



**Towards financial guidelines for sustainable quality
service delivery for B-Class municipalities in the
West Rand, Gauteng**

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According to Nelson Mandela, “There are so many men and women who hold no distinctive positions but whose contribution towards the development of society has been enormous” (Pal, 2016).

Collin Powell said “Leadership is solving problems. The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help or concluded you do not care. Either case is a failure of leadership” (Hillman, 2015).

ABSTRACT

Service delivery and infrastructure development are the key issues that category B municipalities throughout the country are grappling with. The communities have lost patience with the government's promises of a better life for all since the first democratic elections in 1994. The root causes of these unfulfilled promises are manifold, and they continue to disappoint communities while they keep on voting for a ruling party, as if desperately hoping for a miracle. The challenges facing local government relating to service delivery, infrastructure development, management of working capital and rewards for municipal executives are detailed in this study with recommendations that can assist category B municipalities to drastically improve current conditions.

The current management strategies and skills are not sufficiently effective, making it difficult for B-Class municipalities to deal with challenges in a proactive rather than a reactive manner with the latter appearing, to all intents and purposes, to be mainly unsuccessful. The primary objective of this study is to develop financial management guidelines that will ensure sustainable quality service delivery and infrastructure development for B-Class municipalities in the West Rand district of the Gauteng province.

The secondary objectives of this study are:

- i. To consider guidelines for effective and efficient allocation of investment funds to meet IDP and other strategic objectives (a guideline that will ensure that optimal value is added to communities in the long term);

- ii. To develop guidelines to manage operating capital for sustainable financial viability; and
- iii. To develop guidelines from a financial perspective that will contribute to a culture of excellent performance and rewarding for best performance.”

The study is presented in a series of three articles with each article related to a specific secondary objective.

The empirical study measured business success and failure variables on a four-point Likert scale from a sample comprising class B municipal executives, management, councillors and provincial government as stakeholders. Two hundred and seven (207) questionnaires were received from the respondents of class B municipalities in the West Rand of Gauteng province in South African, namely Merafong City Local Municipality and Mogale City Local Municipality as well as from the Gauteng Provincial Treasury.

The results show that six independent organisational success variables could be identified from the literature, namely: infrastructure investment; delegation of authority; credit control; inventory management skills; executive rewards strategy and community consultation. The dependent variables are infrastructure development; funding allocation; corruption; compliance to legislation, revenue collection and performance management. The criteria that measured each of the variables were determined and the variables, together with their measuring criteria, were integrated into a structured questionnaire for use by the selected sample individuals in the class B municipalities and the other stakeholders.

The data was tested for reliability using the Cronbach Alpha coefficient, the questionnaire was validated using the Kaiser-Meyer-Olkin test for sample adequacy and the use of the exploratory factor analysis method, was validated using Bartlett's test of Sphericity. The results obtained indicated that the questionnaire is valid for use to measure business success and failures in the local sphere of government in Gauteng province's West Rand region in South Africa. The results validated the identified variables, while also showing that some of the variables were dualistic in nature. Some variables were discarded due to unsatisfactory reliability coefficients.

The descriptive statistics were used to depict the organisational success or failure of class B municipalities in the West Rand of Gauteng province in South Africa. The mean results for organisational success or failure to develop infrastructure and allocate funds to infrastructure development in as far as the above-mentioned municipalities are concerned, portrayed a general dissatisfaction (results below the parameters of 60 percent). This suggests that a lot still needs to be done in the class B municipalities, specifically in the Gauteng province in South Africa, to achieve infrastructure development investment goals. This reflects the relevance and the importance of research underlying the successful measurement of an organisational approach. The findings revealed that variables that have the least bearing or effect on organisational success have mean results of below 0.5. On the other hand, the organisational success in infrastructure investment, community consultation and executive rewards strategy for class B municipalities reflect the highest mean results of 2.63, 2.70 and 2.71 respectively, requiring the implementation of recommendations as an urgent matter of intervention. All the identified variables require management attention in this regard.

Other important recommendations are also made. Investment in promoting attitude and mind-set changes and encouraging excellent customer services are vitally important for a successful organisational turnaround. The appointment of qualified and experienced municipal councillors, executives and management will boost public confidence in their ability to understand their roles and responsibilities and what is expected of them in terms of service delivery and infrastructure development. A culture of service excellence needs to be created among all the relevant parties to strengthen and improve municipal competency. There is also a need to explore performance reward schemes and systems for executives in other industry sectors in order to address the shortcomings identified in this study. Open communication and financial viability are equally important in promoting organisational success and improved public confidence. The communication with the public and other stakeholders using the latest technology, will help municipalities to stay relevant and keep ratepayers and consumers abreast of any planned developments or changes coming their way. In this way, resistance to change arising from a lack of or delay in communication can be overcome (Chummun, 2012). Lastly, there is a need for review by the Department of Cooperative Governance and Traditional Affairs (COGTA), of municipal legislation pertaining to executive's rewards and municipal councillors' minimum educational and managerial experience.

Keywords:

Infrastructure development, infrastructure investment, corruption, quality service delivery, compliance to legislation, revenue collection, credit control, working capital management, performance management, inventory management skills, executives' rewards, reliability, factor analysis, theoretical model.

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ABBREVIATIONS

ACP	Average Collection Period
AFS	Annual Financial Statements
AG	Auditor - General
APP	Average Payment Period
COGTA	Cooperative Governance and Traditional Affairs
DBSA	Development Bank of South Africa
DME	Department of Minerals and Energy
EFA	Exploratory factor analysis
ES	Equitable share
FBS	Free Basic Services
HSG	Human Settlement Grant
IDP	Integrated Development Plan
INEP	Infrastructure National Energy Programme
KMO	Kaiser-Meyer-Olkin
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act
MPR	Municipal Performance Regulations

MPRA	Municipal Property Rates Act
MIG	Municipal Infrastructure Grant
MMC	Members of Mayoral Committee
MSIG	Municipal Systems Information Grant
NWC	Net Working Capital
PAC	Performance Audit Committee
PPP	Public Private Partnerships
RDP	Reconstruction and Development Plan
SA	South Africa
SALGA	South African Local Government Association
SDBIP	Service Delivery and Budget Implementation Plan
SMART	Specific, measurable, attainable, realistic and timely
VBM	Value based management

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

This study is presented in an article format, with three articles covering the following:

- a) Infrastructure development on service delivery;
- b) Funding allocation and working capital management on infrastructure investment; and
- c) Performance and rewards management.

Local government is aptly defined as a sphere of government located within communities and it is appropriately placed to respond to the needs, interests and expectations of communities. Opinions regarding local governments are found in the following expressions:

- Local government is at the coalface of public service delivery (Van der Waladt, 2006:41);
- Local government is the government closest to the people; and
- Local government is the first point of contact between an individual and a government institution (Thornhill, 2008:492).

Being the government closest to the people, it is expected that a core function of municipalities is the rendering of a variety of basic but essential services to the community within its jurisdiction (Roux, 2005:64).

In the “Apartheid era” traditionally the main functions of the then “white” local authorities included construction and maintenance of roads, supply of water and electricity, provision of Council housing, traffic control, refuse removal or collection, health services, public library services, museums, fire-fighting services, licensing of motor vehicle and businesses, sewerage, cemeteries and crematoria, ambulance services, storm water drainage, provision of parks and sports grounds and public transport.

Under the above-mentioned dispensation public protection, education and welfare were not functions of local government (Cloete, 1986: 54-66). During that time, it was noted with some satisfaction, that the former municipal functions had remained almost unchanged for over a century.

The main revenue sources of the “white” local authorities in the dispensation prior to 1994, were rates on fixed property as well as income from trading services such as electricity and water. The 1978 financial statistics revealed that rates provided 16.3% and trading services provided 55.9% of revenue at the time. Grants from government provided 4.2% of the operational and capital expenditure (Solomon, 1983: 23).

Currently and “...contrary to the situation of stability described above the local government sphere in South Africa is expectedly after almost 20 years of a new political dispensation undergoing change”. It is a process of transformation which includes implementation of new legislation and being aware of draft legislation and policies designed to govern municipal administration, management in general and municipal financial administration (Pauw, Woods, Van Der Linde, Fourie & Visser, 2009: 253).

Relating to municipal financial administration and management there are three approaches; one very relevant to the issue under consideration is the so-called limited *resources approach* of which the main considerations are:

- Municipalities cannot be of service to clients and the community without having money to cover operational and capital expenses required to deliver services. It implies that municipalities have to generate money by levying taxes and service charges for services provided within its municipal boundaries. Another source of income for municipalities is government transfers (grants), and given that this is taxpayer's money, it obligates municipalities to effectively manage these funds for optimal service delivery to communities (Pauw et al, 2009: 255).
- According to Pauw et al, 2009 municipalities must have the capacity to raise and generate adequate revenue to be able to render quality services. This requires resources such as skilled and qualified labour, and a credible financial system that will ensure that the funding of assets and projects are in line with the municipal strategic objectives and the Integrated Development Plan (IDP). On a more operational level it should ensure that billing is done correctly, accurately and on time. Additionally, credit control and debt collection policies have to be implemented in a consistent manner in order to ensure that monies due to municipalities are collected.
- Poor people such as the unemployed, pensioners and child-headed households, known as indigents in the municipal context, are mostly accommodated in terms of the funding of services to the poor households through the equitable share allocation received from the national government

for the provision of free basic services such as, six (6) kilolitres water and fifty (50) kilowatts of electricity per month respectively (Pauw et al, 2009:255).

Financial viability is a key demarcation criterion and is often associated with economies of scale arguments. In a local government context, it is almost conventional wisdom that a local government unit needs to be of certain minimum size if it is to have a tax base big enough to enable it to be financially viable (Rondinelli, 1984: 64-69).

Mawhood (1993: 10) specifically indicates that from a financial point of view, large-sized units of local government with sufficient financial resources are needed to provide the necessary public services.

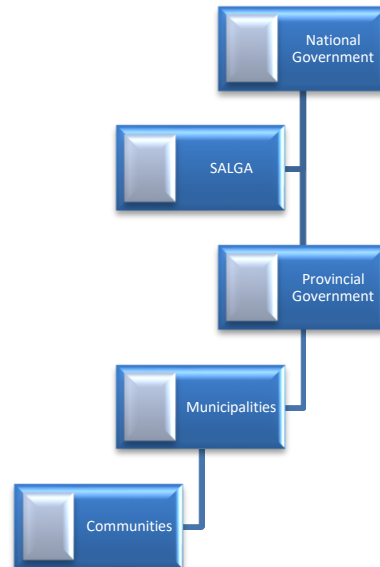
Combining smaller, poorer municipalities with larger units will however, not necessarily lead to more financially viable municipal units; on the contrary, it can lead to a magnification of poverty. A specific reason is that the “customer base” does not necessarily increase with the amalgamation of municipalities. Also, bigger municipalities do not necessarily lead to improved management or a scaling down of activities, where fewer services need to be rendered to the community, nor necessarily, increased productivity. The inability to scale down on the number of municipal employees or to improve management or both, is a concern, specifically in the context of a relatively small “customer base” in relation to the number of people in the community. The concern is material, specifically because the intention of mergers mostly is to create true economies of scale which, as already indicated, are a necessary condition for the creation of financially viable municipalities.

In an effort to maintain sufficient cash flow or financial viability, proper collection procedures for services rendered are vital but too often overlooked which is a

problem. Such procedures include issuing statements of accounts on time to all ratepayers and consumers. After expiry of the due date, notifications should normally also be sent out as a reminder that the account is still due and if not paid within a given period, could result in electricity services being disconnected. Consumers also need to be urged to pay immediately to avoid such disconnections of services. The latter is probably even more essential for the “smaller” municipalities.

According to Jones & Stewart (1982: 96 - 98) local authorities should avoid being dependent on grants as a significant source of income, since it weakens and confuses the need for councillors to be answerable to the community. Grants in this case may arguably therefore, tend to allow councillors to use limited grants funding as an excuse for lack of infrastructure development in their communities. It is common cause that councillors are elected by the community to serve the interests of the community and that councillors, therefore need to be answerable to the local electorate. If not, what then is the function of councillors? Councillors should always serve communities interests diligently. In cases where grants are the main source of income, councillors may feel that they are increasingly obliged to account to the grant provider or the political parties in the community, especially at that time of the year when decisions have to be made regarding the raising of taxes to finance the budgets (Jones et al, 1982: 98).

Figure 1.1 Relationships between spheres of government and communities in South Africa



The above model depicts the relationship between the spheres of government from the top being National government, SALGA being a representative body of local government follows, provincial government which deals with provincial issues such as provincial roads, infrastructure, education, policing, health, etc. local government is represented by municipalities throughout the country which is the government closest to the people rendering services such as water and electricity provisions, municipal roads, traffic policing, environmental health, etc. Municipalities relies on grant funding from both national and provincial government. SALGA charges levies to municipalities. Later in the study, municipal sources of income will be discussed in detail.

Although it is accepted that municipalities may differ widely with regards to their potential revenue base due to, for example, historical and political reasons, a high dependency on grants could have an impact on their autonomy and enthusiasm with which municipalities generate their own-revenue.

In this regard municipal revenue simply becomes an extension of the national government's budgeted revenue. Furthermore, it could create problems such as the "flypaper effect" as explained by Oates (2008: 324). According to this view, grants may provide a far greater stimulus to public expenditure than an equal increase in revenue from own resources. This raises concern about the responsiveness of local government officials to the needs of the electorate, in terms of expenditure allocation.

High levels of grant dependency could promote fiscal irresponsibility and even instability at the national government level (Amusa, 2008: 75). In addition to the concern about the allocation of funds, the lack of accountability of local government officials has also been identified as a main contributor to increased levels of dependency on grants. According to Amusa, 2008: 265 - 283, this is known as the "soft budget" problem, where local governments overspend based on expectations that grants from central government will increase concomitantly.

The perception exists that there is little need to explore possibilities regarding the collection of more internal funds. Furthermore, in some cases one also has to consider there are corruption allegations levelled against municipal officials, who are seemingly protected by their principals to provide fiscal incentives to individuals and projects of their choice. In practice, it seems that such municipal officials or politicians, or both, are not held accountable for what is referred to as "soft budgets", meaning that they expect central government to bail them out should their budgets not balance due to overspending. Oates (2008:324) refers to this behaviour as the "raiding of the fiscal commons". Thus, the lack of clear targets regarding the collection of own-revenue creates a culture of transfer dependency (Schoeman, 2011:28).

While on the subject of accountability it is interesting to note that, even during the apartheid era, the principle of financial self-sufficiency applied to black townships. WLAs were required to keep special accounts - called Native Revenue Accounts - for black townships under their control (Bekker & Humphries, 1985: 119).

According to Bekker et al (1985), the major sources of revenue for the so-called national Revenue accounts were production and retailing of sorghum beer, liquor sales in the townships, levies on white employers of black labour in certain areas, and the payment to local authorities by township residents for various services rendered — mainly rentals and fees. The amount of finance raised from these revenue sources was minimal. These limited sources of revenue from these accounts were managed or used to sustain urban black townships, albeit in a deliberate state of underdevelopment (Bekker et al, 1985: 119).

After the 1976 riots in urban black townships, when the government of the day decided to improve facilities and services in these areas, it became clear however, that the revenue sources were inadequate (Welsh, 1979: 144). During this period there was, due to a variety of reasons including political dissatisfaction and poor service delivery, a strong resistance in the black communities against paying for municipal services were shown through various public protests. This led to a culture of non-payment for services in the townships, which became a major challenge for municipalities trying to render quality services to all communities - the problem of course, being that the required expenditure was far more than the “possible” revenue. Ultimately, the non-payment actions during that period, affected the financial viability of many municipalities. These actions led to the lack of municipal revenue to pay Eskom and Rand water for the electricity and water supplied in the municipal areas, resulting in huge municipal debt to date. It would have been nice

to claim that the culture of non-payment is a thing of the past. Unfortunately, however, one may be forgiven to argue that this culture, which arose before the 1994 era, is still with us today. (Welsh, 1979: 144). In fact, it is currently, one of the biggest challenges for municipalities in as far as revenue collection is concerned.

In the period since 1994, key changes with regard to management and revenue sources are still being investigated. The intention and the practicality are that the revenue sources throughout the country for municipalities are the same, owing to the amalgamation of municipalities (white suburbs and the townships). Revenue generation in the so-called township municipalities as previously indicated, namely sales of sorghum beer and levies on white employers, fell away. The only remaining revenue sources are property rates, income from trading services, grants, and a few less significant ones. As argued above, the culture of non-payment has also not changed, leading to a situation where it is difficult for municipalities, even under the post-1994 dispensation, to survive financially.

From a financial perspective, it is important that the municipal financial system and its functions support the Integrated Development Plan and other strategic plans (Municipal Finance Management Act, 2003). Local governments all over the world are perceived as the human face of government in general, since it is the form of government closest to the communities who expect basic and other services. It is therefore critical that municipalities have credible Integrated Development Plans (IDPs) in place to address developmental and operational responsibilities and to ensure that quality services are rendered to the communities. Although a variety of legislation, policies and procedures intend to align financial issues with the IDP and other strategic goals and objectives, it is clear from the literature that many

municipalities in South Africa are in financial “trouble” and do not meet the requirement of satisfactory service delivery to communities.

The Municipal Finance Management Act (Act no. 56 of 2003: Chapter 3) was developed to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government and to establish Treasury norms and standards for the same sphere of government.

This Act covers budgeting processes (Chapter 4), expenditure/ and revenue management as well as reporting requirements (Chapter 8). However, it is important to give guidance to municipal management and politicians on the importance of proper planning for the implementation of strategic goals that are translated into infrastructural projects from the IDP to the budget, where funding sources and timeframes for the spending such funds are clearly indicated. The Act lists the requirements that need to be adhered to, for developing an Integrated Development Plan and Budgeting, but leaves out “the how to do it” part which is crucial for enabling compliance to the applicable legislation. Most municipalities have developed policies to guide them on the “how to do it” part. National Treasury also designs Municipal Finance Management Act (MFMA) circulars which are labelled as a guide to implementation of the Act, but which leave most municipal officials still arguing on the right approach or way of implementation until the Auditor General’s annual audit, which often then, raises a substantial number of non-compliance issues.

VBM principles

(Koller, 1994: 87) describes VBM as focusing on better decision making at all levels in an organisation. VBM principles will be used in the articles of this study to foster and promote better decision making for the benefit of municipalities.

Using principles of VBM (Rappaport, 2006: 68), municipalities can maximise the community's wealth when taking strategic decisions and thereby ensure that value for money is created. Value based management provides managers with tools and techniques which support the development and implementation of value-creating strategies. It further offers incentives which encourage managers to realise only those strategies which create value (Koller, 1994: 305-360). Ryan & Trahan (2007:3) explain value-based management systems as attempts to accomplish organisational goals by providing managers with a set of decision-making tools that help differentiate between those alternatives that either create or destroy value, of which I share the same sentiments.

1.2 CONCEPTUAL DEFINITIONS

The following definitions are used throughout the study and are defined as follows:

- Municipal Finance Management Act (MFMA);
- Integrated Development Plan (IDP);
- Service Delivery Budget Implementation Plan (SDBIP);
- Child-headed household (CHH);
- Municipal Systems Act (MSA);
- Value based management (VBM); and
- South African Local Government Association (SALGA).

1.3 PROBLEM STATEMENT

Momoniati (2001: 2) outlined several shortcomings in local government finance in South Africa. Some of the most relevant issues include the following (numbers have been updated according to latest data available):

- a) Increasing reliance of municipalities on transfers from national government to fund activities, due to a lack of own-revenue effort and a lack of commitment to leverage private funding;
- b) The outstanding debtors of municipalities for which data is available shows an average increase of 10.9 percent per annum if the exchange rate effect is excluded;
- c) Actual expenditure by all categories of municipalities had been increasing annually by 13.3 per cent. This increase far exceeded the inflation rate and represents a sharp increase in real expenditures;
- d) Low levels of expenditure on repairs and maintenance due to the ease with which these expenditures can be deferred in favour of new capital projects or other operating costs. Two factors appear to underlie this problem. First, the under-pricing of municipal services relative to their true cost of delivery, including maintenance costs, and secondly, poor management practices in municipalities;
- e) Poor quality of data on provincial transfers to local government. Some provinces are not consistently gazetting their municipal allocations and it is safe to assume that they transfer larger amounts than what they are publishing. The fact that provincial transfers to municipalities have not been consistent is an indication of uncertainty on the part of provinces in relation to their planning, which in turn makes it difficult for municipalities to plan for this funding;

- f) Weak co-ordination between programs. The overall implication is that transfers are not yet reaching their potential in terms of comprehensively supporting economic growth and poverty alleviation;
- g) Programs to strengthen the capacity of municipalities remain fragmented and are difficult to evaluate. This is a significant problem, given the concern about capacity constraints in municipalities; and
- h) Probably one of the most serious problems at local government level is the proportionally high ratio of salaries to total operating expenditures (28.4 percent in the case of Metros and 35 percent in the case of Category B municipalities for which data is available). According to Momoniat the challenges faced by the municipalities at the lower end of the spectrum relate primarily to persistently high vacancy rates, which are greatly aggravated by poor management and poor governance.

Schoeman (2006: 117) argues that municipal fiscal sustainability in South Africa is under pressure. From a sample of twenty-seven municipalities, it was found that the average revenue collection period is in the range of 150 days and that the lag is on the increase. This translates directly into liquidity problems, increased short term loans, deficits and the accumulation of long-term debt. Another key finding of the paper is that the number of debtors in the sample and the provision for bad debt are on the increase as well. Even though operating revenue increases, expenditure growth exceeds revenue growth. Consequently, the dependence on short-term loans and government grants is on the increase in many cases. Although somewhat simplistic, the latter serves as a proxy for the ability of local governments to be sustainable in the longer term.

The financial systems, policies, procedures and functions within the current operating financial framework and performance management systems do not ensure

optimal or even satisfactory service delivery to communities, nor municipal financial viability. Funding, skilled management and political oversight is crucial for successfully delivering quality services to the communities.

1.4 RESEARCH OBJECTIVES

The following study objectives are focused on solving the problem as defined previously.

1.4.1 Primary objective

To develop financial management guidelines that will ensure sustainable quality service delivery and infrastructure development for B-Class municipalities in the West Rand district of the Gauteng province.

1.4.2 Secondary objectives

The secondary objectives of this study are:

- i. To consider guidelines for effective and efficient allocation of investment funds to meet IDP and other strategic objectives (a guideline that will ensure that optimal value is added to communities in the long term);

- ii. To develop guidelines to manage operating capital for sustainable financial viability; and
- iii. To develop guidelines from a financial perspective that will contribute to a culture of excellent performance and rewarding for best performance.

1.5 BUSINESS SUCCESS

The municipalities under review are being analysed, measured and scrutinised on how they do in terms of service delivery, infrastructure development, investment funding as well as performance management in order to ascertain their successes or failures in achieving their constitutional mandate of services delivery and infrastructure development.

1.6 RESEARCH METHODOLOGY

1.6.1 Research design

Quantitative research was used to try and identify relationships between variables when analysing the effects of infrastructure development, infrastructure investment, funding allocation, corruption, community consultation, delegations of authority, compliance to legislation, credit control, revenue collection, inventory management skills, performance management and rewards management, on the provision of quality services. Provision of quality services creates an enabling and conducive environment for inhabitants who are in turn, happy to pay for the services that they receive. Poor service delivery often results in public protests and infrastructure damage. The dependent variables are infrastructure development, infrastructure investment, funding allocation, corruption, credit control, revenue collection, performance management and rewards management. The independent variables are community consultation, delegations of authority, compliance to legislation,

credit control and inventory management skills. Strategic objectives contained in the IDP reflect infrastructural development plans and project investments that are designed to better the lives of the community at large as well as having a positive impact on economic growth.

1.6.2 Participants or data sources

Senior and middle management, senior financial and audit officials from the two local municipalities namely Merafong City and Mogale City, in the West Rand district of Gauteng province and senior management from stakeholders such as the Gauteng Provincial Treasury were drawn on. A sample size of at least two from a total of three municipalities in the above-mentioned West Rand region of Gauteng, was selected.

Municipalities were engaged to establish the similarities or differences in challenges faced owing to non-payment of services, unlimited needs of the community, infrastructure development and investment. This ultimately culminated in recommendations for the mitigation of such challenges and the sharing of best practices which can enhance the image of Local Government in South Africa and enable officials to execute their mandates — as enshrined in the Constitution — without having to rely on inadequate grants to render services and improve and maintain infrastructure used in the provision of such services. A few managers who are part of the participants were interviewed informally through an unstructured interview, and a questionnaire was sent to them via e-mail as well as hard copies for completion which contained structured questions.

1.6.3 Measuring instruments

Sampling was done by selecting two class B municipalities in the West Rand, Gauteng province as stated in point 1.6.2 above. This was done to enable the researcher to make relevant inferences about the total population of Gauteng's Class B local municipalities.

Normal sampling distribution was used to determine standard deviation, mean and the probability of an event occurring owing to certain influencing variables. On the other hand, non-distribution sampling was also used since this study has a specific purpose with a specific target.

1.6.4 (Statistical/ Data) analysis

To ensure the reliability of information, measurement of error was minimised by ensuring that errors caused by systematic differences in variables such as participants, were avoided.

Collected information was double-checked and statistical checks applied in order to minimise measurement errors. Data analysis systems (SPSS and Excel) were used in analysing collected information, statistically interpret the meaning of the findings from the collected questionnaires as well as determining correlations between variables.

Reliability of information was tested by related questions being asked differently to establish if the outcome or responses were constant, regardless of the manner in which a question was asked in different sections or parts.

1.6.5 LITERATURE STUDY

A large variety of books and published articles were used to gain an in-depth insight of the topic being researched. Questionnaires were distributed to the participating population which they completed, providing their views regarding the study on hand. The measuring instrument included questions set on a four-point Likert scale, consisting of forty questions under twelve variables which formed part of the one hundred and forty questions for the entire study. The statements' response continuum ranged from 1 to 4, where 1 = strongly agree; 2 = agree; 3 = disagree, and 4 = strongly disagree.

Data was then tabulated, primarily to determine the empirical distribution of variables from the questions and calculate descriptive statistics. A frequency part represents the number of responses received by each question (Sekaran, 2003).

The theoretical approach focuses on the research methodology used to validate the questionnaire. Therefore, the collected data was validated in order to determine the validity of the questionnaire.

1.6.5.1 Validity

Validity is the extent to which a test measures what it claims to measure accurately (Bisschoff, Kade. 2010). It is important for a test to be valid so that its results can be accurately interpreted and applied accordingly.

Construct validity is a concept used to validate research questions through scrutinising evidence presented for supporting the identified variables during the analysis. It assumes relationships between the test and measures of constructs (Chummun, 2012).

1.6.5.2 Reliability

Reliability is the consistency of the outcome of a measure on repeated use. For example, an instrument such as a questionnaire which produces different results or scores if tested under same conditions is considered having a low reliability (Field, 2007).

The questions on a questionnaire are designed to determine the reliability of the research data. Cronbach Alpha is a popular reliability statistic as published by the mathematician Cronbach in 1951. It determines the internal consistency of variables in a survey. An Alpha coefficient of 0.50 is sufficient for the further analysis of data. (Santos, 1992).

1.6.5.3 Factor analysis

Factor analysis is a tool used to minimise a large number of variables into few numbers. It extracts maximum common variances from all tested variables and place them into a common score for further analysis (Gorsuch, 1983). A factor loading of 0.40 is considered satisfactory even though the cumulative variance of sixty percent (60%) or more is considered to be acceptable. It's crucial that the questions from the questionnaire measure accurately what it is supposed to measure, which confirms validity (Bisschoff, Kade. 2010). For example, having four questions measuring variable one (infrastructure development). Data or answers obtained from such questions should confirm whether that factor relates to infrastructure development and if not, be discarded. Null hypothesis is generally a statement used when there is no relationship between two or more measured variables. Testing it gives an indication there are, or no grounds for believing that there is a relationship between the tested variables (Neyman, 2006).

1.6.5.4 Bartlett's test of Sphericity

The Bartlett's test of Sphericity is an indicator of the relationship strength among variables as well as the suitability of data to use in statistical techniques such as factor analysis. It examines if the variables are correlated or uncorrelated in the population being tested. This test is used to test the null hypothesis of variables in the population correlation matrix which are uncorrelated (Coakes and Steed, 1997).

According to Du Plessis, 2009, the acceptable significance level is 0.0001, which is small enough to reject the hypothesis. One may therefore conclude that the relationship strength among variables is strong, so that it would be acceptable to proceed with a factor analysis, since the data should yield a p-value smaller than 0.0001. This confirms that the inter-relationship between variables is sufficient for factor analysis (Du Plessis, 2009).

1.6.5.5 Kaiser-Meyer-Olkin (KMO) measure of sampling

KMO is a measure of sampling adequacy and an index for comparing magnitudes of observed- to the partial correlation coefficients (Mediaspace, 2007). This measure of sampling determines if a relationship between variables is strong enough in order to proceed with factor analysis and returns a value of between 0 and 1.

For values smaller than 0.5, the factor analysis of the variable is likely to be inappropriate, while a KMO value in excess of 0.5 but below 0.7 indicates that the factor analysis is reliable. Values between 0.7 and 0.8 are considered as good

whilst ones above 0.8 to 0.9 are seen as excellent. Values between 0.9 and 1 are seen as extremely good (Field, 2007).

The larger the KMO value, the more reliable the factor analysis is for that sample size (Du Plessis, 2009).

1.6.6 Ethical considerations

Participants were not vulnerable members and were informed that this study is conducted for research purposes. The study outcome will be published, to help stakeholders and the public at large understand the impact of poor planning or lack of integrated planning and non-payment of services on the successful development of communities. The relationship between financial viability and the need for improved service delivery, excellent performance and integrated planning by municipal officials in South Africa, is also made clear. The study did not induce any social stress or anxiety to participants. Participants were informed in writing through a cover page of the questionnaire that their responses will be kept confidential. Request to conduct the study was communicated by email to the respective accounting officers.

No payment was offered to participants and no students of any university were drawn on during the study. A follow-up evaluation was done towards the end of the study to ensure that the status quo remained the same and whether there were changes, for example high staff turnover and clean audits being obtained. There might be reasons for such a change and it is critical for the documentation of such new information to have a solid conclusion with sound recommendations.

1.7 CHAPTER DIVISION

This study is written in an article format. This means that it consists of five chapters consisting of an introductory chapter, three article format chapters and the final chapter that provides a summary of the study as a whole. A brief content of the chapters including article-chapters, is provided below.

CHAPTER ONE:

MUNICIPAL SERVICE DELIVERY THE BACKGROUND

This chapter outlines the introduction, the problem statement, objectives, research methodology, statistical techniques used and limitations of the study as well as the layout of the study.

CHAPTER TWO: ARTICLE ONE

A GUIDELINE FOR EFFECTIVE AND EFFICIENT ALLOCATION OF INVESTMENT FUNDS TO MEET IDP AND OTHER STRATEGIC OBJECTIVES

This article focuses on the importance of improving planning processes in municipalities to ensure: sustainable service provision and development, adequate payment levels and financial performance, compliance with relevant legislation governing integrated planning and revenue management, as well as the proper allocation of resources through the IDP, the budget and the SDBIP.

The focus falls on making strategic decisions that maximise expected value, even at the expense of reducing short term returns. An example in this regard is the prioritization of infrastructure projects over social projects, such as the building of an electric substation vis-à-vis a community hall, both projects with longer lifespans but different returns on investment and frequency of use. The best practices of those municipalities performing well, and the challenges faced by the ones who are struggling to make ends meet, are considered. The link between poor planning, huge public needs, non-payment or payment of services as well as poor or sound financial viability will be investigated. There is an enormous need to maximise revenue collection which will enable municipalities to be self-sustainable and financially sound. The aim is to develop guidelines that will ensure that optimal value is added to communities in the long term.

It seems that due to weak co-ordination between programs, the overall implication thereof is that funding from treasury has not yet reached its potential in terms of comprehensively, supporting economic growth and poverty alleviation. Low spending on capital expenditure funded projects, results in grants which are meant to be used for infrastructure development, reverting to Treasury. This is a major concern for all stakeholders.

Problem statement

Equitable and fair fund allocation to communities is a challenge since there are no formal guidelines that provide criteria for allocating funds when investing in infrastructure development in South African municipalities. Guidelines to deal with this matter will assist in ensuring that funds allocated to different projects within different areas can be justified based on specific criteria.

Main goal

To consider guidelines for the effective and efficient allocation of strategic investment funds to meet IDP and other strategic objectives. These guidelines will ensure that optimal value is added to communities in the long run.

Sub objectives

- To consider planning and funding alignment between national, provincial and municipal investment for optimal economic benefit; and
- To consider strategies to allocate funds effectively and efficiently.

Study population

Mayors, Municipal Managers (Accounting Officers), Chief Financial Officers and other senior managers from stakeholders such as Provincial Treasury.

Research method

The Quantitative research method, comprising questionnaires as well as other information including financial and strategic information, is used. Questionnaires are used to obtain information from the wider spectrum of involved persons. Other financial and strategic information is obtained from official documents such as Annual Reports, IDPs, SDBIPs and Annual Financial Statements of the municipalities under consideration and where necessary, from government departments involved with municipal management.

CHAPTER THREE: ARTICLE TWO

A FINANCIAL CONTROL GUIDELINE TO MANAGE OPERATING CAPITAL FOR SUSTAINABLE FINANCIAL VIABILITY

This article focuses on the identification of processes and procedures that need to be considered regarding the effective use of available funds in the implementation of the IDP and other strategic goals. This is to ensure that clean administration and sustainable service delivery is achieved by following approved and credible financial controls. It also deals with the management of operating capital to ensure that the available resources are optimally used and managed for sustainable service delivery and financial viability.

Problem statement

It is argued that applicable control mechanisms at strategic management level both in a financial and a more general context may be insufficient on their own to ensure sustainable service delivery by municipalities. There is a dire need to strengthen the technical and financial capacity of municipalities for achieving infrastructure development and rendering of quality services, as they remain poor. This is a significant problem, given the concern about technical and financial capacity constraints in municipalities. Operating capital management remains a challenge even though there are basic rules that should be adhered to.

Main goal

To develop guidelines to measure whether infrastructural investment funds are allocated effectively and efficiently for infrastructure development and the rendering of quality services.

To consider a Public Private Partnership (PPP) as an option to fund projects where teaming up with the private sector can be beneficial to all parties involved and which could potentially, result in significant future gains.

Sub objectives

- To consider whether operating capital is managed effectively; and
- To determine whether funds have been allocated and used efficiently.

Study population

Municipal Managers (Accounting Officers), Chief Financial officers (CFOs), senior finance officials and senior managers from Gauteng Provincial Treasury.

Research Method

The Quantitative research method, comprising questionnaires as well as other information including financial and strategic information, is used. Questionnaires are used to obtain information from the wider spectrum of involved persons. Other financial and strategic information will be obtained from official documents such as

Annual Reports, IDPs, SDBIPs and Annual Financial Statements (AFS) of the municipalities under consideration and where necessary, from government departments involved with municipal management.

CHAPTER FOUR: ARTICLE THREE:

A GUIDELINE FOR REWARDING EXECUTIVES - ACHIEVING SET TARGETS

The aim is to develop a guideline on best practices regarding managing and promoting a culture of excellent performance and rewarding best performance.

This article focuses on the identification and measurement of variables contributing to poor performance and measures to be used to reward excellent performance at all levels.

Problem statement

Poor performance by employees in municipalities affects service delivery negatively. Management must ensure that performance is managed properly to ensure that value is added by all employees. This is crucial to ensure successful delivery of quality services and full spending of budgets to fund infrastructure development in line with all applicable legislation. Incentives such as performance-based bonuses and awards for best performing managers, can reward and encourage excellent performance.

Main goal

To develop a guideline that will, from a financial perspective, contribute to a culture of excellent performance and reward best performance in municipalities.

Sub objectives

- To investigate the reasons for poor performance culture; and
- To investigate the impact of rewards initiatives and programs that can motivate staff to perform at their best levels.

Study population

Municipal Managers (Accounting Officers), CFOs, senior finance officials and senior managers from Gauteng Provincial Treasury.

Research Method

The Quantitative research method, comprising questionnaires as well as other information including financial and strategic information, is used. Strategic and operational plans and reports are used in order to ascertain if targets have been achieved or not.

Questionnaires are used to obtain information from the wider spectrum of involved persons. Other strategic information will be obtained from the official municipal websites such as Annual Reports, IDPs, SDBIPs and AFS of the municipalities

under consideration and where necessary, from government departments involved with municipal management.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

This chapter summarizes the findings of the study, draws conclusion and makes recommendations. It also provides frameworks to be used to effectively manage the municipal finances and performance management as well as link strategic objectives and goals to resource allocation that will ensure sustainable service delivery and infrastructure development.

CHAPTER 2

ARTICLE 1:

GUIDELINES FOR EFFECTIVE AND EFFICIENT ALLOCATION OF FUNDS TO MEET INTEGRATED DEVELOPMENT PLAN (IDP) AND OTHER STRATEGIC OBJECTIVES

ABSTRACT

Statistics South Africa Census (2011) reported that the South African population was 51.8 million with Gauteng having 12.3 million people, which makes up 23.7% of the South African population. The unemployment rate for the country was 29.8% and 26.3% for Gauteng.

It is alleged that there is a lack of internal controls within most South African municipalities to detect and curb the abuse of the indigent system. This remains a challenge especially as in some cases, the interests of politicians (looking for votes) and administrators (having to implement legislation and policies in full), collide. In view of the above therefore, the primary objective was to investigate the effective and efficient allocation of investment funds in order to meet Integrated Development Plans and other strategic objectives.

The Thesaurus dictionary defines an indigent as a person so poor and needy that he/she cannot provide the necessities of life such as food, clothing, and decent shelter for himself/herself. It further defines an indigent as a person without sufficient

income to afford a lawyer for defense in a criminal case. If the court finds a person is an indigent, the court must appoint a public defender or other attorney to represent him/her. This Constitutional right of counsel for the indigent was determined by *Gideon v. Wainwright* in 1963, when a penciled letter from a prisoner came to the attention of prominent Washington attorney Abe Fortas, who carried the case to the Supreme Court for free.

Local municipal indigent management policies which are aligned to the national framework on indigent management, are similar to the above case in outlining processes that should be followed when dealing with indigents. In a municipal environment, an indigent household, such as unemployed persons, pensioners and child-headed households, is understood to mean any household that earns in gross terms, an amount equal to or less than twice the Government pension grant. Anyone who does not have access to these goods and services is considered an indigent. The state pension amount changes annually with the Minister of Finance's approval of annual increase from the budget speech. Statistics SA, (2011) further reported that the poverty level per household in Gauteng (GP) in 2006 had decreased to 16.2% (GP) in 2011. However, the impact of this decrease is not evident when compared to the increase in local needs for free basic services and social grants such as the child support grant, disability grant and free low-cost housing. The National Indigent Policy Framework (2005) provides guidance to municipalities to provide free basic services of 50 kilowatt of electricity and six kilolitres of water per month to poor households, funded from equitable share grant.

The findings of this study indicated that there are various factors underlying a poor funding resource allocation regarding infrastructure development and investment as

contained in approved IDPs, with a view towards achieving the strategic objectives of a Council. Some of the factors are poor planning, lack of relevant skills, lack of leadership guidance and the perceived abuse of free basic services by non-deserving community members. These challenges will be dealt with in more detail during the course of this study as they also need stakeholders to engage and find solutions in resolving the said challenges to bring about the necessary procedural improvements to the process of an effective, efficient and economic goal-orientated allocation of funds.

Key words: Funds allocation, Infrastructure development, Strategic objectives, free basic services, indigent.

2. 1. INTRODUCTION

Gauteng province's West Rand municipalities namely Mogale City and Merafong City are servicing a population of 362,422 and 197,520 respectively (StatisticsSA, Census 2011). Gauteng province has gold mines which are depleting natural resources, people come from both rural and urban areas throughout South Africa to seek employment opportunities in the mining sector. On arrival they then decide to settle down and bring their families to settle in their respective work areas.

With reference to above, the following needs to be considered when planning for infrastructure development. The influx of people to this province increases the demand for municipal services to communities, while the revenue base remains limited. Opportunities to increase the revenue base often appear to be missed through unimaginative political and administrative thinking. A generalised case in point can be referred to regarding the demand of rental housing. The municipalities normally provides rental housing which is generally planned for the middle- and higher-income groups. Rental income accruing from these rentals can be used to fund infrastructure development, for repairs and maintenance as well as rendering quality services to communities. It is alleged that the mines have limited accommodation for their workers and tend to prefer to pay their employees an allowance for live away from the mine. However, most mine employees in turn, are tempted to use this allowance as extra cash in their pockets and opt for putting up an informal house within the municipal boundaries rather than paying more money for rental housing. Although municipalities do not generate any revenue from the informal settlement, they are expected to provide services and have houses built for occupants of informal dwellings.

Gildenhuys (1997) indicates that the development of a satisfactory quality of life by each citizen will only be possible where:

- Ample and equal opportunities exist for each individual to subsist in terms of work, do business as contractors, traders and professionals;
- Sufficient and indispensable municipal infrastructure, services and amenities of optimum quality are supplied efficiently and effectively in a sustainable manner;
- The quality of physical and natural environment within which the individual lives, works, does business and relaxes is satisfactory; and
- People feel safe and secure to live without fear of social disruption and personal threats.

The above statements support Section 152 of the Constitution of the Republic of South Africa which touches on the democratic urban environment of equal opportunities for personal development of all citizens of this country.

The following tables depict Census 2011 statistics of the population and unemployment rate of the respective municipalities as follows:

Table 2.1: Population and unemployment rates per municipality

Local Municipality	Population size	Unemployment rate
Mogale City	362, 422	24.7%
Merafong City	197, 520	27.2%

Source: Statistics South Africa Census: 2011 and Municipalities IDPs

The following tables depict Census 2011 statistics of the equitable share received, household income and children in house-headed households of the respective municipalities as follows:

Table 2.2: Equitable share received, household income per annum and children in child-headed household

Local Municipality	Equitable share (R000) 2011/12	Population size	Children in child-headed household
Mogale City	189,605	362, 422	117, 373
Merafong City	167,868	197, 520	66, 624

Source: Statistics South Africa Census: 2011 and Municipalities IDPs

The equitable share is a government grant given by National government to municipalities. Its purpose is to fund the provision of free basic services to poor people and other operational costs in order to ensure that service delivery is not compromised. This is in line with National Framework for Indigent Management and the Division of Revenue Act. The above statistics confirm that the more the number of children in child headed households the more grant funding (equitable share) the municipality gets to support poor people.

Mogale City receives a bigger equitable share due to its bigger population than Merafong City, which gets a corresponding lower share. It is interesting to note that the number of child-headed households in each municipality shows a relationship to the population size, that is, the bigger the population, the bigger the number of child-headed households and vice versa.

Allocation of resources for infrastructure development in a municipality becomes a problem when a municipality has a large number of unemployed people who cannot afford to pay for property rates and services. In this context, municipalities use loans, grants and surplus funds in revenue accounts to acquire assets such as municipal buildings like a town hall, library, museum, as well as power stations, motor vehicles, water treatment works and tarred roads (Cloete & Thornhill, 2005:178). Table 2.1 above depicts that there is a higher level of unemployment in Merafong (27.2%) than in Mogale City at 24.7%. Unemployment is perceived as a key factor underlying the issues surrounding low payment levels and high demand for free services for the poor. From the above statements, one can deduce that the available internal funds to allocate to infrastructure development are limited. Leaving the municipalities with no choice, but to rely almost solely on grants to fund infrastructure development projects. External loans are only available based on affordability in terms of National Credit Regulations. With reference to the above, one can conclude that limited funds are making it difficult for most municipalities to meet its. An Integrated Development Plan for a municipality must reflect Council's vision for the long-term development of the municipality with an emphasis on significant development and transformational needs of the community (Cloete et al, 2005:121). Resources or fund allocation for infrastructure development and provision of quality services in a municipality to the required standard, must be done in a way which is economical, efficient and effective, in short, it has to provide value for money (Minnaar, 2010: 82).

(Moeti, 2007:7) reiterates the importance of spending government money entrusted to it, in the most efficient and cost-effective manner possible. Money wastages currently experienced in South African municipalities is a worrying factor. When looking at the audit opinions on fruitless and wasteful expenditure, such funds could

have been used for infrastructure development and services provision (Annual reports, Merafong City and Mogale City municipalities 2011/12, 2012/13 & 2013/14).

2. 2 PROBLEM STATEMENT

Municipalities as the local sphere of government closest to the people, they must allocate resources for the provision of basic services to the communities. In this context, one may ask if there is a framework in place for use by a municipality for fund allocation for infrastructure development that is scientifically designed to justify the allocation of one resource over another. A matter to be considered is the perceived popularity contests by politicians seem to be the order of the day as it depends on which politician is strong enough to fight for his/her ward to get more development in any particular financial year. Development issues are prioritised through a political process via engagements with the relevant ward community. Conceivably, the lack of a funding model leaves room for manipulation as there is no consistency in the way infrastructure development funding is done and applied throughout different wards in a municipality.

Resources or funds allocation to infrastructure development is clearly a mammoth and difficult task when comparing the limited available funds to the community development needs. South African Constitution of 1996 requires for the provision of minimum basic services which is a legislative requirement. Another major concern is that revenue generating sources are mostly limited to property rates income and services charges (water, electricity, refuse removal and sanitation), whereas community needs are almost unlimited. From the above instances, one can conclude that the funding for infrastructure development is limited. According to O'Malley. 2004, the Reconstruction and Development Programme (RDP) aimed to set South Africa firmly on the road to eliminating hunger, providing land and housing to all our

people, providing access to safe water and sanitation for all, ensuring the availability of affordable and sustainable energy sources, eliminating illiteracy, raising the quality of education and training for children and adults, protecting the environment, and improving our health services and making them accessible to all. The introduction of the RDP was to address the challenges that the previously disadvantaged communities have experienced in the past of minimal infrastructure development. This has led to the democratic dispensation having an infrastructure development backlog that has become so huge and unattainable. The RDP was too ambitious and having unrealistic targets which led to the dismal economic performance for years to come. O'Malley (2004) further stresses that the approach to housing, infrastructure and services must involve and empower communities; be affordable, developmental and sustainable. We should take account of funding and resource constraints, and support gender equality. The RDP is committed to establishing viable communities in areas close to economic opportunities and to health, educational, social amenities and transport infrastructure (O'Malley. 2004).

Table 2.3. Statistics for RDP in municipalities under review

Services	Mogale City		Merafong City	
	Percentage			
	2011	2001	2011	2001
Flush toilet connected to sewerage	78,2%	69,9%	81%	83%
Weekly refuse removal	79,7%	70,3%	74,9%	68,2%
Piped water inside dwelling	54,8%	37,9%	52,9%	29,7%
Electricity for lighting	85,9%	79,4%	82,8%	80,1%

Source: Statistics SA surveys: 2001 and 2011.

The above statistics shows how slow is the pace in the implementation of the Reconstruction and Development programme through a National Development plan

where not even a single service has reached a hundred percentage achievement in ten years.

Finding a balance for effective allocation of funds to meet the needs of all communities (both rich and poor) has become a major issue as the rich people are paying for the services and are expecting quality services, including maintenance of existing facilities and infrastructure development. On the other hand, the poor are expecting development in their areas without any contribution in paying for services (RDP, 2004). Although the National government gives municipalities an equitable share grant to assist them with free basic services provision, it is still insufficient to cover all communities' needs.

The Council for Scientific and Industrial Research (CSIR) investigated many municipalities in greater depth, interviewing key staff and viewing infrastructure. The CSIR also drew on reports and studies of the state of municipal infrastructure that had been commissioned by others. Pertinent findings are summarised as follows:

- A few municipalities have world-class practice in respect of many of the aspects of infrastructure maintenance (such as knowledge of assets, demand analysis, asset creation and disposal, asset utilisation and asset maintenance);
- The municipal officials might not be at a high level in respect of aspects such as assets accounting, planning and making financial provision for renewal of infrastructure;
- Many municipalities do not have even the minimum infrastructure maintenance plans in place, and there are gross shortcomings in maintenance policies and practice; and
- A wide range of capacity and competence between the technical and financial officials can be found in municipalities (CSIR, 2006).

The CSIR also found that successful municipalities allocate sufficient budgetary funding to keep infrastructure preventatively maintained. They retain skilled staff and train new personnel. They plan, monitor and re-evaluate frequently.

With the competence challenges highlighted above, one can relate it to the most common problem experienced with water reticulation systems in municipalities of water leakage and sewer spillages. A variety of reasons could be attributed to this, including the use of incorrect procedures at the time of laying the pipes, damage due to excavations taking place near to pipes, use of inappropriate pipe materials (and their consequent corrosion), inappropriate repair procedures, and the ageing of the pipes. Illegal connections exacerbate the situation (DBSA, 2011).

Table 2.4: Equitable share allocation of the two municipalities under review:

Local Municipality	Equitable share allocation per financial year R (000)			
	2011/12	2012/13	2013/14	Population "number"
Merafong City	167,868	185,846	181,074	197, 520
Mogale City	189,605	210,117	222,291	362, 422

Sources: Division of Revenue Act 2011, 2012, 2013 and 2014; Budgets for Merafong City and Mogale City municipalities 2011, 2012, 2013 and 2014

The above table depicts the equitable share received by both municipalities under review which its formula is based on the number of the population size. This supports the suggestion of considering introducing a municipal funding allocation formula to be used for meeting or achieving IDP and strategic goals becomes a necessity. Administrators can fully support politicians in a fair and equitable manner regarding the allocation of funds for infrastructure developments in all wards in a municipality.

2. 3. OBJECTIVES

2. 3.1 Main objective

To develop guidelines for the allocation of infrastructural development funds in order to meet IDP and strategic objectives.

2.3.2 Sub objectives

- Develop guidelines to measure factors for the allocation of infrastructural investment funds effectively and efficiently; and
- Verify if there is an alignment between national, provincial and municipal funding allocation for optimal economic benefit.

2.4 RESEARCH METHODOLOGY

A questionnaire was distributed for completion by management and senior officials of the two organisations from Merafong City and Mogale City in the West Rand region . The Cronbach Alpha coefficient was used to perform reliability tests as well as doing the factor analysis to determine the usefulness and the validity of the questionnaire. Two tests were used namely, the Keyser-Meyer-Olkin (KMO) test of sample adequacy and the Bartlett's test of Sphericity.

2.5 RESULTS

The empirical results of the study are presented per the relevant parts of the questionnaire depicted in Appendix A. The questionnaire sections were subjected to Exploratory Factor Analysis (EFA) namely:

- a) Infrastructure development;

- b) Infrastructure investment;
- c) Funding allocation;
- d) Delegations of authority;
- e) Corruption; and
- f) Community consultation.

The suitability of factor analysis in each part was tested using the KMO measure for sampling adequacy and the Bartlett's test for Sphericity (Field, 2007).

KMO values in excess of 0.5 are acceptable for this study while Cronbach Alpha values in excess of 0.6 are considered to confirm reliability and a good match of data analysed. The two factors namely, delegations of authority and community consultations were eliminated from the study due to not fitting properly with the other constructs.

The results of the demographic analysis of infrastructure development are reflected in table 2.5.1 below.

Table 2.5.1: Demographic information analysis for participants from Merafong City and Mogale City officials - Infrastructure development

Qualifications		Designation		Race		Gender	
Matric	24	Municipal Manager	0	Black	197	Male	Female
National Diploma	90	Executive Director	6	Indian	1	132	75
Degree	74	Director/Manager	53	White	9		
Honours	11	Senior Finance Officer	141				
Masters	4	Councillor	1				
PhD	0	Undisclosed	1				
Undisclosed	4						
Total:	207		207		207		207

A fairly proportional representation in both organisations, namely Mogale City and Merafong City Local municipalities is depicted above with 95% blacks, 0.5% Indians and 4.3% whites. Gender is represented as 36.2% females and 63.8% males. A total sample of 207 questionnaires were accounted for and analysed in detailed.

2.5.1 Section 1 (Questionnaire): Components of funds allocation to infrastructure development and enhanced quality services

2.5.1.1 Section 1 Part 1: Infrastructure development

Table 2.5.2: Descriptive statistics for Factors – Infrastructure development

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Councillors in the organization I am involved with:</u>						
Understands infrastructure development needs of the community.	12 (5.9%)	178 (86.8%)	15 (7.3%)	0 -	2,01	0,36
Ensures that infrastructure investments are of economic benefit to the community.	8 (3.9%)	168 (81.2%)	28 (13.5%)	1 (0.5%)	2,36	0,43
Consult extensively with the community on critical infrastructure development when planning for infrastructure investment.	10 (4.9%)	182 (88.8%)	13 (6.3%)	0 -	2,01	0,33
Ensures that community's basic infrastructure needs are prioritized.	12 (5.9%)	176 (85.9%)	16 (7.8%)	1 (0.5%)	2,03	0,39
Takes community's views into account deciding on future infrastructure developments.	10 (4.9%)	190 (92.7%)	5 (2.4%)	0 -	1,98	0,27
Ensures that there is value creation for the community on infrastructure development.	4 (2.0%)	128 (62.4%)	63 (30.7%)	10 (4.9%)	2,39	0,61

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
Councillors play an adequate oversight role on funds allocation to infrastructure development for the community.	9 (4.4%)	184 (89.8%)	12 (4.9%)	0 -	2,01	0,32
<u>Management of the organisation I'm involved with:</u> Provides clear written guidelines for allocation of funding to infrastructure development.	19 (9.3%)	113 (55.1%)	63 (30.7%)	10 (4.9%) -	2,31	0,71
Relies fully on government (National and Provincial) grants to fund infrastructure development.	35 (17.1%)	83 (40.5%)	86 (42.0%)	1 (0.5%)	2,26	0,74
Provides adequate Council funding for community's infrastructural development.	5 (2.4%)	111 (54.1%)	78 (38.0%)	11 (5.4%)	2,46	0,64
A funding model is used when considering infrastructure development for the community.	5 (2.4%)	83 (40.5%)	98 (47.8%)	19 (9.3%)	2,64	0,68
Ensures alignment of municipal infrastructure development plans with the National government.	47 (22.9%)	151 (73.7%)	6 (2.9%)	1 (0.5%)	1,81	0,49
Ensures alignment of municipal infrastructure development plans with the Provincial sphere of government.	48 (23.4%)	152 (74.1%)	5 (2.4%)	0 -	1,79	0,46
Ensures that the municipal funding model is in writing and approved by Council.	11 (5.4%)	18 (8.8%)	146 (71.6%)	29 (14.2%)	2,95	0,67
In your view, there is a need for a documented funding model.	120 (58.5%)	84 (41.0%)	1 (0.5%)	0 -	1,42	0,50
<u>The funding criteria allocation currently in use by my organisation:</u> There are formal criteria used by this organisation to allocate funds to infrastructure projects.	8 (3.9%)	28 (13.6%)	157 (76.2%)	13 (6.3%)	2,85	0,58
There is a funds allocation process in writing outlining steps to be followed by this organisation when allocating funds to infrastructure projects.	6 (2.9%)	25 (12.1%)	157 (76.2%)	18 (8.7%)	2,91	0,56

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
The funding allocation criteria intend to address community's needs for infrastructure development.	9 (4.4%)	65 (31.6%)	122 (59.2%)	10 (4.9%)	2,65	0,64
The funds allocation criterion is effective in addressing community's infrastructure needs.	6 (2.9%)	55 (26.7%)	136 (66.0%)	9 (4.4%)	2,72	0,59
The funding criterion focuses on infrastructural projects that creates value for the community.	7 (3.4%)	28 (13.6%)	160 (77.7%)	11 (5.3%)	2,85	0,55
Funding criteria focuses on infrastructural needs which have future economic benefit for the community.	7 (3.4%)	25 (12.1%)	161 (78.2 %)	13 (6.3%)	2,87	0,55
The funding criteria focuses on benefitting the Previously Advantaged communities for infrastructure development.	21 (10.2%)	176 (85.4%)	7 (3.4%)	2 (1.0%)	1,95	0,42
The funding criteria focuses on benefitting more affluent areas as they are seen as paying for rates and taxes.	7 (3.4%)	135 (65.5%)	53 (25.7%)	11 (5.3%)	2,33	0,63
Funding of infrastructure development projects are prioritized according to the population size in a ward.	13 (6.3%)	178 (86.4%)	15 (7.3%)	0 -	3,01	0,37
Funding priority of infrastructure development is influenced by the popularity basis of the ward councillors.	2 (1.0%)	18 (8.7%)	171 (83.0%)	15 (7.3%)	2,97	0,45
Funding priority of infrastructure development is allocated on the basis of political party alignment in any area.	6 (2.9%)	40 (19.4%)	143 (69.4%)	17 (8.3%)	2,83	0,61
<u>Challenges faced by the municipality to funds infrastructure projects:</u>						
Non-payment of services by the community limits the municipality's ability to fund infrastructure development.	70 (34.0 %)	116 (56.3%)	20 (9.7%)	0 -	1,76	0,62
Mismanagement of funds by the municipality hampers infrastructure development.	7 (3.4%)	74 (35.9%)	119 (57.8%)	6 (2.9%)	2,60	0,61

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
There is a lack of technical skills internally to implement infrastructural projects.	16 (7.8%)	71 (34.5%)	117 (56.8%)	2 (1.0%)	2,51	0,65
There is a lack of skilled and competent managers to manage projects successfully.	11 (5.3%)	64 (31.1%)	129 (62.6%)	2 (1.0%)	2,59	0,61
There is a lack of buy in by the community to infrastructure development in their areas.	6 (2.9%)	69 (33.5%)	127 (61.7%)	4 (1.9%)	2,63	0,58
Tenders are awarded to contractors who are not competent to construct quality projects.	2 (1.0%)	90 (43.7%)	112 (54.4%)	2 (1.0%)	2,55	0,54
In my opinion, corruption is rife in this municipality.	4 (1.9%)	64 (31.1)	136 (66.0)	2 (1.0)	2,66	0,53
In my opinion, corruption negatively affects infrastructure development to the community.	10 (5.1%)	173 (87.8%)	11 (5.6%)	3 (1.5%)	2,04	0,41
Poor planning and organizing by management results in incomplete community projects.	9 (4.4%)	182 (88.3%)	14 (6.8%)	1 (0.5%)	2,03	0,36
Inflated prices cause incomplete community projects due to budget constraints.	18 (8.7%)	179 (86.9%)	7 (3.4%)	2 (1.0%)	1,97	0,40
There is an approved delegation of authority currently in use to eliminate red tape and fast track decision making.	24 (11.7%)	169 (82.0%)	13 (6.3%)	0 -	1,95	0,42
The approved delegation of authority currently is used to fast track decision-making.	25 (12.1%)	165 (80.1%)	15 (7.3%)	1 (0.5%)	1,96	0,46
The approved delegation of authority is implemented fully and followed correctly.	23 (11.2%)	168 (82.0%)	13 (6.3%)	1 (0.5%)	1,96	0,44

T-tests (Group factor comparison)

There is a medium effect size (thus a medium practical significant difference) between the groups 'non-university' participants and 'university graduates' participants in infrastructure. The 'non-university' group agreed more with Infrastructure investment than the 'university graduates' group.

Correlation

There is a large positive relationship between Infrastructure development and Infrastructure investment. This means the higher the development, the higher the investment or vice versa.

There is a medium negative relationship between Infrastructure development and corruption. This means the higher the development the lower the corruption or vice versa.

Section 1 Part 1: Infrastructure development

Table 2.5.3: KMO, Bartlett's Tests, Factor loadings and Reliability statistics:

Statements	Factors loadings
Takes community's views into account deciding on future infrastructure developments.	0.787
Consult extensively with the community on critical infrastructure development when planning for infrastructure investment.	0.860
Understands infrastructure development needs of the community.	0.778
Ensures that there is value creation for the community on infrastructure development.	0.489
Reliability coefficient.	0.632
Mean	2,10
Standard deviation	0,29
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.667
Bartlett's test of Sphericity	<0.001
Total Variance Explained	53.07%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and therefore an exploratory factor analysis can be performed. The KMO value of 0.667 confirms the factor's reliability.

Factor loadings

Three statements, namely “Takes community’s views into account deciding on future infrastructure developments,” “Understands infrastructure development needs of the community”, and “Consult extensively with the community on critical infrastructure development when planning for infrastructure investment” loaded heavily on this factor as they are above 0.7, which means they display very good reliability and consistency. These three statements are related to councillors’ understanding of consulting with the community on infrastructure development needs and thus reiterate the importance of the communication thereof. The other two statements, “Councillors play an adequate oversight role on funds allocation to infrastructure development for the community” and “Ensures there is value creation for the community on infrastructure development” are below 0.5, suggesting there is a lower level of reliability and consistency.

2.5.1.2 Section 1 Part 2: Infrastructure investment

The results for the statistical analysis of infrastructure investment are reflected in table 2.5.4 below.

Table 2.5.4: KMO and Bartlett’s Tests, Factor loadings and Reliability statistics: Infrastructure investment

Statements	Factor loadings
A funding model is used when considering infrastructure development for the community	0.595
Ensures that the municipal funding model is in writing and approved by Council	0.605
Ensures alignment of municipal infrastructure development plans with the National government	0.912
Reliability coefficient	0.711
Mean	2,63

Statements	Factor loadings
Standard deviation	0,45
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.548
Bartlett's test of Sphericity	<0.001
Total Variance Explained	63.33%

Factor loadings

Two statements namely: “Provides adequate Council funding for community’s infrastructural development” and “Ensures alignment of municipal infrastructure development plans with the National government”, loaded heavily on this factor as they are between 0.6 and 0.9, which suggests very good reliability and consistency. These statements are related to councillors’ understanding of community’s infrastructure investment needs and funding allocation processes. One statement namely: “A funding model is used when considering infrastructure development for the community” loaded below 0.6 meaning it has an average reliability and consistency.

The p-value of Bartlett’s test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements. Therefore, exploratory factor Cronbach Alpha coefficients were calculated for this factor, in order to estimate the reliability and consistency among constructs. The reliability of this factor was above 0.7 meaning they have more reliability and consistency, with more satisfactory values.

2.5.1.3 Section 1 Part 3: Funding allocation

Table 2.5.5: KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Funding allocation

Statements	Factor loadings
There is a funds allocation process in writing outlining steps to be followed by this organisation when allocating funds to infrastructure projects.	0.870
There is a formal criterion used by this organisation to allocate funds to infrastructure projects.	0.881
The funding allocation criteria intends to address community's needs for infrastructure development.	0.8381
The funds allocation criteria is effective in addressing community's infrastructure needs.	0.837
Reliability coefficient	0.702
Mean	2,46
Standard deviation	0,36
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.732
Bartlett's test of Sphericity	<0.001
Total Variance Explained	43.85%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and therefore an exploratory factor analysis can be performed. The KMO value of 0.732 confirms the factor's reliability. The factor analysis is explained below.

Factor loadings

All statements "There is a funds allocation process in writing outlining steps to be followed by this organisation when allocating funds to infrastructure projects", "There is a formal criteria used by this organisation to allocate funds to infrastructure projects", "The funding allocation criteria intends to address community's needs for infrastructure development" and "The funds allocation criteria is effective in

addressing community's infrastructure needs", loaded heavily on this factor as they are above 0.8, which suggests very good reliability and consistency. These statements are related to this factor. The statements "The funding criteria focus on benefitting the Previously Advantaged communities for infrastructure development", and "the funding criteria focuses on benefitting more affluent areas as they are seen as paying for rates and taxes" were left out due to insufficient loading.

Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of the factor is above 0.7 showing very good reliability and more satisfactory value. A lack of reliability does however, not necessarily discard the factor from the current study.

2.5.1.4 Section 1 Part 4: Corruption

Table 2.5.6: KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Corruption

Statements	Factor loadings
In my opinion, corruption is rife in this municipality.	0.586
Tenders are awarded to contractors who are not competent to construct quality projects.	0.277
Mismanagement of funds by the municipality hampers infrastructure development.	0.598
In my opinion, corruption negatively affects infrastructure development to the community.	0.501
Inflated prices cause incomplete community projects due to budget constraints.	0.404
There is an approved delegation of authority currently in use to eliminate red tape and fast track decision making.	0.964
The approved delegation of authority currently is used to fast track decision-making.	0.947
The approved delegation of authority is implemented fully and followed correctly.	0.928

Statements	Factor loadings
Reliability coefficient	0.940
Mean	2,37
Standard deviation	0,34
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.745
Bartlett's test of Sphericity	<0.001
Total Variance Explained	89.54%

Factor loadings

The three statements “There is an approved delegation of authority currently in use to eliminate red tape and fast track decision making”, “The approved delegation of authority currently is used to fast track decision-making”, and “The approved delegation of authority is implemented fully and followed”, loaded heavily on this factor with values above 0.9, suggesting very good reliability and consistency.

The three statements which are “In my opinion, corruption is rife in this municipality”, “Mismanagement of funds by the municipality hampers infrastructure development”, and “In my opinion, corruption negatively affects infrastructure development to the community” are valued above 0.5 but less than 0.7 which imply that they are reasonably reliable and relatively consistent.

The two statements , “Tenders are awarded to contractors who are not competent to construct quality projects”, and “Inflated prices causes incompletes community projects due to budget constraints” correlates with a value below 0.5, meaning it is less reliable and consistent. A lack of reliability does, however, not necessarily discard the factor from the current study.

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and therefore an exploratory factor analysis can be performed. The KMO value of 0.745 confirms the factor's reliability. The factor analysis identified this factor that was extracted as shown below.

Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of factor loadings is above 0.9 showing that they have excellent reliability and very good consistency.

2. 6 THE ROLE AND IMPORTANCE OF LOCAL GOVERNMENT FINANCE

Municipalities are expected to abide by South Africa's Constitution (1996), in creating a conducive and safe environment for its communities. Municipalities are further expected to render a variety of services, to name but a few, ambulance services, burial and cremation, fire protection, building control, electricity and water supply. They should, however, also measure the consumption costs of services rendered to each consumer and charge for the recovery of such costs via a billing process that entails meter reading of actual consumption and the issuing of monthly accounts for amounts due.

Service provision requires basic and advanced infrastructure to be in place such as bulk services for electricity networks, electricity substations, water and sewer pipes, parks equipment, fire engines and equipment, vehicles for security and safety programmes, housing development, municipal buildings for all service provisioning, waste removal trucks and specialised equipment.

The main revenue sources for South African municipalities are the following:

- Property rates income;
- Sale of electricity;
- Sale of water;
- Sanitation fees;
- Refuse removal charges; and
- Grants from National and Provincial government (capital and operational) and other transfers.

One can reasonably argue that the limited resources listed above are not always sufficient to fund all the communities' needs at once. The prioritisation of projects and programmes contained in the IDP is a necessity to ensure that the priority projects per ward are recognised as such during the budget and fund allocation process regarding infrastructure development for the entire municipality.

The details on the revenue sources, types of expenditure associated with the funding sources and its functions, is indicated below.

2.7 LOCAL GOVERNMENT REVENUE SOURCES

2.7.1 PROPERTY RATES INCOME

The Municipal Property Rates Act no. 6 of 2004 (MPRA) regulates the power of a municipality to: impose rates on property, to implement a transparent, fair and equitable system of exemptions, allow rebates through a rating policy, ensure fair property valuation methods and to make allowance for objections and appeals processes (MPRA, 2004:3). The property rates income constitutes a main revenue source for a municipality. The municipality has powers to impose property rates within its boundaries, as vested in the MPRA. This revenue is mainly used to fund

day-to-day municipal operations for services provisions that are not revenue generating such as streetlights, buildings and parks maintenance and street cleaning.

The rating is based on the property type and the market value. The higher the value of the property the higher the property rate charged. The MPRA provides for the implementation of the valuation roll which is effective for a period of four years.

The supplementary valuations can be conducted in order to ensure that changes in the conditions of the properties such as demolished structures or improvements within the four years period are reflected in the valuation roll for the calculation of revised property rates. The supplementary valuations can be done annually. A common perception is that higher property rates tend to discourage development as they ostensibly make it unaffordable for owners to develop properties. This can have a negative impact on the economic development of the respective towns.

Table 2.6 Property rates income per municipality:

Local Municipality	Property rates income for the financial year (R000)		
	2011/12	2012/13	2013/14
Merafong City	85,957	261,097	267,771
Mogale City	259,478	272,542	308,723

Sources: Annual Reports – Merafong City and Mogale City- 2012, 2013 and 2014.

2.7.2 SALE OF ELECTRICITY

The electricity sales are called as they should always operate at a surplus, unless electricity losses caused by theft, pirating or tampering are very high. The surpluses occur when electricity sales are more than cost of electricity purchased. The maintenance of electricity assets used in the provision of services is vital to ensure that the supply is not interrupted regularly due to the failure of aging infrastructure that is not serviced properly. The high electricity losses and high incidents of meter tampering in communities is a major challenge facing South African municipalities as is evident from their annual reports. Despite interventions being introduced to curb and reduce the losses, no success has been recorded thus far as losses are increasing annually. (Annual reports, Merafong City and Mogale City). This has a negative impact on municipalities as revenue is lost. Annual increases in electricity tariffs affects affordability thereof which encourages communities to look for alternative sources of energy such as a gas, fire woods and generators. Load shedding also negatively affects income received from electricity sales as communities are forced to consume less when switched off for four hours per event. The excess funds can be used to cross subsidise other services that are not revenue generating or being funded from property rates and grants income.

Table 2.7 Electricity sales per municipality and applicable electricity losses:

Electricity sales income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	182,143	208,006	213,867
Mogale City	619,676	695,821	723,268

Sources: Annual Reports for Merafong City and Mogale City Local Municipalities:
2011/12, 2012/13 & 2013/14

2.7.3 WATER SALES

The water sales income is usually expected to yield a surplus where water losses are within the acceptable norm. In Merafong City, this is not the case due to huge monthly water losses (as high as 48%) that are caused by old infrastructure consisting of old badly maintained asbestos pipes. (Annual reports: Merafong City. 2011/12, 2012/13 and 2013/14). The replacement of old bulk infrastructure is a challenge due to the high costs associated therewith, during a period when the municipality is experiencing cash flow challenges for a whole number of different reasons, including almost paradoxically, high water losses (Section 71 reports, Merafong City: 2013, 2014 & 2015).

The high water tariffs are generally unaffordable, but municipalities are at the mercy of the Rand Water Board who distributes water and charges a rate for each kilolitre supplied. Merafong City has also suffered a loss of mines income due to a negative outcome of the mines appeal issued by the Municipal Valuation Board in November 2014 (Judgement on Merafong City Municipality versus Mines: November 2014). The mines challenged the valuation roll of 2012 through an appeal which the appeal process was concluded in November 2014 with the mines winning the case. This resulted in a loss of R12 million property rates income per, it forced the municipality to drastically reduce its budget downwards through its operating costs (Midyear financial report: 2014/15). The surplus funds which could have been used to finance administration costs and infrastructure development costs, was then unavailable.

Table 2.8 Water sales per municipality and applicable water losses:

Water sales income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	199,514	206,733	235,800
Mogale City	148,393	164,254	164,087

Sources: Annual Reports: 2011/12, 2012/13 and 2013/14 Merafong City and Mogale City Local Municipalities (LM) (Audited Financial Statements)

2.7.4 SANITATION FEES

In terms of approved municipal tariffs policies and by-laws, sewerage charges are linked to the water used for sanitation purpose. The sanitation costs relates to sewerage services rendered by the municipality which promotes a clean and smell free environment to the community. Every household is charged for this service where they have a toilet connection with ablution facility. The farms and informal settlements are excluded since such services are not available to them.

The following table depicts sanitation income for the municipalities under review:

Table 2.9 Sanitation income per municipality:

Sanitation income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	20,298	22,798	25,229
Mogale City	85,747	94,007	105,155

Sources: Annual Reports: 2011/12, 2012/13 & 2013/14 Merafong City and Mogale City municipalities (Audited Financial Statements)

2.7.5 REFUSE REMOVAL CHARGES

The refuse removal fees are charged to all municipal consumers for the waste removal services as per approved tariffs policies and by-laws. It is alleged that most municipalities fail to monitor this service charge, where a household has two or three bins that are being removed weekly by the municipality but only billed for one bin. This oversight causes loss of revenue as the lack of an audit of the bins number collected results in accurate billing. The refuse removal trucks and compactors with specialized equipment are costly and are part of the Capital expenditure items needed for service provision to the community.

The following table depicts refuse removal income for the municipalities under review:

Table 2.10 Refuse removal income per municipality:

Refuse removal income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	33,894	34,441	38,543
Mogale City	76,556	91,130	100,636

Sources: Annual Reports – Merafong City and Mogale City Local Municipalities: 2011/12, 2012/13 & 2013/14 Audited Financial Statements

2.7.6 GRANTS INCOME

The National and Provincial government make grants allocations to all municipalities in order to assist with infrastructure development and operational costs associated with free basic services. The Division of Revenue Act is annually published by National Treasury reflecting National and Provincial allocations to the municipalities that guides the IDP and the Budget process in terms of funding sources for

respective expenditure types. The equitable share is calculated using a formula that is based on the population statistics as contained in the latest Statistics South Africa Census of 2011.

Below are the tables reflecting the Municipal Infrastructure Grant, Infrastructure Network Energy Programme and Human settlement that assist with infrastructure development:

Table 2.11 Municipal Infrastructure Grant (MIG) per municipality:

MIG grant income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	61,137	71,663	66,732
Mogale City	75,065	98,206	94,096

Sources: Division of Revenue Acts 2011, 2012, 2013 and 2014; Annual Reports: 2011/12, 2012/13 and 2013/14 (Audited Financial Statements)

These figures above still confirm that the alleged current formula for resources allocation in government is based on the population size of the town or city, i.e. it shows that Mogale city municipality receives a bigger portion on the Municipal Infrastructure Grant as depicted on the above table.

Figures on the below table 2.12 depict electricity grant given to municipalities to electrify houses for poor households.

Table 2.12 Municipal Energy Infrastructure Grant (INEP) per municipality:

INEP grant income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	8,400	7,400	22,000
Mogale City	0	8,000	0

Sources: Division of Revenue Acts 2011, 2012, 2013 and 2014; Annual Reports: 2011/12, 2012/13 and 2013/14 (Audited Financial Statements)

The above table depicts a different picture that might be associated with the need for a less developed town i.e. Merafong City getting continuous support versus the much developed town, in this case being Mogale city receiving funds once in three years.

The following table 2.13 reflects human settlement grant given to municipalities by the Provincial government to build houses for the poor communities.

Table 2.13 Human Settlement Grant (HSG) per municipality:

HSG grant income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	182,551	300,815	10,127
Mogale City	0	0	0

Sources: Division of Revenue Acts 2011, 2012, 2013 and 2014; Annual Reports: 2011/12, 2012/13 and 2013/14 (Audited Financial Statements)

The above figures are also showing that the more the town is developed the less or no funding is received for building human settlements than the less developed town of Merafong City getting funding to build houses continuously.

2.8 ROLE PLAYERS IN LOCAL GOVERNMENT FINANCE

The main role players in financing local government service delivery programmes and infrastructure development are listed below as follows:

- Rate payers (property owners) & Consumers of municipal services (water and electricity sales, sanitation and refuse removal fees, etc.);
- National Treasury (grants);
- Provincial government (grants); and
- Financial institutions (External loans).

The role players in financing or funding local government operational programmes and capital projects for service delivery and infrastructure development are detailed below.

2.8.1 RATE PAYERS

The rate payers are billed monthly an equal amount over a twelve months period aligned to a municipal financial year and in line with the municipal budget (MPRA, 2004). The tariffs policy, property rates policy, indigent policy, credit control and debt collection policy as well as the debt write off policy are budget related policies which are approved annually by Council to ensure that the municipality is able to bill and recover rates income from the rate payers. The rates payers include those that can afford to pay and who are employed, government departments and businesses. The poor are catered for by the indigent policy.

This income is very important to ensure that quality services are rendered to the community and promote infrastructure development. When the IDP and Budget processes are undertaken annually, the community and all other stakeholders are consulted on the proposed increases in tariffs and planned programmes and projects for the medium-term expenditure framework (MSA, 2000). Views of the stakeholders are considered when finalizing the budget to fund the municipal activities for the relevant financial years (MFMA, 2003).

2.8.2 NATIONAL TREASURY

The National Treasury plays an important role of ensuring that all finance related legislation is enacted and promulgated with which municipalities have to comply.

The various forms of compliance are required to the numerous acts and regulations governing municipal finances, which ensure that municipalities can raise its revenues, budget accordingly and conduct financial management within set parameters so that clean administration is achieved when spending tax payers' monies and revenue is handled in an acceptable way. The key Acts and regulations in this regard, are discussed below.

The National Treasury allocates the grant called equitable share funding to all municipalities to help with operational and capital needs of the community. The formula used by Treasury for funds allocation is: $\text{Grant} = \text{BS} + \text{D} + \text{I} - \text{R} + \text{C}$

BS = Basic Services Component;

D = Development component;

I = Institution support component;

R = Revenue-raising capacity correction; and

C = Correction and stabilisation factor.

This formula has been revised in 2013 to ensure that the population component is filtered in to reflect some scientific approach to the funds' allocation to different types and sizes of municipalities throughout South Africa. The equitable share is annually gazetted in the Division of Revenue Act by National Treasury confirming the funding commitments to municipalities which is used for budget and planning purposes.

The National Treasury also monitors the compliance to finance legislation throughout the financial year and continuously engages with municipalities on improving compliance and providing the necessary support needed in cases where skills capacity or systems related issues exist.

2.8.3 PROVINCIAL GOVERNMENT

The following provincial government departments play a vital role in providing funding to municipalities for operational service delivery programmes and capital expenditure for infrastructure development:

- Department of COGTA;
- Human Settlement (HS); and
- Department of Energy (DME).

2.8.3.1 Department of Cooperative Governance and Traditional Affairs

(COGTA)

COGTA provides funding through the MIG grant, used to fund capital projects for infrastructure development. MIG funding allocation is depicted above in table 2.11. Another important grant from COGTA for operational expenditure, is called the MSIG (Municipal System Improvement Grant) which can be used to fund systems improvements, ward committee activities and revenue enhancement initiatives.

This MSIG funding for the two municipalities under review is depicted in table 2.14 below:

Table 2.14 MSIG per municipality:

MSIG income per financial year R (000)			
Local Municipality	2011/12	2012/13	2013/14
Merafong City	834	900	934
Mogale City	1,250	1,250	800

Sources: Division of Revenue Acts 2011, 2012, 2013 and 2014; Annual Reports: Merafong City and Mogale City LM: 2011/12, 2012/13 and 2013/14 (Audited Financial Statements)

2.8.3.2 Department of Human Settlement (DoHS)

The Department of Human Settlement provides funding to municipalities for housing needs of the communities, especially for poor households who are provided with a low-cost housing structure at no cost, as a practical manifestation of the constitutional right to human dignity. The funding for bulk services is also provided when it's for low cost housing as the municipality cannot generate any revenue from the poor to finance such costs, which they can in the case of the suburbs and more formal townships.

The HSG allocation for the municipalities under review is depicted in table 2.13 above. These grant funds play a huge role in addressing the housing shortages in South Africa and contribute to infrastructure development, provision of human settlements and promoting a safe environment for South African residents to live in.

2.8.3.3 Department of Energy

The Department of Energy provides funding for electrical related projects to improve service provision of electricity to the community as well as network and streetlight projects that are for the benefit of all residents. These projects help promote a safe environment and reduce crime levels by improving lighting conditions through the installation of streetlights in all areas.

2.9 CHALLENGES OF MUNICIPALITIES ON FUNDING ALLOCATION

2.9.1 FINANCIAL MANAGEMENT SKILLS

According to Municipal systems Act no.32 of 2000 and Municipal Finance Management Act no.56 of 2003, politicians are expected to play an oversight role on financial management issues. The councillors are alleged to have limited or no financial management skills such as budgeting and funding allocation to projects and programmes. From the above statement, one can ask how the councillors can be able to deal with the strategic infrastructure and service provision objectives of Council, as spelt out in the IDP. This challenge also applies to other managers perceived to not possessing prerequisite qualifications within the municipalities who are expected to contribute positively to the planning, funding allocation and implementation of planned projects and programmes (MSA, 2000 & MFMA 2003). Meaning some councillors and managers cannot implement IDP objectives effectively and efficiently due to skills constraint of not understanding financial and project management dynamics. The main cause for this, is that the requirements for being a councillor or a general manager in a municipality do not include financial management skills as a prerequisite to assume either roles mentioned above. (MSA, 2000).

2.9.2 VALUE FOR MONEY

When the community projects are prioritised, there is no value for money principle being applied. The community needs are identified through community engagements by politicians in community meetings and submitted to the IDP office for consolidation for all wards situated within

municipal boundaries (IDP 2012/13, 2013/14 & 2014/15). If the community feels that the community hall is more important than the tarring of roads, then the community hall will be prioritised accordingly. No systematic checking is done to determine whether the basic needs such as water and sanitation projects should be addressed first, followed secondly by projects aimed at safety needs such as streetlights, stop street and speed humps, followed thirdly by social projects such as clinics, sports complex, community halls, etc. and only followed lastly by the so-called 'nice to have' projects.

The skills shortages pertaining to infrastructure remains a challenge in most municipalities. The problem is evident in the gap between draft project specifications and the required norms and standards set by the South African Bureau of Standards (SABS) or the Construction Industry Development Board (CIDB) or other similar regulatory bodies.

The procurement processes currently in place effectively result in more points being allocated to the lowest tender price which does not necessarily guarantee good quality and value for money (Municipal Supply Chain Management Regulations, 2005). The cost benefit analyses are not accurately done on planned projects resulting in funding allocations to projects and programmes being misaligned and not realising full added value from the product or project.

2.9.3 LACK OF FUNDING ALLOCATION CRITERIA

It is alleged that currently, there are no standard scientific funding criteria in place for South African municipalities regarding the allocation of funds to

infrastructure development projects and service delivery programmes, except for budgeting methods such as line item budgeting, incremental budgeting and cost-based budgeting. The capacity of traditional sources of finance for municipal delivery of services is exceeded by the demand for capital to fulfill this role (DBSA, 2011).

The research shows that the adoption of such standard scientific criteria in South Africa would be ideally suited to help close the gap.

2.10 IDENTIFICATION OF INDEPENDENT AND DEPENDENT VARIABLES ON FUNDING ALLOCATION FOR ACHIEVING ORGANISATIONAL STRATEGIC OBJECTIVES

2.10.1 Infrastructure development

Service delivery requires infrastructure to be in place which is in good condition such as sewerage plants, machinery and equipment to clean the sidewalks, cut the grass and paint the streets, as well as vehicles and employees to go out and fix potholes, repair electricity sub stations when faulty and service and maintain all assets to increase their life span in line with municipal Integrated Development Plans (IDP).

In terms of Municipal Budgeting Regulations of 2009, the service delivery assets must be budgeted for annually for repairs and maintenance as well as replacement of all old and redundant assets for continued improved service delivery. This aspect is linked to revenue collection as all plans can be in place for providing quality services to the community but, if the same community is not coming forth by paying for the services rendered by the municipality, then such plans become a paper exercise as there will be no

funds to pay for the procurement of new assets and maintaining them (Merafong City IDP. 2013, 14 & 15).

2.10.2 Infrastructure investment

Service delivery to the community involves infrastructure development where resources have to be allocated to projects and programmes as planned and prioritised in the Integrated Development Plan (IDP) and the budget of the municipality. The planned projects and programmes, after being prioritised and costed, are then incorporated into a Service Delivery Budget Implementation Plan (SDBIP) which is an annual plan detailing the projects and programmes, their implementation timeframes, activities to be performed, people responsible and funding sources.

This plan needs to be monitored on an ongoing basis by all oversight committees of Council to ensure that all targets are achieved as planned. If there are challenges blocking the completion of such projects, corrective actions need to be taken as soon as possible to avoid further delays or even, the ultimate non-achievement of the set goals.

2.10.3 Funding allocation

The resource allocation to projects and programmes of an organisation is crucial in order to ensure that there is a concrete plan of action with a breakdown of costs per project using various costing methods applicable to different types of projects. In a municipal context, it starts with an IDP review and prioritisation of projects and programmes, followed by a community

consultation process which ultimately ends up being costed to ascertain affordability in terms of realistically anticipated revenue that will be used to fund such plans (MSA, 2000 & MFMA, 2003).

The SDBIP is the final annual plan containing all funded projects and programmes for the organisation (MSA, 2000). Employing skilled staff members including managers is crucial in order to ensure that assigned responsibilities are implemented correctly so as not to compromise the organisation.

2.10.4 Delegation of authority

It is vitally important for an organisation to have its delegations of authority approved and in place, detailing who has powers to approve what transactions on behalf of the organisation. This forms part of the important internal controls that ensure that the organisation's resources are used and accounted for properly and any abuse of power is avoided, which might lead to losses if not managed properly.

The Council should approve such delegations of authority as the accounting authority, in order to ensure that accountability is clearly spelt out to avoid confusion and promote good governance.

2.10.5 Corruption

Corruption is the illegitimate use of public power to benefit a private interest (Morris, 1999). This is a disease that is allegedly depriving communities of quality services which needs to be addressed urgently and be eliminated. This study reflects a negative correlation between corruption and infrastructure development, purely because when corruption is high infrastructure development is minimal.

2.10.6 Community consultation

Local government is a sphere of government which is closest the people, where community consultation on all plans and providing feedback on past achievements and failures is always required to ensure inclusive governance (MSA, 2000).

The Municipal Systems Act (2000) requires that municipalities must consult with the community on all plans and outcomes on an ongoing basis for promoting transparency and accountability. This process is designed to help reduce uncertainty – and when it does not, it can lead to public protests that are occurring regularly because community members are unhappy about not being consulted about plans, challenges and outcomes of the municipality (MSA, 2000). After the identification of the above independent and dependent variables, the following theoretical model was constructed to depict their link with service delivery and strategic objectives.

Figure 3.1: Theoretical model



2.11 SUMMARY

The literature study concluded that six independent variables were identified and verified. These variables are infrastructure development, infrastructure investment, funding allocation, community consultation, corruption and compliance to legislation. Furthermore, these variables were further investigated by measuring the criteria for all of them. These criteria form part of the variables as detailed in Appendix A.

This study has shown that there is a need for improved criteria for funds allocation to meet IDP and strategic objectives of municipalities. Also, the need to improve on the quality of skills needed to plan and implement projects relating to infrastructure development and provision of quality services cannot be over emphasized. Lastly, a need exists to up the game when electing political leaders in local government who must have financial management skills in order to understand the fund allocation methods used in support of the planned strategic objectives as detailed in the Council's IDP. Despite all of the grant support provided by both National and Provincial government, municipalities are still faced with limited resources in the face of almost unlimited community needs, which must be prioritised, and funds allocated in a fair and equitable manner in response to the demographics within each municipal boundary.

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CHAPTER 3

ARTICLE TWO:

A FINANCIAL CONTROL GUIDELINE TO MANAGE WORKING CAPITAL FOR SUSTAINABLE FINANCIAL VIABILITY

ABSTRACT

An organisation needs working capital in order to operate its day to day business activities, whether profit making or non-profit making. For example, an organisation needs assets such as cash, furniture, inventory, computer equipment to run its operations. When cash is not readily available to buy assets, decisions on borrowing cash which results in liabilities are made. A municipality operates on the same basis; it needs working capital to finance the operational and capital infrastructure developmental activities.

When the municipal medium-term expenditure framework is compiled in the form of an annual budget, it must be accompanied by revised budget related policies such as the tariffs policy, budget policy, property rates policy, virement (transfer of budgeted funds) policy, supply chain management policy, petty cash policy, reserves management policy (Municipal Budgeting Regulations, 2009). The above-mentioned policies are required for every municipality in terms of the South Africa's MFMA of 2003. The tariffs policies outline the applicable tariffs to be charged by a municipality for all services rendered by it including property rates tariffs to be charged with applicable rebates for pensioners and the poor households. The property rates policy detail the processes and procedures applicable for charging property rates as per classification and type of properties within the municipal

boundaries (Municipal Property Rates Act no. 6 of 2004). The monthly meter readings must be taken from all consumers of both electricity and water so that they can be billed in the form of municipal accounts which must be mailed to them with a due date for payment. A credit control and debt collection policy and a by-law must be in place and should be reviewed at least annually to enable the municipality to collect debt owed by the ratepayers and consumers of municipal service (Municipal Systems Act no. 32 of 2000). It is crucial that the above-mentioned policies are approved with the budget and adopted as by-laws in order to enable the municipality to implement them as local legislation. The unfortunate part is that the municipalities are not in the business of making profits and yet, they must render the services to all habitants regardless their financial status. The democratic government introduced the Reconstruction and Development Programme (RDP) which entailed the provision of low-cost housing to unemployed and poor community members who qualify as such and provide them with free six (6) kilolitres of water and fifty (50) kilowatts of electricity.

The collection rates, as indicated in the financial results of municipal annual reports, have decreased drastically over the years in most municipalities in South Africa. The decrease in collection rates is due to various reasons, including the alleged lack of commitment by municipal employees. An organisation needs skilled finance officials including the qualified, experienced and skilled Chief Financial Officer who will ensure that working capital management is managed well. There is a need to deal with the non-payment of services' challenges, which causes municipalities not being able to pay its creditors and salaries of employees. The non-payment of services results in many municipalities having to totally or heavily rely on government grants. This is not an ideal situation as grants are supposed to be used for clearly specified

purposes such as addressing backlogs in infrastructure development and providing free basic services to the poor households.

The so-called 'political appointments' have been a major problem affecting all South African municipalities which impacted negatively on the provision of quality services and infrastructure development in all municipal areas. When looking at the statistics obtained in the study, one can conclude by saying that a major challenge exists for government to address this problem. The national government need to take drastic action which includes appointing qualified, competent and experienced people at in municipalities at senior management level as well as technical experts (both financial and technical).

Key words: working capital, cash, credit control, billing, assets, liabilities, service provision, infrastructure development, financial management

3.1 INTRODUCTION

Managing working capital is key to the sustainability of any organisation due to the dynamics of a need to have cash to fund daily operational activities and infrastructure development. There is also a need to raise capital in the financial markets to enable infrastructure development. This will in turn, needs servicing through repayment of capital and redemption cost of interest. Working capital refers to the assets and liabilities that an organisation uses to conduct its day to day activities. Working capital is short term (or current) assets and liabilities (Els, Du Toit, Erasmus, Kotze, Ngwenya, Thomas, Vivier. 2010:4,7,18). Management of working capital is very important for any organisation's survival and financial sustainability. A number of factors contribute to the generation of cash to enable the organisation to service its debts.

The important elements of working capital for a municipality that needs to be managed well in order to conduct daily business activities (Els et al, 2010: 45, 71) are as follows:

- i. Inventory – water in municipal reservoirs, cables and meters;
- ii. Cash – to enable paying creditors and expenses;
- iii. Debtors – consumers who are paying for services in arrears instead of prepaid payment; and
- iv. Creditors – suppliers allowing the company to buy goods and services on credit.

When managing the above-mentioned elements, one should bear in mind the dynamics of a municipal environment. In this case, the provision of services is for the rich, middle class and the poor. There seems to be a growing tendency for

working people who can afford to pay for municipal services. However, it seems there are many people who can afford to pay who then hide behind the poor. This is purely abusing the system which was designed to assist the poor people, with the assistance of corrupt politicians and employees. This trend affects municipal cash flow negatively as little revenue is collected, and more revenue is forgone by effectively reclassifying well-off people as poor in order to benefit from the indigent programme. This problem appears to be vested in what one could call a popularity contest. This occurs when politicians may feel that they are indebted to communities for voting them in (especially with a view towards re-election). This type of mentality among political leaders, where it exists, needs to be changed. It is morally unacceptable that a person is placed in a position of power not to do the right thing.

The dynamics of unemployment rates and level of support (equitable share) that the municipalities get from National Treasury to render quality services and free basic services to the poor remain relevant as the payment levels of different municipalities reveals a story behind the numbers disclosed in monthly reports submitted to Council, Provincial and National Treasury.

Table 3.1. Population, unemployment rates and average collection rates by municipality

Local Municipality	Population	Unemployment rate	Average Collection rate 2013/14
Mogale City	362, 422	24.7%	94%
Merafong City	197, 520	27.2%	83%

Source: Statistics South Africa Census: 2011 and Municipalities IDPs

The above table clearly shows that unemployment levels affect payment levels which in return affect working capital of the municipality, never mind other reasons

for the failure to properly manage working capital for the well-being of the organisation. The higher the unemployment rate, the lower the payment levels and the greater the cash flow problems that exist.

The cash flow problems are made worse by the so-called 'late estate' properties in the previously disadvantaged communities. This occurs when the property owner is deceased, and the remaining family members consumes municipal services but do not pay for them. They further do not register the status quo of the estate, until this is picked up by the credit control and debt collection processes.

The remaining family members of the deceased estate often do not even bother to go to the Magistrate's court when advised to do so, to get the necessary letter of authority. This letter is needed so that the consumer's name can be legally changed for billing purposes. The remaining family members seem to enjoy using municipal services for free without using their names but the deceased one.

The following table depicts the revenue generated from operations as per audited cash flow statements for the municipalities under review:

Table 3.2 Revenue received by municipalities

Local Municipality	Revenue received allocation per financial year R (000)			
	2011/12	2012/13	2013/14	Population "number"
Merafong City	866,001	1,317,884	1,388,548	197, 520
Mogale City	1,768,415	1,878,032	2,006,372	362, 422

Sources: Annual Reports for Merafong City and Mogale City municipalities – 2011/12, 2012/13 and 2013/14

The figures above reflect the revenue received annually, which has an impact on the financial liquidity of the organisation. A realistic budget is compiled to ensure that there is a ninety percent or greater collection rate for a municipality so that it can afford to render quality services to its communities. In addition to the revenue collected, municipalities receive grants as detailed below.

Table 3.3. Equitable share allocation and population sizes for the two municipalities under review:

Local Municipality	Equitable share allocation per financial year R (000)			
	2011/12	2012/13	2013/14	Population
Merafong City	167,868	185,846	181,074	197, 520
Mogale City	189,605	210,117	222,291	362, 422

Sources: Division of Revenue Act 2011, 2012, 2013 and 2014; Budgets for Merafong City and Mogale City municipalities 2011/12, 2012/13 and 2013/14

The formula for calculation of the equitable share by National Treasury is supposedly based on the population statistics. However, this seems not to be the case, when looking at the annual allocation for the two municipalities in the table above. The difference in allocation amounts received is less than the margin of their population sizes. Mogale City with a population of well-over 300,000 people has received significantly different allocation amounts in comparison to the small difference in population sizes. Looking at the between-city comparison, Merafong City with a much smaller population receives a proportionally larger share close to Mogale City's share. One then wonders, what other factors play a role in the determining the 'equitable' share allocation. The allocation for Merafong City for 2013/14 financial year was R197.5 million compared to Mogale City's R222.3

million. Population of Mogale City is almost double the size of Merafong City, but the equitable allocation is not even one and half.

3.2 PROBLEM STATEMENT

It is alleged that most municipalities in South Africa are currently struggling to meet their financial obligations either over the short or long term, such as servicing loans taken in the past to fund infrastructure, pay for bulk services from Eskom and Rand water and in some cases, even struggling to pay monthly salaries (Annual Reports and Audited AFS, Merafong City and Mogale City municipalities. 2011/12. 2012/13 and 2013/14). This can be seen from the annual financial results reflecting municipalities trade creditors. Heavy reliance on government grants is the order of the day. This seems to be caused mainly by the failure of management to properly implement credit control and debt collection policy in all areas, due to political interference in policy implementation and possibly as a favour to the community.

Politicians are elected into power to represent the community in the Council in an equitable and fair manner so that quality services can be rendered in a sustainable way and infrastructure development provided to continuously improve the quality of residents' lives. Working capital, when managed properly, has the benefit of improving cash flows by decreasing outstanding debtors, reducing excessive stock holdings, and utilizing credit terms from creditors, (Pauw et al, 2009: 208). When municipalities fail to collect revenue, they place greater reliance on external sources of funding such as turning to National Treasury for bail outs (Allen and Heese, 2011). Failure to collect one's own revenue such as property rates, services fees, etc., leaves local government unable to meet the day-to-day activities of the municipality. This makes the municipal budgetary process difficult leading to increased

compliance risk and non-affordability to render quality services. Poor cash and debtors' management leads to collected revenues shortfalls, resulting in late payment of creditors and ultimately, to a liquidity crisis. According to Pauw et al (2009), working capital management has frequently forced viable businesses to discontinue their operations. The fiscal capacity means the ability to collect own source revenue to meet operational needs. Maharaj (2012) study shows that on average in South Africa, municipalities are very much dependent on the central government to finance their activities.

It seems as if there is a need for capacitating politicians with financial and technical skills regarding their roles and responsibilities, so that they understand the governance issues. It is alleged that most councillors do not possess adequate skills as they are not appointed on the basis of curriculum vitae submissions but elected through a voting system. One finds a taxi driver, or a street vendor being voted into Council and he/she is then expected to govern the municipality as a collective with other councillors who more or less possess the same background. This is a recipe for disaster and failure if not well managed, as has become obvious throughout the country. The establishment of Council is mostly followed by political appointments of managers and senior managers, which is another disaster in the making. Those expected to advise the inexperienced and uneducated councillors are also found wanting due to lack of skills, qualifications and relevant job experience. Bad decisions on infrastructure development or service delivery projects and programmes can adversely affect the financial viability of any organisation. This lack of management skill has a negative impact on the collection of municipal revenue, which is required to fund the budget and IDP projects and programmes. The whole cycle of working capital management can be totally disrupted, if the methods of generating cash as well as converting current assets into cash are derailed in any way. It is crucial for an organisation to have a positive Net Working Capital (NWC)

as this is an indication that an entity is able to pay its current liabilities such as creditors as they become due and payable (Els et al 2010:391).

3.3. OBJECTIVES

3.3.1 MAIN OBJECTIVE

Developing guidelines to manage operating capital for sustainable financial viability.

3.3.2 SUB OBJECTIVES

- Design a guideline for managing working capital to improve service delivery; and
- Develop procedures for the collection of all monies due to council to enable funding of service provision and operations.

3.4. RESEARCH METHODOLOGY

Two tests were used namely, the Keyser-Meyer-Olkin (KMO) test of sample adequacy and the Bartlett's test of Sphericity. A questionnaire was distributed for completion by management and senior officials of the three organisations from Merafong City, Mogale City in the West Rand region and Gauteng Provincial Treasury. The Cronbach Alpha coefficient was used in performing reliability test as well as doing the factor analysis for determining the usefulness and the validity of the questionnaire. Lastly, recommendations were made based on the findings of the study.

3.5. LITERATURE REVIEW

The working capital management literature was analysed to ensure that the current situation in municipalities is managed properly for continued funding allocation for quality service rendering and infrastructure development. The research was done on the data collected by the questionnaires distributed to and completed by the participating population, which provided their views regarding the study on hand. The measuring instrument included closed ended questions set on a four-point Likert scale, consisting of one hundred and forty questions for the entire study. The statements' response continuum ranges from 1 to 4, where 1 = strongly agree; 2 = agree; 3 = disagree and 4 = strongly disagree. The questionnaire had three sections

The data was tabulated, primarily to determine the empirical distribution of variables from the questions and to calculate descriptive statistics. A frequency part represents the number of responses received by each question (Sekaran, 2003).

The theoretical approach focuses on the research methodology used to validate the questionnaire. Therefore, the collected data had to be validated in order to determine the validity of the questionnaire.

3.5.1 Validity

The validity is the extent to which a test measures what it claims to measure accurately (Bisschoff, Kade. 2010). It is important for a test to be valid so that its results can be accurately interpreted and applied accordingly.

The construct validity is a concept used to validate research questionnaire through scrutinising evidence presented for supporting the identified constructs during the

analysis. It assumes relationships between the test and measures of constructs (Chummun, 2012).

3.5.2 Reliability

The reliability is the consistency of the outcome of a measure on repeated use. For example, an instrument such as a questionnaire which produces different results or scores if tested under same conditions is considered having a low reliability (Field, 2007). The questions on a questionnaire are designed to determine the reliability of the research data. Cronbach Alpha is the popular reliability statistics as published by the mathematician Cronbach in 1951. It determines the internal consistency of variables in a survey. An Alpha coefficient of 0.50 is sufficient for the further analysis of data (Santos, 1992).

3.5.3 Factor analysis

The factor analysis operates on the notion that measurable and observable variables can be reduced to fewer latent variables that share a common variance and are unobservable, which is known as reducing dimensionality (Bartholomew, Knott, & Moustaki, 2011). A factor loading of 0.40 is considered satisfactory even though the cumulative variance of 0.60 or more is considered to be acceptable. It is crucial that the questions on the questionnaire measure accurately what they are supposed to measure, which confirms validity. For example, having four questions measuring a construct. The data or answers obtained from such questions should confirm whether that factor relates to infrastructure development and if not, be discarded.

3.5.4 Bartlett's test of Sphericity

The Bartlett's test of Sphericity is an indicator of the relationship strength among variables as well as the suitability of data for statistical techniques such as factor analysis. It examines if the variables are correlated or uncorrelated in the population being tested. This test is used to test the null hypothesis of variables in the population correlation matrix that are uncorrelated (Coakes et al, 1997). The population correlation matrix is an identity of each variable to ascertain whether it correlates well when its value is = 1 or has no correlation with other variables when it is = 0 (Mediaspace, 2007).

The acceptable significance level is 0.0001, which is small enough to reject the hypothesis. One may therefore conclude that the relationship strength among variables is strong, so that it would be acceptable to proceed with a factor analysis, since the data should yield a p-value smaller than 0.0001. This confirms that the inter-relationship between variables is sufficient for factor analysis (Du Plessis, 2009).

3.5.5 Kaiser-Meyer-Olkin (KMO) measure of sampling

The KMO is a measure of sampling adequacy and an index for comparing magnitudes of observed- to the partial correlation coefficients (Mediaspace, 2007). The correlation coefficient is a statistical measure that calculates the strength of the relationship between the relative movements of two constructs. This measure of sampling determines if a relationship between variables is strong enough in order to proceed with factor analysis and returns a value of between 0 and 1.

For values smaller than 0.5, the factor analysis of the variable is likely to be inappropriate, while a KMO value in excess of 0.5 but below 0.7 indicates that the factor analysis is reliable. The values between 0.7 and 0.8 are considered as good whilst ones above 0.8 to 0.9 are seen as excellent. The values between 0.9 and 1 are seen as extremely good (Field, 2007). The larger the KMO value, the more reliable the factor analysis is for that sample size (Du Plessis, 2009).

3.6 RESULTS

The empirical results of the study are presented per the relevant sections of the questionnaire depicted in Appendix A. The said sections were subjected to exploratory factor analysis (EFA), namely infrastructure development, infrastructure investment, funding allocation, delegations of authority, corruption and community consultation. The suitability of factor analysis in each part was tested using the KMO measure for sampling adequacy and the Bartlett's test for Sphericity. KMO values in excess of 0.5 are acceptable for this study while Cronbach Alpha values more than 0.6 are considered to confirm reliability and a good match of data analysed.

Table 3.3.1: Demographic information analysis

Qualifications		Designation		Race		Gender	
	Number		Number		Number	Female	Male
Matric	24	Municipal Manager	0	Black	197	75	132
National Diploma	90	Executive Director	6	Indian	1		
Degree	74	Director/Manager	53	White	9		
Honors	11	Senior Finance Officer	141				
Masters	4	Councilor	1				
PhD	0	Undisclosed	1				
Undisclosed	4						
Total:	207		207		207		

A fairly proportional representation of both organisations is depicted above with 95% blacks, 0.5% Indians and 4.3% whites. Gender is represented as 36.2% females and 63.8% males. A total sample of 207 questionnaires were accounted for and analyzed in detailed.

3.6.1 Section 2 (Questionnaire): Components of working capital management for the provision of quality services

3.6.1.1. Section 2 Part 1: Revenue collection

The results of the analysis for **Revenue collection** are reflected in table 3.3.2 below.

Table 3.3.2: Descriptive statistics for Factors

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Councillors in the organization I am involved with:</u>						
Understands the needs of the community with regards to provision of services.	15 (7.3%)	181 (87.9%)	10 (4.9%)	0 -	1,98	0,35
Ensures the existence of Council policies providing clear guidelines for management of municipal working capital.	13 (6.3%)	156 (75.7%)	37 (18%)	0 -	1,98	0,35
Ensures that council can afford to provide quality services to the community.	3 (1.5%)	170 (82.5%)	33 (16%)	0 -	2,12	0,48
Consult extensively with the community on the annual tariffs increases for rates and services.	22 (10.7%)	175 (85.0%)	8 (3.9%)	1 (0.5%)	2,15	0,39
Consult extensively with the community on credit control processes currently in use by the municipality.	2 (1.0%)	30 (14.6%)	130 (63.1%)	44 (21.4)	1,94	0,40

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
Consult extensively with the community on the required repairs and maintenance of municipal assets.	1 (0.5%)	23 (11.2%)	136 (66.0%)	46 (22.3%)	3,05	0,63
Ensures that there are skilled/competent employees to manage finances of the municipality.	6 (2.9%)	179 (86.9%)	20 (9.7%)	1 (0.5%)	3,10	0,59

Table 3.3.3: KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Revenue collection

Statements	Factor loadings
Consult extensively with the community on credit control processes currently in use by the municipality.	0.923
Consult extensively with the community on the required repairs and maintenance of municipal assets.	0.907
Consult extensively with the community on the annual tariffs increases for rates and services.	0.302
Reliability coefficient	0.633
Mean	2,36
Standard deviation	0,39
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.506
Bartlett's test of Sphericity	<0.001
Total Variance Explained	58.83%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and therefore an exploratory factor analysis can be performed. The KMO value of 0.506 confirms the factor's reliability. The factor analysis identified factor loadings, extracted as shown below.

Factor loadings

The statements “Consult extensively with the community on credit control processes currently in use by the municipality” and “Consult extensively with the community on the required repairs and maintenance of municipal assets” loaded heavily on this factor with a value above 0.9, suggesting very good reliability and consistency. Statement “Consult extensively with the community on the annual tariffs increases for rates and services” loaded below 0.5, suggesting less reliability and consistency.

3.6.1.2 Section 2 Part 2: Compliance to legislation

The results of the analysis of compliance to legislation are reflected in table 3.3.4 below.

Table 3.3.4: Descriptive statistics for Factors - Compliance to legislation

<u>Statement/s</u>	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Management of the organisation I'm involved with:</u>						
Ensures that there are adequate financial management policies in place to ensure compliance to correct processes.	31 (9.3%)	173 (55.1%)	1 (30.7%)	0 (0.5%)	2,08	0,38
Ensures that financial management policies are aligned to the Municipal financial legislations (Municipal Finance Management Act, Municipal Systems Act, and Municipal Property Rates Act).	40 (19.5%)	165 (80.5%)	0 -	0 -	1,85	0,37
Ensures compliance to financial management legislation is not compromised by this organisation at any point.	27 (13.2%)	170 (82.9%)	8 (3.9%)	0 -	1,80	0,40
	8 (3.9%)	91 (44.4%)	76 (37.1%)	30 (14.6%)	1,91	0,40

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
Ensures that cash is readily available to pay suppliers and service providers on time.						
Ensures that billing of property rates and services is accurate.	9 (4.4%)	185 (90.2%)	10 (4.9%)	1 (0.5%)	2,62	0,78
Ensures that the monthly accounts are mailed to consumers and rate payers on time.	6 (2.9 %)	188 (91.7%)	11 (5.4%)	0 -	2,01	0,34
Manages debtors effectively to ensure accuracy of the debtors' book.	5 (2.4%)	192 (93.7%)	8 (3.9%)	0 -	2,02	0,29
Manages inventory/ stock efficiently to avoid keeping excessive stock for goods needed for service delivery.	8 (3.9%)	168 (82.0%)	27 (13.2)	2 (1.0%)	2,01	0,25
Manages inventory/ stock efficiently to avoid having stock shortages for goods needed for service delivery.	3 (1.5%)	104 (51.0%)	79 (38.7%)	18 (8.8%)	2,11	0,45

Table 3.3.5 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Compliance to legislation

Statements	Factor loadings
Ensures that financial management policies are aligned to the Municipal financial legislations (Municipal Finance Management Act, Municipal Systems Act, and Municipal Property Rates Act)	0.877
Ensures that there are adequate financial management policies in place to ensure compliance to correct processes.	0.885
Ensures compliance to financial management legislation is not compromised by this organisation at any point.	0.852
Reliability coefficient	0.660
Mean	2,12
Standard deviation	0.33

Statements	Factor loadings
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.704
Bartlett's test of Sphericity	<0.001
Total Variance Explained	51.20%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements. Therefore, an exploratory factor analysis can be performed. The KMO value of 0.704 confirms the factor's reliability.

Factor loadings

The three statements namely: "Ensures that financial management policies are aligned to the Municipal financial legislations (Municipal Finance Management Act, 2003; Municipal Systems Act, 2000; and Municipal Property Rates Act, 2004)", "Ensures that there are adequate financial management policies in place to ensure compliance to correct processes", and "Ensures compliance to financial management legislation is not compromised by this organisation at any point", loaded heavily on this factor with values above 0.8, suggesting very good reliability and consistency. A lack of reliability however, would not necessarily discard the factor for the current study. The Cronbach Alpha coefficients were calculated for this factor loadings in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.6 showing that it has more reliability and more satisfactory value.

3.6.1.3 Section 2 Part 3: Credit control

The results of the analysis of **credit control** reflect on the table 3.3.6 below.

Table 3.3.6: Descriptive statistics for Factors

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>The credit control and debt collection criteria currently in use by my organisation:</u>						
There is a formal criterion used by your organisation to implement credit control and debt collection in all areas.	43 (21.0%)	161 (78.5%)	1 (0.5%)	0 -	2,55	0,68
The current credit control policy as approved is in writing.	52 (25.4%)	153 (74.6%)	0 -	0 -	1,80	0,42
The approved Debt collection policy is in place.	46 (22.4%)	159 (77.6%)	0 -	0 -	1,75	0,44
The credit control policy is implemented fairly to all ratepayers and consumers.	4 (2.0%)	142 (69.6%)	47 (23.0%)	11 (5.4%)	1,78	0,42
Poor households are provided with sufficient free basic services (FBS) in our communities.	13 (6.3%)	191 (93.2%)	1 (0.5%)	0 -	2,32	0,61
Supply of free basic service is controlled and managed properly.	5 (2.4%)	143 (69.8%)	48 (23.4%)	9 (4.4%)	1,94	0,26
In my opinion, FBS is abused by the non-qualifying community members.	13 (6.3%)	110 (53.7%)	79 (38.5%)	3 (1.5%)	2,30	0,59
Adequate funding is available to provide poor households with FBS.	4 (2.0%)	173 (84.4%)	25 (12.2%)	3 (1.5%)	2,35	0,62
Current collection rate is satisfactory.	6 (2.9%)	86 (42.2%)	79 (38.7 %)	33 (16.2%)	2,13	0,43
Current payment levels by the community are satisfactory.	0 -	76 (37.3%)	95 (46.6%)	33 (16.2%)	2,68	0,78
Inability to collect adequate revenue by the municipality is caused by the following: Water shortages' causes.	14 (6.8%)	67 (32.7%)	114 (55.6%)	10 (4.9%)	2,79	0,70
Electricity interruptions.	0 -	38 (18.5%)	144 (70.2%)	23 (11.2%)	2,59	0,69
Potholes on the roads.	25 (12.2%)	84 (41.0%)	87 (42.4%)	9 (4.4%)	2,93	0,54

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
Lack of recreational facilities.	12 (5.9%)	65 (31.7%)	117 (57.1%)	11 (5.4%)	2,39	0,76
Credit control policy is aligned to municipal finance legislation (MFMA) effective	53 (25.9)	149 (72.7%)	3 (1.5%)	0 -	2,62	0,68
In my view, Credit control policy implementation is effective	15 (7.4%)	80 (39.6%)	75 (37.1%)	32 (15.8%)	1,76	0,46

Table 3.3.7 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Credit control

Statements	Factor loadings
Current collection rate is satisfactory	0.702
Current payment levels by the community are satisfactory.	0.735
In my view, Credit control policy implementation is effective	0.345
The credit control policy is implemented fairly to all ratepayers and consumers.	0.157
There is a formal criterion used by your organisation to implement credit control and debt collection in all areas.	0.904
The current credit control policy as approved is in writing.	0.916
Ensures that cash is readily available to pay suppliers and service providers on time.	0.735
Ensures that billing of property rates and services is accurate.	0.663
Ensures that the monthly accounts are mailed to consumers and rate payers on time.	0.592
Manages debtors effectively to ensure accuracy of the debtors' book.	0.530
Reliability coefficient	0.711
Mean	2,11

Statements	Factor loadings
Standard deviation	0,39
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0. 639
Bartlett's test of Sphericity	<0.001
Total Variance Explained	43.55%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and that an exploratory factor analysis can therefore be performed. The KMO value of 0.639 confirms the factor's reliability. The factor analysis identified factor loadings that were extracted as shown below.

Factor loadings

The following statements namely: "Current collection rate is satisfactory" and "Current payment levels by the community are satisfactory loaded heavily on this factor as they are above 0.7, suggesting very good reliability and consistency. Statements. "In my view, Credit control policy implementation is effective", and "The credit control policy is implemented fairly to all ratepayers and consumers", loaded below 0.4, meaning they have less reliability and less consistency.

The free basic services (FBS) are abused by the non-qualifying community members", loaded negatively suggesting no reliability and consistency. It was then left out as it did not fit the profile.

3.6.1.4 Section 2 Part 4: Servicing of creditors

This part was "therefore" removed from the analysis, as it had a limited scope.

3.6.1.5 Section 2 Part 5: Inventory management skills

The results of the analysis of **inventory management skills** are reflected in table 3.3.8 below.

Table 3.3.8: Descriptive statistics for Factors

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Inventory management:</u>						
The municipality having enough stock to provide municipal services efficiently and effectively.	0 -	92 (44.9%)	93 (45.4%)	20 (9.8%)	1,96	0,63
The municipality is using Just in Time stock levels.	14 (6.8%)	129 (62.9%)	59 (28.8%)	3 (1.5%)	2,65	0,65
In my view, stock theft is causing stock shortages.	25 (12.2%)	161 (78.5%)	19 (9.3%)	0 -	2,25	0,60
In my view, lack of inventory management skills causes stock shortages.	14 (6.9%)	140 (68.6)	50 (24.5%)	0 -	1,97	0,46

Table 3.3.9 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Inventory management skills

Statements	Factor loadings
The municipality is using Just in Time stock levels.	0.785
In my view, stock theft is causing stock shortages.	0.751
In my view, lack of inventory management skills causes stock shortages.	0.745
Reliability coefficient	0.516
Mean	2,18
Standard deviation	0,53
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0. 504
Bartlett's test of Sphericity	<0.001
Determinant	45.01%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and that an exploratory factor analysis can therefore be performed. The KMO value of 0.504 confirms the factor's reliability. The factor analysis identified one factor that was extracted as shown below.

Factor loadings

All the statements namely "The municipality is using Just in Time stock levels", "In my view, stock theft is causing stock shortages", and "In my view, lack of inventory management skills causes stock shortages", loaded heavily on this factor with values above 0.7, indicating very good reliability and consistency.

The Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.5 showing a good reliability, consistency and a satisfactory value. A lack of reliability would not necessarily, discard the factor from the current study.

3.7 THE IMPORTANCE OF MANAGING WORKING CAPITAL

A working capital consists primarily of cash, inventory and accounts receivable. The organisation holds working capital for the same purpose as any other asset, which is to maximise the value of the firm. The organisation should not hold either idle current assets or idle fixed assets. The minimisation of inventories or stock, investment of excess cash and elimination of unnecessary short-term financing contribute to the maximisation of organisation's value by taking the time value of money into consideration (Marx & de Swardt, 2013: 12,13). Net working capital is used to determine the organisation's liquidity, which is its ability to satisfy its short-term obligations as they become due. Municipal Finance Management legislation

stresses the importance of municipalities paying all outstanding invoices within 30 days on receipt (MFMA, Section 65). Appropriate financial planning and working capital management systems are required to keep an organisation solvent. The role of working capital control systems is to signal deviations from financial plans and to ensure that investment in working capital remains liquid. (Broyles, 2003: 350,351). For example, when a billing rate of only 80% is achieved compared to a target of 90%, it implies a deviation between actual revenue and planned revenue, which requires the design and implementation of corrective actions to improve conditions.

Table 3.4 Net Working Capital of municipalities under review:

Local Municipality	Net Working Capital per financial year R(000)			
	2011/12	2012/13	2013/14	Population "number"
Merafong City	12,434	83,531	110,176	197, 520
Mogale City	-113,695	-42,673	-96,742	362, 422

Sources: Annual Reports – 2011/12, 2012/13 and 2013/14; Budgets for Merafong City and Mogale City municipalities 2011/12, 2012/13 and 2013/14

This ratio is calculated by subtracting current liabilities from current assets in order to determine the liquidity of the organisation, in other words, if it is in a position to service its obligations when they become due (Marx et al, 2013:72,165).

$NWC = \text{Current Assets} - \text{Current Liabilities}$

Red flags are evident in the table above with the negative Net Working Capital for Mogale City. It signals that they are experiencing an over-commitment on obligations that they might not be able to honour. Although the two municipalities are still managing their current liabilities (short term obligations) and current assets (short term assets), there is still room for improvement, especially in the case of Merafong City.

Table 3.5 Current ratios of municipalities under review:

Local Municipality	Current ratios per financial year			
	2011/12	2012/13	2013/14	Population
Merafong City	1.0	1.1	1.3	197, 520
Mogale City	0.8	0.9	0.8	362, 422

Sources: Annual Reports Merafong City and Mogale City municipalities – 2011/12, 2012/13 and 2013/14.

This ratio is used to measure liquidity of the organisation (Bromberg,1997: 190).

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 3.6 Average Collection Period (ACP) ratios per municipality:

Local Municipality	ACP - per financial year (days)			
	2011/12	2012/13	2013/14	Population
Merafong City	161	166	181	197, 520
Mogale City	132	147	133	362, 422

Sources: Annual Reports Merafong City and Mogale City municipalities – 2011/12, 2012/13, and 2013/14

This ratio is useful in determining the usefulness of credit control and debt collection policies. One divides the account receivable balance by the average annual credit sales (Marx et al, 2013:72).

$$\text{ACP} = \frac{\text{Accounts receivable}}{\text{Annual Sales} / 360 \text{ days}}$$

Table 3.7 Average Payment Period (APP) ratios per municipality

Local Municipality	APP - per financial year			
	2011/12 (days)	2012/13 (days)	2013/14 (days)	Population
Merafong City	146	183	212	197, 520
Mogale City	115	234	241	362, 422

Sources: Annual Reports Merafong City and Mogale City municipalities – 2011/12, 2012/13 and 2013/14

This ratio is used to determine the average period it takes for the organisation to pay its outstanding creditors. The longer it takes to pay, the bigger the signs of financial distress (Marx et al, 2013).

$$\text{APP} = \frac{\text{Accounts payable}}{\text{Annual purchases} / 360 \text{ days}}$$

3.8. ROLEPLAYERS IN WORKING CAPITAL MANAGEMENT FOR MUNICIPALITIES

The main role players in ensuring either sound or poor working capital management in municipalities are listed below:

- Ratepayers (residents, businesses, government, etc.);
- Consumers of municipal services;
- Officials at Finance, Electricity, Water and Refuse Removal sections;
- National and Provincial Treasury; and
- Financial institutions.

3.8.1. Ratepayers

Ratepayers are the most important clients of a municipality as they are the owners of properties within the municipal boundaries, which they either use for residential or business purposes. The Municipal Property Rates Act requires that municipalities must adopt a Property Rates policy and by-law to enable Council to levy property rates on its ratepayers. The appropriate billing processes need to be in place from contract formalisation to the filing of critical documents to ensure bills are sent to the right people (MPRA, 2004).

The councillors need to play a crucial role in ensuring that the ratepayers pay their bills to the municipality so that quality services such as street-lighting, roads maintenance, parks and sports facilities as well as traffic policing, can be provided.

3.8.2. Consumers of municipal services

Consumers are either public or private owners of properties or tenants renting properties. It is very important that the municipality has adequate controls in place to ensure that the consumption and billing of services is respectively, measured and done accurately. Meter tampering simply to avoid paying for electricity and water services, has become a major area of concern. Currently municipalities are battling to control this problem as it leads to huge water and electricity revenue losses as can be seen in their annual reports. These losses equate to millions of rand which could have been better used for service delivery. The following tables 3.8 and 3.9 depict water and electricity losses which have a negative impact on cash flow and working capital management.

Table 3.8 Water losses for municipalities under review

Local Municipality	Per financial year (%)			
	2011/12	2012/13	2013/14	Population
Merafong City	33.3	38.9	41.7	197, 520
Mogale City	31.0	24.0	29.0	362, 422

Sources: Annual Reports for Merafong City and Mogale City municipalities – 2011/12, 2012/13 and 2013/14

Table 3.9 Electricity losses for municipalities under review

Local Municipality	Per financial year (%)			
	2011/12	2012/13	2013/14	Population
Merafong City	20.1	18.3	18.2	197, 520
Mogale City	5.8	7.5	9.7	362, 422

Sources: Annual Reports for Merafong City and Mogale City municipalities – 2011/12, 2012/13 and 2013/14.

3.8.3. Management and municipal officials

Management and municipal officials need to take responsibility in ensuring that each and every one plays their role in ensuring that the municipality has a healthy working capital base that supports the sustainable rendering of quality services to the community. So-called 'political appointments' with no proper skills and qualifications tend to hamper municipal efforts in this regard. This challenge needs to be addressed urgently in order to ensure that communities receive the quality services they deserve as municipal ratepayers and consumers of services.

3.8.4. National and provincial treasuries

This National and Provincial departments are there to support municipalities with technical and financial skills needed to enable them to comply with financial and non-financial legislation, including the Constitution (MFMA, 2003). The allocation of grants for operational and capital projects are managed and disbursed by these government departments to facilitate service provision to the communities at large (DORA, 2015). The National and Provincial Treasuries play an important role in providing oversight over municipalities by ensuring that continuous reporting (monthly, quarterly, bi-annually and annually) is done regarding compliance with budget processes and how allocated funds have been spent to render services and promote infrastructure development (MFMA, 2003).

3.8.5. Financial institutions

The municipalities are allowed in terms of section 45 and 46 of the MFMA to approach financial institutions for either short term funding such as loans and

overdrafts, or long-term funding such as longer-term loans to finance capital projects (MFMA, 2003). The municipalities often use institutions the Development Bank of Southern Africa and registered banks (registered in terms of the Banking Act). These banks in turn, are also consumers of municipal services and ratepayers who have to pay their rates and taxes. Most municipalities conventionally, rely on these banks to finance capital projects other than those funded by grants, as grants are insufficient to address the almost unlimited needs of communities. The affordability always prevents municipalities from obtaining more loans to fund infrastructure development due to low payment levels in most municipalities (DBSA, 2011).

3.9. SOLUTIONS

3.9.1. Standardising financial systems used for billing and reporting

This will assist in ensuring that economies of scale are created allowing municipalities to share their challenges and solutions when dealing with system related issues. The sharing costs of the system will enable municipalities to save money and focus on spending it to service delivery activities and initiatives.

A Credit control and debt collection policy implementation in a consistent and fair manner, is crucial to ensure that all monies that are owed to Council are collected when they become due. This process will enable that the municipality has adequate cash to fund its operations such as refuse removal, sewer spillage attendance and an uninterrupted electricity and water supply. The servicing of municipal creditors within the prescribed time lines is also critical to ensure that those companies doing business with the municipality are not compromised by non- or late payments of their invoices. Looking at the liquidity for the municipalities under review, one notices a correlation between cash flow problems, increase in accounts receivable and

accounts payable due to weak internal controls that might have a lot to do with inadequate financial management.

3.9.2. Installation of smart metering (water and electricity)

The metropolitan municipalities throughout South Africa are seen to be leaders in the field of smart metering which has seen them being in a better position when handling water and electricity losses. The smaller municipalities, like the ones under review, are encouraged to follow suite in order to deal decisively with the disease of meter tampering by consumers of municipal services. A proactive thinking by municipal offices will go a long way in addressing challenges, for the better of the municipality.

3.9.3 Training and development of councillors

The South African Local Government Association (SALGA) has a long way to go in supporting councillors with the relevant training and development for them to understand their roles in communities and in Council. It is perceived that most councillors do not understand the impact of political interference and do not seem to understand that if communities are not paying for their municipal services, there will be no money to render such services to the community which in turn, will result in community protests against Council and councillors respectively.

3.9.4. Data cleansing

The municipalities are encouraged to continuously clean their data by obtaining information from the deeds office of property registrations, do valuation rolls and supplementary rolls to ensure that changes to the status of any property is recorded

accurately to the financial system to avoid municipal revenue losses. The late estates should be attended to and the necessary support be given to the remaining family of the deceased.

3.9.5. Appointment of skilled, competent and qualified employees

The municipalities are encouraged to change the ball game and take service delivery seriously by appointing skilled, competent and qualified employees to ensure drastic improvement of the current situation. More than twenty years into democracy, the country can do better and show commitment to the communities.

3.10. IDENTIFICATION OF INDEPENDENT AND DEPENDENT VARIABLES ON WORKING CAPITAL MANAGEMENT

3.10.1 Credit control

Credit control is the system used by a business to make sure that it gives credit only to customers who can pay, and that customers pay on time. Credit control is part of the financial controls that are employed by businesses particularly in manufacturing to ensure that once sales are made, they are realised as cash or liquid resources.

According to Cambridge Dictionaries Online, credit control is “The system used by a business to make certain that it gives credit only to customers who are able to pay, and that customers pay on time.” It is very important for any organisation to continuously implement credit control activities for ensuring collection of all income due and payable by its clients. This is done to ensure that there are adequate funds available to fund the organisation’s operations.

3.10.2 Revenue collection

Revenue collection is the most crucial function in any organisation in order to ensure that there is money available to pay for operational and capital expenditure (Corinne,1995). Both fixed and variable expenses should be matched with revenue for funding. In a municipal context, revenue collection policy must be in place detailing processes and procedures to be followed when collecting monies due to the municipality (Tigue,1998). The community and businesses should play a part by paying for services they consume so that in return the municipality can afford to render quality services, invest in infrastructure development which will ultimately improve the community's quality of life.

3.10.3 Compliance to legislation

Good governance is linked to full compliance to legislation which in turn guarantees clean audit outcomes and rendering of quality services. The legislation governing different spheres of government are passed at parliament to ensure that there is law and order in the management of public resources and responsibilities by all involved. The importance for compliance with legislation cannot be overemphasised at the municipal level. Management is expected to develop and review all policies applicable to a municipality and get council approval of such policies by council adoption (MFMA, 2003). When policies are adopted by council, they become the law of the municipality. It is crucial that such policies are aligned to national legislation (MSA, 2000).

3.10.4 Inventory management skills

The municipalities keep large amounts of stock items that are used in daily operations such as cables for fixing electrical problems, water and electricity meters for replacing damaged meters, stationery and other equipment. These stock items need to be kept safe and be recorded properly in the municipal financial books for proper accountability as part of asset management (MFMA, 2003). Employing skilled employees is very important to ensure that stock items are recorded correctly when received and when dispatched so that true reflection of actual stock is always reflecting on municipal accounting books (MFMA, 2003). The training and development is needed at all times for staff handling municipal stock.

3.11 SUMMARY

This study has shown that there is a dire need for improving the management of working capital in class B municipalities to ensure achieving rendering of quality services to the communities. The skills improvement of both the municipal officials and councillors cannot be overemphasised. The data cleansing of billing information needs to be undertaken on an ongoing basis in order to eliminate errors on municipal accounts. Having an integrated billing system with meter reading system is beneficial for managing zero consumption which leads to income losses if not detected and attended to timeously. Billing accurately and sending accounts on time assist customers to pay on time too (MFMA, 2003). Credit control and debt collection play a crucial role in boosting working capital in order to be able to finance operations in a sustainable manner. A sound working capital helps with affording provision of quality services and allocation of funding the much-needed

infrastructure development projects and programmes which benefits the communities.

The municipalities should ensure that their value chain is accurate and correct from the billing of services and property rates, to having the correct identity numbers and other important details of customers, such as addresses. This will ensure that monthly accounts or statements are received by consumers for them to honour their obligation to pay for the services consumed and property rates levied (MSA, 2000). Currently, the perception is that municipal data is corrupted which results in incorrect billing and inaccessibility to meters for monthly readings of water and electricity consumption. The efforts must be made by all relevant officials in a municipality to ensure that the correct information is obtained and updated on the billing system to enable accurate billing. Once billing has been done, the mailing of accounts to correct addresses is of the utmost importance. The technology has enabled some municipalities to load monthly consumer statements to their website for easy access by consumers and ratepayers.

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CHAPTER 4

ARTICLE THREE:

A GUIDELINE FOR REWARDING EXECUTIVES - ACHIEVING SET TARGETS

ABSTRACT

Rewarding executives for excellent performance tends to yield positive results for both the organisation and the executives when coupled to realistic key performance areas and audited outcomes. The general argument is that the setting measurable, realistic and time bound targets before the start of the financial year. This is coupled with performance agreements for executives and other managers in an organisation. It helps to ensure that everyone takes responsibility for their roles and responsibilities to achieve targets.

in relation to the above, one has to take note that a municipality's performance management system entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed. It includes determining the roles of the different role players (Municipal Planning and Performance Management Regulations, 2001).

The Municipal Systems Act (Act no 32 of 2000) states that a municipality must in terms of its performance management system set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact with regards to the municipality's development priorities and objectives set out in its integrated development plan. The municipality should monitor performance; measure and review performance at least once per year. In addition, it should take

steps to improve performance with regards to those development priorities and objectives where performance targets are not met. The MSA further requires that a municipality must establish a process of regular reporting to the council, other political structures, political office bearers and staff of the municipality; and must device a system that may serve as an early warning indicator for any under-performance detected.

What is concerning is the current trend of municipal protests by the communities in different parts of the country calls for improved service delivery and infrastructure development from municipalities. For a municipality to achieve its targets entailed in the strategic plan called Integrated Development Plan (IDP), it is crucial to have realistic targets, activities and time frames assigned to specific executives. In this context, the perceived lack of service delivery commitment of municipal employees makes matters worse when reported water leaks and damaged or faulty electricity meters are not fixed on time. Allegations about waste/ or refuse bags in the municipal area that are not collected for days on end because of broken down waste removal trucks and absenteeism of waste collectors.

The so-called 'political appointments' have been a significant problem affecting all South African municipalities, which has had a negative impact on performance and the provision of quality services and infrastructure development in municipal areas. Looking at the statistics obtained during the study, one can confidently conclude that government must face up to its responsibility and address this problem as a matter of urgency. Drastic actions are required including the appointment of qualified, competent and experienced people both at management and senior management level as well as financial and technical experts.

Rewards in terms of performance bonuses are currently being implemented in most municipalities throughout the country. It is seen as a motivator for executives to perform to the best of their ability to achieve set targets linked to the approved strategic goals of the municipality.

Key words: performance management, rewards, executives, service delivery, infrastructure development, Integrated Development Plan.

4.1 INTRODUCTION

The most common reward for executives in a South African municipal environment is the individual-orientated incentive pay plan, more commonly known as management incentive plans. Individual incentive plans reward individual employees for meeting work related performance standards such as productivity, quality, safety, customer satisfaction or attendance. Individual incentive pay plans are appropriate under three conditions, namely:

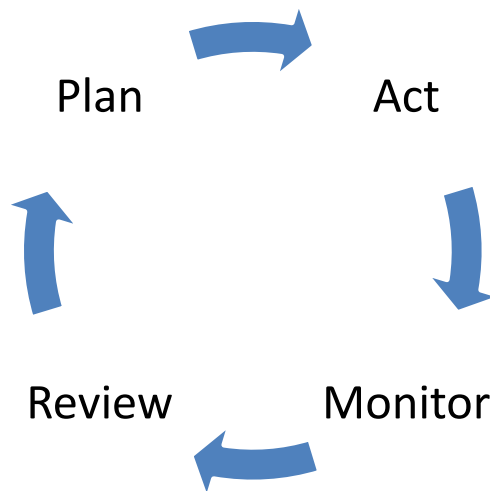
- a) When employees' performance can be measured objectively;
- b) When employees have sufficient control over work outcome; and
- c) When they do not create a level of unhealthy competition among workers that ultimately leads to poor quality of work (Martocchio, 2011).

Performance management plays an important role in reward management. It is a strategic and integrated process that is supposed to deliver sustainable success to organisations by improving the performance of employees and by developing the capabilities of individual contributors and teams (Armstrong, 2007: 139). It is critical that performance agreements are concluded between the head of the organisation and the employees reporting to him/her before the start of the financial year. Such performance contracts should detail the activities expected to be performed by the management with time frames. The key performance targets and indicators should be outlined and be specific so as to avoid unnecessary disputes that might arise when it is time for evaluation or assessment of performance outcome.

Figure 4.1 depicts the stages of performance management from the legislation, to planning, execution to review by relevant bodies. It is a repetitive cycle that occurs

every year in line with Municipal systems Act and Municipal Performance management regulations.

Figure 4.1 Performance management cycle



Source: Handbook of employee reward management and practice (Armstrong, 2007)

The above-mentioned cycle represents processes to be followed by an organisation in order to successfully implement performance management. Most municipalities in South Africa have adopted the above stated cycle, when dealing with performance management and rewarding excellent performance of executives. The strategic plans indicate that all municipal activities start from planning through an IDP strategic document which is a 5 years plan. The key indicators and performance areas are identified which are in line with the legislation (Municipal Systems Act no. 32 of 2000 and the Municipal Performance Regulations of 2006). Quarterly and annual reporting to council, Provincial, National and COGTA for review. Furthermore, the Auditor General plays a crucial role in confirming if all applicable

legislation has been complied with. Consideration is given to performing all municipal duties for the service delivery rendering and municipal infrastructure development. The Auditor General as part of his/her responsibilities then issue an audit opinion which confirms that monitoring of processes has been authenticated by an independent institution. Provincial and National government play an oversight role on Local government or municipalities.

The Municipal Performance Regulations No. 29089 of 2006 allows for the payment of performance bonuses when there is over achievement of targets by municipal executives. It requires performance assessments to be undertaken with supporting documents. The following table depicts performance bonuses paid by the municipalities under review during financial years 2012/13 to 2014/15.

Table 4.1 Performance bonuses per municipality and Capital Expenditure

Local Municipality	Financial year: R (000)			AVERAGE CAPEX %
	2012/13	2013/14	2014/15	
Mogale City	686	617	916	86%
Merafong City	0	0	340	89%

Sources: Annual Reports, Merafong City and Mogale City Local Municipalities:
2012/13, 2013/14 and 2014/15

The table above clearly shows that in the case of Mogale City, high performance on capital expenditure seems to be associated with big performance bonus pay-outs but not in the case of Merafong City municipality. Performance appraisals are done using the audit outcomes from Auditor General.

The following table depicts audit opinions obtained by the municipalities under review for the periods 2013/14 and 2014/15 financial years.

Table 4. 2 Audit opinions achieved by the municipalities

Local Municipality	Audit opinion -	
	2013/14	2014/15
Mogale City	Unqualified (Clean audit)	Unqualified (Clean audit)
Merafong City	Unqualified (With matters)	Unqualified (With matters)

Sources: Annual Reports: Mogale City and Merafong City Local Municipalities: 2013/14 and 2014/15

Merafong City achieved unqualified audit opinions (with matters) for the past two years and has paid less performance bonuses than Mogale City, which has also achieved unqualified but fully clean audits over the same two-year financial period that is, in 2013/14 and 2014/15.

The following table depicts the revenue generated from operations as per audited cash flow statements and bonuses paid by the two municipalities under review:

Table 4.3 Revenue per municipality

Local Municipality	Revenue per financial year R (000)			
	2011/12	2012/13	2013/14	Bonuses 2013/14
Merafong City	866,001	1,317,884	1,388,548	0
Mogale City	1,768,415	1,878,032	2,006,372	617

Sources: Annual Reports – 2011/12, 2012/13 and 2013/14; Budgets for Merafong City and Mogale City municipalities 2011/12, 2012/13 and 2013/14

The figures above suggest that there might be a relationship between the amounts of revenue collected by a municipality to the performance-linked bonuses paid out to the executives. The more revenue received, the more bonuses paid out.

4.2 PROBLEM STATEMENT

Most municipalities in South Africa ostensibly, are currently struggling to implement proper performance management systems that can accurately measure performance outcomes to determine the performance bonus payable to municipal executives in a credible way. The Auditor General's reports on municipalities emphasises the lack of smart targets and lack of evidence supporting the reported performance outcomes (Annual reports, 2013/14 & 2014/15).

Extracts from the audit reports of the two municipalities under review can be seen below:

Adequate and reliable corroborating evidence could not be provided for 33% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to the absence of an adequate document management system.

Merafong City's audit opinion on Predetermined Objectives: Goal 1 in 2013/14 financial year.

The politicians are elected into power to represent the community in Council in such a way so as to ensure that quality services are rendered in a sustainable way and infrastructure development is done to continuously improve the quality of residents' lives (Municipal Structures Act, 2000). Furthermore, the provision of quality services and infrastructure development requires relevant financial and technical expertise. It is often said that this requirement is generally flouted by the need to appoint politically connected managers and executives who then often find it difficult to excel in their duties because of their lack of required skills and expertise.

Bad decisions on rewarding executives with performance bonuses whilst performance outcomes are unsatisfactory can adversely affect the financial viability of any organisation and reflects badly on the leadership which approves such

performance bonus payments. Incentive plan reward specific results or criteria are announced at the beginning of the performance cycle.

The performance awards are mostly formula driven and timed to pre-announced targets. The emphasis is more on the financial or tangible value earned than on the psychological value of the achievement (Bussin, 2011: 69). Most municipalities use this method of incentivising executives in line with existing legislation governing performance management and rewards for executives.

In conclusion, a clear guideline for determination of performance rewards pay-out seem to be not broad enough to address the psychological aspects of human capital. With legislation limitation, municipalities are still able to reward management on achieving set targets in line with the Integrated Development plans.

4.3. OBJECTIVES

4.3.1 MAIN OBJECTIVE

Developing guidelines on how to manage rewarding municipal executives for excellent performance.

4.3.2 SUB OBJECTIVES

- i. Developing guidelines from a financial perspective that will contribute to a culture of excellent performance; and
- ii. Develop guidelines for rewarding best performance.

4.4 RESEARCH METHODOLOGY

The two tests were used namely, the Keyser-Meyer-Olkin (KMO) test of sample adequacy and the Bartlett's test of Sphericity. A questionnaire was distributed for completion by management and senior officials of the three organisations from Merafong City Local Municipality, Mogale City Local Municipality in the West Rand region and Gauteng Provincial Treasury. The Cronbach Alpha coefficient was used in performing reliability test as well as doing the factor analysis for determining the usefulness and the validity of the questionnaire. Lastly, recommendations were made based on the findings of the study.

4.5 RESULTS

The empirical results of the study are presented per the relevant parts of the questionnaire depicted in Appendix A. The said parts were subjected to exploratory factor analysis (EFA), namely performance management and executive rewards management. The suitability of factor analysis in each part was tested using the KMO measure for sampling adequacy and the Bartlett's test for Sphericity. KMO values in excess of 0.5 are acceptable for this study while Cronbach Alpha values in excess of 0.6 are considered to be confirm reliability and a good match of data analysed.

Table 4.4.1: Demographic information analysis

Qualifications		Designation		Race		Gender	
	Number		Number		Number	Female	Male
Matric	24	Municipal Manager	0	Black	197	75	132
National Diploma	90	Executive Director	6	Indian	1		
Degree	74	Director/Manager	53	White	9		
Honors	11	Senior Finance Officer	141				
Masters	4	Councilor	1				
PhD	0	Undisclosed	1				
Undisclosed	4						
Total:	207		207		207		

A fair proportional representation of both organizations is depicted above with 95% blacks, 0.5% Indians and 4.3% whites. Gender is represented as 36.2% females and 63.8% males. In total 207 questionnaires have been accounted for and were analyzed in detail.

4.5.1 Section 3 (Questionnaire): Rewards schemes and performance management for municipal executives – achieving set targets

4.5.1.1 Section 3 Part 1: Performance management

The results of the analysis of **Performance management** are reflected in table 4.4.2 below.

Table 4.4.2: Descriptive statistics for Factors

<u>Statement/s</u>	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Councillors in the organization I am involved with:</u>						
Understands the needs for implementing rewards of executives on excellent performance.	2 (1.0%)	127 (62.3%)	56 (27.5%)	19 (9.3%)	2,45	0,68
Ensure that there are Council policies which provide clear guidelines on management of rewarding municipal executives for above average performance.	4 (2.0%)	171 (83.8%)	26 (12.7%)	3 (1.5%)	2,14	0,43
Ensure that Council can afford to pay municipal executives' performance-based rewards incentives.	2 (1.0%)	164 (80.4%)	37 (18.1%)	1 (0.5%)	2,18	0,42
Consult extensively with the community on proposed rewards pay-outs to municipal executives.	0	77 (37.7%)	70 (34.3%)	56 (27.6%)	2,90	0,81
Ensure that there are highly competent executives that lead and direct the municipality.	1 (0.5%)	142 (69.6%)	60 (29.4%)	1 (0.5%)	2,30	0,48
Rewards management policies are developed and implemented to ensure compliance to all applicable legislation.	7 (3.4 %)	182 (89.2%)	12 (5.9%)	3 (1.5%)	2,05	0,39

These above ratings confirm the match between the responses received in line with the problems stated in theory and in the problem statement.

Table 4.4.3 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Performance management

Statements	Factor loadings
Consult extensively with the community on proposed rewards pay-outs to municipal executives	0.893
Understands the needs for implementing rewards of executives on excellent performance.	0.877
Ensure that there are highly competent executives that lead and direct the municipality.	0.632
Ensure that there are Council policies which provide clear guidelines on management of rewarding municipal executives for above average performance.	0.688
Ensure that Council can afford to pay municipal executives' performance-based rewards incentives.	0.620
Reliability coefficient	0.686
Mean	2,24
Standard deviation	0,27
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.709
Bartlett's test of Sphericity	<0.001
Total Variance Explained	35.25%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and that therefore, an exploratory factor analysis can be performed. The KMO value of 0.709 confirms the factor's reliability. The factor analysis identified factor loadings that were extracted as shown below.

Factor loadings

All statements namely “Consult extensively with the community on proposed rewards pay-outs to municipal executives”, “Understands the needs for implementing rewards of executives on excellent performance”, “Ensure that Council can afford to pay municipal executives performance based rewards incentives” and “Ensure that there are highly competent executives that lead and direct the municipality”, loaded heavily on this factor with values 0.6, suggesting very good reliability and consistency.

Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.6 showing a good reliability, consistency and a good satisfactory value. A lack of reliability does not necessarily discard the factor from the current study.

4.5.2 Section 3 Part 2: Executive rewards strategy

The results of the analysis of **Executive rewards strategy** reflects on the table 4.4.4 below.

Table 4.4.4: Descriptive statistics for Factors

<u>Statement/s</u>	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Management of the organisation I'm involved with:</u>						
Ensures that Cash is readily available to pay for executives' rewards incentives.	3 (1.5%)	134 (65.7%)	61 (29.9%)	6 (2.9%)	2,34	0,56
Ensures that the Executives Rewards strategy is implemented as approved by Council.	6 (2.9%)	26 (12.7%)	142 (69.6%)	30 (14.7%)	2,96	0,63
Ensures that the Executive Rewards strategy is being implemented fairly.	5 (2.5%)	25 (12.3%)	150 (73.5%)	24 (11.8%)	2,95	0,58

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
Ensures that there are no challenges in implementing Council's approved Executives Rewards strategy.	6 (2.9%)	25 (12.3%)	147 (72.1%)	26 (12.7%)	2,95	0,61
Ensures that the Executive rewards strategy is linked to performance-based outcomes.	10 (4.9%)	20 (9.8%)	145 (71.1%)	29 (14.2%)	2,95	0,66
Ensures that performance bonuses are paid to executives after performance evaluation process is finalized and approved by council.	25 (12.3 %)	149 (73.0%)	29 (14.2%)	1 (0.5%)	2,03	0,53
Ensures that the performance evaluation panel is appointed to conduct annual performance assessment of municipal executives.	30 (14.7 %)	168 (82.4%)	5 (2.5%)	1 (0.5%)	1,89	0,42
There are other rewards incentives schemes in place in my municipality for encouraging excellent performance of executives.	2 (1.0 %)	12 (5.8%)	151 (73.3%)	41 (19.9%)	3,12	0,53

Table 4.4.5 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Executive rewards strategy – Part 2

Statements	Factor loadings
Ensures that there are no challenges in implementing Council's approved Executives Rewards Strategy	0.966
Ensures that the Executive Rewards strategy is being implemented fairly.	0.965
Ensures that the Executive rewards strategy is linked to performance-based outcomes.	0.953
Ensures that the Executives Rewards strategy is implemented as approved by Council.	0.941
Reliability coefficient	0.844
Mean	2,71
Standard deviation	0,44
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.866
Bartlett's test of Sphericity	<0.001
Total Variance Explained	64.26%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and that therefore,

an exploratory factor analysis can be performed. The KMO value of 0.866 confirms the factor's reliability. The factor analysis identified factor loadings that were extracted as shown below.

Factor loadings

The four statements namely “Ensures that there are no challenges in implementing Council's approved Executives Rewards Strategy”, “Ensures that the Executive Rewards strategy is being implemented fairly”, “Ensures that the Executive rewards strategy is linked to performance based outcomes”, and “Ensures that the Executives Rewards strategy is implemented as approved by Council”, loaded heavily on this factor with values above 0.9, indicating that they have excellent reliability and consistency.

The statements “Ensures that performance bonuses are paid to executives after performance evaluation process is finalized and approved by council”, and “Ensures that the performance evaluation panel is appointed to conduct annual performance assessment of municipal executives” did not load any factor and were discarded.

The Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.8 showing excellent reliability and consistency, with very good satisfactory values. A lack of reliability does not necessarily discard the factor from the current study.

4.5.3 Section 3 Part 3: Executive rewards strategy

The results of the analysis of **Executive rewards strategy** is reflected in table 4.4.6 below.

Table 4.4.6: Descriptive statistics for Factors

<u>Statement/s</u>	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
<u>Rewards for municipal executives currently in use by my organisation:</u> There is a formal process used by my organisation to reward executives for excellent performance and achieving targets.	36 (17.6%)	165 (80.9%)	3 (1.5%)	0 -	1,84	0,41
Executives' rewards strategy has been approved by Council.	6 (2.9%)	28 (13.7%)	131 (64.2%)	39 (19.1%)	3,00	0,67
The Executive rewards strategy is implemented fairly to all executives.	5 (2.5%)	26 (12.8%)	148 (72.9%)	24 (11.8%)	2,94	0,59
Poor performers are provided with the development support to ensure that they improve their performance moving forward.	1 (0.5%)	48 (23.4%)	138 (67.3%)	18 (8.8%)	2,84	0,56
Evidence to support rewards approval to executives is required at all times to support reports of above average performance.	11 (5.4%)	189 (92.2%)	4 (2.0%)	1 (0.5%)	1,98	0,30
Adequate funding is available to ensure that the required evidence is provided by executives.	6 (2.9 %)	189 (92.2%)	10 (4.9%)	0 -	2,02	0,28
Performance bonuses are paid in line with the municipal performance regulations.	38 (18.5 %)	163 (79.5%)	3 (1.5%)	1 (0.5%)	1,84	0,44
Other executives' rewards schemes are paid in line with the rewards for executive strategy.	1 (0.5%)	111 (55.1%)	59 (28.8%)	34 (16.6%)	2,61	0,76
Council approval is required before any bonuses to executives are paid out.	46 (22.4%)	88 (42.9%)	70 (34.1%)	1 (0.5%)	2,13	0,76
Provision to performance bonuses are made on Council's financial books on an annual basis.	30 (14.6%)	169 (82.4%)	5 (2.4%)	1 (0.5%)	1,89	0,42
Performance bonuses paid to executives are linked to the Capital expenditure achieved in a financial year.	4 (2.0%)	121 (59.3%)	71 (34.8%)	8 (3.9%)	2,41	0,60
Performance bonuses paid to executives are linked to the operating	3 (1.5%)	110 (53.9%)	79 (38.7%)	12 (5.9%)	2,49	0,63

Statement/s	Strongly Agree (%) (1)	Agree (%) (2)	Disagree (%) (3)	Strongly Disagree (%) (4)	Mean	Std. Deviation
surplus achieved by Council in a financial year.						
Performance bonuses paid to executives are linked to the audit outcome achieved from AG in a financial year.	10 (4.9%)	165 (80.9%)	28 (13.7%)	1 (0.5%)	2,10	0,44
Performance bonuses paid to executives' implementation is effective in this municipality.	8 (3.9%)	181 (88.7%)	14 (6.9%)	1 (0.5%)	2,04	0,36

Table 4.4.7 KMO and Bartlett's Tests, Factor loadings and Reliability statistics: Executive rewards strategy – Part 3

Statements	Factor loadings
Performance bonuses paid to executives are linked to the operating surplus achieved by Council in a financial year.	0.846
Performance bonuses paid to executives are linked to the Capital expenditure achieved in a financial year.	0.840
Poor performers are provided with the development support to ensure that they improve their performance moving forward.	0.615
Executives' rewards strategy has been approved by Council.	0.910
The Executive rewards strategy is implemented fairly to all executives.	0.946
Performance bonuses paid to executives are linked to the Audit outcome achieved from AG in a financial year.	0.631
Performance bonuses paid to executives' implementation is effective in this municipality.	0.563
Reliability coefficient.	0.828
Mean	2,71
Standard deviation	0,44
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.734
Bartlett's test of Sphericity	<0.001
Total Variance Explained	35.25%

The p-value of Bartlett's test of Sphericity is smaller than 0.05 which indicates that there are sufficiently large correlations between the statements and that therefore, an exploratory factor analysis can be performed. The KMO value of 0.734 confirms the factor's reliability. The factor analysis identified factor loadings that were extracted as shown below.

Factor loadings

The three statements namely “Performance bonuses paid to executives are linked to the operating surplus achieved by Council in a financial year”, “Performance bonuses paid to executives are linked to the Capital expenditure achieved in a financial year”, and “Other executives’ rewards schemes are paid in line with the Rewards for executive strategy”, loaded heavily on this factor with values above 0.7 suggesting very good reliability and consistency. The other three statements namely “Poor performers are provided with the development support to ensure that they improve their performance moving forward”, “Executives’ rewards strategy has been approved by Council”, and “The Executive rewards strategy is implemented fairly to all executives”, loaded above 0.5 meaning they display good reliability and consistency.

The Cronbach Alpha coefficients were calculated for this factor loadings in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.7 showing excellent reliability and consistency, with very good satisfactory values. A lack of reliability does not necessarily discard the factor from the current study.

Table 4.4.8 KMO and Bartlett’s Tests, Factor loadings and Reliability statistics: Executive rewards strategy – Part 4

Statements	Factor loadings
Performance bonuses only are adequate to be used to reward municipal executives	0.732
The municipal executives are motivated by the current rewards scheme in place to excel in performing their delegated duties	0.591
The municipality has limited funds and cannot afford many rewards schemes for rewarding municipal executives.	0.590
Municipal executives understand the importance of rewards for achieving set objectives.	0.480

Statements	Factor loadings
Reliability coefficient	0.557
Mean	2,71
Standard deviation	0,44
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.866
Bartlett's test of Sphericity	0.001
Total Variance Explained	64.26%

Factor loadings

The statements “Performance bonuses only are adequate to be used to reward municipal executives” loaded heavily on this factor loadings with a value above 0.7, which means it has excellent reliability and consistency. The other two statements namely “The municipal executives are motivated by the current rewards scheme in place to excel in performing their delegated duties”, and “The municipality has limited funds and cannot afford many rewards schemes for rewarding municipal executives”, loaded above 0.5, suggesting good reliability and consistency. The statement “Municipal executives understand the importance of rewards for achieving set objectives”, loaded below 0.5 meaning it shows less reliability and consistency. The statements “More rewards incentive schemes for municipal executives should be considered/ explored by the municipality so as to be in par with other business sectors”, and “Councillors understands the importance of implementing the Rewards for executives on achieving set targets”, did not load on the factor and were discarded.

The Cronbach Alpha coefficients were calculated for this factor in order to estimate the reliability and consistency among constructs. The reliability of this factor is above 0.5 showing good reliability and consistency, with satisfactory values. A lack of reliability does not necessarily discard the factor from the current study.

4.6 IDENTIFICATION OF INDEPENDENT AND DEPENDENT VARIABLES FOR EXECUTIVE REWARDS MANAGEMENT

4.6.1 Performance management

According to the Municipal performance regulations of 2006, employees including management need to sign annual performance management contracts spelling out targets and key performance areas that require attention in order to achieve strategic objectives. Periodic performance reviews are also needed to monitor progress and introduce corrective actions when and where necessary (MSA, 2000).

Municipal performance management regulations were introduced in 2001 to ensure management of performance in all municipalities. Gaps have however, arisen since then which need to be addressed to ensure that performance management is rolled out to all employees of municipalities. Currently, only top management sign performance agreements, leaving a vacuum that prevents other employees performing their duties to the best of their abilities which in turn, affects service delivery (Municipal Performance Regulations, 2006).

4.6.2 Executive rewards management

Rewarding municipal executives in line with industry norms and standards is important in order to ensure that excellent performance is encouraged, service delivery enhanced and the drive to achieve the organisation's goals is fostered continuously (Bowen, 2000). This process also helps to retain quality executives and pushes them to go that extra mile to achieve strategic goals. According to

Chingos (1997), there is a need to take a re-look at the current minimal reward schemes as they have gaps that need to be filled to improve offers.

4.7 THE IMPORTANCE OF MANAGING PERFORMANCE MANAGEMENT AND REWARDING EXECUTIVES FOR EXCELLENT PERFORMANCE

Incentives can build upon existing motivation extremely effectively and thus induce high performance and good results. Bonus plans should be tailor made in as far as objectives, signals and requirements are concerned and to some extent in the mechanism for calculating bonuses. Such plans help to ensure that tasks will be performed according to the strategy and culture of the organisation. Performance target setting is not only an integral part of incentive systems; it is also an essential prerequisite for the efficiency of these systems. Performance targets agreement cannot be overemphasized as it guarantees genuine commitment to achieving a goal. Measuring and fulfilling goals is essential so that in the final analysis, an assessment can be made of whether objectives have been achieved, surpassed or failed. Objectively verifiable quantities prove most useful (Kressler, 2003).

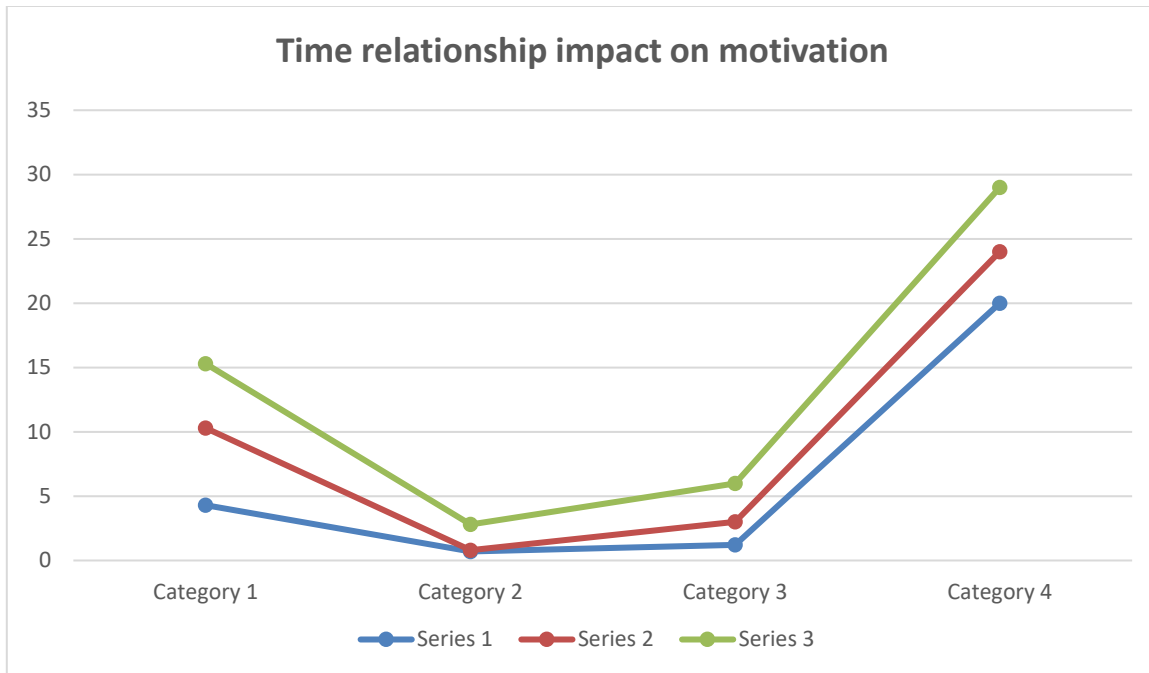
Performance feedback should be an ongoing communication and recognition that performance monitoring is productive, constructive and timely and not punitive nor manipulative in nature. There are various extrinsic rewards that are largely used such as variable pay plans, bonuses, incentives, prizes, cash, benefits, gainsharing plans, profit-sharing plans, commissions, stock options and alternative pay programs (Bowen, 2000). In a South African municipal environment, performance bonuses are considered only for rewarding executives for excellent performance, middle management and junior officials are not paid performance bonuses as they receive annual bonuses whether performed well or not. Job descriptions guide are

used to monitor their performance, no punitive actions taken for poor performance on lower levels.

The best approach often is to allow employees to share in the profit that they contributed to in an organisation. For example, reducing water and electricity losses by technical executives in a municipality can go a long way in increasing profits that would boost revenue for infrastructure development and quality services. There is a need for maintenance of all municipal assets so that they can be used for longer to render the municipal services. Currently, it is alleged that there is a lack of maintenance on municipal assets causing them to break frequently. Attempts to improve performance by manipulating compensation packages have proven counterproductive. However, reorganising work processes that capitalise on employee skills and participation has improved performance (Rapport, Zehnder, Pfeffer, Nicoson. 2002).

Motivation is not simply about ensuring that what should happen does happen. It is about striving for and achieving excellence. Motivation maybe a final spur that creates exceptional performance where there would otherwise only be satisfactory performance (Forsyth, 2006).

The graph 4.1 below depicts the importance of relationship between performance and motivation on employees. The higher the performance culture in the organisation, the higher the motivation it has on performance.



Graph 4.1 Time relationship of impacts on motivational balance (Forsyth, 2006)

The importance of developing a high-performance culture in an organisation cannot be overemphasized as it represents an integrated set of processes of which reward forms a part. Developing a rewards strategy might assist municipalities in South Africa as it entails what needs to be done and provides direction in delivering reward programmes that support the achievement of business goals and meet the stakeholders' needs (Armstrong & Brown, 2006). Alignment of a rewards strategy with a performance management strategy can also be helpful to ensure that outcomes are rewarded fairly based on their scientific measurement.

4.8. IMPORTANT STAKEHOLDERS IN REWARDING EXECUTIVES FOR EXCELLENT PERFORMANCE IN MUNICIPALITIES

Important stakeholders involved in determining appropriate rewards for executives in a municipal environment are as follows:

- Council;
- Executive Mayor;
- PAC Chairperson;
- Ward Committee member; and
- Members of Mayoral Committee.

4.8.1. Council

Council as the executive authority of a municipality is expected to assign the responsibility for a performance management system to its Executive Mayor and his/her committee. The legislation prescribes that Council should ensure that performance management systems are in place so that council's strategic goals and objectives can be achieved. The goals and objectives are set out in the Council's strategic document, called the Integrated Development Plan (IDP) that sets out what administration and councillors must do to achieve infrastructure development and render quality services to the community.

The Municipal performance management regulations create a link between performance targets, the IDP, the Service Delivery Budget and Implementation Plan (SDBIP) and the Budget, to enable realistic target setting and the drafting of Key Performance Indicators (KPIs) that are SMART and aimed at achieving Council's objectives. The Council approves or adopts the IDP, SDBIP and Budget as well as

performance bonuses for executives after all evidence-based processes have been concluded in support of such approval. (MSA, 2000)

4.8.2. Executive Mayor

The Executive Mayor is responsible for ensuring that the IDP and the Budget are adopted by Council annually as well as the SDBIP which is compiled to make sure that the IDP and the Budget are implemented by executives according to specified timeframes (MFMA, 2003). He/she is also responsible for to make sure that the performance management system is in place that encompasses performance and related rewards of all divisions or departments within the municipality (MPMR, 2006 & MSA, 2000). The Executive Mayor is, furthermore, expected to chair this panel which he/she can delegate to the MMC: Corporate Services who is in charge of recruitment, compensation, etc. (MPMR, 2006).

4.8.3. Performance Audit Committee Chairperson (PAC)

The PAC monitors performance outcomes throughout the financial year by reviewing quarterly performance reports as compiled and submitted by management (MPMR, 2006). The PAC is tasked to advise Council on all performance management related issues/ matters on an ongoing basis. Council requires periodic reports from the PAC.

This committee is set up in terms of the Municipal Performance Management Regulations 2006 to assist Council with performance related matters. The chairperson leads the performance assessment undertaken by the performance evaluation panel which is done annually to ascertain if the set targets and KPIs were

achieved by the executives as planned and score them as per audited outcome to determine whether executives qualify for a performance bonus or not. Such a report is then submitted to administration who must draft a report to Council for approval or non-approval (MSA, 2000 & MPMR, 2006).

4.8.4. Ward Committee member

Ward committees represent the community as per legislative requirement. Every ward committee must identify a member responsible for performance management to ensure that the community is consulted on performance related matters (MSA, 2000). This member forms part of the performance assessment panel to ensure that the community is represented in the process by a community leader (MPMR, 2006). The ward committee member is entitled to interrogate all documents before the panel and ask necessary questions in order to satisfy himself/herself that processes were duly followed and that any recommendations before the committee are valid. (MPMR, 2006)

4.8.5. Members of the Mayoral Committee (MMCs)

MMCs must, in terms of legislation, support the Executive Mayor by managing municipal departments at a political level. These members should be highly experienced and skilled, in order to be able to perform their oversight role and ensure that the head of departments in an administrative capacity, are implementing council's strategy effectively, economically and efficiently. They work closely with the municipal executives and report directly to the Executive Mayor (Merafong City Council standing rules, 2011). They form part of the performance evaluation panel

to support the Executive Mayor with their first-hand departmental experience in dealing with their department's current and outstanding challenges (Municipal Performance Regulations, 2006).

4.9. CHALLENGES FACING MUNICIPALITIES IN TERMS OF REWARDING EXECUTIVES FOR EXCELLENT PERFORMANCE

4.9.1. Lack of reward management strategy for executives

It is alleged that most municipalities in South Africa ostensibly do not have a rewards management strategy. They depend solely on the performance management strategy and regulations that only cover the performance bonuses as a reward to deserving executives. Developing a rewards management strategy for municipalities will go a long way in motivating executives to perform beyond expectations and also stay in an organisation for longer.

4.9.2. Limited reward incentives for executives

In the private sector and some of the state entities, executives can share in the profit made at the end of the financial year, shares options, etc. Exploring these and other reward options internationally, could assist municipalities to curb the high turnover of executives that is of course, also caused by a variety of other factors. The only rewards for executives used in municipalities throughout the country are performance bonuses which are linked to achieving set performance targets related to organisational strategy (MPMR, 2006).

4.9.3. Lack of support services skills

Due to various reasons, reward management specialists are a scarce resource in the municipal environment. This implies that a strategy consultant should be brought in to assist with the compilation or development of any relevant policy or strategy documents.

Technical skills are key in ensuring that quality support services are provided to the municipality at large. Broader human resource and reward management skills are also crucial to ensure that executives are well looked after in support of the sustainability of the organisation (Martocchio, 2011). The overall positive progress and success of the local government system in South Africa is increasingly being overwhelmed by a range of factors and negative practices both internal and external to municipalities. These factors apply to poor governance, service delivery failures, their capacity and performance, but also to the unique challenges experienced in the varying spatial locations of municipalities. For example, there are differing challenges in relation to rural and urban environments, availability of human resource capacity, degree of economic activity and overall institutional strength (COGTA, 2009).

4.9.4. Political interference

This challenge becomes a huge problem when it stands in the way of appointing the right executives who are qualified, skilled and competent to drive service delivery to greater heights. It is advisable that politicians exercise their oversight by ensuring that the right employees are appointed and not interfere in the process. It appears that in most municipalities' councillors take part in the shortlisting and interviewing process, not just by observing but by also asking questions and scoring so that they

can promote their preferred candidate, irrespective of whether he/she meets the requirements or not. If this is indeed true, it needs to be addressed urgently so as normalise recruitment processes (Merafong City Recruitment policy, 2014).

4.9.5 Fixed term contracts of executives

This is a major challenge that affects rewards and performance of municipal executives, especially after three years in their term of office as they worry about their future in an organisation. The fear of not knowing their fate in the organisation at the end of their term tends to have a negative impact on the performance of both parties. There have been proposals made through the introduction of draft regulations by COGTA to municipalities to consider employing executives on a permanent basis. This remains a moot point however, in view of the fact that politicians' terms of appointment remain fixed for five years (Upper limits Gazette, 2015).

4.9.6 Employment of politically linked executives

Politicians allegedly believe in working with people they trust and who belong to their political circle in order to avoid sabotage. It can therefore not be assumed in the current volatile political climate, that politically linked executives will be assured of working with their political party of choice when other incumbents are elected for a new municipal term of office. Government has been calling for a change in this regard, but no progress or improvement has been reported thus far (Minimum competency regulations, 2007).

4.10. RECOMMENDATIONS

4.10.1. Drafting and adoption of Municipal Executive's Rewards Management Strategy

The Department of Corporative Governance and Traditional Affairs (COGTA) should consider supporting municipalities in adopting a municipal executive's rewards management strategy that will assist councils to improve the way executives are being compensated for excellent performance and achieving above expected results. This will motivate and encourage municipal executives to always work harder to ensure that all municipal targets are achieved regardless of the circumstances in the municipal sphere of operations.

4.10.2. Introduction of more rewards incentive schemes

Currently all municipalities in South Africa use performance bonuses as the only method of rewarding executives (MPMR, 2006). Ideally, other methods such as profit sharing, paid family holiday, etc. should be introduced rather than being limited to one initiative only. There are advantages in learning from other public entities or private businesses to see if their incentive schemes could also be implemented in the local government sector. This could encourage executives to excel in all that they do in the knowledge that their hard work is properly appreciated.

4.10.3 Training and development of councillors

The South African Local Government Association (SALGA) has a long way to go in supporting councillors with the relevant training and development for them to understand their roles in communities and in Council. There exists a common

perception that most councillors lack the necessary skills to understand the impact of political interference in the dynamics of rewards management processes.

4.10.4. Appointment of skilled, competent and qualified executives

Municipalities are encouraged to adopt a proactive approach and take service delivery seriously by appointing skilled, competent and qualified employees to ensure drastic improvement to the current situation. Twenty-two years into democracy, the country could have done do better and prove its commitment to the people. Reliance on consultants to do all the specialised work is not sustainable due to the costs incurred while unskilled executives are paid high salaries for which they should be doing the tasks delegated to them by council. No wonder then that the public protests that are reported daily on television and print media are ostensibly attributed to the state of poor services, poor decisions and lack of community consultation.

4.10.5. De-politicising the executives of municipalities

There is an urgent need that the relevant governing bodies such as COGTA, SALGA and National Treasury, discharge their municipal oversight function more vigorously and help de-politicise executives and bring back stability. Prior to democracy, executives were appointed on merit. Even though apartheid was a scourge, a few black people who were fortunate enough to get a proper education, successfully climbed the business ladder without fail and without a requirement to belong to a political party.

4.10.6. Permanent employment of municipal executives

This option could help to bring about stability in an organisation as it promotes ownership and a sense of belonging. Municipal executives are currently given fixed term contracts not exceeding the term of the current of Council. This tends to create instability as the turnaround of an organisation takes longer than only one or two years. Performance contracts can still be signed, and poor performance be managed the same way as the bargaining council's rules. It has been observed that in municipalities where they keep their executives for longer than two terms, performance is extremely high and audit outcomes are more than satisfactory. In municipalities where there is a constant change of executive, the results tend to be poor and audit outcomes negative.

4.11 SUMMARY

This study argues that there is a serious need to improve the executive's rewards management in class B municipalities to ensure a levelling of the playing field between the different spheres of government. Skills improvement of both municipal executives and councillors cannot be overemphasized. Introspection by the three spheres (National, Provincial and Local) of government would be beneficial as, after three terms of office in local government, councillors and executives have experienced many lessons but seem not to have necessarily, always learnt from them. Reviews, either successful or not so successful, will help a great deal in closing the current gaps in local government. The communities have now become impatient with government's promises made during the first democratic elections in 1994. To date the situation on the ground seems to be continuously deteriorating. Old infrastructure networks (water, electrical, roads, etc.) cause major disruptions in service delivery, labour remains unskilled and appropriate rewards for motivating

and encouraging executives to excel in performing their tasks related to improving the lives of the voters at large, remain amiss.

There is a positive and a direct relationship between rewards and recognition with job satisfaction and motivation. This enables us to conclude that if rewards and recognition offered to employees were to be altered in any way that there would also be a corresponding change in work motivation and satisfaction. In other words, the better the rewards and recognition given to the employee within the organisation then the higher levels of motivation and satisfaction that employees will possess and therefore the overall effect will be greater levels of performance (Coffey, 2013). Management should be aware that there needs to be a balance between the amount of effort required from an employee within the organisation and the reward given to the employee for their work in the organisation. A total rewards program should be structured so that it attracts the right people to the organisation and the benefit's the organisation as they use that employee in order to drive organisational success. Reward and recognition programmes must provide equal treatment for equal accomplishments (Stroh, 2001).

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CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This is the final chapter of the study. The conclusions drawn from this research are presented and recommendations made, are based on the theoretical and practical information obtained during the study. This chapter also presents the limitations of the current research and provides recommendations with regard to future research. This study concludes with a final summary.

5.2 CONCLUSIONS AND RECOMMENDATIONS

This study is presented in an article format. Article-specific conclusions and recommendations have been dealt with in the relevant individual article and are therefore not repeated here.

The research methods and statistical analyses used in the three articles were found to be reasonable and relevant as the results obtained were confirmed as valid and useful. The research methodology used was effective for a number of reasons as stated below.

CONCLUSION 1

Adequate literature study sets were used in all three articles in order to provide a good foundation for the design and development of the whole study. This provided a detailed understanding of the research problems for instance, challenges facing both municipalities in the West Rand of Gauteng province in terms of service delivery and infrastructure development. The first article provided a theoretical framework for the empirical study to measure both municipalities' (situated in the West Rand of Gauteng province) success and failures in rendering quality services and infrastructure development in their respective municipal boundaries.

RECOMMENDATION 1

This theoretical base that led to an adequate literature study is of valuable importance. It is recommended that since there has been little or no academic research done on infrastructure development and quality service provision in both municipalities in the West Rand of Gauteng province, that this methodology be accepted by future researchers. Recommendations provided in the articles warrant further research, in order to address challenges facing South African municipalities with infrastructure development and the delivery of quality services.

CONCLUSION 2

The detailed literature study and measuring data that were used to populate tables in order to determine the structure of the measuring instrument i.e. the questionnaire, has been proven to be a valid tool to use in a municipal environment, which is service delivery and infrastructure development driven. It is therefore,

concluded that a systematic theory usage is crucial in designing and crafting a questionnaire for empirical research.

RECOMMENDATION 2

The validity and reliability of the questionnaire that was compiled using literature study and measurement criteria is evident from the statistical validation. The usage of theory to develop a research questionnaire is highly recommended.

CONCLUSION 3

The statistical analysis revealed that the identified constructs, infrastructure development, infrastructure investment, funding allocation, delegations of authority, corruption, community consultation, compliance to legislation, credit control, revenue collection, inventory management skills, performance management and executive rewards management could be validated. The factor analysis either confirmed the construct and its measuring items or identified sub factors within the construct. Required measures of reliability (Cronbach Alpha), suitability for multivariate analysis (Bartlett's test of Sphericity) and sample adequacy (KMO) supported the conclusion that the research instruments used provided a valid questionnaire.

The empirical validation of data consisted of Cronbach Alpha coefficients which were calculated for each factor. The results indicated that there was a high degree of reliability and internal consistency amongst items. This means that the results show validity and that they are appropriate to use in similar studies to be undertaken. The KMO measure of sampling proved that the variables in this study were strong

enough to proceed with a factor analysis. The large KMO values indicated that the sample size was adequate as the factor analysis was reliable. Hence KMO tests confirmed the adequacy of the sample, thus giving confidence in the validity of the results.

Bartlett's test of Sphericity was also appropriate for this study as it yielded p-values smaller than 0.0001. This indicated that the correlation between the variables was sufficient for factor analysis. It is therefore concluded that the questionnaire and the data are reliable and valid.

RECOMMENDATION 3

In view of the validity of the questionnaire, it is therefore recommended that:

- Questionnaires should be based on theory as it provides structure and content;
- The Likert scale proves to be a useful tool for rating; and
- The statistical techniques used are acceptable and can be used as a reliable scientific method for validating a questionnaire.

CONCLUSION 4

The population, sample selection and the gathered data for this study from the municipal executives, senior managers, senior internal audit officials and senior finance officials of the two municipalities as well as the Provincial Treasury, in the form of a survey research was effective (refer to Chapter 1: Research Methodology).

The sample was statistically proven to be sufficient by the KMO analysis. It is therefore concluded that the data gathering methodology was successful.

RECOMMENDATION 4

The data collection methodology used in this study can be recommended for use for collecting statistically adequate sample data in a financially and time constrained research environment typically faced by researchers.

CONCLUSION 5

The use of a Statistical expert at the Statistical Consultation Services from the North West University, and a specialised statistical analysis programme called SPSS V18 ensured that there were no statistical flaws in the empirical results. Therefore, these professional services enhanced the value and quality of this research as well as providing a large measure of peace-of-mind to both the researcher and the promoter.

RECOMMENDATION 5

It is highly recommended that future researchers make use of expert advice for statistical analysis and application of specialised statistical software packages. This will provide a guarantee against possible gaps in the empirical research.

CONCLUSION 6

The results obtained from this study confirm that the class B municipalities in the West Rand of Gauteng province in South Africa have twelve constructs. All of these constructs are crucial as they all have proportional values which indicate their

influence on organisational success. It can then be concluded that all these constructs are important in understanding the dynamics of a class B municipality and its complexities as well as their influence on the municipality's success.

RECOMMENDATION 6

All of these constructs are important, even though they may differ somewhat in their relative weight. It is therefore recommended that none of these constructs should be treated as less important when dealing with organisational challenges in implementing management interventions.

CONCLUSION 7

Within the twelve constructs of the validated model, eight have sub-factors. The values relative to these sub-factors as contributors to the factors (or constructs) are important as it indicates their relative importance to municipal service delivery, infrastructure development and rewards for municipal executives for excellent performance and their influence on organisational success. It is therefore concluded that these sub-factors are important indicators for organisational success in a municipal sphere of government in both municipalities in the West Rand of Gauteng province.

RECOMMENDATION 7

All constructs and sub-factors have high reliability coefficients. It is therefore recommended that management should take into account all constructs when dealing with performance and rewards management in West Rand municipalities for improved service delivery.

CONCLUSION 8

The original validated model consisted of twelve constructs, but after going through a purification exercise two constructs had to be deleted as they have shown less reliability and inconsistency in relation to the municipal regulatory framework and associated processes.

RECOMMENDATION 8

The two factors that were deleted after the purification process still need to be taken into consideration by managerial intervention when reviewing organisational success in the municipal sphere of government in South Africa. An act or legislation governing the minimum qualifications and managerial experience municipal councillors should possess is urgently needed to address all challenges experienced in the two municipalities in the West Rand of Gauteng province. Currently, taxi drivers or a street vendors with no formal qualifications nor managerial experience are allegedly elected by the community and their political party to be councillors, a position which is equivalent to a company Board member. SALGA and COGTA should play an active role in ensuring that this type of situation is addressed urgently if municipal governance issues are to be taken seriously.

Implementation of the new legislation governing the skills and capacity shortfalls of municipal managers needs to be taken seriously. Legislation governing rewards for municipal executives for excellent performance is needed to address the current need to level the playing field with other business sectors.

CONCLUSION 9

The study outcome indicates that the mean and grand mean values are below standard and that the criteria have not been met to satisfy business success in a municipal context in two of the municipalities in the West Rand of Gauteng province. Therefore, it can be concluded that organisational success in the municipal sphere of government is a very difficult thing to achieve, being a complex and dynamic environment. It furthermore, confirms the existence of a research gap and the importance of conducting further research in order to highlight the problems and challenges faced by the municipal sector and to come up with recommendations to address and solve these shortcomings.

RECOMMENDATION 9

It is crucial to acknowledge that the constructs are important for any managerial review of organisational success. Some are more important than others subject to their respective ratings. However, it should be noted that none of the constructs should be neglected when considering managerial interventions.

CONCLUSION 10

The crux of this research as summarized in figure 3.1 provides a clear and a well-defined road map of a newly distilled theoretical model on organisational success and failures regarding municipal service delivery, infrastructure development, working capital management and rewards for municipal executives for excellent performance in two municipalities in the West Rand of Gauteng province. It is therefore concluded that the theoretical model is a valuable tool in measuring,

understanding and conceptualising the organisational successes and failures of both municipalities in the West Rand of Gauteng province.

RECOMMENDATION 10

The final recommendation is stressing the need to have a theoretical model to be:

- i. Used as a tool to understand the dynamics and complexities of organisational successes and failures in a municipal context within South Africa;
- ii. Used to practically deal with problems facing local government hampering achievement of excellent service provision and infrastructure development, rewarding of municipal executives on par with other sectors as well as managing working capital to ensure organisational success;
- iii. Applied to allocate limited and valuable resources in a scientific way in addressing problem areas that would assist in improving the organisational success of municipalities within South Africa; and
- iv. Used for further research and development in a municipal context.

5.3 GENERAL OBSERVATIONS AND RECOMMENDATIONS

Research has revealed that there are gaps in the existing legislation regulating the provision of quality municipal services, rewarding municipal executives on excellent performance in South Africa. In an attempt to promote the provision of quality services to the communities at large (those who have the means to pay for services and those who have not), a major challenge remains for municipalities to strike a balance between the quality of service provision and the need to remain financially

sound. Currently, the payment of performance bonuses is the only way in which municipal executives receive recognition for performance, whilst the business sector has various incentive schemes in place to reward its executives.

The above stated reforms and legislative imperatives are long overdue. It is important that the Municipal Systems Act, 2000; Municipal Structures Act, 2000; and Municipal Regulations on Performance Management, 2001 be reviewed in order to enhance conditions of service delivery and rewards for excellent performance by municipal executives. This will assist to address the following:

- To address the current service delivery challenges facing local government;
- Improve on the quality of municipal councillors in terms of skills, knowledge and formal qualifications required as a criteria for selection; and
- Improve on the current shortcomings of the municipal regulations on performance management regarding the current limited incentives options.

The legislation review will ensure improved public confidence in local government leaders amongst stakeholders and bring about enhanced quality service provision, efficient and economical infrastructure development as well as improved performance by municipal executives.

- COGTA should review the Municipal Systems Act, 2000 and Municipal Structures Act, 2000 and consider the introduction of minimum competency requirements regarding skills, managerial experience and formal educational qualifications for people to qualify as municipal councillors;
- Strict adherence is required to minimum competency requirements when appointing municipal executives and managers to avoid political appointments that do not have the relevant skills, qualification and

managerial experience to be able to deliver expected quality services, improved infrastructure development and sustainable financial viability (Minimum competency requirements Regulations, 2007);

- SALGA should conduct more seminars and conferences for both municipal executives and councillors in order to sharpen their skills, share success stories and understand the dynamics and complexities of municipalities regarding service delivery, infrastructure development and excellence in the management of working capital as well as in rewarding municipal executives; and
- COGTA should review legislation on rewards for municipal executives to bring in additional incentive schemes that are available in the market and relevant to local government in order to level the playing field between different spheres of government and private sector (Municipal Performance Regulations, 2001).

5.4 AREAS OF FUTURE RESEARCH

The following areas have been identified for future research:

- A national comparative study with the aim to compare whether similar challenges and organisational successes exist in a municipal context in other provinces;
- An in-depth analysis of any of the constructs entailed in the theoretical model in order to further deepen the analysis and understanding of the study; and

- Priority research in support of the anticipated draft legislation on municipal councillors' minimum competency requirements that will improve public confidence, enhance accountability and improve governance and have a direct impact on service delivery and infrastructure development.

5.5 SUMMARY

5.5.1 Chapter 2: Article 1

The primary objective of this article was to investigate the need for a guideline for municipalities to use for the effective and efficient allocation of strategic investment funds in order to meet IDP and other strategic objectives. This guideline will ensure that there is an optimal value add to communities.

Few studies have been undertaken in this field. The conclusion derived from this study is that class B municipalities in the West Rand of Gauteng province are affected by a number of factors in the allocation of investment funds and challenges that result in a serious deprivation of service delivery provision and infrastructure development in communities. The findings encompass problems such as a lack of public confidence in the leadership of municipalities, financial distress of municipalities, employing the wrong people for the job and doubts surrounding the professional quality of councillors and effectiveness of their oversight function.

These challenges detailed in the study cannot be addressed and resolved overnight, hence the need for the South African National and Provincial

government and other stakeholders to address these problems in a systematic way to improve municipal governance and financial viability issues.

5.5.2 Chapter 3: Article 2

The primary objective of this study was to develop a guideline for South African municipalities to help ensure that investment funds are allocated effectively and efficiently for infrastructure development and the provision of quality services. Our municipalities throughout the country are experiencing many challenges regarding service delivery and infrastructure development caused by a variety of factors that have been detailed in the study. These challenges and problems cannot be resolved over a short period even though they negatively affect a community's quality of life.

The findings highlighted twelve variables that determine organisational success. These variables include infrastructure development, infrastructure investment, funding allocation, corruption, compliance to legislation, community consultation, delegations of authority, revenue collection, credit control, inventory management skills, performance management and rewards for municipal executives.

A literature review was conducted on both the organisational success (dependant variable) and on the twelve independent variables. The criteria measuring each factor were determined and a structured questionnaire was then developed.

This article concludes with a theoretical model and the development of a questionnaire since there were no available tailor-made questionnaires available within the South African municipal context to measure organisational success.

The questionnaire was designed for distribution to the respondents involved directly or indirectly with the class B municipalities in the West Rand of Gauteng province, namely municipal executives, managers, senior finance officials and senior internal auditors, municipal members of mayoral committees, members of Section 80 committees and Provincial Treasury.

5.5.3 Chapter 4: Article 3

The primary objective of this study was to present a validated theoretical model/ guideline from a financial perspective that will contribute to a culture of excellent performance by municipal executives and reward best performance. The variables that determine organisational success were taken into account by developing a questionnaire for the rewards management processes linked to performance management in South African municipalities.

Quantitative research was used, and 207 questionnaires were completed in full of each questionnaire consisting of a variety of questions. Statistical techniques used to validate the measuring instruments were factor analysis, KMO sampling adequacy test, Bartlett Sphericity test and Cronbach Alpha's reliability coefficient. High reliability levels (Cronbach Alpha > 0.6) and validity has been achieved in the analysis for most variables. The results obtained

indicate that the questionnaire used is valid for measuring organisational success in class B South African municipalities.

The analysis to validate the theoretical model indicated that the validated model (see figure 4.1) contains not only the variable (factors) but the additional sub-variables (sub-factors) that need to be considered. Additionally, the validation analysis also identified questions that should be removed from the questionnaire. These questions did not load onto a specific factor or variable since they had low factor loadings below 0.40 and were thus discarded. The data was further analysed to determine the reliability of the variables and sub-variables. A number of sub-factors did not yield satisfactory reliability coefficients as measured by Cronbach Alpha. In order to ensure validity and reliability of the theoretical model, the model was refined, and the unreliable factors and sub-factors were removed from the theoretical model. These sub-factors are less likely to present themselves in a repetitive study as shown in red in the validated theoretical model). Therefore, they should be interpreted with such constraints in mind.

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APPENDIX A

QUESTIONNAIRE

DEMOGRAPHICS INFORMATION

Organisation

- ☒ Merafong City ☒ Mogale City ☒ Provincial Treasury:GP

Racial or Ethnic Group

- ☐ Black/African American ☐ Coloured
☐ Indian ☐ White/Caucasian ☐ Other

Gender

- ☐ Female ☐ Male

Field of Profession

- ☐ Municipal Manager/ DG ☐ Executive Director
☐ Director/ Manager ☐ Executive Mayor
☐ Section 80 Finance ☐ Senior Finance/Internal Audit/AG official

Qualifications

- ☐ Matric/ CPMD ☐ National Diploma ☐ Degree
☐ Honors Degree ☐ Master's Degree ☐ Doctorate/ PhD

This questionnaire comprises of three sections as follows:

Section 1:

To determine your views on the current allocation of resources by your municipality in ensuring investment in infrastructure and rendering of quality services to the community.

Section 2:

To get your views on the how working capital is managed in your organization with recommendation on improving the current conditions.

Section 3:

To obtain your views on the management of municipal executives' rewards for excellent performance in your organization.

SECTION 1

**ALLOCATION OF FUNDS TO INFRASTRUCTURE DEVELOPMENT AND
ENHANCE QUALITY SERVICES**

Based on the existing strategy regarding the allocation of funds to infrastructure investment and improved quality of services, please provide your views on statements below: (Place an (X) in the appropriate box where 1 = Strongly Agree, 2 = Agree, 3 = Disagree, 4 = Strongly Disagree)

PART 1

No.	Statement	RESPONSE/ SCALE			
1.1.	Councillors in the organization I am involved with:				
1.1.1	Understands infrastructure development needs of the community.	1	2	3	4
1.1.2	Ensures that infrastructure investments are of economic benefit to the community.	1	2	3	4
1.1.3	Consult extensively with the community on critical infrastructure development when planning for infrastructure investment.	1	2	3	4
1.1.4	Ensures that community's basic infrastructure needs are prioritized.	1	2	3	4
1.1.5	Takes community's views into account deciding on future infrastructure developments.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
1.1.6	Ensures that there is value creation for the community on infrastructure development.	1	2	3	4
1.1.7	Councillors plays an adequate oversight role on funds allocation to infrastructure development for the community.	1	2	3	4
1.1.8	In your views, based on the responses provided above, what can be done to improve the situation?				
1.2	Management of the organisation I'm involved with:				
1.2.1	Provides clear written guidelines for allocation of funding to infrastructure development.	1	2	3	4
1.2.2	Relies fully on government (National and Provincial) grants to fund infrastructure development.	1	2	3	4
1.2.3	Provides adequate Council funding for community's infrastructural development.	1	2	3	4
1.2.4	A funding model is used when considering infrastructure development for the community.	1	2	3	4
1.2.5	Ensures alignment of municipal infrastructure development plans with the National government.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
1.2.6	Ensures alignment of municipal infrastructure development plans with the Provincial sphere of government.	1	2	3	4
1.2.7	Ensures that the municipal funding model is in writing and approved by Council.	1	2	3	4
1.2.8	In your view, there is a need for a documented funding model.	1	2	3	4
1.2.9	Based on the above responses, what causes gaps in the system?				
1.3	The funding criteria allocation currently in use by my organisation:				
1.3.1	There is a formal criteria used by this organisation to allocate funds to infrastructure projects.	1	2	3	4
1.3.2	There is a funds allocation process in writing outlining steps to be followed by this organisation when allocating funds to infrastructure projects.	1	2	3	4
1.3.3	The funding allocation criteria intends to address community's needs for infrastructure development.	1	2	3	4
1.3.4	The funds allocation criteria is effective in addressing community's infrastructure needs.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
1.3.5	The funding criteria focuses on infrastructural projects that creates value for the community.	1	2	3	4
1.3.6	Funding criteria focuses on infrastructural needs which has future economic benefit for the community.	1	2	3	4
1.3.7	The funding criteria focuses on benefitting the Previously Advantaged communities for infrastructure development.	1	2	3	4
1.3.8	The funding criteria focuses on benefitting more affluent areas as they are seen as paying for rates and taxes.	1	2	3	4
1.3.9	Funding of infrastructure development projects are prioritized according to the population size in a ward.	1	2	3	4
1.3.10	Funding priority of infrastructure development is influenced by the popularity basis of the ward councilors.	1	2	3	4
1.3.11	Funding priority of infrastructure development is allocated on the basis of political party alignment in any area.	1	2	3	4
	Based on your views of the above stated responses, what could be done by the municipality to improve current conditions regarding funds allocation criteria/ process? Please specify below:				

No.	Statement	RESPONSE/ SCALE			
1.4	Challenges faced by the municipality to funds infrastructure projects for the community:				
1.4.1	Non-payment of services by the community limits the municipality's ability to fund infrastructure development.	1	2	3	4
1.4.2	Mismanagement of funds by the municipality hampers infrastructure development.	1	2	3	4
1.4.3	There is a lack of technical skills internally to implement infrastructural projects.	1	2	3	4
1.4.4	There is a lack of skilled and competent managers to manage projects successfully.	1	2	3	4
1.4.5	There is a lack of buy in by the community to infrastructure development in their areas.	1	2	3	4
1.4.6	Tenders are awarded to contractors who are not competent to construct quality projects.	1	2	3	4
1.4.7	In my opinion, corruption is rife in this municipality.	1	2	3	4
1.4.8	In my opinion, corruption negatively affects infrastructure development to the community.	1	2	3	4
1.4.9	Poor planning and organizing by management results in incomplete community projects.	1	2	3	4
1.4.10	Inflated prices cause incompletes community projects due to budget constraints.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
1.4.11	There is an approved delegation of authority currently in use to eliminate red tape and fast track decision making.	1	2	3	4
1.4.12	The approved delegation of authority currently is used to fast track decision-making	1	2	3	4
1.4.13	The approved delegation of authority is implemented fully and followed correctly.	1	2	3	4
	<p>Based on your views of the above stated challenges, what could be done by the municipality to overcome these challenges? Please specify below:</p> <ul style="list-style-type: none"> • 				

SECTION 2

**WORKING CAPITAL MANAGEMENT IN ENSURING PROVISION OF
QUALITY SERVICES**

PART 2

Please provide **your views on statements below and proposed improvements** to the **management of municipal working capital i.e. credit control, billing, debtors, inventory and creditors' management**. (Place an (X) next to the appropriate statement below, where 1 = Strongly Agree, 2 = Agree, 3 = Disagree, 4 = Strongly Disagree)

No.	Statement	RESPONSE/ SCALE			
2.1.	Councillors in the organization I am involved with:				
2.1.1	Understands the needs of the community with regards to provision of services.	1	2	3	4
2.1.2	Ensures the existence of Council policies providing clear guidelines for management of municipal working capital.	1	2	3	4
2.1.3	Ensures that council can afford to provide quality services to the community.	1	2	3	4
2.1.4	Consult extensively with the community on the annual tariffs increases for rates and services.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
2.1.5	Consult extensively with the community on credit control processes currently in use by the municipality.	1	2	3	4
2.1.6	Consult extensively with the community on the required repairs and maintenance of municipal assets.	1	2	3	4
2.1.7	Ensures that there are skilled/ competent employees to manage finances of the municipality.	1	2	3	4
2.1.8	<p>Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>				
2.2	Management of the organisation I'm involved with:				
2.2.1	Ensures that there are adequate financial management policies in place to ensure compliance to correct processes.	1	2	3	4
2.2.2	Ensures that financial management policies are aligned to the Municipal financial legislations	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
	(Municipal Finance Management Act, Municipal Systems Act, and Municipal Property Rates Act).				
2.2.3	Ensures compliance to financial management legislation is not compromised by this organisation at any point.	1	2	3	4
2.2.4	Ensures that cash is readily available to pay suppliers and service providers on time.	1	2	3	4
2.2.5	Ensures that billing of property rates and services is accurate.	1	2	3	4
2.2.6	Ensures that the monthly accounts are mailed to consumers and rate payers on time.	1	2	3	4
2.2.7	Manages debtors effectively to ensure accuracy of the debtors' book.	1	2	3	4
2.2.8	Manages inventory/ stock efficiently to avoid keeping excessive stock for goods needed for service delivery	1	2	3	4
2.2.9	Manages inventory/ stock efficiently to avoid having stock shortages for goods needed for service delivery	1	2	3	4
	<p>Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:</p> <p>.....</p> <p>.....</p>				

No.	Statement	RESPONSE/ SCALE			
2.3	The credit control and debt collection criteria currently in use by my organisation:				
2.3.1	There is a formal criteria used by your organisation to implement credit control and debt collection in all areas.	1	2	3	4
2.3.2	The current credit control policy as approved is in writing.	1	2	3	4
2.3.3	The approved Debt collection policy is in place.	1	2	3	4
2.3.4	The credit control policy is implemented fairly to all ratepayers and consumers.	1	2	3	4
2.3.5	Poor households are provided with sufficient Free Basic Services (FBS) in our communities.	1	2	3	4
2.3.6	Supply of free basic service is controlled and managed properly.	1	2	3	4
2.3.7	In my opinion, Free Basic Services (FBS) is abused by the non-qualifying community members.	1	2	3	4
2.3.8	Adequate funding is available to provide poor households with Free Basic Services.	1	2	3	4
2.3.9	Current collection rate is satisfactory.	1	2	3	4
2.3.10	Current payment levels by the community are satisfactory.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
2.3.11	Inability to collect adequate revenue by the municipality is caused by the following:				
a)	Water shortages' causes.	1	2	3	4
b)	Electricity interruptions.	1	2	3	4
c)	Potholes on the roads.	1	2	3	4
d)	Lack of recreational facilities.	1	2	3	4
2.3.12	Credit control policy is aligned to municipal finance legislation (MFMA) effectively	1	2	3	4
2.3.13	In my view, Credit control policy implementation is effective	1	2	3	4
2.3.14	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				
2.4	Servicing of Creditors (trade and sundry):				
2.4.1	The municipality pay its creditors within 30 days (in line with the Municipal Finance Management Act) of receipt of a valid invoice.	1	2	3	4
2.4.2	Staff capacity constraint (financial skills) is the main reason for not being able to pay all invoices within legislated timeframe.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
2.4.3	Cash flow constraint is the main reason for not being able to pay all invoices on time.	1	2	3	4
2.4.4	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				
2.5	Inventory management				
2.5.1	The municipality having enough stock to provide municipal services efficiently and effectively.	1	2	3	4
2.5.2	The municipality is using Just in Time stock levels.	1	2	3	4
2.5.3	In my view, stock theft is causing stock shortages.	1	2	3	4
2.5.4	In my view, lack of inventory management skills causes stock shortages.	1	2	3	4
2.5.5	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				

SECTION 3

REWARDING MUNICIPAL EXECUTIVES – ACHIEVING SET TARGETS

PART 3

Please provide **your views on the below statements and proposed improvements** to the **management of rewarding municipal executives for achieving the set targets**. (Place an (X) in the appropriate statement below, where 1 = Strongly Agree, 2 = Agree, 3 = Disagree, 4 = Strongly Disagree)

No.	Statement	RESPONSE/ SCALE			
3.1.	Councillors in the organization I am involved with:				
3.1.1	Understands the needs for implementing rewards of executives on excellent performance.	1	2	3	4
3.1.2	Ensure that there are Council policies which provides clear guidelines on management of rewarding municipal executives for above average performance.	1	2	3	4
3.1.3	Ensure that Council can afford to pay municipal executives performance-based rewards incentives.	1	2	3	4
3.1.4	Consult extensively with the community on proposed rewards payouts to municipal executives.	1	2	3	4
3.1.5	Ensure that there are highly competent executives that lead and direct the municipality.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
3.1.6	Rewards management policies are developed and implemented to ensure compliance to all applicable legislation.	1	2	3	4
3.1.7	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				
3.2	Management of the organisation I'm involved with:				
3.2.1	Ensures that Cash is readily available to pay for executives' rewards incentives.	1	2	3	4
3.2.2	Ensures that the Executives Rewards strategy is implemented as approved by Council.	1	2	3	4
3.2.3	Ensures that the Executive Rewards strategy is being implemented fairly.	1	2	3	4
3.2.4	Ensures that there are no challenges in implementing Council's approved Executives Rewards Strategy.	1	2	3	4
3.2.5	Ensures that the Executive rewards strategy is linked to performance-based outcomes.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
3.2.6	Ensures that performance bonuses are paid to executives after performance evaluation process is finalized and approved by council.	1	2	3	4
3.2.7	Ensures that the performance evaluation panel is appointed to conduct annual performance assessment of municipal executives.	1	2	3	4
3.2.8	There are other rewards incentives schemes in place in my municipality for encouraging excellent performance of executives.	1	2	3	4
3.2.9	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				
3.3	Rewards for municipal executives currently in use by my organisation:				
3.3.1	There is a formal process used by my organisation to reward executives for excellent performance and achieving targets.	1	2	3	4
3.3.2	Executives' rewards strategy has been approved by Council.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
3.3.3	The Executive rewards strategy is implemented fairly to all executives.	1	2	3	4
3.3.4	Poor performers are provided with the development support to ensure that they improve their performance moving forward.	1	2	3	4
3.3.5	Evidence to support rewards approval to executives is always required to support reports of above average performance.	1	2	3	4
3.3.6	Adequate funding is available to ensure that the required evidence is provided by executives.	1	2	3	4
3.3.7	Performance bonuses are paid in line with the municipal performance regulations.	1	2	3	4
3.3.8	Other executives' rewards schemes are paid in line with the Rewards for executive strategy.	1	2	3	4
3.3.9	Council approval is required before any bonuses to executives are paid out.	1	2	3	4
3.3.10	Provision to performance bonuses are made on Council's financial books on an annual basis.	1	2	3	4
3.3.11	Performance bonuses paid to executives are linked to the Capital expenditure achieved in a financial year.	1	2	3	4
3.3.12	Performance bonuses paid to executives are linked to the operating surplus achieved by Council in a financial year.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
3.3.13	Performance bonuses paid to executives are linked to the Audit outcome achieved from AG in a financial year.	1	2	3	4
3.3.14	Performance bonuses paid to executives' implementation is effective in this municipality.	1	2	3	4
3.3.15	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				
3.4	Rewards for municipal executives as a motivator:				
3.4.1	The municipal executives are motivated by the current rewards scheme in place to excel in performing their delegated duties.	1	2	3	4
3.4.2	Municipal executives understand the importance of rewards for achieving set objectives.	1	2	3	4
3.4.3	Councilors understands the importance of implementing the Rewards for executives on achieving set targets.	1	2	3	4
3.4.4	More rewards incentive schemes for municipal executives should be considered/ explored by the municipality so as to be in par with other business sectors.	1	2	3	4

No.	Statement	RESPONSE/ SCALE			
3.4.5	The municipality has limited funds and cannot afford many rewards schemes for rewarding municipal executives.	1	2	3	4
3.4.6	Performance bonuses only are adequate to be used to reward municipal executives.	1	2	3	4
3.4.7	Based on your views of the above responses, what could be done by the municipality to overcome these gaps? Please specify below:				

