

Using Leon's Model to Leverage Local Government Financial Sustainability

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Abstract

Despite its essence for bolstering financial sustainability, the question as to the model for leveraging local government financial sustainability still remains elusive in most of the contemporary studies on financial management in the local government sphere. This research attempted to address this gap by evaluating how Leon's four pillars of financial sustainability can be used to bolster local government financial sustainability. To bolster local government financial sustainability, it is argued that local government managers must consider using Leon's four pillars of financial sustainability that encompass strategic financial planning, income diversification, sound financial administration and management, and own income generation. However, future research can still explore the challenges of developing a financially sustainable local government sphere.

Key phrases: Financial Sustainability; Local Government; Income Diversification; Strategic Financial Planning; Sound Financial Administration and Management; Own Income Generation

1. Introduction

Financial sustainability is one of the critical trajectories for effective performance of the contemporary public sector organisations (Bergmann & Grossi, 2014:90). In the midst of the increasingly complex and numerous competing needs of the population, financial sustainability edifies resource optimisation (Bergmann & Grossi, 2014:90). This enables governments to effectively respond to such competing needs and demands of the population. Effective response to the different demands of the population influences the improvement of the citizens' satisfaction and the reduction of the risks of political instabilities that are often exploited by the opposition political parties to cause situations that undermine the successful implementation of different government developmental programmes (Izza, 2012:9). The pursuit of financial sustainability also lures the government to consider investing enormous financial resources in different revenue generating socio-economic activities. The successful implementation of such different economic development programmes not only catalyses economic growth and development, but also the creation of new employment opportunities, and the improvement of the standards and conditions of living of the population (Organisation for Economic Co-Operation and Development-OECD. 2009:14). To develop a financially sustainable government department or institution, the use of a prudent model for financial sustainability is a prerequisite (Manuzi, 2015:6). Unfortunately, empirical facts in the South African local government imply that as much as all the relevant legislative and policy frameworks for emboldening financial sustainability are in place, the suitability of a framework highlighting the critical constructs that must be considered to operationalise such legislative and policy stipulations seems yet a challenge (Maphalla, 2015:9; Cashdan, 2015:10; Mabugu and Monkam, 2013:5; Swilling, 2005:144). Although a number of studies have evaluated the critical determinants or the inhibitors of financial sustainability in the contemporary public sector organisations, the issue of the debates on the suitable financial sustainability model that can be adopted seems to have been ignored by most of the authors (Maphalla, 2015:9; Cashdan, 2015:10; Mabugu and Monkam, 2013:5; Swilling, 2005:144).This research attempted to address this gap by evaluating how Leon's four pillars of financial sustainability can be used to bolster local government financial sustainability.

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2. Leon's (2001)Four Pillars of Financial Sustainability

Leon's (2001) four pillars of financial sustainability has been one of the fundamental techniques for improving financial sustainability in public sector organisations a decade. However, it is still widely recognised by several scholars as one of the critical determinants for improving financial sustainability in the contemporary public sector organisations. To edify the improvement of financial sustainability, Leon's (2001) four pillars of financial sustainability highlights four fundamental pillars that the public sector managers can pay attention to. These four pillars are; strategic financial planning, income diversification, sound financial management and administration, and income generation.

2.1.Pillar 1: Strategic Financial Planning

A strategic financial plan refers to a framework outlining the vision, mission and goals as well as the corresponding critical activities that must be accomplished to influence the achievement of the desired strategic objectives and goals. Strategic financial planning edifies the prioritisation of the activities critical for improving the sustainability of a public sector organisation. It outlines the critical investment programmes and projects that must be undertaken to generate funds and improve the overall financial sustainability of the government department (Oftelie & Sabety, 2013:19). It provides guidelines and directions on the initiatives that must be undertaken to achieve the financial sustainability objectives. However, some of the authors reiterate the essence for linking strategic financial plans to the overall development plans or the strategic plan of the government department. Such a view is accentuated in the fact that linking strategic financial planning to the development plan enables public sector managers analyse and configure how the existing and future developmental programmes can be supported by the existing and future sources of funds. It is such a linkage that motivates public sector executives to evaluate and assess how most of the existing and future development plans and programmes can be undertaken. It fills the gap in most of the strategic development planning process in which most of the government departments often focus only on the development plans rather than the linkage to the critical sources of funds that can be used in the financing of such programmes (Oftelie & Sabety, 2013:19). It is not only the linkage of the development plan to the strategic financial plan which is often a challenge, but also the tendency of public sector executives to misconstrue a strategic financial plan to be budget. Strategic financial plan is nonetheless distinct from a budget. A budget is a plan of how the available finances will be utilised in the process of the implementation of different government programmes. As on the other hand, a strategic plan is a dynamic framework outlining the critical process of how to generate the required funds in conjunction with the analysis of how to optimise the existing financial resources (Ball, 2007). The value of a strategic plan as a critical determinant of financial sustainability is strongly echoed in the opinions of several other scholars. It enhances the evaluation and comparison of the sources of funds that are critical for a government to fulfil developmental needs. However, it is critical that it is accompanied by the development of the framework for improving a government's department's income diversification.

2.2.Pillar 2: Income Diversification

Income diversification refers to the process of developing an array of the sources of income for the government. 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. It is therefore critical for government departments to become more creative and innovative in the development and implementation of a combination of different innovative programmes that generate incomes (Ball, 2007). Some of the major sources of government incomes are often linked to revenues collected in forms of taxes. In other words, taxes are the common sources of government revenues. However, considering the increase in the service provision initiatives and government programmes that must be financed, sole reliance on taxes as the major source of incomes is often the major causes of why most of the government departments are not financially sustainable. For government departments to be sustainable, sources of income must span across taxes to encompass development of services and products that can be sold to the communities (Padilla, Staplefoote & Morganti, 2012).

In most of the high performing economies, such initiatives have often been undertaken by developing cost-sharing services so that governments do not just invest and waste their resources, but also become able to recoup some revenues. Some of the areas where cost-sharing services have emerged include education, hospital services, use of parks and roads. Cost-sharing influences the extent to which some of the major government services are able to become sustainable (Adams, Muir & Hoque, 2014:46). This is attributable to the fact that with cost-sharing, the government does not have to meet the full cost of providing public services, but only part of it (Padilla et al. 2012). This improves financial sustainability for the reasons that for as long as communities are willing to meet part of the costs of running such service outlets, the government is assured of the source of revenues. Besides taxes and developing cost-sharing services, the other sources of government revenues are often latent in the development of the government public enterprises in different sectors such as transport, agriculture and energy. Through these public sector enterprises, governments are able to generate funds that are not only used in the running of such enterprises, but also in the financing of other projects to generate new sources of funding.

However, challenges have arisen from the fact that in most of the developing countries, the effective management and performance of most of the public sector enterprises have often been undermined by corruption and political interference that lead to the deployment of less experienced and skilful political appointees. As the running and management of public sector enterprises are punctuated by such challenges, the running and managing of public sector enterprises tend to instead turn into the major sources of burdens that affect the financial sustainability of the contemporary governments. The implications are often latent in the fact that as governments seek for solutions to improve the sustainability of public sector enterprises, they have often opted for privatisation. Privatisation is the sale of major government entities to ensure that they are entrusted in private hands to run efficiently. As privatisation of public sector enterprises are undertaken, governments tend to turn to taxes as the major sources of government revenues. Taxes depend on the performance of the business and therefore it is often an unreliable source of revenues. Although investment in array of different government projects is a prerequisite for income diversification, challenges often still arise from lack of motivation and incentives for more creative employees in the public sector to innovate and diversify the sources of income (Adams et al. 2014:46). Such circumstances affect income diversification and improvement of the financial sustainability of the contemporary government departments. Nevertheless as governments seek to improve income diversification as one of the pillars for improving financial sustainability; it must also be accompanied, by the improvement the nature of financial management and administration.

2.3.Pillar 3: Financial Management and Administration

The overall effectiveness of financial management and administration is one of the pillars that predict the effectiveness of financial sustainability in the contemporary public sector organisations (Baret, Hida, Hatfield & Sandford, 2013). Financial management is a process of planning, organising and controlling the process for the generation and utilisation of the available public financial resources in the implementation of different government programmes. Financial management therefore facilitates the effective and efficient development of different programmes to generate the required funds. It edifies the implementation of the strategic financial plan that which is a framework outlining critical activities for the generation and utilisation of the relevant public resources (Baret et al. 2013). When used in conjunction with the establishment of an effective public financial administrative system, it can edify the efficiency of the process for the utilisation of public resources. Financial administration on the other hand is a process of controlling and putting in place the necessary mechanisms to effective generation and utilisation of the available public finances. It is through sound financial management and administration that government departments are able to translate the process for the implementation of the strategic financial plan into practical and tangible realities that influence the change and transformation of the socio-economic living conditions and standards of the population (Baret et al. 2013). To enhance the achievement of the desired public values, public financial management and administration is often integrated with the necessary control and accounting improvement measures. It also involves the exercise of the oversight roles and the upholding of the principles of good governance which are outlined in King 1, 11 and 111 to encompass transparency, responsibility and accountability.

However, challenges have often still arisen from the lack of the critical skills in the fields of accounting and financial management (Bergmann & Grossi, 2014:90). Insufficient accounting and financial skills in the public sector affects the development and application of the necessary critical accounting skills to optimise the limited public finances and improve the overall financial sustainability of the contemporary public sector organisations. As most of the public sector organisations in the developing countries struggle to deal with the issue of lack of sufficient accounts and financial experts, they have often opted for the use of the externally hired consultants and experts. Although such a strategy edifies the filling of the skill gaps, challenges usually arise from the fact that private external accounts and financial consultants are usually too expensive.

Exorbitant fees charged by private accounts and financial consultants often tend to reduce the financial bottom-lines of most of the public sector organisations, and in turn subsequently undermine their financial sustainability (Bergmann & Grossi, 2014:90). This is attributable to the fact that in most of the cases, the accounts and financial experts are hired not to innovate and develop revenue generating programmes that can be adopted by public sector organisations, but merely to facilitate the strategic planning and the utilisation of the already generated revenues. To counter some of the weaknesses of public finance management and administration, some of the high performing public sector organisations have often opted to developing and improving the internal accounting and financial measures and improving the internal skills and competencies of the accounts and financial staffs. However, even if the effectiveness of public finance management and administration improves, it is often not only the public finance management and administration which is a critical determinant of financial sustainability, but also its linkage to the capabilities of the public sector institutions to conceptualise and generate own sources of income.

2.4.Pillar 4: Own Income Generation

It is the fundamental reasoning that financial sustainability of the contemporary public sector organisations depends on the extent to which they are able to generate own income. This is attributable to the fact that financial sustainability of a public sector organisation depends not only on how the existing public finances are effectively utilised, but also on the generation of enormous new sources of income (Birney, Clarkson, Madden, Porritt & Tuxworth, 2010). The embracement of pillar four that deals with the generation of own incomes therefore supplements the utilisation of pillar two of financial sustainability that deals with income diversification. In the application of pillar four, some of the sources of public finances that have been invented include; the initiation of contributions to trusts or endowment funds, fundraising for institutional building and operations, income generation through public contributions, income generation by selling goods or services, business developments, income generation by effective financial management, and strategic partnerships and alliances with corporate. Income generations through establishment of a trust or endowment funds is often accomplished by developing a trust fund and encouraging pledges to be made (Birney et al. 2010). Such funds are often deposited on interest bearing accounts to generate more funds that can be used to supplementary the consolidated budgets of the selected government department. Such it supplements the existing government budgets, trust or endowment funds therefore contribute enormously towards the improvement of the financial sustainability of the contemporary public sector organisations. This is often accompanied by the development of fundraising schemes where using largely political connections and links with the communities, the government department organises fundraising to finance certain specific projects (Birney et al. 2010).

Although fundraising is a one off, it can still help supplement the budgets of certain projects. In that regard, it contributes enormously to cost savings that in turn impact positively on the improvement of financial sustainability in the contemporary public sector organisations (Bouchal & McCrae, 2014). Besides fundraising, the other strategy for generating own income to improve the financial sustainability of a government department is often linked to contributions from the public. Through schemes, the government may encourage wealthy individuals to contribute funds in return for tax concessions. Although it is unreliable as it depends largely on the individual will, it is often one of the strategies generating additional funds that can improve on the financial sustainability of a government department. In contrast to contributions where the government has to rely on the will of the individuals, income generation through sales of goods or services is often more reliable (Bouchal & McCrae, 2014). This is because the government department may either generate new goods and services that it sells, or it can establishment an effective asset management system through which the existing assets are effectively managed and later sold during replenishment. Although such a mechanism contributes to the enlargement of the government sources of revenues, challenges often still arise from underselling the assets by the government officials to themselves. Such situations affect the generating of sufficient funds to influence the improvement of financial sustainability. However, whereas some of the sources of revenues may be developed by establishing government owned businesses, the other strategies involve undertaking effective financial management so as to improve cost savings and generate more revenues (Burritt, Thoradeniya & Chika Saka, 2005). Such initiatives are often accompanied by strategic alliances with the corporate to develop specific initiatives that enlarge the sources of government revenues

3.Methodology

The study uses the qualitative-exploratory research to discern how Leon’s (2001) four pillars of financial sustainability can be used to leverage the financial sustainability of the South African local government department. This entailed the use of three main processes that included the analysis of Leon’s (2001) theory on financial sustainability, the evaluation of the applicability of Leon’s (2001) theory of financial sustainability in the South African local government, and recommendations on how Leon’s (2001) theory of financial sustainability can be used to leverage financial sustainability of the South African local government department. The analysis of Leon’s (2001) four pillars of financial sustainability examined four pillars of financial sustainability that encompass strategic financial planning, income diversification, sound financial management and administration, and income generation. This was followed by the evaluation of the applicability of Leon’s (2001) theory of financial sustainability in the South African local government vis-à-vis the existing the existing approaches as well as challenges for bolstering financial sustainability in the South African local government department. This created a background for discerning how Leon’s (2001) theory of financial sustainability can be used to leverage the financial sustainability of the South African local government department. The details of the findings and discussions are as follows.

4.Findings

Basing on Leon’s (2001) theory of financial sustainability, findings are presented and discussed in this section according to the four pillars of financial sustainability that encompass strategic financial planning, income diversification, sound financial administration and management, and own income generation. The details of the findings are as follows.

4.1.Strategic Financial Planning

Strategic financial planning edifies the prioritisation of the activities critical for improving the sustainability of a public-sector organisation. It outlines the critical investment programmes and projects that must be undertaken to generate funds and improve the overall financial sustainability of the government department. It provides guidelines and directions on the initiatives that must be undertaken to achieve the financial sustainability objectives. The analysis of the flexibility of the adopted strategic financial plan must also be accompanied by the analysis of the extent to which such strategic financial plans are linked to the other government policies and integrated development plans emphasising the need to improve the sustainability of a government department. As on the other hand, the indicators of income-generating activities would explore the extent to which a government department has invested in an array of revenue generating activities. It examines the extent to which not only investments are undertaken on critical specific revenue generating projects, but also how the executives in the government department has been able to network and develop a network of critical donors that are prepared to support an array of different revenue generating projects. Such analysis often entails the evaluation of the extent to which the sources of government revenues are diversified so that in case, there is a shortage of revenue generation from one source, the revenues from the other sources can be engaged. That is what financial sustainability refers to. Such view seems tandem with facts emerging from the analysis of the findings in which it is noted that it is strongly emphasised in the MFMA that the improvement of the financial sustainability of the municipalities would require strengthening the municipal planning and budgeting process. This is attributable to the fact that it is through planning that the municipal authorities are able to discern how the existing resources can be optimised to achieve the outlined key priorities. Municipal planning and budgeting may not only require determining how to utilize thee available revenues, but also how to generate new sources of revenues to influence the extent to which the municipality is able to its present as well as future needs and demands.

According to the MFMA Circular, the effectiveness of the municipal planning and budgeting depends on the extent to which it is accomplished according to the cycle processes encompassing a planning phase, preparation phase, tabling and public consultation phase, revision and debate phase and implementation phase. As on the other hand, the national development plan offers critical strategies for the development of a sustainable South African government. It outlines critical priorities and directions that would influence the guide the local government departments and municipalities on the directions and critical activities that they must be accomplish to become wholly sustainable. These critical priorities and directions are reflected in the national development plan’s strategic plan that serves to achieve four broad objectives encompassing the provision of the main goals that the South African government aims to achieve by 2030, building key obstacles to the effectiveness of the process for the implementation of the national development as well as the other critical strategies that can be used to overcome such obstacles. The other fundamental objectives of the national development plan entail the creation of a framework and the basis of thinking that can enable the effective utilisation and optimisation of the existing limited public financial resources. It is on that basis that the implementation of the national development plan would aid improvement of the financial sustainability of the local government department. This is attributable to the fact that as the local government department strives to achieve some of the critical objectives and goals of the national development plan, then such quests often create the impetus for local government department to invest in areas of priorities that would not only minimise cost savings, but also the generation of the additional new sources of revenues. Cost savings arising from the implementation of the national development is accentuated in the fact that the national development agitates for investment in the socio-economic projects such as better health care facilities, better education facilities, housing and the living conditions and standards of living as edified by the constant provision of electricity and water.

4.2.Income Diversification

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. It is therefore critical for government departments to become more creative and innovative in the development and implementation of a combination of different innovative programmes that generate incomes. To pull resources that would be used in the financing of different developmental activities, SALGA uses a funding model that requires each local municipality to contribute 0.5% of the total salary and allowances budget, as district municipalities are expected to contribute 0.6% of the total salary and allowances budget. This contrasts with the approach used for the metropolitan municipalities in which each of the metropolitan municipality is expected to contribute a flat rate fee of 9.1 million per annum. In addition to the contributions from the municipalities, SALGA also raises funds through grants from the central government, donations and sponsorships from different public entities and non-governmental organisations. However, the challenge with this funding model is that it is not sustainable. This is further exacerbated by the fact that the contributions from the municipalities tend to be quite limited for SALGA to effectively meet its developmental obligations. The implications are often reflected in the fact that most of the collected funds are often only used for administrative purposes and not in the developmental activities that would generate further sources of revenues for SALGA.

At the same time, the South African local government has also been significantly encouraging the local government departments and municipalities to invest in the income generating activities and projects. This is attributable to the fact that the increasing dependence of the local government departments and the municipalities on the donations and grants from the central government is increasingly turning to be unreliable and sustainable. The implications are latent in the fact that instead central government is encouraging municipalities to invest in new sources of revenues. Of recent, local government has been investing in the development of more effective local economic development departments in every municipality. The roles of these local economic development departments are to conceptualise and develop new revenue generating projects on which significant investments can be committed to spur and stimulate the development of the sources of revenues through taxes. This is accentuated in the fact that increasingly, municipalities are being required to be innovative and developmental to initiate and develop new revenue generating projects. This is because the expenditures of the central government department is too large to the extent that even if grants are made available to the municipalities, quite often, such funds have not been adequate. At the same time, the government is over-indebted with the effect that by the year of 2016/2017, the estimated deficit is 170.5 Billion. With this high level of indebtedness, the government is reducing its borrowing rate to imply that the municipalities must look internally for the sources of revenues. To accomplish this, some of the municipalities have been developing policies and strategies that isolate programmes and projects in the key command sectors of the municipal economies such as manufacturing, agriculture and tourism.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. It is therefore critical for government departments to become more creative and innovative in the development and implementation of a combination of different innovative programmes that generate incomes. Some of the major sources of government incomes are often linked to revenues collected in forms of taxes. In other words, taxes are the common sources of government revenues. However, considering the increase in the service provision initiatives and government programmes that must be financed, sole reliance on taxes as the major source of incomes is often the major causes of why most of the government departments are not financially sustainable. For government departments to be sustainable, sources of income must span across taxes to encompass development of services and products that can be sold to the communities.

4.3.Sound Financial Administration and Management

Financial management facilitates effective and efficient development of different programmes to generate the required funds. It edifies the implementation of the strategic financial plan that which is a framework outlining critical activities for the generation and utilisation of the relevant public resources. When used in conjunction with the establishment of an effective public financial administrative system, it can edify the efficiency of the process for the utilisation of public resources. Financial administration on the other hand is a process of controlling and putting in place the necessary mechanisms to effective generation and utilisation of the available public finances. It is through sound financial management and administration that government departments are able to translate the process for the implementation of the strategic financial plan into practical and tangible realities that influence the change and transformation of the socio-economic living conditions and standards of the population. To enhance the achievement of the desired public values, public financial management and administration is often integrated with the necessary control and accounting improvement measures.

To leverage cost savings and create extra financial resources, most of the municipalities have been engaging in efficiency improvement as strategies for cost minimisation to unlock enormous cost savings. Through these cost savings, municipalities would be able to eliminate wastes and leverage their overall financial bottom-lines to tackle other challenges. In this process, the starting points for most of the municipalities have often entailed the development of an appropriate municipal integrated development plan. This is attributable to the fact that the use of the appropriate integrated municipal development plan enables municipalities conduct relevant analysis so as to identify critical areas of priorities that the attention must be directed. As areas of priorities are identified, it becomes easier for the municipalities to direct most of the resources to the areas that the customers value most.

This enhances waste minimisation on the basis that resources are not wasted on the areas that the populations do not attach much significant importance. In the process of accomplishing this, it is not only the municipal integrated development plan which is the major determinant and guide of the process of resource allocation. Instead, some of the municipalities often emphasis that basing on the key areas highlighted in the integrated development plan that an appropriate budgeting process is undertaken. The use of an appropriate budgeting process improves the process of resource allocation to minimise the overall risks of resource wastage (Paradza , Mokwena & Richards, 2010). Subsequently, save costs occur in all areas, it subsequently translates into the improved financial capabilities of the municipalities to not only respond to their existing financial obligations, but also the emerging future financial obligations. However, some of the challenges affecting the improvement of the financial sustainability of most of the municipalities are often still 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 (Plinio, Young & Lavery, 2010:172). 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. To avoid the frequent emergence of such political scenarios, it is often important to constantly analyse and sense the probability of the emergence of such risks and development of contingent plans to deal with such challenges when they emerge. Although it is often easier to identify and detect the symptoms of such volatile political changes, it is often for the municipalities to avert all of them. In other words, this demonstrates the extent to which the emerging new political changes and trends can cause the emergence of new situations that affect the capabilities of most of the municipalities to effectively deal with such new trends and dynamics.

4.4.Own Income Generation

It is the fundamental reasoning that financial sustainability of the contemporary public sector organisations depends on the extent to which they are able to generate own income. This is attributable to the fact that financial sustainability of a public sector organisation depends not only on how the existing public finances are effectively utilised, but also on the generation of enormous new sources of income. The embracement of pillar four that deals with the generation of own incomes therefore supplements the utilisation of pillar two of financial sustainability that deals with income diversification. In the application of pillar four, some of the sources of public finances that have been invented include; the initiation of contributions to trusts or endowment funds, fundraising for institutional building and operations, income generation through public contributions, income generation by selling goods or services, business developments, income generation by effective financial management, and strategic partnerships and alliances with corporate. In terms of the trends on the initiatives undertaken to boost revenue generation by the South African department of local government, Section 151(3) of the 1996 Constitution of the Republic of South Africa requires municipalities to constitute relevant structures which are not only critical for their effective management and administration, but also for the delivery of critical socio-economic services. Such socio-economic services include education, health, water and sanitation and infrastructure essential for improving the attractiveness of the municipality’s environment. The other functions are linked to assisting low income households to access basic services, sustaining the municipality’s operation, training and developing the capacities of the officials to run the municipality more efficiently.

However, to accomplish these, funds provided by the central government remains the major source funds for sustainably delivering on such functions. The funds provided by the central financial grant system is in line with the provision of Section 227 of the 1996 Constitution of the Republic of South Africa that prescribes that every municipality is entitled to the share of national revenue so that they can be able to effectively accomplish their various socio-economic services. However, as such funds are being offered, the Division of Revenue Ac 2005 requires such funds to be equitably distributed by national, provincial and local government. In effect, the amount that each municipality obtains from the central grant system depends on the amount of funds that it collects from its own sources. That implies relatively poor municipalities with limited sources of revenues tend to get more funds as compared to the municipalities in richer economic regions that tend to draw a lot of revenues from their own sources. In addition to the amount of funds raised from own sources, the other determinants of the amount of funds allocated to each municipality are often linked to the low revenue municipality's population size, the cost of basic services and the extent to which the overall required expenditure of the municipality exceed its revenues.

In the disbursement of relevant grants to the nine provinces and the 257 municipalities, the common types of grants that are offered include municipal infrastructure grants (MIG), municipal urban settlements development grants, municipal water infrastructure grant, national electrification programme grant, municipal capacity building grant and rural households infrastructure grant. However due to the emphasis of the developmental state approach to governance, most of the socio-economic services such as education and healthcare are offered for free to the citizens. The provision of these services for free even after 20 years of independence places significant financial burden on the state. Even if the local government department was to place significant emphasis on revenue generation, it seems only the metropolitan municipalities would be able to identify new sources from which revenues can be generating. This is attributable to the fact that most of rural local municipalities are less productive municipalities because of low economic activities. This low level of economic activities is further affected by limited investments in the economic activities such as agriculture and tourism activities that are often suitable for rural areas. Limited investments in the promotion of socio-economic activities such as agriculture and tourism is caused by the fact that considering the limited funds that local municipalities receive from central government, most of them are often not left with sufficient funds to invest in such activities. Hence, the implications are often latent in the fact that economic activities such as agriculture and tourism are not widely promoted amongst the population. Such poor promotion affects the extent to which a majority of the people in rural areas is able to engage in agriculture and tourism related economic activities to boost the economic performance of the rural municipalities.

Yet, as such poor economic performance of rural municipalities affect generation of additional sources of income, the other major constraints of developing financially sustainable local government have often been reflected poor capacity of the municipalities to initiate and implement different socio-economic income generating projects across different municipalities. Quite often, if such socio-economic income generating projects are to be initiated, then, the roles and functions performed by councillors as community leaders are of critical significance. However, it has often emerged that it is not only the challenges of lack of skillful leaders that wards struggle with, but also lack of resources, training and equipment necessary for the implementation of different community programmes. Limited financial resources undermine the extent to which councillors and ward committees are able to effectively accomplish different activities. This is attributable to the fact that most of the councillors and ward committees operate without the existence of appropriate infrastructure and housing as offices.

4.5.Managerial Implications

Strategic financial planning is one of the four pillars that the local government department will have to consider in the initiatives for developing a financially sustainable local government. The development of an effective strategic financial plan will clarify the direction and the critical activities that the local government department will have to accomplish to develop a financially sustainable local government department. To achieve that, the process of strategic financial planning will require the application of four steps encompassing environmental analysis, setting of the financial sustainability goals and objectives, developing and applying the strategies for leveraging local government financial sustainability and evaluation and undertaking the necessary corrective improvement measures. Environmental analysis would entail the analysis of the changes in trends such as population growth as well as the likely present and future expenditures. As this analysis aids understanding of the extent to which the generated revenues will be adequate for financing all the governmental needs, it is also critical to assess the adequacy of the existing sources of funds. This must be accompanied by the analysis of the new sources of funds that more investments need to be committed on. Setting of the financial sustainability goals and objective would require the setting of goals that involve outlining the time period against which significant local government dependence on debts and borrowing will be completely eliminated. As on the otherhand, developing and applying the strategies for leveraging local government financial sustainability would require the development of a combination of government businesses in conjunction with commercial activities undertaken through public-private initiatives to boost the overall level of revenue generation.

The implementation of such strategies must be accompanied with constant evaluation and application of the corrective improvement measures to ensure that the objectives and goals of developing a financially sustainable local government are achieved. The development and application of such a strategic financial plan must be accompanied by investment in the activities that facilitate income diversification. Income diversification is the second pillar for local government financial sustainability. Income diversification would require local government not only to depend on central government grants, borrowing and donations, but also on the incomes generated through investment in the required critical commercial activities. Part of such initiatives for income diversification may require local municipalities to invest in the development industrial, commercial and residential properties that can be rented out. However, as enormous funds and revenues are generated, it is critical to note that sound financial administration and management is of essence for eliminating wastes to leverage the maintaining of the overall financial sustainability of the local government department. Yet, as the local government department invests in income diversification, it is also likely that it would bolster own income generation as the fourth pillar for financial sustainability. Although these four pillars would create foundations that spur the improvement of the overall local government financial sustainability, it is still critical that it is accompanied by certain three foundational constructs of local government financial sustainability.

Conclusion

Despite its essence for bolstering financial sustainability, the question as to the model for leveraging local government financial sustainability still remains elusive in most of the contemporary studies on financial management in the local government sphere. This research attempted to address this gap by evaluating how Leon's (2001) four pillars of financial sustainability can be used to bolster local government financial sustainability. To bolster local government financial sustainability, it is argued that local government managers must consider using Leon's (2001) four pillars of financial sustainability that encompass strategic financial planning, income diversification, sound financial administration and management, and own income generation. However, future research can still explore the challenges of developing a financially sustainable local government sphere.

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