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AN ANALYSIS OF THE FINANCIAL VIABILITY OF MUNICIPALITIES IN FREESTATE PROVINCE: THE CASE OF MANGAUNG METRO MUNICIPALITY

Nandi Sitishe

Faculty of Management Sciences, Mangosuthu University of Technology, South Africa

Bhekabantu Alson Ntshangase, ORCID: https://orcid.org/0000-0002-5410-7036

PhD, Faculty of Management Sciences, Mangosuthu University of Technology, South Africa

Rembrandt Kloper

PhD, Department of Communication Science, University of Zululand, South Africa

Sam Lubbe, ORCID: https://orcid.org/0000-0002-7832-5687

PhD, Faculty of Management Sciences, Mangosuthu University of Technology, South Africa

Steven Kayambazinthu Msosa, ORCID: https://orcid.org/0000-0001-9074-5644

PhD, Department of Marketing, Mangosuthu University of Technology, South Africa

Corresponding author: Steven Kayambazinthu Msosa, E-mail: kayambazinthu@outlook.com

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Abstract: *Local authorities' independence level largely depends on the adequacy of the revenue part of local self-government budgets. One of the sources of income of local authorities is the payment of the population and business entities for services. Along with this, there is the issue of insufficient accumulation of revenues to the provincial budget due to non-payment of remuneration for services rendered. Municipalities are responsible for providing, regulating and managing essential services such as water supply, domestic wastewater treatment, electricity distribution, sewage systems and health services. This article summarizes the arguments and counter-arguments of the scientific discussion regarding municipalities' problem in filling the revenue part of the local budget. The study's primary purpose is to analyse municipalities' financial capacity in the province of the Free State (Republic of South Africa). The systematization of literary sources and approaches to solving the problem shows that most municipalities in the Republic of South Africa face financial issues. Municipalities have liquidity problems or cannot fulfil their obligations on time. Despite these problems, municipalities must provide services at an acceptable level. The relevance of this scientific problem-solving is that it focuses on analyzing the financial difficulties faced by the Mangaung Metro Municipality. The primary data source for this study was the questionnaire results. The sample consisted of 24 employees and financial statements of municipalities and auditors' conclusions. The municipality's financing structure consists on average of 65% from internal revenues, 29.5% from state transfers and 10% from external borrowings. The financial capacity of the municipality is impaired due to an increase in the number of debtors, problems with cash flows, rising costs, unstable revenues to the revenue part of the budget, and an increase in short- and long-term debt. According to the survey results, 63% of respondents reported that the water supply sector is the largest source of debt among consumers, and the debt collection system could be more effective. The results may be helpful in municipalities with similar governance architectures. Thus, the municipality is recommended to develop and implement a strategy for increasing revenues, a cash flow plan, review the tariff policy, and implement an effective system of debt collection and cost reduction measures.*

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JEL Classification: H75, P17, P44.

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Introduction

There have been general reports that municipal finances in South Africa are worsening (Kleynhans & Coetzee, 2019). The municipalities need to be financially viable to provide services to the community (Moloto & Lethoko, 2018). According to Mantzaris (2014), the financial viability is centred around sound financial management and good governance and these indicators are among the five key performance areas outlined in the performance management regulations.

This research is an analysis of financial challenges that affect the financial viability of the municipalities in the Free State, with special focus on Mangaung Metro Municipality. The financial health of any municipality not only benefits its performance but contributes to the economic development of local government. The inability of the municipality to collect revenue is still a challenge and its finances have regressed from previous years and this is a matter of concern (Auditor-General South Africa, 2017b). The article will discuss a problem statement, literature review, research method, findings, some recommendations and answer the research questions

Nealer and Raga (2007) state that municipalities are responsible for the provision, regulation, and management of water, domestic waste-water, electricity, sewage systems, and health services. They added a legal aspect to this, in that the provision of services should be in accordance with part B of schedules 4 and 5 of the Constitution.

The results of a survey conducted by him reveals that only one-fifth of the 77 municipalities has cash and reserves to meet a single month's wage bill. Infrastructure grants have been cut and the government is unwilling to bail out bankrupt municipalities (Beyers, 2016). According to Beyers (2016), it is approximated that more than half of the municipalities in South Africa are experiencing financial difficulties. However, the municipalities are mandated by the Constitution of the Republic of South Africa and remain obligated to provide services (Molobela, 2016).

Mantzaris (2014) suggests that the inability to pay creditors within the prescribed 30 days is due to cash flow constraints. The cash flow constraints are as a result of poor financial management and planning. Reddy (2016) affirms that one of the challenges in local government is compliance with laws and regulations. He further states that budget-related policies, such as the debit and credit control policy and adjustment on tariffs to meet increasing expenditure, lead to an increase in the gap between expenditure and revenue.

According to Fjeldstad (2004), local government relies on service charges such as on water and electricity. However, inadequate revenue collection is a problem due to the non-payment of services (Fjeldstad, 2004). The implication is that there is a reduction in local services due to budget balance, year-end deficits and higher tariffs.

Ncube and Monnakgotla (2016) state that the ability of the municipality to generate its own revenue is also dependent on the employment-population within its municipal boundaries. There are 87 priority municipalities in South Africa that have been identified as requiring urgent intervention (Cooperative Governance and Traditional Affairs, 2018). The National Treasury, in its press release statement, indicated that Free State Province is the highest – with creditors waiting over 90 days – followed by North West Province.

The Mangaung Local Municipality (MLM) was formed in 2000 with the amalgamation of Bloemfontein, Botshabelo, and Thaba Nchu Transitional Local Councils but in April 2011 Mangaung Local Council also merged with Motheo District Council to form a category "A" metropolitan municipality (Mangaung Metro Municipality, 2017).

In 2016 the Soutpan/Ikgomotseng Municipality was incorporated into Mangaung Metro Municipality following a redefinition of the borders of the metro by the Municipal Demarcation Board (MMM, 2017). Tonderai and Felix (2015) state that it is important to measure how much revenue is tied up as this indicates how financially viable the municipality is. Furthermore, cash coverage and the creditor days' ratio is unfavourable in municipalities (Auditor-General South Africa, 2017a). These conditions reflect doubt as to the municipality's ability to continue as a going concern (Auditor-General South Africa, 2017b).

Research questions

The following research questions were formulated:

- How do the financial challenges in the municipality affect its financial viability?

- What are the revenue and expenditure trends of Mangaung Metro Municipality from 2014 to 2018?
- To what extent does Mangaung Metro Municipality rely on transfers from the government?

Literature review. The financial situation and management of municipalities should not be viewed independently of the general financial and economic potential of the country (Maclean, 2013). He further explains that financial viability is an element when evaluating local government. According to Tonderai and Felix (2015), financial viability is about an organisation's ability to generate sufficient income to meet its operating expenses, debt and allow for growth while maintaining service delivery. In agreement with this definition, Koleda and Oganisjana (2015) describe financial viability as an economic condition that creates a favourable stable income to expenditure ratio.

Khumalo and Ncube (2016) state that National Treasury refers to financial viability as whether the municipality has a sustainable budget and is able to meet its expenditure commitments from transfers and own revenue. Most researchers, above, agree that financial viability is about the municipality meeting its commitments.

Factors affecting financial viability. Organisational factors include the internal management capabilities of the institution. Fixed factors are those related to the size of the municipality, allocation of revenue from the government, and the socio-economic status of the population. Hybrid factors relate to the relationship between local government and the state (Usang & Salim, 2016). Kleynhans and Coetzee (2019) investigated the financial position of local government in South Africa. They include the number of people formally employed in the municipal area, revenue base, literacy levels, population size and age profile.

However, as much as there is agreement on factors to consider when analysing the financial condition, internal factors such as the professional and leadership skills of management cannot be underestimated. Budget transparency, debt and expenditure management, revenue-generating capacity and the high quality of the budgeting process all influence the financial viability of municipalities and need to be further analysed.

Dimensions and indicators to assess financial viability. Wang, Dennis and Tu (2007) have used various dimensions and indicators to examine and measure financial condition. They state that a number of countries have established measures to assess the financial condition. Highlighting differences and similarities, they argue that most of the studies rely on funding data rather than operating and government-wide financial data.

Özkul and Alkan (2015) argue that using the 10-point test (another model to measure financial viability) will not be meaningful in metro municipalities. This is because this model was carried out on populations which were below 100 000 and therefore was used for small-scale municipality (Özkul & Alkan, 2015).

Analysing the importance of these dimensions, Ritonga et al. (2012) identified solvency as a dimension. According to Wang et al. (2007), these dimensions are linked. Similar to Ritonga et al. (2012), Kleynhans and Coetzee (2019) considered service-level solvency, financial flexibility, financial independence, solvency and applied ratios. The liquidity, leverage, financial position, financial performance, the extent of dependence on grants, and revenue tied up in debtors were aspects that used to determine viability (Ngwenya and Majam, 2011).

Kleynhans and Coetzee (2019), Özkul and Alkan (2015), Ritonga et al. (2012 have four dimensions to measure the financials of municipalities. The dimensions are the ability of the municipality to generate sufficient resources to meet its short-term and medium-term liabilities (cash solvency); the ability of the municipality to pay its long-term financial obligations (long-term solvency); the ability of the municipality to generate enough revenue to fund and maintain a certain level of service (budgetary solvency); and the ability of the municipality to sustain and pay its existing service level.

Legislative requirements and Financial Management. Section 64 of the Municipal Finance Management Act (MFMA) (No. 56 0f 2004) requires the accounting officer to take reasonable steps to ensure that the municipality has an effective revenue collection system. In terms of Section 96 of the Municipal Systems Act (Act 32 of 2000), a municipality must collect all monies that are due. The municipality must adopt, maintain and implement a credit policy that complies with the provision of this Act (Molobela, 2016).

Mazibuko (2014) explains the sources of revenue as conditional and unconditional grants, borrowing, property rates, levies and service charges, and other revenue such as traffic fines. It is important to state that the source of revenue accounts should be handled in a manner that would make it easy for the ratepayers to pay their accounts (Mazibuko, 2014). Eteng and Agbo (2018) agree on what constitutes the sources of revenue in municipalities. The internal source of revenue includes fines, fees and licences and the external source includes grants from government.

According to Tonderai and Felix (2015), the most important factors affecting revenue collection are political interference, government policy and management decisions. Eteng and Agbor (2018) argue that municipal officials are not innovative in revenue generation. Sometimes debtors do not pay or take a long time to pay (Tonderai & Felix, 2015). They argue that this could be partly because of a lack of revenue planning. While the communities in townships protest to express their dissatisfaction with local government, middle- and upper-class ratepayers withhold the payment of rates and services (De Visser, 2013).

Financial management can be measured by the elimination of financial loss and adherence to the budget (Uwaoma & Ordu, 2015). Similarly, Swirska (2016) asserts that the budget as a tool of financial management plays a critical role. It indicates which programmes should be implemented considering the limited financial resources of an organisation. Motubatse (2016) is more concerned that financial management must address issues such as exposure to financial distress, bankruptcy, reduction of costs, investment survival and the maintenance of steady growth.

According to Sibanda (2017), the municipal financial performance emphasis is on the need to have control systems and financial management that shows how the municipality is performing. Mamogale (2014) highlights the need to appoint competent personnel with the required skills and expertise in local government in South Africa and elsewhere. This will assist with the development of sound financial management and effective internal controls to plan and control the finances of municipalities.

Financial performance and Planning. According to Simangunsong (2014), performance in local government is an overview of the level of achievement of implementing programmes and activities in achieving organisational vision, mission, objectives and goals. According to Sehoa (2015), the IDP forms the base of planning at an organisational level as it provides a broader perspective of what the municipality aims to achieve. As Sehoa (2015) points out, the IDP as a tool, guides budgeting, planning and decision making. She argues that 80% of the time in an organisation should be spent on the planning phase as it is crucial for every organisation. In contrast, Wetosi, Tibbs and Alala (2018) are more concerned with the implementation of the plan. In their study, they concluded that financial distress is not affected by plans. It is important to note that financial analysis in government is essential in terms of measuring the degree of success and effectiveness of performance in achieving the targets (Kara, 2012).

Legislative framework regulating performance in local government. The Local Government Municipal Systems Act, No. 32 of 2000, requires municipalities to establish a performance management system. Section 38 places emphasis on municipalities to implement a performance management system best suited for their circumstances and in line with the priorities of the IDP (Sehoa, 2015). Sehoa (2015) explains that the MFMA (No. 56 of 2003) requires the mayor to ensure that the performance management contracts for section 57 employees (executive management) are in line with the requirement of the MSA (No. 32 of 2000). This is to ensure sound financial management.

The way the management responds to procurement challenges, stock control and the development of human capital drives the financial performance of the municipality (Nzuza & Lekhanya, 2014). According to Mamogale (2014), the financial performance of municipalities improves when they use consultants to produce credible financial statements. However, the municipality regresses after the consultants leave because of the lack of transfer of skills internally. Although much has been written about factors that contribute to local government's high performance, there is still space for supposition about the impact of leadership and managerial issues (Odero, 2017).

Amalgamation and its impact. According to Suzuki and Ha (2017), municipal amalgamation/consolidation/merger is one type of structural and administrative reform of municipalities. Depending on enabling legislation, the implementation process can be either mandatory or voluntary (Tavares, 2018). Slack and Bird (2013) noted that municipal amalgamation is seen as another way to ensure that municipalities are big enough to be technically and financially capable of providing extensive services.

In agreement, they explain that larger municipalities may have the advantage in terms of economies of scale in service provision. Services may be more fairly funded because of the extended tax base to share the costs of services that benefits citizens across the region (Slack & Bird, 2013).

Ncube and Monnakgotla (2016) explain viability as the ability of the municipality to raise its own revenue. The impact of municipal amalgamation on financial viability is deeply challenged (Khumalo & Ncube, 2016). Khumalo and Ncube (2016) assert that at theoretical level one side of the literature argues that bigger is better and bigger is cheaper which supposedly means that bigger municipalities have improved services and bigger municipalities are more efficient and financially viable.

This view is supported by Slack and Bird (2013) who point out that amalgamation might reduce access and accountability because the jurisdiction becomes bureaucratic and too large. The municipalities continue to depend on government transfers because of the weak revenue base. In other words, a municipal amalgamation of two poor municipalities will not necessarily result in a self-reliant municipality (Khumalo & Ncube, 2016).

Slack and Bird (2013) noted that in Brazil richer municipalities have a fear of being exploited by poor municipalities. Nevertheless, there have been successful amalgamations. They note Cape Town as an example where amalgamation was done to redistribute from rich local authorities to poor local authorities.

Similarly, Ncube and Monnakgotla (2016) state that the demarcation that was done in the 1990s was to deracialise municipalities that were separated along apartheid spatial lines. However, the amalgamation had a negative impact, such as the collapse of infrastructure (water and sewerage systems) (Ncube & Monnakgotla, 2016).

Service delivery. Reddy (2016) conceptualises service delivery in the municipal context as the provision of services, activities and satisfaction that are deemed public in the local jurisdiction. This can be tangible or intangible. Tangible services are the provision of roads, water and housing that are visible to the community. Intangible services are those services that are invisible such as public safety and the drainage and sewage system (Reddy, 2016). In agreement with this view, Beyers (2016) refers to service delivery as the provision of satisfaction, benefits and activities.

Reddy (2016) states that the functions delegated to the local sphere of government are heavy. It would appear that the municipalities have been performing their functions with limited funds (Reddy, 2016). However, they have not collected the revenue due to them and have not been creative about additional sources of revenue (Reddy, 2016). Ndebele (2017) also noted that municipalities generate funds from grant transfers and from local communities.

Methodology and research methods. This study followed the quantitative approach, using official documents to support the data collected. According to Apuke (2017), this approach involves the quantification and analysis of data in order to get to the results. In the study, the researchers were concerned about investigating the relations between variables. The association between the financial challenges and the effect on the financial viability of the municipality is paramount as the researcher is looking at the effects of financial challenges on financial viability.

There were two groups: the politicians and the administration. A list was obtained from corporate services and the people were allocated numbers generated from Excel top ensure effective sampling. If a certain number was not available, the following number were selected. The sample included politicians from the section 80 committee for finance, executive management, general managers and ordinary managers. The justification for this sample is that section 80 members are responsible for the oversight role on issues of finance while the administration is responsible for the implementation. This means that the population were divided into groups first and then a simple random sampling was applied.

The researchers obtained the information from all the participants from the population by use of census. The researchers used both primary and secondary data. Secondary data collection involves the collection and use of company records or archives, a computerised database, government publications, information systems models and industry analysis by media (Osang et al., 2013). The data collection technique for this research includes questionnaires and financial statement analysis.

The questions were phrased in a manner that ensured no bias in the response. The respondents were asked questions that were related to the financial viability of the municipality. Question 1.1 to 1.11 and 2.1 to 2.9 as per the questionnaire will answer research question 1. Question 3.2 and 3.3 will respond to research question 2. Question 3.1, 3.4, 3.5, 3.6, 3.7 and 4.1 to 4.7 will answer research question 3.

Research questions

The following research questions were formulated:

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- To what extent does Mangaung Metro Municipality rely on transfers from the government?

Document analysis. The documents that relate to the financial performance of the municipality such as financial statements and Auditor-General's reports were analysed as part of the secondary data collection. The information obtained from documents will be used to integrate with questionnaires. This will enable the researchers to look at the situation from different perspectives. A reliable instrument shows the extent to which it is objective, hence ensures consistent measurement. In this research, because of the questionnaire matrix, the instrument is aligned with the research questions to ensure consistency. In this research, the researchers gave the questionnaire to people who understood the field of study. The experts adjudged that the questions effectively capture the topic under investigation.

Results. Figure 2 indicates a 100% response rate from respondents. Males made up 74% of the respondents. The age groups of the respondents were distributed as follows: 7.4% fell in the 30–40 age group; 29.6% were aged 35–39; 22.2% were aged 40–44 years; the remaining 41% were 45 years or older. The distribution of the education level showed that 70.3% of the respondents had a Bachelor's degree, while 7.4% had a diploma level qualification and the remaining 22.3% had a Master's degree.

Correlation. *The findings indicate that there is a correlation of -50.1% between the debtors' collection system and the increase in consumer debtors. This means that when the debtors collection system goes down the consumer debtors increase. This results in non-payment of services. Tonderai and Felix (2015) argued that sometimes this non-payment of consumer services could be caused by lack of revenue planning. The correlation also indicates an association of +55.6% between the increase in consumer debtors and working capital. The increase in the debtors' book causes working capital constraints for the municipality. There is an association between the revenue collection, the increase in debtors and the working capital. This is because sound working capital always ensures that there is enough cash to meet obligations (Marwa, 2015).*

In terms of cash flow management, the correlations indicate that there is a correlation of -59.2% between the debtors' book and the cash flow in the municipality. This means that when the debtors book increases, the cash flow decreases. This is due to the fact that the consumer debtors take a long time to pay and sometimes do not pay (Tonderai & Felix, 2015). Marshall and Douglas (1997) identify cash flow management as the most important factor of financial management. The correlation further indicates a -79.6% relationship between the cash flow and the non-payment of services. If the cash flow decreases, the non-payment of services increases. This is because if the municipality does not have enough cash and is unable to meet its short-term obligations.

The findings of the correlation relationship also indicate -65.2% between the cash flow and the increase in debt. This means that when the cash flow of the municipality decreases, the debt increases. If the municipality could generate more cash to fund its projects, it would not need extra external sources of funding such as borrowings to fund its projects. This is currently not the case in Mangaung Metro Municipality.

Financial analysis. *The working capital of MMM consists of current assets (accounts receivables, inventory, investments and cash) and current liabilities (payables, provisions, current portion of borrowings and consumer deposits). The working capital of the municipality is positive and has not been constant for the past years. The contributing factor to the positive working capital is increasing consumer debtors which increases the balance of the current assets.*

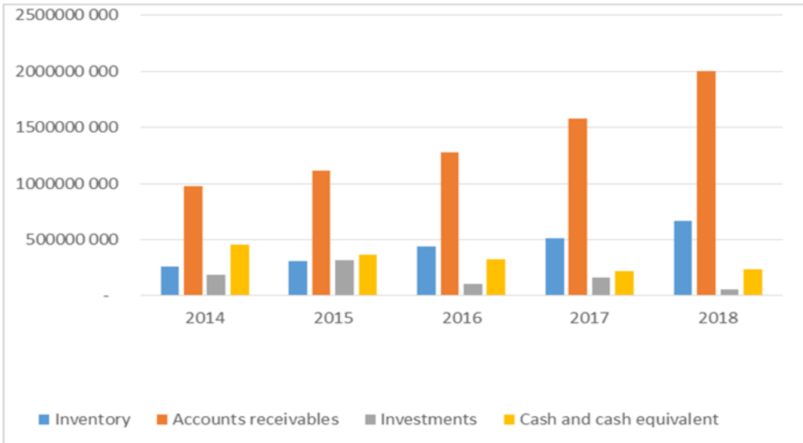

Figure 1. Current assets

Source: elaborated by authors.

As can be seen from the graph, the accounts receivable is the highest among current assets followed by inventory with investments the lowest. Consumer receivables have been increasing from 2014 to 2018. The amount of consumer receivables increased from R973.6 million in 2014 to R2 billion in 2018. This may be an indication of non-payment of services and a weak revenue collection system. The accounts receivables of the municipality are constantly increasing and this may negatively impact the cash flow and working capital as the cash is tied up in debtors. Non-payment of services is a high risk to financial viability because the municipality might be unable to pay its short-term obligations and recover costs associated with the provision of services (Moloto & Lethoko, 2018). The pie diagram indicates water as the largest debt followed by rates. In the 2018 financial year, the amount owed by consumers relating to water services amounted to R2.1 billion, with an impairment of R1.5 billion 75% of the gross amount. The residential consumers made up the bulk of the debtors per service.

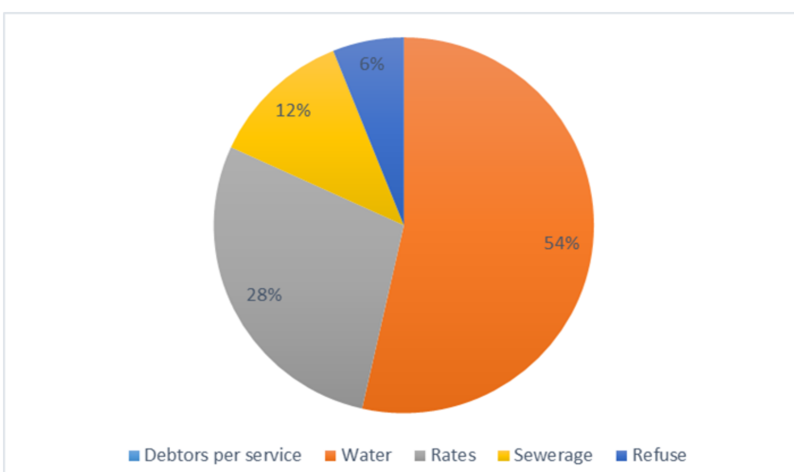

Figure 2. Debtors per service

Source: elaborated by authors.

When the municipality is unable to collect the revenue for providing a service it will be unable to recover the costs of providing the service. The consumers owed the municipality an amount of R1.1 billion in rates, with an impairment of R512 million which is almost 50% of the gross balance.

The findings match the respondents' opinions as per the survey conducted. Some (63%) of the respondents agreed that water contributes the highest in consumer debtors and the debtors' collection system is not effective. The municipality is faced with the challenge of increasing consumer receivables and one of the contributing factors could be inefficient revenue collection. The efficient management of debtors is a component of working capital imposes a risk on the cash flow of the municipality.

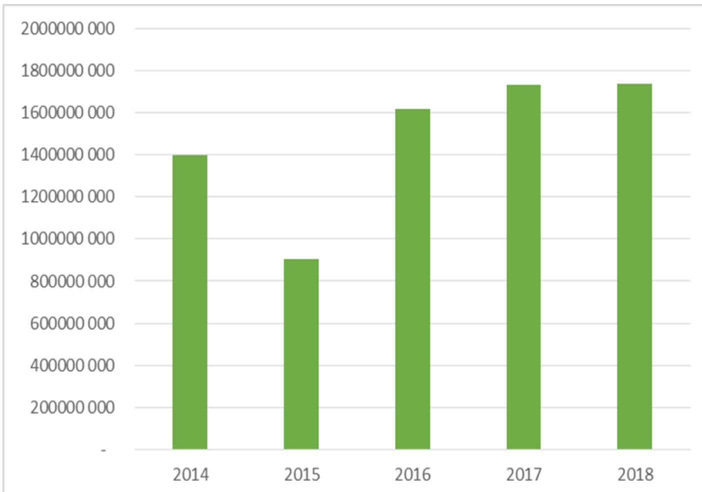

Figure 3. Current liabilities

Source: elaborated by authors.

Figure 3 indicates the creditors balances of the MMM from 2014 to 2018. According to the findings, the municipality's current liabilities have been deteriorating. The current liabilities have increased from R1.3 billion from 2014 to R1.7 billion in 2018 which is an increase of about R400 million. While it is sometimes acceptable to use short-term financing to bridge the gap of cash flow challenges, an increasing amount of creditors balances for each successive year may indicate financial viability problems (Marshall & Douglas, 1997). It took the municipality an average of 149 days to pay its suppliers in the 2018 financial year and this delayed payment period is a deterioration from 139 days for the 2017 financial year. This is non-compliance with section 65 (2) of the MFMA which requires the money owed by the municipality to be paid within 30 days.

Table 1. Instances in which invoices are not paid on time

	Frequency	Percentage	Valid Percent	Cumulative %
Strongly agree	6	22	22	22
Agree	18	67	67	89
Disagree	3	11	11	100
Total	27	100	100	

Table 2. Suppliers average days as disclosed in AFS and audit report

Financial year	2014	2015	2016	2017	2018
Average period in days	60	52	99	139	142

Source: elaborated by authors.

As can be seen from Table 4, the municipality is unable to pay its suppliers within 30 days as legislation requires. This situation has worsened from the 2016 to the 2018 financial year where it takes the municipality more than 90 days to pay back the suppliers. This is not good.

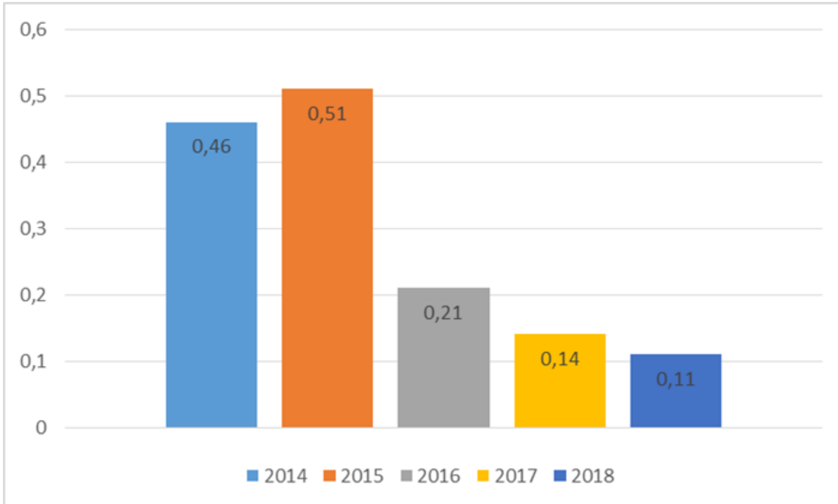

Figure 4. Cash ratio

Source: elaborated by authors.

The cash coverage ratio for the municipality is 0.11 in the 2018 financial year and this ratio (as shown in Figure 4) has decreased from 0.46 in 2014 to 0.11 in 2018. The contributing factor is the decreasing cash and cash equivalent available to meet short-term obligations. The accounts receivables that can be converted into cash take time as it takes more than 100 days on average for the municipality to recover its payments for services rendered. A ratio of 0.11 indicates that the municipality has the cash to cover only 11% of its current liabilities. The respondents also agree that MMM is faced with cash flow challenges. A total of 67% of the respondents strongly agree that the municipalities have challenges with cash flow and 33% agree The MMM cash and investment portfolio has deteriorated from a surplus of R71.8 million in 2014 to a shortfall of R1.1 billion in the 2018 financial year. Table 6 indicates the surplus or shortfall of cash and investments against the commitments of the municipality.

Table 3. Investment portfolio and commitment portfolio

Cash backed reserves	2014	2015	2016	2017	2018
Cash and cash equivalents	452 267 612	362 163 919	325 679 377	217 527 320	235 901 912
Investments	186 559 010	313 462 646	107 818 543	162 721 621	53 265 198
Total	638 826 622	675 626 565	433 497 920	380 248 941	289 167 110
Application of cash	2014	2015	2016	2017	2018
Trade payables	421 916 480	490 683 267	846 681 487	977 834 872	951 950 202
Current portion of long-term loan	8 586 359	35 002 985	100 965 374	138 707 448	147 615 980
Unspent conditional grants	122 489 296	126 270 011	106 083 319	63 100 514	230 013 159
Statutory funds – COID	8 934 694	10 628 620	12 511 880	14 482 139	16 690 714
Self-insurance fund	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000
Total	566 928 843	667 586 898	1 071 244 076	1 199 126 990	1 351 272 073
Surplus (shortfall)	71 897 779	8 039 667	-637 746 156	- 818 878 049	-1062 104 963

Source: elaborated by authors.

Revenue and expenditure trends of Mangaung Metro Municipality from 2014 to 2018

Figure 9 indicates the pattern of internal revenue to expenditure from 2014 to 2018. Expenditure is growing more than revenue. This might be because of the municipality's attempts to reduce service delivery backlogs and to increase investment on infrastructure. The municipal expenditure grew from R4.9 billion in 2014 to R6.6 billion in 2018.

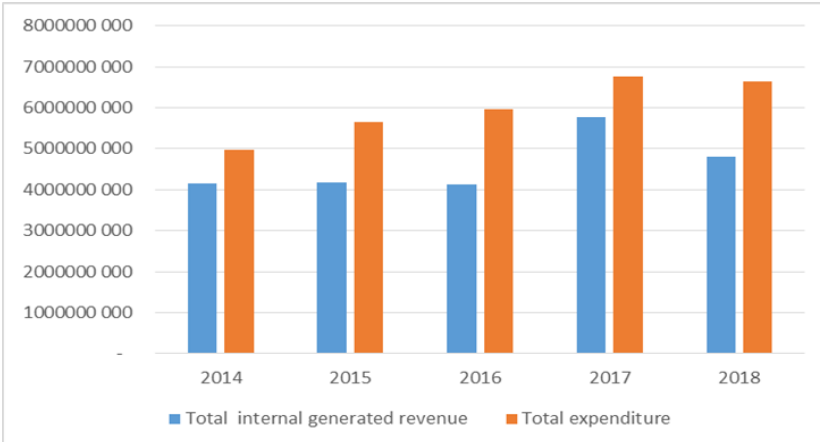

Figure 5. Revenue and expenditure

Source: elaborated by authors.

The MMM was amalgamated with the Naledi municipality which is in a rural area with no revenue base in 2016. The effect of amalgamation could also be seen by the increase in total expenditure a year after the amalgamation. The expenditure grew from R5.7 billion in 2015 to R5.9 billion in 2017 which is an increase of R279.2 million (4.9%) before the amalgamation. The total expenditure of the municipality increased by R793.9 million (13%) from R5.9 billion in 2016 to R6.8 billion in 2017 after the amalgamation. This is because the municipality had to extend the provision of services into the incorporated areas. Figure 6 shows that the municipality spends more on bulk purchases followed by employee costs. Employee costs have increased from 29.6% in 2014 to 36% in the 2018 financial year. In the 2018 financial year bulk purchases and employee costs were about 36% of the operational costs.

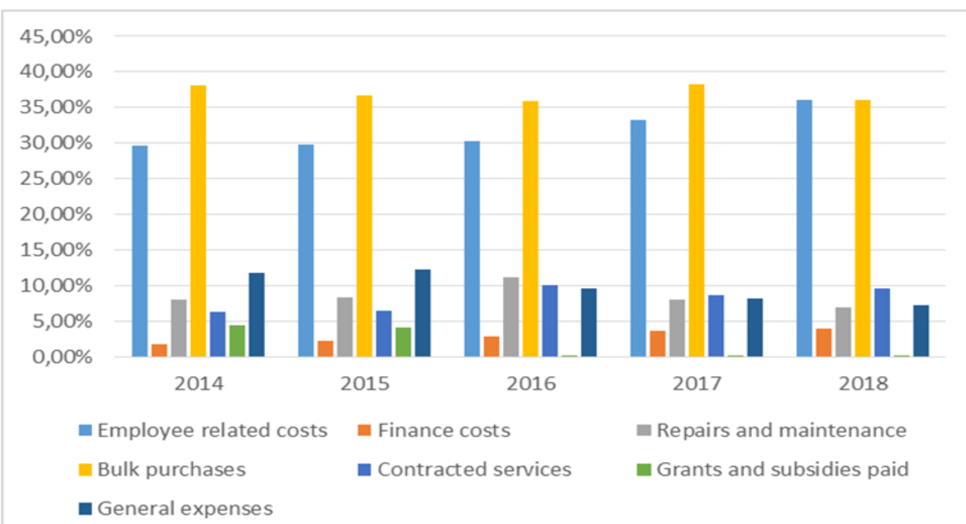

Figure 6. Expenditure per category

Source: elaborated by authors.

These findings support the view of Slack and Bird (2013) that when amalgamation takes place expenditure may increase. According to Slack and Bird (2013) most of the time newly appointed employees from small municipalities performing the same functions might want to be paid the same salary which could be the case in MMM.

Financing system of the municipality. The municipality has two sources of revenue: internally generated revenue (service charges, rates, and taxes, rental income from facilities and buildings and fines) and external revenue (government grants and external loans). Figure 7 indicates the municipality's own revenue and external revenue from 2014 to 2018. The internally generated revenue constitutes an average of 65% from the 2014 to the 2018 financial year. In the 2014 financial year the internally generated revenue consists of 69% of the total revenue. This has decreased in the 2015 and 2016 financial years to 66% and 64% respectively. The revenue increased to 66% in the 2017 financial year and took a drop again in the 2018 financials to 61%.

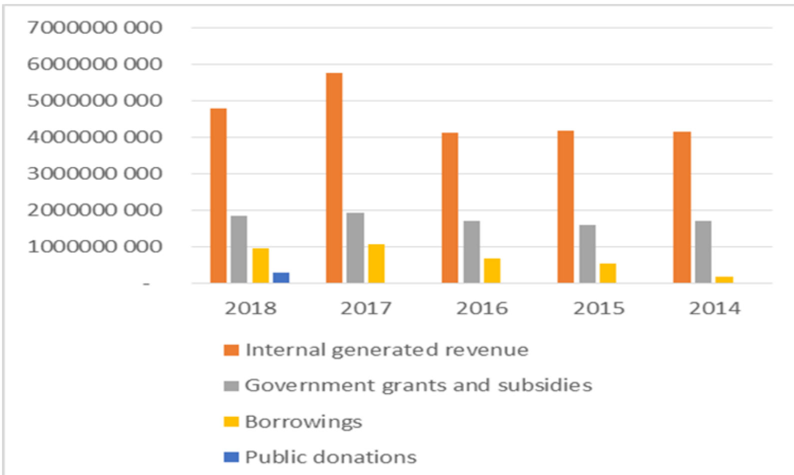

Figure 7. Revenue by source

Source: elaborated by authors.

Figure 7 shows that the internally generated revenue has been fluctuating over the past five years. That means the revenue from the internal source is not stable and this could be a challenge for the municipality in terms of revenue planning in the future. The second important source of financing in the MMM is the transfer of government grants which constitutes about 25% of external revenue for the municipality from 2014 to 2018. The municipality receives two types of grants, namely conditional and unconditional grants. The conditional grant is given to the municipality to assist with bridging financing to provide service to the poor community. Conditional grants are mostly to fund capital projects like infrastructure.

This is because the MMM depends on national level transfers for each municipality. The National Treasury has a right to withhold grants if the municipality is not complying with the legislation requirements such as the MFMA and DORA. The National Treasury can require the municipalities to withhold or require the municipalities to pay back the grants when the municipalities are underspending or not meeting the rollover requirements. One of the MMM's expenditures is the numbers of grants paid. This implies that there are some instances where the municipality had to pay back some of the grants to the National Treasury. This has been the trend for the past five years.

The last funding source for the municipality is external borrowings. Figure 11 indicates that borrowings have been increasing year by year except in the 2018 financial year where the external borrowings decreased. The municipality's current decreasing grants and declining revenue put the municipality under funding constraints with regards to external borrowings because of its lack of creditworthiness. The response from the respondents is 55% strongly agree and 45% agree that one of the factors for the determinant of debt is the credit rating.

Research question: How do financial challenges affect the financial viability of the municipality?

The municipality's revenue collection system is not effective, and this leads to the non-payment of services. The negative correlation between the increase in debtors and the non-payment of services indicates how the increasing debtors affect the financial viability of the municipality. This confirms the Auditor-General's statement that municipalities are under financial constraints because they are unable to collect their debt.

The researcher noted that the municipality's cash flow has been decreasing and that the operating activities of the municipality are hand to mouth. When the municipality is unable to generate enough cash, it is unable to meet its obligations when they are due. This is also confirmed by the high negative correlation between the cash flow and the delay in payment of suppliers in the municipality. The researchers agree with Maclean (2013) that municipalities can collapse and forced to discontinue some of their operations. The management of cash is one of the important factors of sound financial management. This confirms the statement of Mutya and Joseph (2018) that money is the lifeblood of any organisation as business activities depend on it. The research agrees with Paul (2018) that the consumer debtors have negative correlation with the revenue and high risk on financial performance.

Increasing levels of both short-term and long-term debt increase the financial risk to the municipality. If long-term loans are used for non-revenue-generating projects, there could be an incidence of default in payment terms. The finance charges that are paid to finance debt could be used in other services.

Research question: What are the Mangaung revenue and expenditure trends from 2014 to 2018?

The municipality's revenue for the past five years has not been stable and the expenditure has been showing an increasing trend. This could have an impact on the credibility of municipal budgeting when expenditure is based on unrealistic revenue. Likewise, Sibanda (2017) agrees that sound financial management assists the public sector to deal with limited resources. Therefore, when the gap of expenditure exceeding revenue keeps on increasing this is in non-compliance with the legislative authority (MFMA) as the municipality will have a deficit. Imuezerua and Chinomona (2017) also argue that there is a need for accurate budgeting by the municipality.

Research question: To what extent does Mangaung Metro Municipality rely on transfers from government?

The municipality's financing structure consists of an average of 65% from internal revenue, 29.5% from government transfers and 10% from external borrowings. This indicates that the municipality is not relying on government grants to fund its operations. Although the municipality is relying on internal revenue, this revenue has not been growing as it should. Therefore, the municipality is unable to generate enough internally generated revenue to augment the declining grants from the national government. These financing constraints may negatively impact the funding of municipal infrastructure projects and the viability of the municipality.

When the municipality's revenue source is not growing and there are no other sources of revenue the effect is that the municipality will have no savings. The only savings will be through the decrease in the level of service and this could lead to a breach of statutory obligation. The impact will be more on financial performance and be seen in compromised service delivery.

Conclusions

Recommendations

Debtors and creditors management

- The MMM must pay their suppliers on time in order to comply with terms of agreement. If there is not enough cash, the municipality can pay in small amounts in order to maintain the relationship with the suppliers.
- The MMM needs to collect the money owed by consumer debtors by implementing effective debtor's collection system in order to improve the cash flow and to be able to pay its obligations.

Cash flow management

The municipality should carefully monitor and plan the cash flow over the period to determine the optimum level of cash balances. The implementation and the success of the cashflow plan should be measured by the improvement in the coverage ratio.

Revenue and expenditure management

Revenue generation is everyone's business in the municipality, not just that of the finance directorate. The municipality must work in a coordinated manner in order to manage all the activities that impact on revenue. Furthermore, there should be development and implementation of internal controls among the core value activities of the revenue value chain.
Implement cost cutting measures.

Financing – improving revenue source

The MMM should review its tariff policies. Some of the tariffs may not be enough to cover the costs of providing a service or adequate enough to address the financial challenges currently faced by the municipality.
The municipality currently has a financial recovery plan. Coupled with the implementation of this plan, the municipality should have a revenue enhancement strategy. The revenue enhancement strategy should be aligned to the IDP of the municipality which is the overall strategy of the organisation.
The municipality should be innovative in revenue generation and position itself by tapping to all untapped revenue sources.
The MMM should position itself more favourably financially by tapping into all other untapped revenue sources.
The municipality should have an integrated single source of master data.

The financial viability of the Mangaung Metro Municipality is showing signs of collapse caused by the financial challenges with which the municipality is faced. These challenges are within the control of the municipality and can be resolved. There is a great opportunity for the municipality to improve its financial viability. There is a need for the municipality to address the increased debt crisis to improve its cash flow. This needs a coordinated effort in all spheres of government. Based on the analysis, the negative correlation between the cashflow and the payments of the creditors confirms a threat to the financial viability. An in-depth analysis of financial challenges will assist in determining early warning signs and prevent the risk of loss of financial viability.

In conclusion, there is an association between the financial challenges and the financial viability of the municipality. Inadequate debtor management and deficient cash flow management both impact financial management and financial performance. Ultimately, financial challenges have a negative effect on the financial viability of the municipality. Usually, authors argue about the financial distress or stress of the municipality. Not much in the literature clearly states the suggestions about where the financial distress has reached a point where the municipality is no longer viable.

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