In Quest of a Scale for Measuring Local Government Financial Sustainability

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Abstract

This research explores the scale for measuring local government financial sustainability. Despite the existence of sound regulatory framework on how local government’s financial resources can be generated and managed, finding still revealed that a challenge often arises from the lack of the scale for measuring local government financially sustainability. This affects proactive analysis and mitigation of the risks that often affect local government financial sustainability. This research attempted to address this question by arguing that measuring the overall maturity of the financial sustainability of the local government department can be undertaken according to four perspectives that include liquidity, resilience, service and fiscal responsibility, and public confidence. It was also posited that this must also be accompanied by the application of five spectrums aligned to Birney, Clarkson and Tuxworth’s five spectrums of a government’s financial sustainability that include; at risk, compliance-based, incremental, strategic, and systematic. However, future research can still explore the challenges of measuring financial sustainability.

Key phrases: Financial Sustainability; Local Government; Local Government’s Performance

1. Introduction

The essence for the development of a financially sustainable local government is strongly emphasised in the 1996 Constitution of the Republic of South Africa. The 1996 Constitution of the Republic of South Africa requires the executive authorities in the local government department to devise and adopt means of delivering services to the population within the designated locations in a way which is within the financial and administrative capacities of the municipalities. Whilst using the limited resources and the available capacity of the municipality, the 1996 Constitution of the Republic of South Africa requires develop programmes that would aid the development and entrenchment of a democratic and accountable system of government, and the provision of services in the sustainable manner. The 1996 Constitution of the Republic of South Africa also requires the department of local government to develop and implement programmes that would significantly influence improvement of the social and economic development of the country. It is these quests to leverage sound financial management and financial sustainability of the local government department that were echoed in the Municipal Finance Management Act (MFMA), No. 56 of 2003. Most of the regulatory reforms that were introduced by the government to enhance effective financial management and sustainability of the contemporary municipalities and local government departments are anchored in the Municipal Finance Management Act (MFMA), No. 56 of 2003. The motive for the introduction of MFMA was to promote sound financial management as the source of long term financial sustainability at the local government level.

Sound financial management refers to the extent to which financial decisions are based and guided on sound financial management principles of equity, honesty and transparency to ensure that the allocated financial resources influence the achievement of the outcomes for which they were intended. It aids the reduction of wastes and corruption that cause loss of funds aimed for financing different projects. To achieve this, the Municipal Finance Management Act emphasises the need for integrated planning and budgeting, revenue, cash and expenditure management, procurement, asset management, reporting and oversight. To develop sound municipal finance management system, the Municipal Finance Management Act agitated for the change and reforms of the municipal finance management practices, sound financial management as key to leveraging the long term financial sustainability of the municipalities, strengthening oversight through improved transparency and accountability for the undertaken financial decisions, and institutional strengthening and capacity building. In other words, as the Public Finance Management Act agitates for the development of a sound municipal finance management system, SALGA funding model and fiscal framework and financial management...
emphasises a joint and cooperative funding model as the strategies for edifying the improvement of the financial sustainability of the local government department. Despite the existence of sound regulatory framework on how local government’s financial resources can be generated and managed, a challenge still arises from the lack of the scale for measuring local government financially sustainability. This affects proactive analysis and mitigation of the risks that often affect local government financial sustainability. It is therefore against that backdrop that relevant analysis is being undertaken in this research so as to identify the local government financial sustainability that can be suggested for measuring local government financial sustainability.

2. Literature Review

Poor analysis and identification of the level of financial sustainability maturity tend to affect the identification of the exact level of maturity of a government department’s financial sustainability. This also affects the extent to which the executives are able to identify suitable improvement measures that can be undertaken to leverage the financial sustainability of that particular government department. The overall essence for the assessment and identification of the maturity level of a government department’s financial sustainability is accentuated in Birney, Clarkson & Tuxworth’s (2010) “Spectrum of Public Sector Leadership on Sustainable Development”.

2.1 Birney, Clarkson & Tuxworth’s (2010) “Spectrum of Public Sector Leadership on Sustainable Development”

Birney et al.’s (2010) five spectrum of public sector leadership on sustainable development argue that the maturity of the financial sustainability leadership of a government department is best measured by the assessment of five main levels encompassing at risk, compliance, incremental, strategic and systematic.

2.2 At Risk

This is a level at which there is systematic formal framework put in place to influence the development of a financially sustainable government department. It is the weakest point of the stage of developing a financially sustainable government department (Beeton, 2011). At risk stage is often characterised by limited concerns of the leaders about the essence for the development and improvement of financial sustainability. Instead, most of the leaders of the government department which is at the at-risk stage often tend to focus on planning and budgeting that does not integrate investment to stimulate alternative sources of revenues. Without considering investments that stimulate the development of alternative sources of revenues, it is often not easier to attain financial sustainability (Beeton, 2011). This is because financial sustainability is more associated with the extent to which a government department has an array of different sources of financial resources that the department can effectively use to meet the present obligations as well as future obligations without borrowing from other sources. Since at this level, financial sustainability is not widely considered by the managers, quite often, it is also evident that it does not feature in most of the plans and policies of the government department. However, the stage of at-risk level is significantly different from the other stages such as the compliance level.

2.3. Compliance

At the compliance level, there is often the beginning of the executives to recognise the values and importance of developing a financially sustainable public-sector organisation. In effect, as compared to the first stage, the notion of financial sustainability gets mentioned and integrated quite frequently in the plans, policies and the strategies of the departments. Even in the budgeting processes, financial sustainability issues may emerge from the deliberations of the executive (Etherington, 2015). However, conceptualisation and development of the strategies that would spur the improvement of financial sustainability is often not widely appreciated. The implications are latent in the fact that as much as financial sustainability is a cherished state, there is often limited practical development and implementation of programmes that spur improvement of financial sustainability. However, as further improvement measures are undertaken, it tends to spur the approach that a government department uses for the development of its financial sustainability to evolve to the incremental stage.

2.4. Incremental

At the incremental level, there is stronger recognitions of the importance of financial sustainability. In effect, the executives in that particular government department may tend to be innovative by conducting frequent analysis to identify the improvement initiatives that can be undertaken to bolster the financial sustainability of a government department. That process, the concept of financial sustainability is strongly integrated in the objectives and goals of the organisation. This is also accompanied by the development of strategies in terms of projects that can be implemented to bolster not only the capabilities of the government department to spend the required financial resources, but also to gain revenues from the successfully implemented projects. Since, at such a level, the government is strongly concerned and engaged in the drive to improve its financial sustainability, it
may also invest in the training and development of the existing skills as well as constant monitoring and evaluations to ensure that the government department becomes financially sustainable. It is further implementation of continuous improvement that bolsters the capabilities of the government department to adopt more strategic improvement measures to bolster its financial sustainability.

2.5. Strategic

At the strategic level, the notion of financial sustainability is deeply entrenched through the different levels of government with the effect that all the politicians and top government officials frequently include it in their campaign manifestos. As financial sustainability is strongly emphasised in the strategic plans, integrated development plans and the campaign manifestos, the government also continuously campaign and advocate for resource optimisation and implementation of projects that bolster increment in the sources of revenues. Some of the strategies may involve hiring process improvement consultants to conduct relevant analysis and improve the operational processes using methodologies such as sigma analysis, benchmarking, process evaluation and re-engineering and service quality analysis and improvement. The application of these techniques leverages efficiency improvement that in turn catalyses cost minimisation and resource optimisation. At the same time, it is often at the strategic level that innovation thinking and creativity are strongly emphasised as critical predictors for enhancing the development of different projects and effective implementation of different projects that would catalyse the generation of enormous sources of revenues and improvement of the financial sustainability of a government department. Such innovative measures are often accompanied by the development and use of the appropriate performance measurement frameworks in conjunction with constant monitoring and evaluation to ensure that the implementation of different financial sustainability improvement projects influence the achievement of the desired strategic objectives and goals. The successful implementation of these initiatives often spurs the development of a government department’s approach for enhancing financial sustainability to evolve to the next step.

2.6. Systematic

At the systematic level, the concerns for improving financial sustainability often get entrenched as part of the organisational culture. Since, the drive to improve financial sustainability is part of the organisational culture; there is often stronger drive of the executives to integrate sustainability as part of the critical goals that the government department strives to achieve. The integration of sustainability as part of the critical goals that must be achieved is often accompanied by the stronger long term commitment of the executives to ensure that relevant resources are allocated towards the implementation of the strategic plans and projects that influence improvement of financial sustainability of a government department. However, constant changes of governments in a fully developed democratic society often cause changes that render it difficult for a well-developed systematic system to sink unless all the new governments also strongly recognise financial sustainability as a critical prerequisite for effective performance of a government department. If it is not financial sustainability leadership immaturity which is a major paradox of developing a financially sustainable government, the challenges of developing a financially sustainable local government department may arise from the inability of the executives to use an appropriate model to develop an array of sources of funds (Padilla, Staplefoote & Morganti, 2012:9).

As the application of such integrated constructs influence improvement of financial sustainability, it is still often critical that an appropriate framework is developed to evaluate the overall maturity of the financial sustainability of the local government department according to four perspectives that include liquidity, resilience, service and fiscal responsibility, and public confidence.

3 Four Perspectives (Liquidity, Resilience, Service & Fiscal Responsibility, and Public Confidence) of Local Government Financial Sustainability

In terms of these four perspectives of local government financial sustainability, PFMA and MFMA do not only emphasise the need for monitoring and evaluation, but also the importance for the level of financial optimisation to be influenced by an effective budgeting and financial planning. It is through financial budgeting and planning that the local government department would not only be able to eliminate wasteful expenditures, but also to optimise the limited resources to meet as an array of different needs as possible. Financial optimisation as required in these legislations significantly impacts on cost savings to in turn leverage the overall level of the funds that municipalities are able to retain as their financial reserves. It is the amount the municipality has in its financial reserves that influences its financial sustainability. This is because it is through such financial reserves that the municipality is able to demonstrate their capabilities to meet the present as well as future needs. This
view is strongly recognised in PFMA and MFMA that financial sustainability is not only achieved by generating new sources of revenues, but also through minimisation of the existing funds in the way that leverages cost savings and increment. Yet, as Section 196 of the Constitution of the Republic of South Africa in conjunction with the provisions of PFMA and MFMA agitate for financial optimisation, the effects are not only reflected in the need for improved monitoring and evaluation, but also in the importance for intense financial risk analysis and mitigation. These legislations advocate for effective financial risk management as one of the strategies for identification and mitigation of risks that cause financial wastes. Financial risk management refers to the process of analysing, identifying and mitigating of the wastes that would affect financial sustainability. Increased level of financial wastes affects the amount of funds that a municipality is able to retain in its reserves. This subsequently affects the extent to which a municipality is able to retain as adequate funds in its reserve to enhance the effective meeting of the needs of the present as well as the future generation. In a bid to entrench a culture of financial risk management, the Constitution impliedly bestows on the directors and managers in public departments the mandate to exercise the necessary due diligence to ensure that all the implemented government projects and programmes achieve the desired strategic objectives and goals (The Public Service Commission, 2011:66). At the same time, while deriving from Section 196 of the South African Constitution, the roles and responsibilities for the implementation of a risk management strategy in all the modern South African public sector organisations is now contained in the regulations published in terms of the Public Finance Management Act (PFMA), 1999 and later amended by the National Treasury’s (2009) Framework for Risk Management in public sector organisations. The National Treasury’s (2009) framework for risk management agitates for the creation of an enabling environment for risk management by adopting the appropriate risk management strategy and human resource capacity.

The development of the appropriate financing models minimises risks of over-reliance on only some sources of finances by the executives in the public sector. Significant reliance by the executives only on some sources of finance limits the generation of sufficient funds to effectively finance some of the mega projects that most of the governments often develop (CIPFA-Chartered Institute of Public Finance and Accountancy, 2010:5). Apart from investment in projects that generate revenues for the government institution, some of the sources of finances may include government grants, donations and donations or grants from non-governmental institutions or direct credit finance offered by the commercial financial institutions. Grants from the central government are more reliable for the reason that it is constantly integrated in the national fiscal planning and budgeting. However, a challenge often arise from the fact that in the event of economic recession, the economic base of the central government may be affected to affect the amount of taxes that can be generated to finance grants that are provided by the central government to different institutions. This implies that in such cases, grants to the other government institutions are significantly reduced or cut-off completely (Ellsworth, 1998). It is the risks associated with the emergence of such circumstances that render reliance on government grants unreliable as the sources of funds that influence a government department’s financial sustainability. To avoid such risks, the use of the internal sources of funding by way of grants from the central government may be accompanied by the development of the external sources of funding from the non-governmental organisations. Unfortunately, it is often not easy for the largely poor government institutions to initiate productive projects or to develop competencies that render it possible for them to lobby funding from the external funders such as IMF or UNDP.

The acquisition of external funding requires the executives in different government departments to liaise and partner with critical external financiers. In this process, the executives are expected to provide project proposals and plans that convince and motivate the external funders about the viability of the project. Effective evaluations of the effectiveness of budget utilisation may require application of a combination of qualitative and quantitative analysis and evaluation. Qualitative evaluations often require the application of techniques such as performance measurement and assessment, focus group discussions, interviews, document analysis and the analysis of the existing data. Although in most of the cases, such evaluations are internally undertaken, it may also require the analysis and evaluations of the opinions of the populations and other stakeholders in the areas where the project is being implemented. As on the other hand, quantitative analysis may require the application of techniques such as surveys, the analysis of the existing data, co-relational analysis, and chi-squared analysis to discern the change that has so far taken place since the beginning of the process for the implementation of the budget plan. Checking requires the use of the appropriate framework for monitoring and evaluation (M&E).

Monitoring refers to an ongoing systematic process of assessing the extent to which the process of project implementation is influencing attainment of the desired positive outcomes. Evaluation is a periodic analysis of efficiency, impact, relevance and sustainability of the effectiveness of project implementation (Adato, 2011:11; Dudin, Frolova, Gryzunova & Shuvalova, 2015:244; Maletic, Maletic & Gomiscek, 2012:35; Preble & Hoffman
2012:26). The effectiveness of M&E framework is predicted by the clarity of the outlined quantitative and qualitative indicators, selection of appropriate interface of quantitative and qualitative M&E methods, the application of appropriate quantitative and qualitative techniques for data analysis and interpretation, and identification of inhibitors and intervention strategies that can be undertaken to influence improvement of the organisational performance (Garbarino & Holland, 2009:7). Depending on the targets and baselines outlined in the continuous improvement plan, indicators are the symbols that must be clearly outlined to highlight the criteria for the assessment of the effectiveness of the process for the implementation of the continuous improvement measures (Preble & Hoffman 2012:26). Indicators can be input, process, output, and outcome and impact indicators. Input indicators facilitate evaluation of the level of optimisation of financial and non-financial resources used in the implementation of continuous improvement strategies (Adato, 2011:11; Dudin, Frolova, Gryzunova & Shuvalova, 2015:244). Process indicators measure efficiency and effectiveness of programme implementation, as output indicators assess the results of the effects of programme vis-à-vis the amount of resources used. Outcome indicators evaluate the short-term effects of a programme on the improvement of the condition and standards of living of the population. Impact indicators on the other hand focus on the evaluation of the long term effects of a programme (Adato, 2011:11; Dudin, Frolova, Gryzunova & Shuvalova, 2015:244). The clear outline of indicators is followed by the actual quantitative M&E process of monitoring and evaluation using techniques such as surveys, KAP (Knowledge, Attitude and Practices) survey, case study and analysis of existing statistics. Qualitative M&E techniques encompass the use of interviews, focus group discussions, rapid appraisals, performance management, benchmarking, letters, citizens’ report cards and telephone hotlines. After relevant data has been collected, quantitative analysis is often undertaken using parametric (t-test, analysis of variance (ANOVA), multivariate analysis, correlation analysis and regressive analysis) and non-parametric tests (sign-test and chi-squared ($\chi^2$) analysis) (Maletic, Maletic & Gomiscek, 2012:35; Preble & Hoffman 2012:26).

In other words, strategic financial planning and budgeting is a pillar for improving the extent to which the government is able to effectively invest in relevant activities and projects to leverage their overall financial sustainability (Oftelie & Sabety, 2013:19).

4. Methodology

To reach logical conclusions on the scale that can be extracted and suggested for measuring local government financial sustainability, the study used the interpretive research paradigm. Interpretive research paradigm is a qualitative research approach that uses content analysis to undertake critical content analysis of theories and literature. This enables the evaluation of the theories and literature to extract useful information that would aid effective response to the phenomenon being investigated. To accomplish this, the research process was undertaken according to three main steps that encompass; analysis of the core theories for measuring local government financial sustainability, analysis of the approaches for measuring financial sustainability in the South African local government sphere, and extraction of the approach that can be replicated for measuring the financial sustainability of the South African local government department. The analysis of the core theories for measuring local government financial sustainability was undertaken by evaluating theories such as Birney, Clarkson & Tuxworth’s (2010) “Spectrum of Public Sector Leadership on Sustainable Development”. This was accompanied by the analysis of the approaches for measuring financial sustainability in the South African local government sphere by examining the provisions of legislations such as the Municipal Finance Management Act, Public Finance Management Act, Section 196 of the Constitution of the Republic of South Africa, The National Treasury’s (2009) framework for risk management and the Chartered Institute of Public Finance and Accountancy’s (2010:5) view on the challenges of financial sustainability in the South African local government department. It is from these evaluations that the approach for measuring local government financial sustainability was extracted and suggested as the approach that can be replicated when measuring local government financial sustainability. The details of the findings and discussions are as follows.

5. Findings

It emerged from the findings that despite the endeavours to leverage the effective management of local government finances, it is still often critical that an appropriate framework is developed to evaluate the overall maturity of the financial sustainability of the local government department according to four perspectives that include liquidity, resilience, service and fiscal responsibility, and public confidence. This must also be accompanied by the application of five spectrums aligned to Birney et al.’ (2010:7) five spectrums of a government’s financial sustainability that include; at risk, compliance-based, incremental, strategic, and
systematic.

4.1. Four Perspectives (Liquidity, Resilience, Service & Fiscal Responsibility, and Public Confidence) Of Local Government Financial Sustainability

In terms of these four perspectives of local government financial sustainability, PFMA and MFMA do not only emphasise the need for monitoring and evaluation, but also the importance for the level of financial optimisation to be influenced by an effective budgeting and financial planning. It is through financial budgeting and planning that the local government department would not only be able to eliminate wasteful expenditures, but also to optimise the limited resources to meet as an array of different needs as possible. Financial optimisation as required in these legislations significantly impacts on cost savings to in turn leverage the overall level of the funds that municipalities are able to retain as their financial reserves. It is the amount the municipality has in its financial reserves that influences its financial sustainability. This is because it is through such financial reserves that the municipality is able to demonstrate their capabilities to meet the present as well as future needs. This view is strongly recognised in PFMA and MFMA that financial sustainability is not only achieved by generating new sources of revenues, but also through minimisation of the existing funds in the way that leverages cost savings and increment. Yet, as Section 196 of the Constitution of the Republic of South Africa in conjunction with the provisions of PFMA and MFMA agitate for financial optimisation, the effects are not only reflected in the need for improved monitoring and evaluation, but also in the importance for intense financial risk analysis and mitigation. These legislations advocate for effective financial risk management as one of the strategies for identification and mitigation of risks that cause financial wastes. Financial risk management refers to the process of analysing, identifying and mitigating of the wastes that would affect financial sustainability. Increased level of financial wastes affects the amount of funds that a municipality is able to retain in its reserves. This subsequently affects the extent to which a municipality is able to retain as adequate funds in its reserve to enhance the effective meeting of the needs of the present as well as the future generation.

In a bid to entrench a culture of financial risk management, the Constitution impliedly bestows on the directors and managers in public departments the mandate to exercise the necessary due diligence to ensure that all the implemented government projects and programmes achieve the desired strategic objectives and goals (The Public Service Commission, 2011:66). At the same time, while deriving from Section 196 of the South African Constitution, the roles and responsibilities for the implementation of a risk management strategy in all the modern South African public sector organisations is now contained in the regulations published in terms of the Public Finance Management Act (PFMA), 1999 and later amended by the National Treasury’s (2009) Framework for Risk Management in public sector organisations. The National Treasury’s (2009) framework for risk management agitates for the creation of an enabling environment for risk management by adopting the appropriate risk management strategy, human resource capacity, and the use of the enterprise risk management framework. It also emphasizes the need for risk identification, risk assessment, risk response, communication and reporting, monitoring, and the key roles and responsibilities of the risk management committees and audit committees. Yet, in the exercise of such stringent financial controls and oversight functions, the Municipal oversight committees also constitute some of the bodies that exercise roles. The municipal oversight committees operate at the lowest levels of the local government structures to ensure all municipalities undertake initiatives that leverage the minimisation of financial wastes and losses.

Such oversight roles include checking and evaluating the extent to which the municipal authorities are performing all functions which are critical for ensuring that all the municipal financial resources are effectively utilised in the accomplishment of the activities for which they were dedicated. In effect, the municipal oversight committees not only check the effectiveness of the budget and financial planning processes, but also how effectively are such budgets and financial plans implemented. This eliminates risks of deviating from the prescribed plan to influence the extent to which the allocated resources are effectively optimised. However, the effective exercise of some of these roles is often constrained by the poor skillfulness of the councillors that mainly constitute most of the members sitting in the municipal oversight committees. Although such limitations affect the effectiveness of the financial control and oversight roles exercised by the municipal oversight committees, it is still evident that the roles and functions exercised by the municipal oversight committees often still impact positively on cost savings and waste’s minimisation. As it is such improved level of financial resources’ optimisation that leverages the level of the financial reserves that a municipality has, the other significant roles undertaken towards leveraging financial sustainability in the local government sphere has been emerging from the roles accomplished by the Office of the Auditor’s General. Since 1994, the Office of the Auditor-General has been performing a number of functions critical for bolstering the level of financial optimisation in the local government sphere. The Office of the Auditor-General performs the monitoring
functions and frequent audit that aid the detection and mitigation of the areas of wastes.

4.2 Five Spectrums (At Risk, Compliance-Based, Incremental, Strategic, & Systematic) of Local Government’s Financial Sustainability

Birney, Clarkson & Tuxworth’s (2010) spectrum of public sector leadership on sustainable development argue that the maturity of the financial sustainability leadership of a government department is best measured by the assessment of five main levels encompassing at risk, compliance, incremental, strategic and systematic. At risk is the weakest point of the stage of developing a financially sustainable government department. At risk stage is often characterised by limited concerns of the leaders about the essence for the development and improvement of financial sustainability. Instead, most of the leaders of the government department which is at the at-risk stage often tend to focus on planning and budgeting that does not integrate investment to stimulate alternative sources of revenues. Without considering investments that stimulate the development of alternative sources of revenues, it is often not easier to attain financial sustainability. This is because financial sustainability is more associated with the extent to which a government department has an array of different sources of financial resources that the department can effectively use to meet the present obligations as well as future obligations without borrowing from other sources. Since at this level, financial sustainability is not widely considered by the managers, quite often, it is also evident that it does not feature in most of the plans and policies of the government department.

However, the stage of at-risk level is significantly different from the other stages such as the compliance level. At the compliance level, there is often the beginning of the executives to recognise the values and importance of developing a financially sustainable public sector organisation. In effect, as compared to the first stage, the notion of financial sustainability gets mentioned and integrated quite frequently in the plans, policies and the strategies of the departments. Even in the budgeting processes, financial sustainability issues may emerge from the deliberations of the executive. At the incremental level, there is stronger recognitions of the importance of financial sustainability. In effect, the executives in that particular government department may tend to be innovative by conducting frequent analysis to identify the improvement initiatives that can be undertaken to bolster the financial sustainability of a government department. At the strategic level, the notion of financial sustainability is deeply entrenched through the different levels of government with the effect that all the politicians and top government officials frequently include it in their campaign manifestos. As financial sustainability is strongly emphasised in the strategic plans, integrated development plans and the campaign manifestos, the government also continuously campaign and advocate for resource optimisation and implementation of projects that bolster increment in the sources of revenues. Some of the strategies may involve hiring process improvement consultants to conduct relevant analysis and improve the operational processes using methodologies such as sigma analysis, benchmarking, process evaluation and re-engineering and service quality analysis and improvement. At the systematic level, the concerns for improving financial sustainability often get entrenched as part of the organisational culture.

Since, the drive to improve financial sustainability is part of the organisational culture; there is often stronger drive of the executives to integrate sustainability as part of the critical goals that the government department strives to achieve. However, from the analysis of the findings, the state of financial sustainability in the South African local government department seems to be at risks as contrasted with the other levels such as compliance, systematic and strategic levels. This is attributable to the fact that findings revealed that despite enormous initiatives undertaken to leverage financial sustainability in the South African local government, major inhibitors of the initiatives for improving financial sustainability in the South African local government often arise from inadequate municipal capacity, limited income generating activities, deficient local government procurement system and poor leadership and governance. In terms of inadequate municipal capacity, some of the challenges affecting the improvement of the financial sustainability of most of the municipalities are often linked to the failure to create a strategic fit between the municipal capabilities and the constantly changing socio-economic trends. Yet, the contemporary South African societies are constantly changing politically, economically and socially at the level that the municipalities cannot easily match. Some of these forces are linked to changes in the political set up that can cause the introduction of new ideologies and beliefs. These new ideologies and beliefs can cause the introduction of new systems and thinking as well as policy that do not influence municipalities to engage in constructive activities.

In this process, the politicisation of certain minor failures and challenges of the municipalities have often caused service delivery riots and strikes that have paralysed the effective performance of the municipalities. Some of these strikes and riots even cause damage on the assets of the municipalities. Quite often, these cause the municipalities to have to re-plan how to fix such damages using funds that could have been used for some other purposes. It is not only the emergence of such circumstances that cause situations that undermines the drive for
improving the municipal financial sustainability, but also the fact that as such challenges occur, most of the municipalities are rendered redundant. This affects the extent to which the municipalities are able to design and complete different development and revenue-generating projects on time. This echoed in the fact that although the funds granted by the government are often enormous, the challenges faced by the municipalities are often also enormous. New changes keep on emerging, as the existing challenges turn complex. This renders it difficult for the municipalities to adopt effective financial control strategies that would leverage their financial sustainability.

Yet, as much as most of government policies and legislations emphasise the importance for effective financial management in the local government sphere, only limited emphasis seems to have been placed on the generation of additional sources of revenues. This limits the generation of additional revenues that can be used to finance different government socio-economic projects. Yet, it is the fundamental argument in the financial sustainability literature that financial sustainability of a government department depends on the availability of different sources of funds. That implies reliance on only a few sources of income for the government department can undermine the extent to which it can be sustainable in the future. In other words, all these tend to undermine the development of financially sustainable municipalities. Besides these challenges, other exacerbating challenges are linked to the use of deficient local government procurement system. The local government sphere’s procurement process is a critical determinant of cost savings which subsequently impacts on the financial reserve that a municipality holds. It influences the successful implementation of different projects as well as the ability to gain from the competencies and capabilities of different suppliers. It also bolsters the selection of competent and quality suppliers, and cost minimisation resulting from the elimination of the risks of the selection of less competent suppliers. All these subsequently impact positively on the capabilities of the local government department to not only optimise the existing financial resources, but also to generate new sources of revenues. Unfortunately, the ability to gain from such values has often been affected by risks arising from frequent flouting of the critical processes for effective local government procurement.

Key processes used in the procurement process by the local government sphere may entail defining of the procurement objectives, advertisement of bids for tenders of the potential suppliers, identification of the potential suppliers, interview and selection of the potential suppliers, training and building of the competencies of suppliers, managing the procurement process, as well as monitoring and evaluations to improve the overall effectiveness of the procurement process. In other words, all these tend to limit the extent to which procurement processes are able to enhance the optimisation of the existing financial resources whilst also facilitating the development of socio-economic projects that create new sources of revenues. All these are exacerbated by poor leadership and governance which is some of the factors affecting the development of financially sustainable municipalities. This is accentuated in the fact that poor leadership and governance causing corruption affect the effective utilisation of the municipal financial resources to influence the achievement of all the desired socio-economic outcomes. This increasing spate of poor leadership and governance is caused by the increasing emergence of poor ethical culture. As most of the senior leaders are accused of involvement in corruption, it tends to affect the development of the organisational moral fabric that leverages the overall leadership effectiveness.

Quite often, these decaying morals are further exacerbated by lack of ethical guidelines and poor enforceability of ethical breaches that are all in turn causing loss of billions. This is accentuated in the Corruption Watch Reports (2015) that indicates that since municipal executive top management officials are granted the mandate to determine their salaries, most of them have been engaged in the unscrupulous acts of increasing their salaries up to about 50%. Even in the midst of the Auditor-General’s Reports (2016) that about 14 municipalities have received unqualified reports, the municipal managers receive about ZAR950 000 and the Chief Financial Officer gets about ZAR900 000 excluding benefits that make it total about ZAR 1.2million. Besides bribery, extortion, embezzlement and graft, the other forms of corruption have been latent in nepotism and patronage systems. Even though efforts are being undertaken to overcome these corruption related challenges, the major stumbling blocks are often linked to corruption, financial mismanagement and the appointment of senior officials solely on the basis of political connectivity or employment equity considerations. In other words, all these imply the state of financial sustainability in the South African local government department seems to be at risks as contrasted with the other levels such as compliance, systematic and strategic levels.

4.3 Managerial Implications

In the context of the illustration in Figure 3, measuring the overall maturity of the financial sustainability of the local government department would require the use of the four perspectives (liquidity, resilience, service and fiscal responsibility & public confidence) of local government financial sustainability in conjunction with the
five spectrums (at risk, compliance-based, incremental, strategic & systematic) of local government financial sustainability. The details of how the local government department can apply these measures are explained as follows.

4.4 Four Perspectives (Liquidity, Resilience, Service & Fiscal Responsibility, and Public Confidence) of Local Government Financial Sustainability

The four perspectives would explore the liquidity, resilience, service and fiscal responsibility and public confidence of local government financial sustainability. Liquidity would evaluate the extent to which the local government department has sufficient cash to meet its present needs as well as future needs and demands. This is attributable to the fact that financial sustainability of the local government department is not only measured by the extent to which it has adequate cash to meet the present obligations, but also the extent to which it has sufficient cash to meet all the future eventualities. That implies in terms of the sources of funds, it must be able to have sources that boost the present as well as the future sources of revenues. Liquidity analysis is important for the reason that it influences managers to explore different ways for creating new revenues as well as boosting the existing sources of funds. Yet, as liquidity analysis is being undertaken, the other critical analysis would require the evaluation of the resilience of the local government financial system. Such resiliency must be measured by the extent to which given the available revenues and sources of funds, the local government department would be able to withstand all the eventualities as well as sudden events with potential to disrupt the overall performance of the local government department. It is such capabilities to withstand all eventualities that indicate the level of the maturity of the local government financial sustainability. In case, the local government department is found to be incapable, then, it is important that the local government department develops and applies critical strategies for boosting the overall level of financial sustainability. Besides the analysis of resilience, it is also important for the local government department to examine the dimensions of service and fiscal responsibilities. Service and fiscal responsibilities measures the extent to which the local government department would be able to meet all their financial and fiscal obligations without relying on external measures such as borrowing. Positive scores attained on all these factors influence the confidence that the public have in the local government financial system. Since, most of the supplies to the municipalities are drawn from the public, this public confidence is critical for ensuring the continuity of the local government department. Public confidence and trust also eliminate risks of emergence of disruptive events such as strikes and riots that may occur if the public has lost trust and confidence that their needs will be met. Yet, as these measures are being applied to gauge the level of maturity of the local government department financial sustainability, it is also critical to use the five spectrums (at risk, compliance-based, incremental, strategic & systematic) of local government financial sustainability.

4.5 Five Spectrums (At Risk, Compliance-Based, Incremental, Strategic, & Systematic) of Local Government’s Financial Sustainability

The five spectrums of local government financial sustainability which can be used for measuring the maturity of the local government financial sustainability include at risk, compliance-based, incremental, strategic and systematic. At risk would imply that the local government financial system is weak and very vulnerable to being disrupted by any eventualities. It implies there is insufficient revenues as well as total incapabilities to meet the existing as well as future financial obligations. The financial sustainability of the South African local government department is presently at this state. This implies, investment in revenue generating activities is critical for improving the maturity of the overall local government financial sustainability. In addition to being at risks, the level of the maturity of the local government financial sustainability is also at the compliance-based levels. In the compliance-based levels, initiatives are only undertaken to comply with relevant policies and legislations without the actual commitments of the officials to leverage the overall financial sustainability of the local government department. This implies, it is of significant importance for the department of local government to invest in the initiatives that would improve the maturity of it financial sustainability from incremental to the systematic and strategic level. The incremental level is measured by the fact that there is often stronger recognitions of the importance of financial sustainability. In effect, the executives in that particular government department may tend to be innovative by conducting frequent analysis to identify the improvement initiatives that can be undertaken to bolster the financial sustainability of a government department. In that process, the concept of financial sustainability is strongly integrated in the objectives and goals of the organisation. This is also accompanied by the development of strategies in terms of projects that can be implemented to bolster not only the capabilities of the government department to spend the required financial resources, but also to gain revenues from the successfully implemented projects. Since, at such a level, the government is strongly concerned and engaged in the drive to improve its financial sustainability, it may also
invest in the training and development of the existing skills as well as constant monitoring and evaluations to ensure the government department becomes financially sustainable. At the strategic level, the notion of financial sustainability is deeply entrenched through the different levels of government with the effect that all the politicians and top government officials frequently include it in their campaign manifestos. As financial sustainability is strongly emphasised in the strategic plans, integrated development plans and the campaign manifestos, the government also continuously campaigns and advocates for resource optimisation and implementation of projects that bolster increment in the sources of revenues. At the systematic level, the concerns for improving financial sustainability often get entrenched as part of the organisational culture. Since, the drive to improve financial sustainability is part of the organisational culture; there is often stronger drive of the executives to integrate sustainability as part of the critical goals that the government department strives to achieve. The integration of sustainability as part of the critical goals that must be achieved is often accompanied by the stronger long term commitment of the executives to ensure that relevant resources are allocated towards the implementation of the strategic plans and projects that influence improvement of financial sustainability of a government department. However, constant changes of governments in a fully developed democratic society often cause changes that render it difficult for a well-developed systematic system to sink unless all the new governments also strongly recognise financial sustainability as a critical prerequisite for effective performance of a government department.

Conclusion

Despite the existence of sound regulatory framework on how local government’s financial resources can be generated and managed, finding still revealed that a challenge often arises from the lack of the scale for measuring local government financially sustainability. This affects proactive analysis and mitigation of the risks that often affect local government financial sustainability. This research attempted to address this question by arguing that measuring the overall maturity of the financial sustainability of the local government department can be undertaken according to four perspectives that include liquidity, resilience, service and fiscal responsibility, and public confidence. It was also posited that this must also be accompanied by the application of five spectrums aligned to Birney et al.’ (2010:7) five spectrums of a government’s financial sustainability that include; at risk, compliance-based, incremental, strategic, and systematic. However, future research can still explore the challenges of measuring financial sustainability.

References


