

# Municipal Financial Viability and Sustainability in South Africa: A Case of Molemole Local Municipality, Limpopo Province, South Africa

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**Abstract:** The purpose of the research is to determine if rural municipalities are financially viable and capable to sustain itself in the provision of services from the available financial resources. The study deployed both qualitative and quantitative method and research data was collected from the questionnaires, interview schedule, analysis of documents such as the municipal budgets, annual financial statements, auditor general reports, municipal annual reports, Provincial and national treasury reports as well as key observations during the data collection process. Financial viability is fundamental in the provision of services within local government on the basis that municipalities are substantially financed by means of own resources. However, the low rate of collection and unfavourable socio-economic conditions of households weaken the capability of municipalities to sustain themselves in the provision of services from the available financial resources. The study confirmed that service delivery in rural municipalities is below the accepted levels according to citizens' expectations. The municipalities are providing basic services such as water, sanitation, refuse removal and electricity however community members are not satisfied with the level and quality of those services. Because citizens deemed the provision of these services as unsatisfactory and of poor quality, they have resorted in not paying for their municipal services. This non-payment of services by citizens, pose a huge challenge in a municipality to provide services in a sustainable manner. Non-payment of services also pose a threat on financial viability of the municipality because the municipality can't recover any costs associated to the provision of services. Municipalities experience financial viability challenges that are perpetuated amongst others by operational issues such as financial management capacity within municipalities. Financial management capacity is dependent on factors such as, skills and competency levels of finance officials in relation to financial management practices and overall compliance to good governance. The capacity and expertise of officials dealing with revenue management contributes to the existing challenges of revenue management and collection because they are not providing any strategies to curb this existing revenue management and collection challenges. Households are the biggest contributor of municipal debts in rural municipalities. This is due to high level of indigents, high level of unemployment and culture of non-payment which make it difficult for municipalities to provide services in a sustainable manner. Household's socio-economic challenges such as poverty and unemployment have a direct impact on payment of municipal services. These socio-economic challenges make consumers to struggle to pay their municipal accounts and depend on reliefs the municipality is providing for indigents. These reliefs are subsidized by the equitable share from the national government. Municipality continue to perform functions on behalf of other state institutions without any funds associated to them and such functions are not included in the powers and functions allocated to them by the constitution or any legislation. Such services included the libraries and licensing services and are exerting pressure on municipal budgets because municipalities perform them on behalf of the provincial government.

**Keywords:** Annual financial statements, Financial Viability, Municipal annual reports, Municipal budgets

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## 1. Introduction

Molemole Local Municipality was preferred for this study because it is one of the rural municipalities in Limpopo Province that is deemed to be highly

dependent on government grants, has a low tax revenue base, perceived to be characterized by poor financial management and most of their residents live under the traditional authorities which are not subjected to assessment rates and other

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municipal services. These challenges gave reason to determine if Molemole municipality is financially viable and whether it will be able to sustain itself in the long run in the provision of services. Financial viability is fundamental in the provision of services within local government on the basis that municipalities are substantially financed by means of own resources. However, the low rate of collection and unfavourable socio-economic conditions of households weaken the capability of municipalities to sustain themselves in the provision of services from the available financial resources. The study contained three objectives which were (1) to analyse the institutional capacity of Molemole Local Municipality in collecting and managing its own revenue, (2) to determine the systems put in place to ensure financial viability and sustainability of Molemole municipality and (3) to propose possible solutions for the improvement of financial viability and sustainability in Molemole Municipality.

## 2. Financial Viability

Financial viability is an important concept to determine the ability of the municipality to provide services. In order for municipalities to be financially viable it is important that they have a relatively resilient and sustainable economic base where people are working and earning living wages, and businesses, large and small, are facilitating the steady exchange of goods and services (Ramphela, 2008:4). Without a strong and sustainable economic base, municipality will struggle to fulfill its constitutional and legislative responsibilities. Municipal financial viability is key in the sense that municipalities are legally authorized to levy taxes and charge for the services that they provide. This permits the municipality to cover its costs in providing such services. However, a challenge arises when payment for such delivery is not made. This affects the financial viability of a municipality and the sustainability of provision of service. According to the Municipal Viability Self-Assessment toolkit (2009:9), municipalities with a sound financial base are able to provide services at affordable rates to the ratepayer. Charging affordable rates for consumer services creates a strong municipal finance, which can directly translate into growth. Municipalities which are not financially viable are at risk of providing services since financial viability is an unavoidable element which is directly linked to service delivery (Kanyane, 2011:936). Viability and sustainability are fundamental factors in municipal service delivery

if local government is to address its development role effectively (Sing, 2003:879).

## 3. Factors Affecting Municipal Financial Viability and Sustainability

Financial viability is generally defined as the ability to generate sufficient income to meet operating payments, debt commitments and, where applicable, to allow growth while maintaining service levels. According to Kanyane (2011:936), financial viability means government can meet its expenditure out of revenue, without depending on government grants and borrowings. The MBD (2003:1) is of the view that municipal boundaries, and the division of municipal powers and functions, are important factors which may influence municipal viability. However, for the purpose of this study factors such as municipal finance capacity, municipal revenue management and collection, household socio-economic conditions and performance of non-core functions or un-funded mandates will be discussed as factors affecting municipal viability will be discussed.

### 3.1 Municipal Financial Management Capacity

Many municipalities in South Africa experience financial viability challenge that are perpetuated, amongst others, by operational issues such as financial management capacity within municipalities. Financial management capacity is dependent on factors such as, the skills and competency levels of finance officials in relation to financial management practices and overall compliance with good governance.

The Local Government Budgets and Expenditure Review (2011:128) maintains that the lack of adequate institutional capacity is often cited as one of the main reasons for poor municipal performance. The State of Local Government Finance and Financial Management Report (2013:7) cites that the main challenge experienced by the local government is the public expectation that key personnel in municipalities must have the necessary skills, experience and capacity to fulfill their responsibilities. INCA (2011:12) states that municipalities need skilled managers with leadership abilities to promote good cooperative governance. This argument is supported by the Auditor General South Africa (AGSA) in a General Report on the Audit Outcomes of Local Government in Limpopo (2014/2015), which reported that the shortage of relevant skills in the management of municipal finances contribute adversely to promoting good governance

in municipalities. Challenges in local government are influenced mostly by the fact that municipalities are normally not spending enough to enhance the capacity of employees INCA (2011:11). In contrast to the above sentiments by INCA, the National Treasury (2011:1) indicates that, being mindful of capacity constraints, the National Treasury has since 2003 supported municipalities through a number of initiatives to build sufficient strategic management capacity in the local government sphere. Despite the above views of municipalities not functioning well due to inadequate training of municipal officials, the State of Local Government Report (2009:22) argues that the reason municipalities are not functioning effectively is due to failure to attract skilled personnel because of low revenue base. Here, labour relations, human resource development and skills development are usually inadequate, and thus a disincentive for qualified professionals to remain. However, Motebang (2004:21) indicates that in trying to address this challenge, the government has introduced a policy directive that has been adopted through the Integrated Sustainable Rural Development Programme. The initiative is evidence of government's commitment towards improved service delivery, especially in rural areas. What is lacking is the integration and coordination of resources among all spheres of government and a greater support of capacity to local government.

On the other hand, municipalities still struggle to comply with current management systems. Audit reports are commonly poor in most municipalities because of inability to manage annual financial statements and the systems described in the MFMA. The financial environment is challenged by a poor skills base and weak control system (The State of Local Government Report, 2009:54). Accountability and the financial control environment are compromised in municipalities when the position of accounting officer and/or the chief financial officer is vacant. That can have a negative impact on the financial viability of the municipality. The South African Local Government Association (SALGA) (2010:84) indicates that the high turnover of chief financial officers in municipality has an adverse impact in the functioning of finance departments. The General Report on the Audit Outcomes of Local Government (2014-2015:9) highlights that 250 or 92% of municipalities used consultants to assist them either with financial reporting or the preparation of performance information. This is supported by the State of Local Government Finance and Financial Management

Report (2016:10) which further states that the use of these consultants indicates a lack of stability in administrative leadership of the municipality and can threaten the financial health.

### **3.2 Municipal Revenue Management and Collection**

Generally, municipalities should largely generate their revenue to meet service delivery objectives. For municipalities to generate own revenue, they must maintain a sound tax revenue base and put in systems to manage and collect generated revenue from property rate taxes and charges for providing water, electricity, refuse removal, sanitation and other services. Kanyane (2011:935) states that key challenges which confront rural municipalities to generate own revenue are a low revenue base and a culture of nonpayment. These have the potential to weaken the financial viability of municipalities. The Constitution of the Republic of South Africa of 1996 provides for municipal powers and functions and enables municipalities to charge for services rendered, to collect money due and to levy interest on outstanding amounts. The Local Government Municipal Systems Act, sections 12 and 13, deals extensively with municipal legislative processes, particularly the passing and publishing of municipal by-laws in a provincial government gazette. The municipal by-laws are legally required to give effect to decisions taken by the municipal Council (MFMA Circular 64 of 2012).

Total debtors of 278 municipalities at the end of the fourth quarter of 2015/16 amounted to R113.5 billion, a R7.5 billion increase from the 2014/15 financial year. Households made up the bulk of total debtors (The State of Local Government Finance and Financial Management Report 2015/16:18). The report also highlights that municipality's failure in collection of debts results both from municipal council not supporting revenue enhancement programmes and inadequate administrative capacity for revenue collection. Revenue collection in municipalities has become a major challenge because of increased debt owed to the sector in recent years. This compromises a municipality's fiscal position and thus increases the risk of financial viability. According to Kanyane (2011:939), these collection challenges in municipalities are attributed to a poor recording system, or lack thereof, of who should actually be paying the rates; an excessive number of indigent people; ratepayer boycotts aggravated by the culture of non-payment; accounts not sent

to debtors or sent to the incorrect address; and consumers not willing to pay for services utilised.

These challenges highlighted by Kanyane are contrary to section 64 of the Municipal Financial Management Act (MFMA), which requires the Accounting Officer of the municipality to ensure that the municipality maintains effective systems of revenue collection. This means the Municipal Systems Act, 2000 (Act 32 of 2000) is also not adhered to, because chapter 9 outlines systems which deal with a credit control and debt management system.

### 3.3 Households' Socio-Economic Conditions

Rural municipalities are still confronted by key socio-economic challenges. Poverty levels and unemployment are high and major socio-economic factors threaten the financial viability of municipalities (Financial Fiscal Commission (FFC) 2013:23). According to the State of Local Government Report (2009:57), many municipalities are not in a position to meet their developmental mandate due to an inadequate economic base or high levels of poverty and unemployment. High level of indigency and the culture of non-payment impact hugely on their financial viability. De Wet (2004:8) avers that one of the major predicaments confronting the local government sector currently is the collection of the revenue raised for services rendered to various consumers. Many municipalities lacking a tax base, short of an Equitable Share and with a weak revenue base simply cannot leverage the funds they need for even moderate municipal functionality. Kanyane (2011:939) lists an excessive number of indigent people within a municipality as one of the major challenges towards municipal revenue collections.

The level of economic activity in a municipal space influences the financial viability of the area. A municipality with a high level of economic activities will be more likely to raise its own revenue through property rates and service charges. On the other hand, a municipality with a low economic base will struggle to be financially viable and will more likely depend on government bailout through grants (SALGA, 2010:4). These sentiments are also supported by Kanyane (2011:936), who echoes that rural municipalities have a low economic base, and are highly dependent on grants to a level that, if grants were withdrawn, most municipalities will close shop. It can therefore be argued that the relative proportions of low and high-income households living in a municipality give

an indication of the revenue generation capacity and the financial viability of municipalities.

### 3.4 Performance of Non-Core Functions or Unfunded Mandates

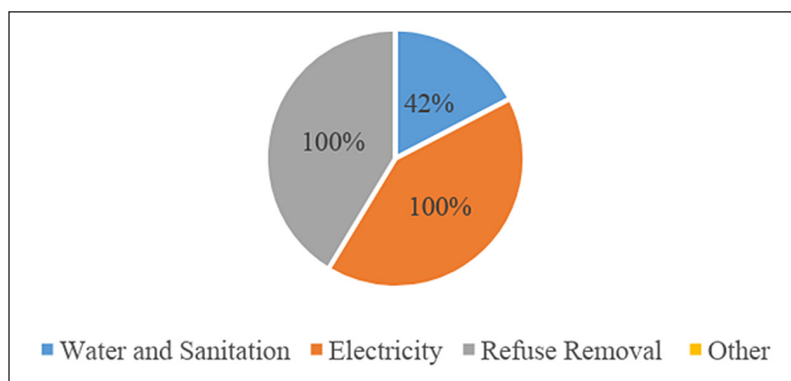
Sections 44, 104 and 156 (read with Schedules 4 and 5) of the Republic of South Africa Constitution (1996) allocate powers and functions to the three spheres of government. Provinces have concurrent powers in functional areas listed in Schedule 4 (shared with the national government) and exclusive powers with regard to Schedule 5 matters. Municipalities have powers in respect of the functional areas listed in Schedules 4B and 5B. An unfunded/underfunded mandate exists when a sphere of government performs functions without any funds allocated to executing such functions. The Financial and Fiscal Commission (2011:1) states that municipalities perform functions that are not included in the powers and functions allocated to them by the Republic of South Africa Constitution (1996) or legislation. The Financial Fiscal Commission (2011:2) further refers to these unfunded/underfunded mandates as housing, health care services, roadworks, libraries and museums, because these are functions assigned by provinces to municipalities without the necessary funding. Funding the delivery of such services will therefore, require a municipality to finance them from their limited own generated revenue. This will have an adverse impact on the financial viability of the municipality, as such functions are performed at no cost recovery or a funding allocated to them. The Financial Fiscal Commission (2011:1) in their study on unfunded mandates found that municipalities perform functions on behalf of provinces but do not receive the necessary funding. In most cases the unfunded mandates affect a municipality's ability to deliver services. In terms of unfunded mandates, the Financial Fiscal Commission (2011:2) reports that of the six metros, the City of Johannesburg spent the largest amount on unfunded mandates: R1,126 billion in 2008/09 and R1,203 billion in 2009/10; eThekweni Municipality followed, spending R945 million in 2008/09 and R917 million in 2009/10.

## 4. Research Methods

### 4.1 Study Area

The study was conducted in Molemole Local Municipality, located in Limpopo Province under the Capricorn District. The neighbouring local

**Figure 1: Provision of Municipal Services**



Source: Authors

municipalities forming the Capricorn District Municipality are Blouberg, Aganang, Lepelle-Nkumpi and Polokwane Municipalities. Molemole Local Municipality's head office is located approximately 60 kilometres to the north-west of Polokwane City, the provincial capital. Molemole has a population of 106,979 people. The majority of the population within the municipal jurisdiction is comprised of black Africans (98.1%) with a minority of whites, Indians and coloureds, which equates to only 1.9% of the population. The municipality has a population density of 31.9 persons per square kilometre, in comparison with 75.1, 43.2 and 40.9 of the district, provincial and national governments (Molemole, 2017/2018:32).

#### 4.2 Sampling

The strategy used was a purposive sampling, which choose information-rich cases that manifest the phenomenon of interest intensity (Patton 1990:171, cited in Oka & Shaw, 2000). This study selected participants using purposive sampling for interviews because the researcher selected participants who are informed about the topic. The study further deployed a random sampling for a questionnaire developed for residence/consumers. These were used because the researcher wanted to get a residents' perception on the provision of services by the municipality.

#### 4.3 Data Collection

The researcher deployed both the primary and secondary data. Secondary data (scrutiny of documents) refers to the data that is available in published documents while primary data (questionnaires and interviews) refers to the data obtained from the original sources (Hanekom, 1987:28). Data was collected from the questionnaires, interview

schedule, analysis of documents such as the municipal budgets, annual financial statements, auditor general reports, municipal annual reports, Provincial and national treasury reports as well as key observations during the data collection process.

### 5. Findings and Discussions

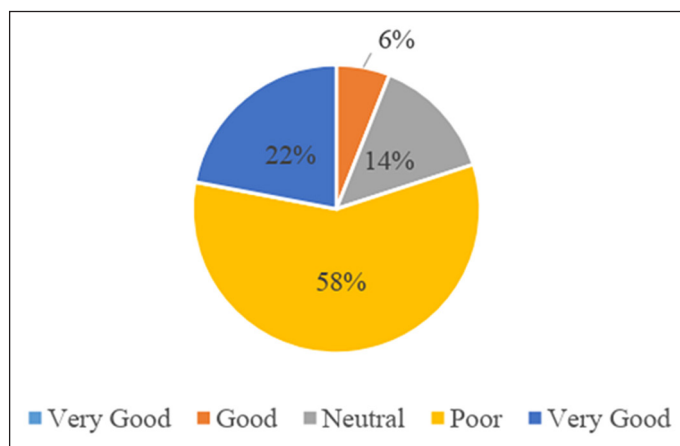
#### 5.1 Provision of Municipal Services

Figure 1 indicates provision of municipal services to respondents as 21 (42%) water and sanitation, 50 (100%) Electricity, and 50 (100%) Refuse Removal. The municipality still lives up to its constitutional obligation by providing basic services such as Electricity and Refuse removal. However, the municipality still faces challenges in the provision of Water and Sanitation with only 42% of respondents receiving that service from the municipality. This means that there is an expected pressure on the provision of water and sanitation.

#### 5.2 Rating of Municipal Services

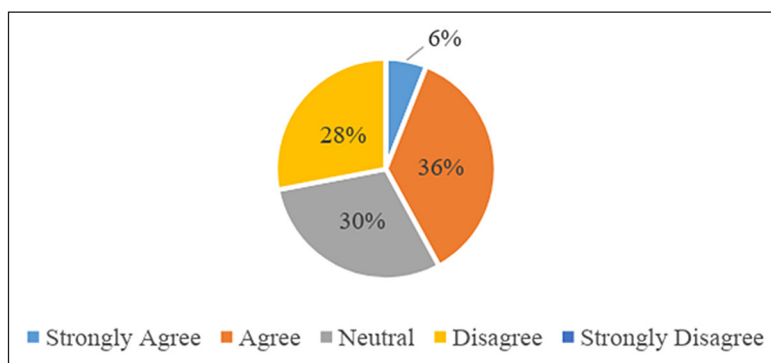
The ratings of provision of municipal services by respondents are presented in Figure 2 on the next page. The ratings used ranges from good and very good and neutral and poor and very poor. This indicates 0 (0%) as very good, 3 (6%) as good, 7 (14%) as neutral, 29 (58%) as poor and 11 (22%) as very poor. The provision of services in Molemole is deemed poor because 58% and 22% of respondents rated services as poor and very poor respectively. The South African Press Association (SAPA, 2009) reported that residents in Molemole municipal marched in protest against the municipality for poor service being delivered by the municipality. Because respondents deemed the provision of these services as unsatisfactory and of poor quality, there is the

**Figure 2: Rating of Municipal Services**



Source: Authors

**Figure 3: Participation in IDP/Budget Process**



Source: Authors

possibility that they might resort to not paying for them. This non-payment can pose a huge challenge to a municipal’s financial viability.

### 5.3 Payment of Municipal Services

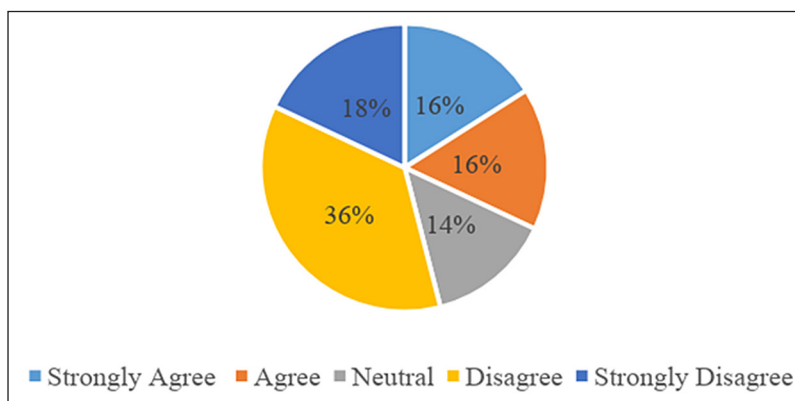
The respondents were asked if they pay for their municipal services and 50 participants responded. Twenty-one (42%) indicated that they pay for consumption of municipal services and twenty-nine (58%) indicated that they do not pay for consumption of municipal services. The following are reasons raised by respondents on non-payment of municipal services, the services provided by the municipality are unsatisfactory and of poor quality, during the community meetings held by councillors, it was indicated the residents should not pay for municipal services, some respondents indicated that they have a challenge in interpreting municipal accounts, municipal services are expensive and unaffordable, six (12%) of respondents indicated that they are unemployed and indigent and no accountability on usage of municipal resources

### 5.4 Governance and Finance

Figure 3 above shows respondents’ agreement or not with participation in the municipal IDP/budget process matters. The rating was the following: Three (6%) Strongly Agree, 18 (36%) Agree, 15 (30%) are Neutral and 14 (28%) Disagree. No one (0) Disagreed Strongly. The 14 (28%) respondents who disagreed that the municipality involves them in the IDP/ Budget processes mentioned that the municipality can only afford unemployed people to participate in the process because meetings are arranged while people are at work and most of the comments made during such meetings are not factored into the final IDP/budget document.

Figure 4 on the following page shows participants’ agreement or not, with municipal officials having skills and knowledge in managing municipal finances. Eight (16%) Strongly Agree, 8 (16%) Agree, 7 (14%) are Neutral, 18 (36%) Disagree and 9 (18%) Disagree Strongly. The 18 (36%) and 9 (18%) who disagree and strongly disagree that the municipal officials have

**Figure 4: Skills of Municipal Official in Managing Municipal Finances**



Source: Authors

skills and knowledge to manage municipal finances provided the following reasons in no particular order:

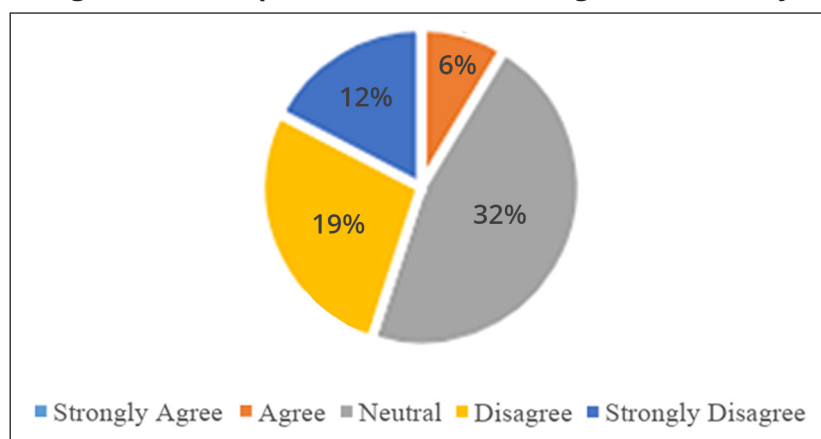
- The Municipality is experiencing poor service delivery and that can be attributed to lack of skills and knowledge in managing municipal finances.
- The small size and rural nature of the municipality make it difficult to attract skilled and competent people.
- Nepotism in the appointment and recruitment process make it difficult for the municipality to appoint skilled and competent people.
- The political nature of municipality makes it difficult for the municipality to appoint people with skills and knowledge in managing municipal finances.
- The Municipality is not getting clean audits from the AGSA.
- The Municipality is incurring Unauthorised, irregular and fruitless expenditure.

The respondents were asked if the municipality makes an effort to stimulate the local economy by promoting LED and 50 participants responded according to Figure 5 on the following page. None of the respondents strongly agreed, three (6%) Agreed and Sixteen (32%) were Neutral, while nineteen (38%) Disagreed and Twelve (24%) Strongly Disagreed. Thirty (60%) respondents indicated that the municipality is not making any effort in stimulating the local economy because it fails to attract investors and most businesses are closing

down and moving to neighbouring towns such as Bochum because the economy in Molemole is not growing. Thirty-five (76%) respondents mention that unemployment in the area is high and local businesses are not supported. That is evidence that the municipality is not playing its role in promoting local economic development. Twenty-eight (56%) respondents indicated that local economic development programmes in the municipality are not visible even though the municipal structure has made provision for LED positions. Furthermore, the municipality normally hosts LED summits and invites relevant stakeholders but they don't implement any resolutions taken at such forums.

### 5.5 Understanding Financial Viability and Sustainability

The study used a semi structured interview schedule for the municipal manager and four directors. The schedule had six sections from Section A to F consisting of thirty-five questions. In summary, the understanding demonstrated by five (5) respondents on financial viability and sustainability is mutual. The important aspect indicated by respondents to financial viability and sustainability is the ability of the municipality to provide services according to its mandate, to charge affordable rates for such services and being able to collect what they have charged for those services over a certain period. Respondent 3 further indicated that a financial viable municipality means the municipality must be able to provide on its operational and capital activities as per the approved annual budget without any disruption. While, respondent 5 indicated that the Municipality that has financial resources and does not have cash flow challenges to meet its service delivery obligations is likely to be financially viable. These responses

**Figure 5: Municipal Efforts in Stimulating Local Economy**

Source: Authors

also indicate that there is a relationship between financial viability and provision of municipal services, with respondent 1 mentioning that if the municipality is financially viable it means that the municipality has required the means to meet its service delivery obligation. Respondent 4 supported the assertion and further demonstrated that when the municipality provides services that satisfy residents, they will in return pay for such services and that will make the municipality financially viable.

All five (5) respondents agreed that Molemole local municipality is not financially viable citing reasons such as, grant dependency, high unemployment that leads to non-payment of municipal services, a high indigence rate and low economic activities. Respondent 3 indicated that "Our municipality is predominantly rural and this leads to low turnout on investment". This poses a huge challenge in terms of the viability of the municipality because most people remain unemployed and struggle to pay for their municipal services. Respondent 2 highlighted that the municipality depends heavily on grants for provision of services and that in turn impacts negatively on the sustainability of the municipality in the provision of services. Respondents were asked about the role they play in influencing financial viability and sustainability in the municipality. All five respondents recognized that they have a role to play in influencing financial viability and sustainability. Respondent 1 mentioned that as head of administration for the municipality, he can assist in strengthening municipal systems to generate and collect revenue while respondent 4 indicated that if, as finance officials, they can provide prudent financial management skills in managing municipal finances, Molemole will improve its financial viability.

The question on the role of municipal leadership (i.e. the councillors) in making Molemole municipality financially viable was also asked. Respondents 1 and 2 indicated that councillors as law makers in the municipality, should pass policies and by-laws which will promote the municipality and attract investment. That will get most community members employed and participating in the local economy. When people are employed they will pay municipal services and the municipality's indigent register will decrease. As a result, the municipality will be financially viable. Respondent 5 indicated that the key role of councillors in promoting Molemole's financial viability and sustainability is to conscientise community members about the importance of paying for municipal services. The respondents were asked if the municipality has systems in place to make the municipality financially viable and sustainable and if those systems yielded the desired results. Three (3) respondents confirmed that the municipality has no systems in place to make the municipality financially viable and sustainable. While two (2) respondents indicated that the municipality has systems such as the installation of pre-paid electricity meters, providing consumers with discounts on old debts to increase revenue collection, addressing financial management deficiencies raised by the Auditor General and establishment of a committee for revenue generation. However, they all indicated that the systems didn't yield desired results.

## 5.6 Municipal Financial Management Matters

Respondents were asked questions about financial management matters in Molemole. These questions seek to know and understand municipal budgeting issues, if the municipality depends on grants, skills



levels and competencies of municipal officials, the audit opinion by the auditor general, whether strategies are in place to curb wasteful expenditures and for maintenance of municipal infrastructure. Five (5) respondents indicated that the municipality does not have sufficient resources to cover all community needs. Respondents one (1) and five (5) indicate that over 75% of municipal budget is financed through grants. They also mentioned that the municipality is heavily dependent on grants. Four respondents (4) concurred and indicated that without grants the municipality cannot function satisfactory because of its rural nature and low revenue streams. Kanyane (2011) confirmed the views of respondents by mentioning that rural municipalities are not favourable towards the expansion of the municipal revenue base as most of them are on the municipal indigent register and therefore depend more on grants and free basic services from the municipality.

Regarding the question, do municipal officials receive training on how to manage municipal finances, 5 (100%) respondents indicated that the officials receive training from various institutions of government including the National Treasury, but mentioned that the training is still not adequate. They also indicated that in the 2016/2017 financial year the municipality received an unqualified audit opinion from the auditor general but they couldn't confirm any relationship between the unqualified audit and the training they received from government. The respondents mentioned that finance related findings such as Compliance with SCM regulations and issues around irregular, fruitless and unauthorised expenditures prevented the municipality from receiving a clean audit. These views are also shared by the General Report on the Audit Outcomes of Local Government in Limpopo (2014/2015), which reported that the shortage of relevant skills in the management of municipal finances contribute adversely to promoting good governance in municipalities.

On the employment of consultants in the finance unit to build capacity, 5 (100%) of respondents agreed that the municipality use consultants. Three (60%) respondents indicated that the consultants are not effective in building capacity in the municipality, citing that municipal officials depend on them every financial year on the preparation of annual financial statements. This supports the views in the General Report on the Audit Outcomes of Local Government (2014-2015:9), which indicate that

250 or 92% of all municipalities used consultants to assist them either with financial reporting or with the preparation of performance information. Two (40%) respondents emphasised that the consultants are effective in building capacity within the finance unit because they make sure that municipal officials own up to the work performed in their respective components and they involve the officials in the process of preparing financial statements. Three (60%) respondents indicated that the municipality have strategies in place to curb wasteful and unnecessary expenditure bills. Such strategies include: a system of internal control (i.e. Standard Operating Procedures in making payments), implementation of consequence management on transgression of MFMA and other legislations governing municipal finances. Two (40%) respondents indicated that they are not aware of any strategies in place to curb wasteful and unnecessary expenditure bills. Respondents were asked about what strategies are in place to ensure that the current infrastructure and equipment of the municipality are well maintained and managed to generate future returns. Four (80%) respondents indicated that the municipality has appointed a service provider to compile asset management plan that will assist estimating correct provision in the budget for repairs and maintenance of assets. One (20%) respondent referred the question to the CFO.

## **5.7 Revenue Management and Collection**

In brief, the section asked respondents about revenue management and collection matters in Molemole municipality. These questions ranged from policy development to implementation, Molemole's tax base to raise revenue, the municipal revenue collection rate, the municipal collection rate, skills and knowledge of officials of management and collection of revenue and the introduction of strategies by the municipality to enhance its revenue. Five (100%) respondents indicated that the municipality has revenue management and collection policies and by-laws in place. However, those policies and by-laws are not effectively implemented. Respondents (5) also highlighted that the municipality experiences revenue management and collection challenges and those challenges result in a low collection rate. These challenges are attributed to non-payment of municipal services, the low revenue base because of high unemployment in the municipality, high indigence rate and lack of viable strategies in persuading consumers to pay their accounts. Respondents 1, 4 and 5

indicated that the municipal collection rate average is at 30-40%. Respondent 1 and 2 pointed out that the failure of the municipality to collect revenue and the lack of strategies to persuade consumers to pay their accounts is because of the lack of skills and knowledge of officials in the revenue unit. Respondents were asked about the debtor's category which is the highest contributor to the municipal debtor's book. Five (100%) respondents mentioned that the household/resident's category is the highest contributor. The respondents (5) also indicated that the municipal council approved the revenue enhancement strategy but that the strategy was never implemented and needed to be reviewed. Respondent 4 further deemed the strategy to be ineffective.

### 5.8 Socio-Economic Condition Matters

Under the socio-economic matters the respondents were asked questions related to socio-economic conditions of households (i.e. whether poverty and unemployment have an impact on the payment municipal services, and if the municipality has an approved indigent register and how indigent households are provided for in the municipal budgets). Five (100%) respondents agreed that household's socio-economic levels (i.e. poverty and unemployment) have a direct impact on the payment of municipal services. Respondent 2 mentioned that "because of our municipality's poverty and unemployment levels, most consumers are struggling to pay their consumer accounts and depend on reliefs the municipality provides for indigents". Respondents (100%) further confirmed that the municipality has an approved indigent policy. Respondent 5 indicated that around 3% of the total municipal budget is allocated for the indigent.

### 5.9 Performance of Non-Core Functions and Unfunded/Underfunded Mandates

This section covered questions on the performance of non-core and unfunded/underfunded mandates by the municipality. Respondents were asked if the municipality performs such mandates, lists such services and provides an estimated cost for those services. Five (100%) respondents indicated that the municipality does perform functions on behalf of other state institutions without any funds associated to them and performs functions that are not included in the powers and functions allocated to them by the constitution or any legislation. Respondents made mention of services such as libraries and licensing

services which they perform on behalf of the provincial government. None (0%) of the respondents could provide an estimated cost of those services.

### 5.10 Governance and General

In summary, the governance and general section covered questions related to whether the key managerial posts in the municipality were vacant for a substantial amount of time, the impact of the Division of Revenue Act (DORA) allocation on financial viability challenges in rural municipalities, the system of public participation and general issues affecting municipal financial viability and sustainability. Five respondents (100%) indicated that in the past financial year (2016/2017) the position of the municipal manager was vacant, but with different officials appointed to act. Respondents emphasised that since the municipal manager is accountable for the overall management of municipal finances and decision making in the municipality, when the position became vacant it had an adverse impact on the functioning of the municipality. The respondents cited the following challenges: certain key decisions could not be taken, the municipality experienced slow spending on capital projects because the appointment of contractors could not be made. Respondent 1 indicated that all this created instability in administrative leadership of the municipality.

Respondents were asked if DORA allocations address financial viability challenges in rural municipalities. To this five (100%) respondents answered "NO" and respondent 4 stated that the system of allocation to municipalities should be reconsidered and rural municipalities should be given much more than what they receive currently. Five respondents (100%) indicated that the municipality has mechanisms to promote public participation in municipal affairs and accountability. Respondent 2 indicated that the municipality has a customer care policy. Respondents 4 pointed out that they use ward committee members, councillors and public notices to communicate with residents. Respondent 5 indicated that quarterly mayoral Imbizos assist them in promoting public participation and accountability.

### 5.11 Provision and Payment of Municipal Services

The questionnaire distributed to residents, and which sought to understand which services residents

receive from the municipality, how they rate municipal services and if they pay for municipal services confirmed that the municipality still lives up to its Constitutional obligation in terms of providing basic services such as Electricity and Refuse removal to its residents. However, the study confirmed that Water and Sanitation provision is a challenge in rural municipalities. Corruption in this study has become one of the key variables that have a negative impact on service delivery. Residents in this study mentioned that the reason corruption influences the provision of service delivery is because funds directed for service delivery are misused without services being provided and poor-quality material is used to save money for personal gain. Residents also, rated provision of services within the municipality as below acceptable standards, with most of them indicating that they will abandon the payments of municipal services as a way to advocate their dissatisfaction with the quality of municipal services they receive from the municipality. This non-payment can pose a huge challenge to municipal financial viability.

## 6. Conclusion and Recommendations

The above scenario leads to the conclusion that service delivery in rural municipalities is below the accepted level expected by the citizens. The municipalities are providing basic services such as water, sanitation, refuse removal and electricity, however, community members are not satisfied with the level and quality of those services. It further concludes that there is a relationship between provision of services, payment of services and financial viability because the study has confirmed that when the municipality provides services that are satisfactory to its residents, then residents will in return pay for such services and that will make the municipality financially viable and sustainable. If municipalities want to be able to improve on the quality of service to its residents, they must develop a zero-tolerance approach to corruption. The study therefore recommends the following:

- Improve the effective level of public participation, enhancing communication efficiency with customers and the links back to the service delivery model.
- Development and implementation of service charters that take cognizance of unique municipal attributes and capabilities.

- Design and implement customer care and relationship management practices by the customer segment to ensure that customer requirements are addressed.
- Improved assistance in formulating and implementing budgets, integrated development plans, local economic development strategies, debtor management and credit control policies.
- More effective capacity-building initiatives, which deal holistically with governance, systems and business processes, as well as recruitment, retention and the development of requisite skills.

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