrastructure.

The second objective of the study wanted to assess sources of revenue collection for the Musina Local Municipality. The findings reveal that the municipality generates most of its revenue income from property rates, services charged on tariffs and fines. These sources of revenue collection seem to be inadequate, compounding the financial problems in the municipality. The resulting cash flow and liquidity problems in turn create a cocktail of problems that seriously hamper the municipality's aptitude to provide quality amenities to its constituencies. The municipality's financial woes mean the municipality is not in a position to accumulate cash surplus from which to build up both unrestricted and restricted financial reserves. Lack of financial reserves has serious implications on the municipality's preparedness in dealing with emergencies as well as on its ability to adequately plan for future infrastructural projects.

In terms of the final objective of evaluating whether the employees of the Musina Local Municipality have the requisite skills and expertise for revenue collection, the study found that the majority of its management team have the necessary financial management qualifications. These qualifications range from a matric to a masters degree. The findings further reveal that majority of the municipality's non-management staff compliment are competent in most key financial related issues such as evaluating the municipality's financial performance and interpreting financial statements.

5.3. CONCLUSION

This study pursued to determine challenges confronting Musina Local Municipality in its quest to achieving financial sustainability. The following objectives guided the direction of this study; (a) to explore challenges experienced by the Musina Local Municipality in terms of managing their finances, (b) to assess sources of revenue collection for the Musina Local Municipality, (c) to investigate revenue collection strategies of the Musina Local Municipality, and (d) to evaluate whether the employees of the Musina Local Municipality have the necessary skills and expertise to manage their finances.

The findings of the study reveal that the municipality generated most of its revenue income from property rates, services charged on tariffs and fines. Consumers were found to be largely unable to pay for the services. As such, failure by customers often left the municipality in financial distress. Community members' inability to afford services could be as a result of their socio-economic status. The findings of this study revealed that the majority of respondents were heavily reliant on social grants as their principal source of income. This source of income for communities in this municipality compounds the municipality's ability to collect sufficient revenue to sustain it. Not collecting enough revenue has an effect on the municipality's financial position. The poor financial position leads to other challenges such as inability to pay creditors, lack of financial reserves or diversion of grant funding to fund the operation deficits.

It is therefore, safe to conclude that the municipality is not financially sustainable. The study also deduces that the financial and operational challenges confronting the municipality have an undesirable effect on its capability to adequately provide services to its constituencies. Thus, poor revenue collection has the potential to create a cocktail of challenges for the municipality that could have a seriously damaging impact on service delivery provisions.

5.4. RECOMMENDATIONS OF THE STUDY

The findings of this study necessitate the following recommendations.

5.4.1 Recommendations for Future Management

- The municipality should consider developing a sound billing and revenue collection system and place a high priority on the collection of revenue owed to them for services rendered. Having a sound billing and revenue collection system will increase the municipality's revenue collection. An increase in revenue collection will yield the following benefits for the municipality:

  - Enough funds to pay its service providers within the 30-day period,
  - An accumulation of enough surplus in revenues to enable it to set aside financial reserves to fund for unexpected emergencies as well as long term projects,
  - A healthy financial position which will eliminate the need to deviate conditional grants to fund operational deficits, and
  - Financial reserves that could be used to generate employment prospects for the locals. This could in turn escalate number of customers who are in a position to afford paying for municipal services.
- The municipality has personnel who are adequately qualified for the management positions they are in. However, this study recommends that these personnel be engaged in workshops that will reskill them in terms of innovative ways of revenue collection, as well as financial management and human resource management. Having skilled personnel will yield the following benefits:
  - A well-resourced training and development division that is capable of developing staff members to enhance their efficiency and effectiveness, and
  - The recruitment of staff with the necessary competencies to safeguard the municipality's finances.

5.4.2 Recommendations for Future Research

The findings have created a number of opportunities for future research projects, both in terms of research and policy development. Firstly, the findings of the current study reveal that citizens of the Musina Local Municipality's cannot afford their services. There is a need for comparison studies to determine if respondents' views are congruent with those from its sister municipalities in the Vhembe District Municipality. The findings of such studies might assist the Musina Local Municipality, but might also be useful for the other municipalities (i.e. Collins Chavane, Thulamela and Makhado) to determine the affordability of their own services as perceived by their own citizens.

The findings of this study further reveal poor revenue collection as the main cause of financial distress in the Musina municipality. Future studies might be directed at exploring effective ways of helping municipalities across the country improve their revenue collection system. Findings of such studies might also influence the formulation and implementation of future policies geared at improving municipalities' revenue collection system. Lastly, findings suggest the need for the carrying out of robust analysis on the impact that the practice of diverting grants funding to fund operation deficits have on the provisions of elementary amenities to the community.

5.5. LIMITATIONS OF THE STUDY

The current study can be used as a guide for similar municipalities undergoing the same kind of challenges. However, the study is limited in that the study area was confined to only one municipality. As such, the outcomes of this study project cannot be generalized to other municipalities in the country.

5.6. SUMMARY

This chapter presented the conclusions and recommendations of the study. This study wanted to find out what the challenges for the Musina Local Municipality of the Vhembe District in Limpopo Province are in terms of financial sustainability. A quantitative research approach was adopted. A self-administered questionnaire was used to collect data from 104 sampled respondents. The findings of this study have shown that the main challenge confronting the Musina Local Municipality is the low revenue collection. This is mostly as a consequence of community members' inability to pay for services due to their lack of income. The findings reveal that the municipality generated most of its revenue income from property rates, services charged on tariffs and fines. The municipality is therefore not financially sustainable and needs to come up with innovative ways of generating income.

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APPEENDIX A

Ethical clearance from the university

University of Limpopo
Department of Research Administration and Development
Private Bag X1106, Sovenga, 0727, South Africa
Tel: (015) 268 3935, Fax: (015) 268 2306, Email: anastasia.ngobe@ul.ac.za

TURFLOOP RESEARCH ETHICS COMMITTEE

ETHICS CLEARANCE CERTIFICATE

MEETING: **05 March 2020**

PROJECT NUMBER: **TREC/39/2020: PG**

PROJECT:

Title:	Challenges of Financial Sustainability in A Rural Municipality: The Case of Musina Local Municipality in Limpopo Province of South Africa
Researcher:	VJ Tshikundamalema
Supervisor:	Ms MF Rachidi
Co-Supervisor/s:	N/A
School:	Turfloop Graduate School of Leadership
Degree:	Master of Business Administration

PROF P MASOKO
CHAIRPERSON: TURFLOOP RESEARCH ETHICS COMMITTEE

The Turfloop Research Ethics Committee (TREC) is registered with the National Health Research Ethics Council, Registration Number: **REC-0310111-031**

Note:

i) **This Ethics Clearance Certificate will be valid for one (1) year, as from the abovementioned date. Application for annual renewal (or annual review) need to be received by TREC one month before lapse of this period.**

ii) **Should any departure be contemplated from the research procedure as approved, the researcher(s) must re-submit the protocol to the committee, together with the Application for Amendment form.**

iii) **PLEASE QUOTE THE PROTOCOL NUMBER IN ALL ENQUIRIES.**

Finding solutions for Africa

APPENDIX B

Letter from Musina Local Municipality

MUSINA
LOCAL MUNICIPALITY

Postal Address:
Musina Local Municipality
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30 May 2019

Miss Vhutshilo Jane Tshikundamalema
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ACADEMIC RESEARCH PROJECT: CHALLENGES OF FINANCIAL SUSTAINABILITY IN A RURAL MUNICIPALITY

Permission is herewith granted to Miss Vhutshilo Jane Tshikundamalema to conduct an academic research project with the title: *"Challenges of Financial Sustainability in a rural Municipality: The case of Musina Local Municipality in Limpopo Province of South Africa."*

TN TSHIWANAMMBI
MUNICIPAL MANAGER

To be the vibrant, viable and sustainable gateway city to the rest of Africa

APPENDIX C

Confirmation Letter Language Editors

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To whom it may concern.

I hereby confirm that I edited

Vhutshilo Jane Tshikundamalema's

Thesis entitled,

CHALLENGES OF FINANCIAL SUSTAINABILITY IN A RURAL MUNICIPALITY: THE CASE OF THE MUSINA LOCAL MUNICIPALITY IN THE LIMPOPO PROVINCE OF SOUTH AFRICA

in November 2020.

I wish this student well in their endeavours.

Catherine Hutchings

Dr Catherine Hutchings