Exploring the determinants of financial distress in a South African municipality

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DECLARATION

I, Tsaone Ocilia Sekgala, hereby declare that this thesis titled *"Exploring the Determinants of Financial Distress in a South African Municipality"* is my own original work, submitted in fulfilment of the requirements for the Master of Business Administration at the North-West University. I affirm that:

1. Originality

This thesis is my own work and has not been submitted for any other degree or examination at any other university. Except where explicitly stated and referenced, all ideas, analyses, arguments, and conclusions are solely my own.

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Signature: **Date:** 26 November 2025

DEDICATION

This research study is lovingly dedicated to my family.

Thank you for believing in me, supporting my journey, and reminding me that dreams do come true.

Your love, patience, and encouragement made this achievement possible.

PREFACE

This dissertation marks the fulfillment of a long-held dream, personal and academic milestone in my journey at NWU. The study was inspired by a desire to contribute meaningful insight into the financial challenges facing South African municipalities and to support efforts toward stronger, accountable public financial management.

Beyond its academic purpose, this work symbolises perseverance, growth, and the belief that dreams can be realised through dedication and determination. It stands as a personal milestone and a testament to what is possible when one remains focused on ameaningful goal.

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ABSTRACT

Municipal financial distress has become a critical governance challenge in South Africa, with the City of Matlosana among the most financially unstable municipalities. This study examined the determinants of financial distress in Matlosana, focusing on structural, operational, governance, and socio-economic drivers that undermine fiscal sustainability and service delivery. Guided by Agency Theory, the study analysed how information asymmetry, weak oversight, and misaligned incentives contribute to financial mismanagement and institutional failure. A qualitative research design was employed, including semi-structured interviews with municipal officials and document analysis. Thematic analysis revealed that Matlosana's financial crisis is driven by chronic under-collection of revenue, unfunded budgets, escalating consumer debt, poor financial controls, widespread irregular expenditure, ageing infrastructure, operational inefficiencies, and deep socio-economic decline. These weaknesses are compounded by political interference, weak administrative leadership, and the absence of consequence management. The study concludes that Matlosana's financial distress is structural and systemic rather than episodic. It recommends strict implementation of the Financial Recovery Plan, strengthened governance and accountability mechanisms, revenue enhancement reforms, and revitalisation of local economic development. Addressing these entrenched failures is essential to restoring service delivery, rebuilding public trust, and achieving long-term municipal stability.

Key terms: Financial Distress, City of Matlosana, Local Government, Municipality, Financial Management, Financial Sustainability, Revenue Collection, Unfunded Budget, South Africa

LIST OF ABBREVIATIONS

AGSA	Auditor-General of South Africa
Atlas.ti	Qualitative Data Analysis Software
COGTA	Department of Cooperative Governance and Traditional Affairs
DPME	Department of Planning, Monitoring and Evaluation
GDP	Gross Domestic Product
IDP	Integrated Development Plan
LED	Local Economic Development
LGMIM	Local Government Management Improvement Model
MFMA	Municipal Finance Management Act
NWU	North-West University
RSA	Republic of South Africa
SCM	Supply Chain Management
SPLUMA	Spatial Planning and Land Use Management Act
UFW	Unauthorised, Irregular, Fruitless and Wasteful Expenditure
UN	United Nations

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CHAPTER 1: BACKGROUND OF THE STUDY

1.1 Introduction

Most South African municipalities have recently struggled with financial viability and the delivery of essential services to local communities (Kanyane, 2014; Glasser & Wright, 2020). Continued municipal financial distress has resulted in a full-blown crisis in many South African towns and cities, characterised by electricity supply disruptions, clean water shortages, inadequate housing, and a lack of sanitation (Meyer & Neethling, 2021; Nxumalo, 2022). This municipal financial crisis has various root causes, with varying severities from one municipality to the next. Low levels of infrastructure expenditure are often cited as the most significant cause of failure, as sustained low levels of infrastructure development limit municipalities' ability to expand essential service delivery to poor, often rural communities (McKenzie & Marx, 2024:175).

In addition, due to the lack of infrastructure development, inefficient supply chain management processes hinder effective service delivery, resulting in cumbersome, compliance-driven procedures that impose a disproportionate administrative burden on municipalities and delay the procurement of essential goods and services. High vacancy rates in crucial positions and cadre deployment further contribute to a lack of critical skills in municipalities, worsening municipal dysfunctionality (Bureau for Economic Research, 2021). Municipal financial woes directly and negatively impact their ability to deliver essential services to their local communities (Kroukamp, 2016; Kumalo & Scheepers, 2021; Zerihun & Mashingo, 2022).

The Auditor General of South Africa (AGSA) urged strict financial and performance management in South African municipalities as a remedy to the financial distress crisis, as fruitless and wasteful expenditure resulted in a R2.1 billion loss for the fiscal year that ended on 30 June 2021. Furthermore, only 28% of South African municipalities prepared annual financial statements without material misstatements (Maluleke, 2021). Therefore, this study aims to investigate the determinants of financial distress in the City of Matlosana, recommend turnaround strategies for financial stability, and promote the delivery of basic services in the municipality.

1.2 Problem Statement

Municipalities in South Africa have faced significant financial challenges, threatening their ability to deliver essential services and maintain infrastructure (Meyer & Neething, 2021; Nxumalo, 2022). The City of Matlosana is one of the municipalities that is currently grappling with financial viability. The municipality is experiencing persistent revenue shortfalls, mismanagement of funds, and governance failings that impede service delivery (Nhete, 2021). Despite various efforts to improve financial management, issues such as inadequate revenue collection, mismanagement of funds, and alleged corruption persist. These challenges not only compromise service delivery but also erode public trust in municipal governance (Nhete, 2021). Identifying the specific factors that led to the City of Matlosana's financial distress is essential to developing sound solutions that enable the City to maintain sustainable financial management and good governance. Although various researchers have investigated the issue (Glasser & Wright, 2021; Zerihun & Mashingo, 2022), there is a lack of comprehensive studies examining the unique factors contributing to financial distress in the City of Matlosana, creating a knowledge gap this study aims to fill. Therefore, the problem this study tries to solve is understanding the sources of financial distress, specifically in the City of Matlosana.

1.3 Research and Aim: Objectives of the Study

1.3.1 Research Aim (Primary Objective)

This study explores the determinants of financial distress in the City of Matlosana, South Africa. By understanding the factors that contribute to financial challenges, this research aims to provide insights into improving financial management and sustainability in local governments.

1.3.2 Research Objectives (Secondary Objectives)

The study sought to answer the following research objectives:

1. To identify factors leading to financial distress and mechanisms to address these factors through a literature study.
2. To identify key factors contributing to financial distress in the City of Matlosana municipality.

3. To analyse the effectiveness of current financial management practices in preventing financial distress.
4. To make recommendations for improving financial sustainability and avoiding financial distress in the City of Matlosana municipality.

1.5 Preliminary Literature Review

This section briefly reviews the literature referring to the problem statement. It briefly examines financial distress in South African municipalities, outlines the determinants of financial mismanagement, and presents the theoretical framework for the study, drawing on earlier research.

1.5.1 Financial Mismanagement in South African Municipalities

Financial mismanagement remains a significant issue in South African municipalities, substantially exacerbating financial distress through unauthorised, irregular, fruitless, and wasteful expenditures (Glasser & Wright, 2020). According to Nzama (2019), the fundamental reasons for this financial mismanagement arise from deficient governance, insufficient financial oversight, and inadequate accountability frameworks. The legislative framework, comprising the Constitution and the Municipal Systems Act of 2000, establishes financial management rules; howeverever, municipalities continue to face compliance challenges, resulting in fiscal instability (Nzama, 2019). Inadequate financial accountability and insufficient transparency undermine governance, hindering municipalities' capacity to maintain financial management practices (Mbatha, 2020). Inadequate supply chain management contributes to financial distress at the operational level, as municipalities often neglect basic procurement procedures, resulting in undesirable tender processes and irregular expenditures (Dlomo, 2017). Inadequate risk management exposes municipalities to financial mismanagement due to insufficient control procedures to prevent fraud, corruption, and unauthorised spending (Sibanda et al., 2020). Inadequate internal control systems exacerbate these issues, as the lack of rigorous financial oversight permits undetected anomalies to continue (Glasser & Wright, 2020).

In summary, financial mismanagement in South African municipalities originates from governance weaknesses, a lack of internal controls, and regulatory non-compliance, which then cascade into operational inefficiencies, such as poor supply chain management and inadequate service delivery. The empirical research was designed to assess whether a causal relationship exists between these factors and the City of Matlosana's financial challenges.

1.5.2 Determinants of Financial Distress

Municipal financial distress is the inability of municipalities to pay creditors on time or to provide the population with required services, leading to massive losses for creditors and suppliers (Buendia-Carrillo et al., 2020). This is a deep-seated distress that has been associated with regressions in audit outcomes, a multifaceted outcome of several factors, including poor leadership, weak risk management, and weak financial management in South Africa (Motubatse et al., 2018). The academic literature has identified a variety of root causes of municipal financial distress, with the most common being poor leadership, poor risk management practices, and poor financial management.

In South Africa, the National Treasury has flagged disclaimed audit opinions as a determinant of municipal financial distress, as stipulated in section 138 of the MFMA (RSA, 2003). Similarly, the Minister of Co-operative Governance and Traditional Affairs (COGTA) has identified the failure to develop and maintain municipal infrastructure as a root cause of financial distress. The Minister's efforts are crucial in addressing these issues and ensuring the long-term sustainability of South Africa's infrastructure system (COGTA, 2018).

Political competition in municipalities results in surpluses being reported as close to zero as possible, due to increased efficiency in resource allocation (Ferreira et al., 2020). Financial distress and municipal failure can result from persistent operating deficits. Municipalities in South Africa are considered financially distressed if actual expenditure in at least two subsequent financial years exceeds revenue, or if the operating deficit exceeds 5 per cent of revenue. If smaller deficits are reported in two successive financial years, the municipality should also be classified as financially distressed (National Treasury, 2021).

The lack of consequence management at the senior management level can also negatively impact the public's perception of the government's failure to address fraud and corruption, which the AGSA (2022 b) identifies as the root cause of material irregularities and a determinant of municipal financial distress. In South Africa, municipal leadership often leads to mismanagement of public funds, corruption, and wasteful expenditure, which contradicts sound governance principles (Makole, 2022). The failure to build resilient local government institutions is a significant factor in municipal financial distress, as highlighted by the COGTA (2018).

Ineffective revenue collection systems and processes pose a threat to municipal financial sustainability. Many South African municipalities are financially unviable due to uncollectable debt, making low revenue collection a determinant of financial distress (Enwereji & Kadama, 2018). Poor managerial and political leadership in distressed municipalities leads to indecision and failure to fulfil election promises (Enwereji & Kadama, 2018). Most municipalities lack strategic management and leadership, as the King IV code prescribes. Municipal financial distress reflects the local government accountability ecosystem, as inadequate oversight can result in service delivery failures that significantly harm local communities and municipalities (AGSA, 2022d)

Municipal turnaround strategies for financial distress are only effective if municipalities identify and address the determinants of their financial distress.

1.5.3 Theoretical Framework

Agency theory examines the principal-agent relationship, in which the principal (e.g., shareholders or the public) delegates authority to an agent (e.g., managers or municipal officials) to act on their behalf (Jensen & Meckling, 2019). The theory posits that agents may not consistently operate in the principal's best interest due to self-interest, limited rationality, and risk aversion (Eisenhardt, 1989). This divergence of interests leads to agency problems, including moral hazard and adverse selection, which are intensified by information asymmetry where agents have more information than principals and may exploit this advantage (Scott, 2015). Agency costs emerge when principals are required to oversee and regulate agents’ conduct to ensure their actions are consistent with the principals’ objectives (Deegan, 2013). The expenses encompass monitoring costs, bonding charges, and residual losses, all inclusive of inefficiencies in governance and financial management (Jensen & Meckling, 2019)

Municipalities operate within a public governance framework in which voters (principals) delegate authority to elected officials and administrators (agents) to manage public finances and provide essential services. Nonetheless, inadequate monitoring, corruption, and bureaucratic inefficiencies may compel municipal officials to favour personal or political interests over prudent financial management, resulting in financial mismanagement (Glasser & Wright, 2020). Information asymmetry exacerbates financial suffering, since local administrators may hide essential financial data or distort reports to obscure irregular, unproductive, and wasteful expenditures (Nzama, 2019). The agency problem in municipalities is evident in inadequate supply chain management, deficient internal controls, and inconsistent procurement processes, all of which compromise service delivery (Sibanda et al., 2020). Moreover, inadequate monitoring systems and a lack of transparency enable unauthorised expenditures to continue, exacerbating ongoing financial instability (Mbatha, 2020).

The use of agency theory in this study is justified, as it provides a comprehensive framework for examining governance problems and financial mismanagement in municipalities. This elucidates why municipal officials, as agents, may prioritise self-interest over the delivery of public services and financial accountability. The study utilises agency theory to evaluate the impact of information asymmetry, agency costs, and governance deficiencies on municipal financial distress. Moreover, agency theory offers insights into how monitoring measures, including audits, performance reporting, and regulatory compliance, can mitigate financial mismanagement and promote fiscal sustainability (Jensen & Meckling, 2019). Given the prevalent financial mismanagement in South African municipalities, agency theory provides a crucial framework for proposing accountability measures, transparency initiatives, and enhanced financial monitoring to avert a financial disaster in the City of Matlosana.

1.6 Overview of Research Design and Methodology

The study adopted a qualitative research methodology, guided by the research onion framework of Saunders et al. (2019), to explore the determinants of financial distress in the City of Matlosana. An interpretivist paradigm informed the study, enabling an in-depth understanding of participants’ perceptions and experiences regarding municipal financial instability. Using an inductive approach and a case study design, the research examined the structural, governance, operational, and socio-economic drivers of financial distress within a real-life municipal context. Purposive sampling was used to select knowledgeable municipal officials, while snowball sampling identified additional participants, including informed members of the public. Data were collected through semi-structured interviews and supported by document analysis of key municipal financial records.

Data analysis was conducted using thematic analysis following Braun and Clarke’s (2006) five-phase approach, supported by Atlas.ti software to enhance systematic coding and theme development. Trustworthiness was ensured through credibility, confirmability, transferability, and dependability measures such as triangulation, an audit trail, and rigorous documentation. Ethical considerations—including voluntary participation, informed consent, anonymity, confidentiality, and institutional ethical approval—were strictly adhered to. The chosen research design and methodology provided a coherent and robust framework for generating deep insights into the root causes and implications of financial distress in Matlosana Municipality.

1.7 Organisation of the Study

The study is categorised into five specific chapters as follows:

Chapter 1 (Introduction) – This is the introductory chapter, which outlines the study's background, the research problem statement, the research aim, objectives, and questions, the significance of the study, the definitions of key terms, and the study's layout.

Chapter 2 (Literature review) – This chapter presents the theoretical and empirical literature on municipal financial distress at the global and local levels. The chapter also highlights the current state of South African municipalities and the challenges they face. The study concludes by highlighting the research gap it addresses.

Chapter 3 (Research Design and Methodology) – This chapter entails the research design that the study followed. It further deliberates on the research philosophy, research strategy, and time frame governing the study, as well as the data collection procedures, data analysis techniques and ethical considerations to which the study adheres.

Chapter 4 (Presentation of Research Findings) – This section of the study will present the research findings, analyse and discuss them, and compare them with earlier research on the subject under study.

Chapter 5 (Conclusions and Recommendations) – This chapter outlines the study's conclusions based on the study objectives. The chapter also provides practical recommendations and outlines areas for future study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Municipal financial crises pose a serious concern for local governments globally, adversely affecting their capacity to meet service delivery obligations. This suffering frequently stems from reasons such as financial mismanagement, corruption, inadequate governance frameworks, diminishing revenue streams, and ineffective administration (Buendía-Carrillo et al., 2020:12). Municipalities facing financial instability encounter difficulties in fulfilling their financial obligations, including payment of creditors and delivering critical services such as water, electricity, sanitation, and waste management. This failure diminishes citizens' quality of life, erodes public trust in local governance, and obstructs socio-economic growth (McKenzie & Marx, 2024:176). Moreover, financially distressed municipalities cannot invest in essential infrastructure projects, hence worsening service delivery backlogs and contributing to overall economic stagnation (Dollery et al., 2020:129). Due to the significant repercussions of a municipal financial crisis, it is essential to understand the fundamental causes and contributing factors to formulate effective intervention measures. Subsequently, this study aims to investigate the factors contributing to financial distress in a South African municipality, identifying the primary financial, administrative, and structural obstacles that lead to fiscal instability, and evaluating alternative options for achieving financial sustainability.

This chapter presents an extensive examination of the existing literature concerning municipal financial distress, its underlying causes, and potential remedies. The discussion begins with a definition of financial distress within municipalities, followed by an overview of the outcomes of municipal audits in South Africa. The discussion covers the legal and policy frameworks governing municipalities, including an analysis of the regulatory environment. This chapter explores theoretical frameworks that illuminate the financial challenges faced by municipalities and examines the principal determinants and contributing factors to financial distress within South African municipalities. Ultimately, the discourse shifts to frameworks for municipal turnaround and restructuring strategies, emphasising the efficacy of diverse interventions in mitigating financial distress. This literature review aims to provide a comprehensive analysis of the financial challenges municipalities face and the strategies required to achieve financial sustainability within local government.

2.2 Definition of Financial Distress in Municipalities

Financial distress in municipalities denotes a local government's inability to deliver essential public services to the required quality standards due to financial constraints (Jones & Walker, 2007:16; McKenzie & Marx, 2025). This form of distress is typically characterised by liquidity difficulties, revenue deficiencies, and high levels of debt, all of which ultimately hinder the provision of services and the maintenance of financial sustainability. Within the South African framework, the concept of financial distress in municipalities is articulated in the Municipal Finance Management Act (MFMA) No. 56 of 2003. This legislation differentiates between financial difficulties and financial crises, the latter representing a more critical state of affairs (RSA, 2003).

Municipalities that suffer severe financial difficulties are classified under Section 138 of the Municipal Finance Management Act (MFMA) based on demonstrating one or more of the financial indicators. These indicators include failure to meet financial obligations, exceeding expenditures over revenues for two successive years, or sustaining a budget deficit exceeding five per cent of total revenue (RSA, 2003). Furthermore, a municipality that does not provide its financial statement to the Auditor-General within a period of 60 days, or that obtains a disclaimer of opinion as a result of inadequate financial reporting, is likewise classified as financially distressed (RSA, 2003). The Municipal Finance Management Act (MFMA) defines financial distress in Section 140 as a "financial crisis" when a municipality consistently fails to meet its financial commitments and is incapable of delivering essential services or fulfilling its financial responsibilities. The legal framework facilitates the early identification of municipalities experiencing financial distress, thereby enabling provincial or national intervention, in accordance with Section 139 of the Constitution, aimed at restoring financial stability (RSA, 1996, 2003).

Differentiating between serious financial issues and financial crises is essential for identifying appropriate response strategies. Although internal financial recovery strategies may be employed to address financial difficulties, a financial crisis necessitates compulsory intervention by a provincial or national government to implement a financial recovery plan (RSA, 2003). In conclusion, the phenomenon of financial distress in South

African municipalities is formally acknowledged as a significant barrier to their efficient operation.

2.3 Overview of South African Municipalities Audit Outcomes

The Consolidated General Report on Local Government Audit Outcomes for the year 2022-23 in South Africa indicates a continuous and troubling pattern of financial difficulties faced by municipalities. Notably, 86% of municipalities exhibited material compliance findings, reflecting a minor decline from the 85% recorded in the preceding year (Auditor General South Africa, 2023:14). The elevated incidence of non-compliance highlights underlying systemic challenges in financial management and governance among local government entities.

The Auditor-General's report underscores multiple significant factors contributing to the current financial turmoil. A notable challenge is the pervasive non-adherence to legal frameworks, which constitutes the primary impediment to local government (Auditor General South Africa, 2023:14). For example, numerous municipalities failed to comply with supply chain management regulations, resulting in irregular expenditures and financial mismanagement. Furthermore, the report highlights inadequacies in internal control mechanisms and financial reporting procedures, leading to the issuance of erroneous financial statements and a deficiency in accountability (Auditor General South Africa, 2023:14).

In comparison, the results of recent audits have demonstrated only marginal improvements. The marginal rise in material compliance findings from 85% to 86% indicates that initiatives aimed at improving financial governance have not achieved sufficient effectiveness (Auditor General South Africa, 2023:14). This stagnation suggests that the financial challenges faced by municipalities are not improving and may, in fact, be deteriorating. The persistent difficulties in adhering to regulations and managing financial resources underscore the need for more comprehensive interventions and assistance to address the fundamental factors contributing to financial instability within local government entities (Auditor General South Africa, 2023:14).

Moreover, the City of Matlosana has been undergoing significant financial difficulties, as evidenced by recent audit results from the AGSA (Auditor General South Africa, 2023:14).

The municipality has persistently faced challenges related to inadequate financial management, escalating debt levels, and ineffective revenue collection, resulting in its failure to fulfil financial obligations. The increasing prevalence of unauthorised, irregular, fruitless, and wasteful expenditure (UIFW) represents a significant concern, as it has persisted and intensified over several financial years (Auditor General South Africa, 2023:14). The municipality has been identified for its inability to remit payments to creditors promptly, leading to considerable legal and financial repercussions. In certain instances, service providers have initiated legal proceedings, thereby exacerbating the financial strain on the city (Auditor General South Africa, 2023:14). The AGSA has additionally recognised deficiencies in internal controls, insufficient financial oversight, and the non-implementation of audit recommendations, all of which have exacerbated the municipality's deteriorating financial condition. Furthermore, Matlosana has faced challenges in generating adequate revenue due to ineffective billing systems and residents' failure to make payments, thereby exacerbating its financial difficulties (Auditor General South Africa, 2023:14).

To tackle these issues, Section 139(5)(a) and (c) of the Constitution, along with Section 139 of the Municipal Finance Management Act (MFMA), establish a legal framework that facilitates provincial intervention in municipalities experiencing financial distress (McKenzie & Marx, 2024:194). According to Section 139(5)(a) of the Constitution, it is required that the provincial government take action in instances where a municipality is unable to fulfil its financial responsibilities. Section 139(5)(c) additionally permits the implementation of a financial recovery plan, which encompasses rigorous budgeting controls and strategies for revenue enhancement aimed at reinstating financial stability (RSA, 1996). The MFMA elaborates on these stipulations, outlining particular measures for intervention, financial reorganisation, and supervision to avert additional decline.

The financial difficulties experienced in Matlosana reflect the wider economic challenges encountered by numerous municipalities throughout South Africa; however, distinct differences and similarities can be identified when compared with other municipalities. For example, the difficulties faced by Matlosana are comparable to those encountered by municipalities like Emfuleni and Mangaung, which have similarly been subjected to provincial intervention as a result of financial mismanagement, elevated expenditures on UIFW, and the accumulation of debt (Auditor General South Africa, 2023:14). Similar to

Matlosana, these municipalities have encountered significant liquidity challenges, resulting in their inability to sustain fundamental service delivery effectively.

Nonetheless, in comparison to more successful municipalities such as Stellenbosch or Midvaal, Matlosana demonstrates a considerable deficiency in financial governance (Auditor General South Africa, 2023:14). In contrast to Matlosana, these municipalities exhibit robust financial controls, efficient revenue collection mechanisms, and prudent expenditure management, culminating in a state of sustainable financial health. Moreover, municipalities with robust financial management and accountable leadership have successfully avoided provincial intervention, in contrast to Matlosana, which has experienced ongoing decline attributed to political instability and the inability to implement the corrective actions advised by the AGSA.

Further, although Matlosana experiences financial difficulties similar to numerous other distressed municipalities, the extent of financial mismanagement and the absence of remedial measures position it as one of the most financially precarious municipalities in South Africa (Auditor General South Africa, 2023:14). In the absence of immediate action and the rigorous implementation of a financial recovery strategy, Matlosana faces the potential for additional failures in service delivery and the likelihood of national intervention pursuant to Section 139(7) of the Constitution.

In conclusion, the audit results for the 2022-23 period indicate a concerning continuation of financial difficulties within South African municipalities, with the City of Matlosana serving as a representative case of the obstacles encountered. The absence of notable progress in recent years necessitates enhanced initiatives to ensure regulatory compliance, refine financial management strategies, and strengthen institutional capabilities to promote financial stability and accountability within local government structures.

2.4 Legal and Policy Frameworks Governing Municipalities in South Africa

In South Africa, municipal governance is structured by a comprehensive legal and policy framework that facilitates efficient service delivery, sound financial management, and accountability within the local government system. This framework is fundamentally constructed upon the Constitution of the Republic of South Africa, the Municipal

Structures Act, the Municipal Systems Act, and the Municipal Finance Management Act. The aforementioned legislative instruments outline the framework, authority, and fiscal responsibilities of municipalities, while also underscoring the principles of democratic governance, civic engagement, and the sustainable management of municipal resources.

2.4.1 The Constitution of the Republic of South Africa (1996)

The 1996 Constitution of the Republic of South Africa functions as the principal legal framework for local government. Chapter 7 of the Constitution establishes local government as a separate domain of governance, empowering municipalities with the jurisdiction to manage local matters and deliver fundamental services, including water, sanitation, electricity, and waste removal. The Constitution requires municipalities to participate in democratic governance, thereby guaranteeing that local communities can influence decisions that affect their lives. Furthermore, local governments are required to adhere to national and provincial laws and policies, ensuring that their service provision is consistent with overarching national objectives related to social and economic advancement. The Constitution mandates that municipalities administer their financial resources in a manner that fosters transparency, accountability, and efficiency (RSA, 1996). Notwithstanding the extensive legal authority conferred by the Constitution, numerous municipalities face challenges related to financial mismanagement and inadequate capacity to provide services, as Meyer and Neethling (2021:6) analysed in their evaluation of the financial well-being of metropolitan municipalities.

2.4.2 The Local Government: Municipal Structures Act (117 of 1998)

The Local Government: Municipal Structures Act, 117 of 1998, enhances the Constitution by providing a definitive framework for the organisation and operational dynamics of municipalities. This legislation classifies municipalities into three distinct categories: metropolitan municipalities (Category A), district municipalities (Category C), and local municipalities (Category B). Metropolitan municipalities, commonly located in urban areas, exhibit a high level of self-sufficiency and possess exclusive executive and legislative powers within their jurisdictions. Conversely, district municipalities are responsible for the governance of rural regions, while local municipalities rely on district municipalities for assistance. The legislation requires local governments to consult their constituents on significant matters, thereby promoting participatory governance (RSA, 1998). Moreover, it governs municipalities' internal frameworks and functions, providing directives on electoral processes, the selection of municipal officials, and interactions among different levels of government. Nevertheless, numerous municipalities have encountered difficulties in harmonising their service delivery frameworks with the diverse capabilities of local and district municipalities, especially when faced with financial and operational limitations (De Visser, 2019:36).

2.4.3 The Municipal Systems Act (32 of 2000)

The Municipal Systems Act, 32 of 2000, enhances municipal governance by offering comprehensive directives regarding the administrative and operational dimensions of municipalities. It requires that municipalities implement integrated development plans (IDPs) that synchronise local government priorities with national and provincial development goals. The Systems Act further mandates the establishment of performance management systems to assess service delivery, ensure accountability, and evaluate municipalities' financial stability (RSA, 2000). Furthermore, it underscores the importance of professionalising municipal administration, ensuring that municipalities are governed by qualified professionals rather than being influenced by political appointments. Nonetheless, despite these regulations, municipalities in South Africa frequently encounter governance challenges, including political interference in administrative operations, which hinder the effective implementation of policies. The challenge is exacerbated by a shortage of proficient financial managers, as noted by Meyer and Neethling (2021:6), which impairs municipalities' capacity to maintain effective financial management and comply with regulatory standards.

2.4.4 The Municipal Finance Management Act (56 of 2003)

The Municipal Finance Management Act (MFMA), 56 of 2003, serves as the fundamental framework for financial governance within local government in South Africa. The MFMA is designed to promote the effective and efficient administration of municipal financial resources by establishing norms and standards on budgeting, financial reporting, procurement, and auditing practices. It enforces rigorous accountability standards for municipal officials and councils to promote transparency and mitigate financial mismanagement. The legislation requires municipalities to formulate annual budgets, submit financial statements, and participate in external audits to assess their financial performance (RSA, 2003). Notwithstanding the extensive stipulations of the MFMA, numerous municipalities persist in facing financial difficulties, frequently attributable to insufficient financial management competencies and inadequate supervision by local councils (Khaile, 2020:96). Further, Meyer and Neethling (2021:6) noted that the deficiency of qualified personnel and ongoing non-adherence to MFMA regulations have contributed to a deterioration in financial stability, particularly within smaller and rural municipalities. The challenges mentioned above underscore the need for enhanced training, capacity development, and oversight frameworks to ensure municipalities comply with the stringent financial governance standards set out in the MFMA.

In summary, the legal and policy frameworks that regulate municipalities in South Africa, as outlined in the Constitution, the Municipal Structures Act, the Municipal Systems Act, and the Municipal Finance Management Act, establish a comprehensive foundation for promoting efficient local governance and financial oversight. Notwithstanding the robust framework established by these regulations, numerous municipalities continue to face obstacles, including political interference, inadequate managerial capacity, and persistent financial mismanagement. Confronting these challenges requires a unified effort to enhance the professionalism of municipal management, strengthen financial literacy and capacity, and strengthen oversight mechanisms to ensure compliance with the legislative framework. Meyer and Neethling (2021:6) contend that the fiscal well-being of municipalities in South Africa depends on the effectiveness of governance and the capacity to implement prudent financial management strategies.

2.5 Theoretical Framework

Agency theory provides a comprehensive framework for analysing the factors contributing to financial distress in municipalities, particularly governance issues. The theory, grounded in the principal-agent relationship, elucidates the process by which principals (such as voters) confer authority upon agents (including municipal officials or administrators) to operate in alignment with their best interests, particularly in the management of public resources and the provision of services (Meckling & Jensen, 1976:13; Dewi et al., 2019). Nevertheless, a core premise of agency theory posits that agents frequently prioritise their personal interests, which may diverge from the objectives of the principal, leading to inefficiencies and financial mismanagement (Eisenhardt, 1989:28; Shailer, 2023:62). The discrepancy is intensified by information asymmetry, wherein agents have access to greater information regarding municipal operations than the principals, which may result in the exploitation of this disparity in knowledge (Scott, 2015:8).

Municipalities, as instruments of public governance, face an agency problem in which political representatives and municipal officers act as agents of the common good. Financial distress is a common phenomenon arising from poor management and accountability, corruption, and inefficiencies in bureaucratic processes. A lack of transparency exacerbates the challenges mentioned above, as local administrators can hide or misrepresent necessary financial information to cover up abnormal spending or ineffective operations (Nzama, 2019:316). As an illustration, in many municipalities, the problem of poor procurement practices, the absence of adequate internal controls, and failure to adhere to fiscal regulations are the main examples of financial mismanagement (Mbatha, 2020:58). These mistakes undermine fiscal sustainability and increase financial challenges in municipalities (Sibanda, Zindi & Maramura, 2020:96).

Agency theory is particularly applicable for understanding these dynamics, as it provides a distinct framework for examining the underlying factors contributing to financial distress in municipalities. The theoretical framework, which highlights information asymmetry, moral hazard, and adverse selection, provides a comprehensive understanding of the reasons why municipal agents might favour their own interests at the expense of efficient service provision and prudent financial management (Deegan & Shelly, 2014:205). Furthermore, agency theory emphasises the costs associated with overseeing agents' conduct. In the context of municipalities, this encompasses the necessity for rigorous audits, performance assessments, and regulatory structures aimed at mitigating the effects of agency costs (Jensen & Meckling, 2019:45) The expenses associated with monitoring, bonding, and residual losses signify the inefficiencies that arise when municipalities do not effectively align the interests of agents and principals, leading to fiscal instability (Meckling & Jensen, 1976:98; Shailer, 2023: 62).

The significance of agency theory in this research lies in its capacity to provide an in-depth analysis of how governance shortcomings and financial mismanagement contribute to municipalities' financial difficulties, particularly in South Africa. Given the widespread financial mismanagement in South African municipalities, characterised by corruption and inadequate financial oversight, agency theory provides a pertinent framework for examining the underlying factors contributing to financial crises and the strategies required to resolve them (Glasser & Wright, 2020:206). The assertion is bolstered by the notion that increased transparency, improved monitoring, and robust accountability mechanisms are crucial for alleviating financial distress. Consequently, agency theory is not only relevant but also crucial for understanding the governance failures that contribute to municipal financial distress and for suggesting strategies to enhance municipal financial sustainability.

2.6 Determinants of Financial Distress in Municipalities

The financial distress municipalities face poses a significant challenge for local governments worldwide, as they strive to balance revenue generation with escalating expenditures. Financial distress arises when municipalities are unable to meet their financial commitments, leading to service delivery failures, infrastructure degradation, and, in severe cases, municipal bankruptcy. The factors influencing municipal financial distress differ across regions, influenced by political, economic, and institutional elements. On a global scale, municipalities' financial difficulties are shaped by economic recessions, inadequate financial oversight, high debt burdens, and government inefficiencies. Nonetheless, in the African context, supplementary factors, including inadequate revenue-collection mechanisms, political interference, and corruption, intensify the crisis. This discourse offers a deep examination of the factors contributing to financial distress in municipalities, drawing on insights from both global and African perspectives.

2.6.1 Global Perspective on Municipal Financial Distress: Insights from International Studies

Globally, local governments face fiscal difficulties due to a confluence of economic, structural, and governance-related factors. The primary factors contributing to municipal financial distress globally include declining revenue streams, elevated municipal debt levels, pension obligations, economic recessions, pressures from urbanisation, and governance failures.

- Declining Revenue Sources and Tax Base Erosion

A primary factor contributing to municipal financial distress worldwide is the decline in revenue streams, particularly from property taxes, business taxes, and intergovernmental transfers. In North America, a notable reduction in property tax revenues has exerted considerable pressure on municipal budgets, particularly in the aftermath of economic recessions such as the 2008 financial crisis and the COVID-19 pandemic (McQuestin, Drew, & Miyazaki, 2021. Similarly, the demographic shift towards an older population in Europe has contributed to a reduction in the tax base, particularly in Southern European nations such as Italy and Greece, where diminished workforce participation has led to a decline in municipal revenues (United Nations Economic Commission for Europe, 2021). Local governments in South America face challenges in revenue generation due to significant informality in the economy, which complicates tax enforcement (Siriwardhane & Khan, 2019:134).

- High Municipal Debt and Unfunded Pension Liabilities

A key factor contributing to financial distress in municipalities is the accumulation of high debt levels, particularly in urban areas that rely heavily on municipal bonds to fund infrastructure initiatives. In the United States, various municipalities, such as Detroit and Chicago, have encountered financial crises as a result of excessive borrowing and unfunded pension liabilities (Wallace & Dollery, 2018:19). In the Asian context, especially within China and India, regional authorities have progressively resorted to municipal borrowing as a means to support swift urbanisation. However, the absence of adequate financial oversight has led to unsustainable debt levels (Borrella-Mas & Rode, 2021:298). Local governments in Australia encounter financial difficulties stemming from borrowing limitations, as stringent regulations restrict their capacity to generate revenue through bond markets, thereby necessitating reliance on intergovernmental transfers (McQuestin, Drew & Miyazaki, 2021:192).

- Economic Downturns and Inflationary Pressures

Macroeconomic factors, such as economic recessions and inflationary pressures, often exacerbate the financial distress municipalities face. In South America, inflation has significantly contributed to municipalities' financial instability, as evidenced by the fiscal crises faced by countries such as Argentina and Venezuela, which are attributed to escalating service delivery costs exceeding revenue growth (Siriwardhane & Khan, 2019:136). Municipalities across Europe have encountered financial challenges as a result of economic disruptions, especially in post-industrial areas where the downturn of manufacturing sectors has resulted in diminished municipal income and heightened unemployment levels (Wallace & Dollery, 2018:34). Concurrently, local governments in North America, especially within the United States, have faced challenges regarding financial sustainability in the aftermath of economic downturns. These recessions have led to declines in sales and income tax revenues, while simultaneously heightening demand for social services (McQuestin, Drew & Miyazaki, 2021:192).

- Urbanisation Pressures and Infrastructure Challenges

The swift pace of urbanisation has imposed considerable fiscal pressure on local governments, especially in Asia and Africa, where urban centres are growing faster than municipal authorities can generate sufficient revenue to fund infrastructure development. Municipal authorities in China and India have faced challenges in delivering sufficient housing, transportation, and sanitation services to their expanding urban populations, resulting in fiscal deficits (Borrella-Mas & Rode, 2021:310). In Latin America, urban centres like São Paulo and Buenos Aires face comparable difficulties, characterised by insufficient financial planning that leads to overcrowded, under-resourced public services (Habibov, Fan & Auchynnikava, 2019:467). European and North American urban centres, despite their greater financial stability, face infrastructure challenges, particularly as the need for ongoing maintenance and investment arises from ageing infrastructure (United Nations Economic Commission for Europe, 2021).

- Governance Failures and Corruption

The financial distress experienced by municipalities is often linked to deficiencies in governance, inadequate financial management practices, and instances of corruption. In South America, the prevalence of corruption within municipal procurement processes has led to significant financial management, as exemplified by high-profile scandals such as the Lava Jato case in Brazil, which has uncovered extensive misuse of public funds (Transparency International, 2021). Municipalities in Asia, particularly those in developing economies, face financial difficulties related to governance, stemming from inadequate institutional frameworks and insufficient financial oversight (Borrella-Mas & Rode, 2021:310). In Europe and North America, despite comparatively robust governance frameworks, instances of financial mismanagement and excessive indebtedness have led to municipal bankruptcies in urban areas such as Detroit and Puerto Rico (Wallace & Dollery, 2019:39).

2.6.2 African Perspective on Municipal Financial Distress: Insights from African Studies

African municipalities face distinct challenges that lead to financial difficulties, including ineffective revenue-collection mechanisms, excessive reliance on transfers from the national government, political interference, insufficient investment in infrastructure, and corruption.

- Weak Revenue Collection Systems and Over-Reliance on Transfers

A significant challenge facing municipalities in Africa is the inadequacy of their revenue collection mechanisms. A significant number of government entities encounter difficulties in the collection of property taxes, business taxes, and service fees, which can be attributed to outdated tax administration systems and insufficient taxpayer compliance (Phuc et al., 2020:21). Consequently, local governments exhibit a significant reliance on intergovernmental transfers, which frequently experience delays or prove inadequate to address community requirements. In nations like Nigeria and Kenya, local governments often encounter financial deficits due to their limited fiscal independence and dependence on erratic allocations from central authorities (Habibov, Fan & Auchynnikava, 2019:467).

- Political Interference and Poor Fiscal Discipline

The influence of political factors on financial decision-making is a significant determinant of financial distress in municipalities across Africa. In numerous instances, municipal authorities prioritise immediate political advantages over long-term financial viability, resulting in overstaffing, inefficient spending, and unforeseen infrastructure projects (Transparency International, 2021). Furthermore, changes in political leadership often lead to the abandonment of fiscal policies, thereby complicating municipalities' ability to establish coherent financial strategies (Dollery et al., 2020:129).

- Corruption and Financial Mismanagement

Corruption poses a significant challenge within African municipalities, leading to financial inefficiencies and the misallocation of public resources. A significant number of municipal administrations face challenges related to fraudulent procurement practices, bribery, and embezzlement, which, in turn, diminish the financial resources allocated to service provision and infrastructure development (Transparency International, 2021). In South Africa, pervasive municipal corruption has led to significant financial crises, causing numerous local governments to default on salary payments and neglect the maintenance of essential services (Phuc et al., 2020:22).

- Inadequate Infrastructure Investment

African municipalities face significant financial challenges due to insufficient investment in infrastructure. Inadequate road infrastructure, inconsistent electricity provision, and insufficient water supply systems diminish economic productivity and constrain municipalities' capacity to generate revenue (Dollery, Kortt & Grant, 2011:1; McKenzie, 2023). The insufficient investment in fundamental services further discourages both businesses and residents from fulfilling their tax obligations, thereby intensifying financial challenges.

2.6.3 Comparative Analysis of Determinants Across Regions

The financial distress experienced by municipalities is influenced by several key factors, observable both globally and within African municipalities. A significant factor contributing to this issue is the inadequate collection of revenue, coupled with a diminishing fiscal capacity. Municipalities across various regions, including North America, Europe, and Asia, face challenges related to declining tax base, economic recessions, and reduced intergovernmental transfers (United Nations Economic Commission for Europe, 2021). In African municipalities, the issue is exacerbated by outdated revenue collection mechanisms, excessive dependence on national government financing, and widespread tax non-compliance (Habibov, Fan & Auchynnikava, 2019:476). A key contributing factor is the elevated levels of debt and inadequate financial management, which have emerged as critical challenges in both developed and developing municipalities. In Australia, the compelled amalgamation of municipalities intended to realise economies of scale led to financial difficulties, as certain merged municipalities were already contending with unsustainable debt levels and infrastructure deficits (Wallace & Dollery, 2018:41). In a comparable manner, municipalities in Africa frequently incur unsustainable levels of debt as a result of inadequate fiscal oversight and insufficient financial discipline (Dollery et al., 2020:129).

Governance failures and corruption are significant factors contributing to financial distress in municipalities. In South America and Asia, political interference, procurement fraud, and insufficient accountability are significant factors contributing to financial mismanagement (Transparency International, 2021). Corruption is rampant in African municipalities, exacerbated by inadequate institutional oversight and political instability, which further aggravate financial difficulties (Antoh & Sholihin, 2021:4). Furthermore, economic recessions, inflationary trends, and the pressures of urbanisation impose financial burdens on municipalities globally. In urban centres across Europe and Asia, the swift pace of urbanisation results in heightened expenses associated with service provision. Conversely, municipalities in Africa face an even more significant obstacle stemming from insufficient funding and infrastructure degradation, which diminishes their ability to generate revenue (Manfredi-Sánchez, 2020:62).

Moreover, political instability and inadequate institutional frameworks significantly contribute to financial distress in Africa. In contrast, in more developed municipalities, financial distress is frequently associated with pension liabilities and inefficient public expenditure rather than systemic instability (Rizkarmen, 2021:90). Although these determinants are prevalent across contexts, their impact varies in degree. African municipalities face financial difficulties more intensively, primarily due to weaker institutional frameworks, heightened political instability, and reduced financial autonomy compared to their international peers. To effectively tackle these challenges, it is essential to implement governance reforms, enhance fiscal management, and improve revenue collection mechanisms to achieve financial sustainability.

In conclusion, the financial distress experienced by municipalities is a worldwide issue shaped by a range of economic, political, and governance factors. Despite the prevalence of declining revenues, debt burdens, and governance failures as common determinants across regions, municipalities in Africa face additional challenges, including ineffective revenue collection, political interference, and corruption. Mitigating financial distress requires implementing more rigorous fiscal discipline, developing advanced revenue mobilisation strategies, and strengthening governance frameworks to ensure the sustainability of municipal finance systems globally.

2.7 Factors Contributing to Municipal Financial Distress in South Africa

The ongoing financial challenges faced by municipalities in South Africa, as emphasised in multiple reports from the AGSA, can be ascribed to a confluence of inadequate governance, suboptimal financial management practices, and deficient leadership. The prevalence of inadequate internal controls is a significant factor contributing to municipal financial distress, as it compromises financial accountability and transparency (AGSA, 2021:79). The elevated rate of staff turnover, particularly within financial management positions, intensifies these difficulties, resulting in inconsistent financial reporting and potential misappropriation of municipal assets (Rich, Roberts & Zhang, 2018:13). Municipal internal audit units, although required by Section 165 of the MFMA to establish robust financial controls, frequently do not deliver adequate oversight, thereby undermining the effectiveness of governance frameworks (Ackermann & Marx, 2016:24; RSA, 2003). Insufficient internal controls contribute to the proliferation of corruption, fraudulent activities, and financial mismanagement, leading to financial losses that exacerbate the depletion of municipal resources (Akomea-Frimpong et al., 2019:180).

Another noteworthy aspect contributing to financial distress is the absence of effective leadership in both the administrative and political spheres (Mlambo, Zubane & Thusi, 2022:206). The selection of municipal managers and senior officials is frequently shaped by political factors and the practice of cadre deployment, resulting in inefficiencies, misgovernance, and substandard service delivery (Shava & Chamisa, 2018:9). A significant number of councillors and administrators do not possess the requisite expertise to competently oversee municipal affairs, leading to issues such as financial mismanagement, irregular expenditures, and wasteful spending (Mohale, 2019:3). Moreover, local governments often do not adhere to financial statutes and regulations, which further undermines financial discipline and credibility (Haraldsson & Tagesson, 2014:45). The audit reports from the AGSA reveal a declining culture of compliance within municipalities, which has a direct impact on their capacity to provide essential services (Nzewi, 2017:26).

Irregular expenditure continues to be a significant concern, resulting in billions of rands in losses each year due to non-compliance with procurement regulations and ineffective tender management systems (AGSA, 2021:79). Numerous municipalities lack sufficient risk management frameworks to avert financial mismanagement. The failure to investigate and disclose irregularities to law enforcement further facilitates corrupt activities (Moloi, 2018:157). The absence of accountability and the inability to execute audit recommendations substantially exacerbate financial turmoil, as numerous municipalities consistently obtain unfavourable audit opinions without remedial measures (AGSA, 2019:84). The AGSA findings reveal a troubling pattern in which municipalities disregard audit recommendations, resulting in ongoing financial decline (Enwereji & Uwizeyimana, 2019:37).

Furthermore, the lack of robust consequence management in municipal settings has fostered an environment of impunity, wherein officials accountable for financial mismanagement encounter minimal to no disciplinary measures (Kroukamp, 2016:11). A significant number of municipalities experiencing financial distress do not enforce disciplinary actions against officials involved in fraudulent and corrupt activities, which consequently undermines public confidence and financial stability (AGSA, 2021:79). Furthermore, elevated vacancy rates in critical management roles, such as municipal managers, chief financial officers, and supply chain management heads, undermine financial oversight and governance frameworks (Janse van Rensburg & Ramutsheli, 2015:64). Extended periods of unfilled positions within internal audit departments significantly intensify governance deficiencies, thereby constraining municipalities' capacity to identify financial vulnerabilities and shortcomings in internal control mechanisms (Barac, Coetzee & Van Staden, 2017:506).

In summary, the financial difficulties faced by municipalities in South Africa represent a complex problem that stems from insufficient internal controls, ineffective governance, noncompliance with financial regulations, irregular expenditures, inadequate accountability, and a lack of effective consequence management (AGSA, 2019:84). To tackle these systematic challenges effectively, it is essential to fortify governance frameworks, implement more rigorous enforcement of financial regulations, and augment leadership capabilities. These measures are crucial for enhancing municipalities' financial stability and ensuring the sustainable provision of services to local communities (Ndevu & Muller, 2017:6).

2.8 Municipal Financial Distress Turnaround Frameworks in South Africa

The financial difficulties faced by municipalities in South Africa have prompted the adoption of turnaround frameworks to enhance governance, financial management, and service delivery. In 2014, the Department of Cooperative Governance and Traditional Affairs (COGTA) implemented the Back-to-Basics intervention plan intending to offer assistance to municipalities exhibiting dysfunction, thereby seeking to rectify governance shortcomings and inadequacies in internal controls (Mbulawa, 2019:8). Concurrently, the Department of Performance Evaluation and Monitoring established the Local Government Management Improvement Model (LGMIM) Scorecard, which serves as a self-assessment instrument allowing municipalities to recognise issues of non-compliance and deficiencies in internal controls (DPME, 2014). These frameworks are consistent with comprehensive turnaround strategies that include managerial, operational, and financial restructuring methods aimed at re-establishing financial stability within municipalities and improving overall performance (Schweizer & Nienhaus, 2017:10).

2.8.1 Back-to-Back Basics Framework and Governance Reform

The Back-to-Basics initiative, introduced by former President Jacob Zuma in 2014, outlines five strategic objectives: prioritising community issues, ensuring service delivery, enforcing sound governance practices, prudent management of municipal finances, and enhancing institutional capacities (COGTA, 2014). This framework primarily emphasises the enhancement of financial management by improving record-keeping, strengthening internal controls, and optimising supply chain management to mitigate unnecessary and wasteful expenditures (Gordhan, 2015:19). Furthermore, the framework requires municipalities to formulate audit action plans, oversee credit control measures, and evaluate debt collection policies to promote sustainable financial management (COGTA, 2014). Nonetheless, the obligation to execute effective financial management practices is exclusively incumbent upon municipalities, necessitating the establishment of strong internal controls and adherence to budgetary discipline (COGTA, 2014). A significant number of financially challenged municipalities struggle to fulfil these obligations in the absence of assistance from provincial or national authorities, due to ongoing deficiencies in internal controls, rising irregular expenditures, and ineffective procurement procedures.

2.8.2 Local Government Management Improvement Model (LGMIM) Scorecard

The LGMIM Scorecard is a diagnostic instrument designed to enhance municipal accountability and operational efficiency by enabling municipalities to conduct self-assessments of their performance and identify areas for improvement (DPME, 2014). This framework enables the implementation of targeted interventions by mandating that municipalities provide their scorecards, along with relevant documentation, for assessment. By establishing key performance indicators, the LGMIM Scorecard enables municipalities to proactively address inefficiencies in service delivery and financial management, thereby promoting a culture of ongoing improvement and regulatory compliance.

2.9 Turnaround Strategies for Financially Distressed Municipalities

Municipal turnaround strategies encompass a range of operational, managerial, and financial restructuring initiatives designed to restore fiscal stability and enhance the quality of service provision. Empirical studies suggest that there is no single turnaround strategy that proves universally effective; instead, municipalities typically require a comprehensive approach customised to the extent of their financial challenges (Gotteiner, Mas-Machuca & Marimon, 2019:873; Bhattacharyya & Malik, 2020:388). These strategies aim to address governance deficiencies, improve operational efficiency, and stabilise municipal financial structures to ensure the sustainable delivery of services (Rustam, 2018:10).

2.9.1 Managerial Restructuring and Leadership Reforms

Effective leadership constitutes an essential element in the revitalisation initiatives of municipalities, given that financial distress is frequently associated with shortcomings in management and governance (Ghazzawi, 2017:5). Municipal administrators, specifically those classified as section 56 managers in accordance with the Municipal System Act, are instrumental in influencing the efficacy of municipal operations (Johan & Handika, 2017:41). Nonetheless, municipalities experiencing financial distress frequently encounter a stagnation in leadership (McKenzie & Marx, 2024:187), characterised by a reluctance among current management to embrace change and an inability to execute effective turnaround strategies (Fairhurst & Pretorius, 2019:206). To tackle this challenge, local governments may be required to substitute ineffective municipal managers with proficient professionals who possess the ability to facilitate organisational change, optimise processes, and promote a culture of accountability (Yulihasri et al., 2018:76). Moreover, it is imperative for municipal leadership to actively involve personnel from various departments in the communication of turnaround objectives, the restoration of trust, and the enhancement of morale, thus guaranteeing coherence in the prioritisation of service delivery (Aryasri, 2019:128).

2.9.2 Operational Restructuring and Efficiency Improvements

Operational restructuring aims to improve municipal efficiency by tackling net operating deficits, inadequate revenue generation, and rising expenditures (Schweizer & Nienhaus, 2017:37). Municipalities experiencing financial distress often encounter challenges related to ineffective resource allocation, which results in failures in service delivery and an increase in financial instability (Pálinkó & Svoób, 2016:310). To address these challenges, municipalities must adopt cost-containment strategies, optimise operational efficiency, and eliminate unnecessary expenditures (Gotteiner, Mas-Machuca & Marimon, 2019:957). Nonetheless, cost-reduction strategies must be meticulously overseen to avoid any interruptions in critical services (McKenzie & Marx, 2024:187). Furthermore, operational restructuring may encompass reductions in the workforce and the disposal of underutilised municipal assets to improve financial sustainability (Mayr & Lixl, 2019:68). Proper maintenance of assets is crucial, as the decline of municipal infrastructure intensifies financial challenges by elevating operational expenses and diminishing the quality of services (Pálinkó & Svoób, 2016:356).

2.9.3 Financial Restructuring and Debt Management

Municipal financial distress is frequently characterised by liquidity constraints and insufficient cash flow, which require financial restructuring to prevent insolvency (McKenzie & Marx, 2024:187). Principal strategies for financial restructuring encompass the reorganisation of debt, deferral of financial commitments, and the acquisition of supplementary funding via municipal bonds or the disposal of assets (Mayr & Lixl, 2019:69). These measures are designed to stabilise cash flow and afford municipalities the financial flexibility necessary for the implementation of initiatives aimed at enhancing performance (Gotteiner, Mas-Machuca & Marimon, 2019:960). Furthermore, augmenting revenue collection through enhanced billing systems and strategic partnerships with stakeholders has the potential to strengthen further municipalities' financial sustainability (Kulkarni, Qumer & Ikrama, 2021:320). In South Africa, municipalities experiencing financial distress may pursue debt relief under Chapter 13, Part 3 of the MFMA, which provides legal safeguards against creditors during the restructuring of financial commitments (RSA, 2003; Glasser & Wright, 2020:420). Internationally, strategies for municipal financial restructuring frequently emphasise the importance of debt restructuring while protecting municipal assets, thereby reconciling creditors' interests with the requirements of public service (Gillette, 2021:12; Rácz & Tóth, 2021:87).

The AGSA plays a crucial role in ensuring adherence to financial restructuring regulations by auditing key areas, including expenditure management, revenue collection, utilisation of conditional grants, and asset management (AGSA, 2022). Municipalities identified as non-compliant with financial regulations encounter audit results that require the formulation of corrective action plans to avert additional financial decline (AGSA, 2022). Consequently, financial restructuring initiatives must align with audit recommendations to facilitate a sustainable financial recovery.

In summary, municipalities in South Africa consistently face financial challenges stemming from inadequate governance, substandard financial management, and ineffective service delivery mechanisms. The Back-to-Basics framework and the LGMIM Scorecard serve as critical instruments for addressing these challenges by enhancing internal controls, implementing governance reforms, and promoting financial accountability. Nevertheless, local governments require a cohesive strategy that integrates managerial, operational, and financial reorganisation to achieve enduring financial viability. The implementation of effective leadership, the optimisation of operational processes, and the establishment of financial stabilisation strategies are essential to revitalising municipalities. Adhering to legislative frameworks and audit obligations is crucial for municipalities seeking to recover from financial difficulties and fulfil their service delivery responsibilities.

2.10 Research Gap

While global and South African scholarship have significantly advanced understanding of municipal financial distress, important limitations remain. Earlier international studies (e.g., Jones & Walker, 2007; Dollery et al., 2020) focused primarily on fiscal indicators such as debt burdens, liquidity constraints, and declining revenues, but did not sufficiently account for the governance and political complexities that uniquely characterise South African municipalities. Later South African research highlighted weaknesses in internal controls, procurement systems, and compliance with statutory frameworks (Nzama, 2019; Sibanda, Zindi & Maramura, 2020), yet these analyses were largely broad-based and lacked the granularity needed to unpack localised governance failures. Theoretical contributions applying agency theory (Mbatha, 2020; Nzama, 2019) illuminated the role of information asymmetry, corruption, and accountability gaps, but remained predominantly descriptive and offered limited insights into practical recovery mechanisms.

Contemporary studies (McKenzie & Marx, 2024; AGSA, 2023) have highlighted persistent non-compliance and recurring audit findings across municipalities, while policy interventions such as the Back-to-Basics strategy (COGTA, 2014) and LGMIM (DPME, 2014) have been introduced to address dysfunction. However, these interventions have been inconsistently applied and are often reactive, leaving a gap between policy intent and actual outcomes (Mbulawa, 2019; Glasser & Wright, 2020). Moreover, the existing literature tends to focus on aggregate trends across municipalities or on comparative studies, overlooking in-depth case analyses of municipalities experiencing severe fiscal crises.

This creates a critical research gap: there is limited case-specific, context-sensitive scholarship that interrogates the determinants of financial distress, governance failures, and the effectiveness of turnaround strategies within a single distressed municipality such as Matlosana. Despite being repeatedly flagged by the Auditor-General (2023) as one of the most financially precarious municipalities due to mounting debt, weak revenue collection, corruption, and ineffective leadership, Matlosana has not been the subject of sustained academic scrutiny. This study seeks to close that gap by providing a focused analysis of Matlosana, identifying the drivers of its financial distress, evaluating the adequacy of its financial management practices, and recommending evidence-based strategies for improving fiscal sustainability.

2.11 Chapter Conclusion

This chapter presents an extensive examination of the existing literature on municipal financial distress, emphasising its underlying causes, consequences, and potential recovery strategies. The discussion began with an explanation of financial distress within municipalities, emphasising its global prevalence and the significant challenges it poses to service provision. The analysis subsequently focused on the audit results for municipalities in South Africa, highlighting persistent issues of financial mismanagement and governance failures. Additionally, an examination of the legal and policy frameworks governing municipalities in South Africa was conducted to provide context for the regulatory environment in which these municipalities operate. This chapter further presents pertinent theoretical frameworks that provide a basis for understanding municipal financial distress, along with an examination of the principal factors contributing to fiscal instability. Furthermore, the research examined the specific factors contributing to financial distress in South African municipalities and evaluated a range of turnaround frameworks and strategies to re-establish financial sustainability.

Drawing upon the findings presented in this literature review, the subsequent chapter delineates the research design and methodology utilised in the study.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The research methodology comprised a critical element of this study, offering a systematic and organised approach to conducting the research process (Dissanayake, 2023). This chapter outlines the research design and methodological framework that directed the study. The document delineates the research philosophy, approach, design, target population, sampling techniques, sample size, data collection methods, and data analysis procedures employed. This chapter examines the ethical considerations encountered during the research process. The methodological framework was guided by the research onion model (illustrated in Figure 3.1) as proposed by Saunders et al. (2019), which provides a structured, multi-layered approach to formulating a comprehensive research methodology. The model was adopted for its comprehensive nature, enabling the integration of philosophical assumptions, methodological choices, and data collection strategies in a coherent sequence (Abdelhakim, 2021). This structured framework enabled the researcher to make informed, justifiable methodological decisions consistent with the study's objectives.

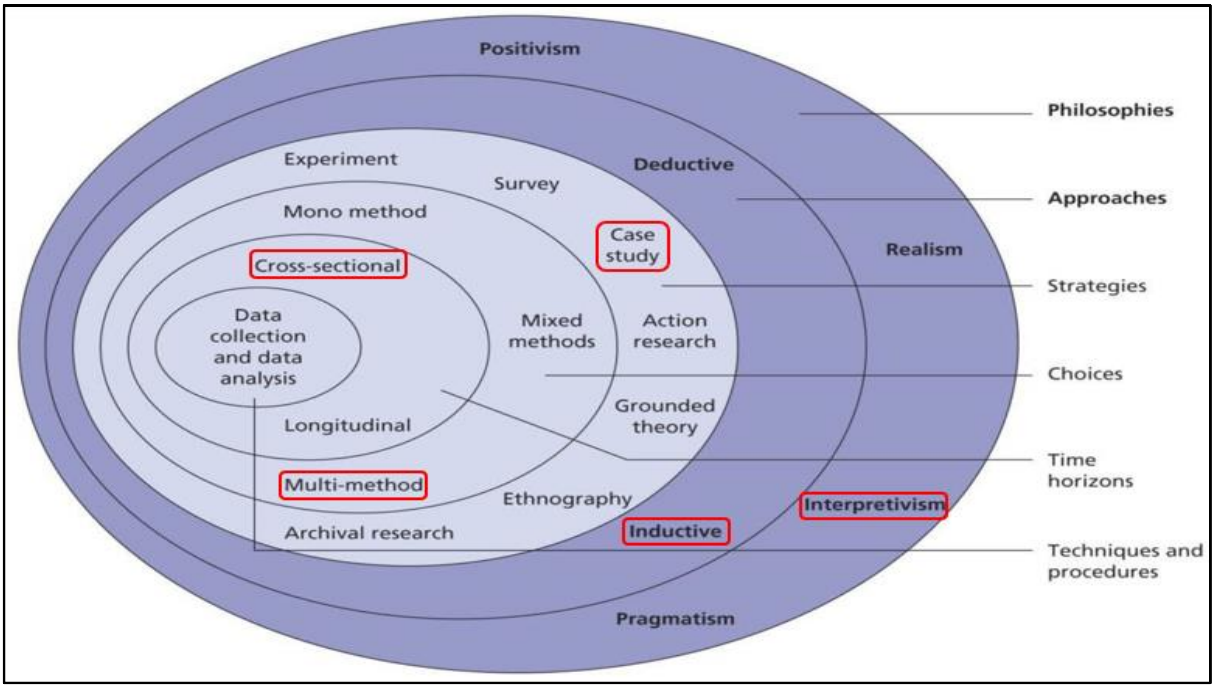

Figure 3.1: Research onion showing selected options for the current study

Source: Adapted from Saunders et al. (2019)

3.2 Research Philosophy

Research philosophies establish the fundamental assumptions that inform the design, methodology, and interpretation of research. The dominant paradigms include positivism, interpretivism, and pragmatism, each representing unique ontological and epistemological perspectives (Saunders et al., 2019). Positivism focuses on objective reality and employs empirical, quantitative methods to reveal generalisable truths, often emphasising statistical analysis and hypothesis testing (Turin, Raihan, & Chowdhury, 2024; Bunmi, 2022). Pragmatism promotes methodological flexibility and practical solutions to real-world issues, utilising both qualitative and quantitative approaches based on specific research questions (Gamage, 2025). Conversely, interpretivism aims to comprehend the meanings and experiences individuals attribute to phenomena, prioritising qualitative methods to investigate intricate, context-dependent issues (Gunbayi, 2020; Niure & Sapkota, 2025).

This study utilised an interpretivist research philosophy, which was most suitable for exploring the determinants of financial distress in the City of Matlosana Municipality. In contrast to positivism, which places a limited emphasis on quantifiable variables and statistical generalisations, interpretivism facilitates a comprehensive analysis of subjective experiences, institutional dynamics, and contextual elements influencing municipal financial distress. The research problem, focused on identifying the root causes of fiscal instability and evaluating the effectiveness of current financial management practices, necessitated a comprehensive understanding attainable solely through interpretivist inquiry (Turin et al., 2024).

The study was fundamentally based on the core principles of interpretivism. The study established the perspective that human interactions and institutional contexts socially construct reality (Moroi, 2021). This perspective is especially pertinent in a municipal context, where governance frameworks, policy implementation and stakeholder engagement impact financial outcomes. The research posits that knowledge is constructed between the researcher and participants, highlighting the importance of understanding the perspectives of municipal officials, financial managers, and other stakeholders (Niure & Sapkota, 2025). The researcher acknowledged the influence of personal values and ethical considerations on the research process, particularly regarding sensitive subjects such as governance failures and financial mismanagement (Setiawan & Syamsuddin, 2022). The study utilised qualitative methods, specifically interviews and thematic analysis, to understand the lived experiences and insights of participants, aligning with the interpretivist approach, which prioritises the exploration of meanings over the measurement of variables (Bibi et al., 2022).

This chapter presents an extensive examination of the existing literature on municipal financial distress, emphasising its underlying causes, consequences, and potential recovery strategies. The discussion began with an explanation of financial distress within municipalities, emphasising its global prevalence and the significant challenges it poses to service provision. The analysis subsequently focused on the audit results for municipalities in South Africa, highlighting persistent issues of financial mismanagement and governance failures. Additionally, an examination of the legal and policy frameworks governing municipalities in South Africa was conducted to provide context for the regulatory environment in which these municipalities operate. This chapter further presents pertinent theoretical frameworks that provide a basis for understanding municipal financial distress, along with an examination of the principal factors contributing to fiscal instability. Furthermore, the research examined the specific factors contributing to financial distress in South African municipalities and evaluated a range of turnaround frameworks and strategies to re-establish financial sustainability.

3.3 Research/Reasoning Approach

Research approaches offer systematic frameworks for creating or evaluating knowledge. The two primary methodologies are deductive and inductive. The deductive approach employs a top-down trajectory, starting with established theories or hypotheses and utilising structured, quantitative methods such as surveys or experiments to validate or refute theoretical propositions (Kim, 2021). It focuses on testing and establishing causal relationships. The inductive approach is characterised by a bottom-up methodology that involves collecting and interpreting specific data to identify patterns, generate themes, and develop new theoretical insights, especially in contexts where existing frameworks are inadequate or underdeveloped (Corley et al., 2021). Inductive research generally employs qualitative data sources, including interviews, observations, or documents, and is appropriate for exploratory studies of intricate, context-dependent phenomena.

This study employed an inductive research approach to explore and understand the various factors contributing to financial distress in the City of Matlosana Municipality. The researcher collected qualitative data from participants to identify recurring themes and meanings based on lived experiences and institutional practices, rather than starting with a predetermined theory. Given the exploratory nature of the research and the need to examine underlying systemic issues and contextual challenges in municipal financial management, an inductive approach was deemed most suitable. The researcher extracted significant insights from participants' perspectives, facilitating the formulation of recommendations grounded in patterns that naturally emerged from the data (Bingham & Witkowsky, 2022). This approach facilitated the generation of theory and helped clarify the causes of financial distress in South African municipalities, where existing theoretical models may inadequately address the complexities of local governance and fiscal realities.

3.4 Research Design

Research design serves as a systematic framework that guides the selection of data collection and analysis techniques to effectively address the research question (Takona, 2024). Saunders et al. (2019) categorise research designs into three main types: quantitative, qualitative, and mixed methods. Quantitative designs are based on numerical data and statistical analysis, emphasising objectivity and generalisability. Qualitative designs prioritise subjective interpretations, contextual depth, and the examination of complex social phenomena. In contrast, mixed methods combine both qualitative and quantitative approaches to yield comprehensive insights (Stahl & King, 2020).

This study utilised a qualitative design to investigate the fundamental factors contributing to financial distress in South African municipalities. The qualitative design enabled data collection in natural settings and facilitated the interpretation of participant experiences through inductive analysis, deriving general themes from specific observations (Oranga & Matere, 2023). This approach was appropriate because the study aimed to identify context-specific challenges, governance issues, and stakeholder perceptions that contribute to municipal financial instability.

Qualitative methods, including in-depth interviews, offer a deeper understanding of subjective meanings and intricate institutional dynamics that are often overlooked in quantitative research (Takona, 2024). The research design utilised a flexible, open-ended structure typical of qualitative methods, including case studies and content analysis (Mohajan, 2018), which facilitated the generation of rich, nuanced insights consistent with the exploratory nature of the study. This context-sensitive approach enabled the researcher to interpret realities from participants' perspectives, providing practical, grounded recommendations for policy and governance interventions.

3.5 Research Strategy

Qualitative research encompasses various strategies, including ethnography, phenomenology, grounded theory, narrative analysis, and case study, each offering specific benefits tailored to the characteristics of the research problem (Hanafizadeh & Shafia, 2021). Ethnography entails immersive observation of cultural groups (Saunders et al., 2019); phenomenology examines individuals' lived experiences; grounded theory develops theory from data (Hanafizadeh & Shafia, 2021); and narrative analysis explores the structure and meaning of personal stories. The case study strategy is particularly effective for examining contemporary issues in real-world contexts, especially when the researcher aims to understand complex phenomena intricately linked to their environment.

This research employed a qualitative exploratory case study approach to examine the factors contributing to financial distress in South African municipalities, with a particular focus on Matlosana Municipality. The case study approach was appropriate for exploring and understanding the complex, context-specific factors that contribute to financial instability in the municipality. Muzari, Shava, and Shonhiwa (2022) assert that exploratory case studies are effective for obtaining initial insights into underexplored phenomena and for analysing the importance of emerging data.

The implementation of a single-case design facilitated a concentrated and thorough analysis of Matlosana Municipality, enabling the researcher to gather insights, experiences, and interpretations from diverse stakeholders. This method enabled a comprehensive understanding of the institutional, structural, and governance issues that contribute to financial distress. The complexity and uniqueness of municipal finance challenges, especially in the South African context, necessitated the use of the case study method to reveal the multi-dimensional causes of fiscal instability and to offer contextually relevant insights.

3.6 Time Horizon

The time horizon in research methodology denotes the duration for data collection, analysis, and interpretation and is a crucial component of study design (Saunders et al., 2019). The research onion identifies two primary time horizons: cross-sectional and longitudinal. A cross-sectional time horizon entails collecting data at a single point in time, providing a snapshot of a phenomenon without monitoring its development (Aburas, 2020). A longitudinal time horizon involves collecting data at various intervals over extended durations to analyse changes and trends (Saunders et al., 2019).

This study utilised a cross-sectional time horizon, appropriate for the research objective of examining the determinants of financial distress in Matlosana Municipality at a specific point in time. A cross-sectional design facilitated the efficient collection of data on stakeholder perceptions and institutional factors during the investigation period, eliminating the need for long-term tracking. This approach was consistent with the qualitative and exploratory nature of the study, as well as the resource and time limitations associated with in-depth case-based research.

3.7 Population and Sampling

This section of the chapter addresses the targeted population, sampling technique, and determination of sample size.

3.7.1 Targeted Study Population

In qualitative research, the concepts of population and sampling are essential for selecting study participants with relevant knowledge or experience regarding the phenomenon under examination. The targeted population refers to the entire group of individuals who meet specific criteria relevant to the research goals (Thacker, 2020). This research examines the factors contributing to financial distress in South African municipalities, specifically analysing the case of Matlosana Municipality. The targeted population consisted of individuals in strategic and operational roles within the municipality, specifically those involved in financial planning, oversight, and performance management.

The population comprised the executive mayor, municipal manager, chief audit executive, members of the mayoral committee, directors, selected deputy directors, and assistant directors from essential finance units, including income and expenditure, debt management, budget, supply chain management, revenue management, performance management and other departments within the municipality. Individuals were selected due to their roles in decision-making, technical expertise, and participation in municipal financial governance. The inclusion criteria required officials to have at least 1 year of service in their current senior positions and to be directly engaged in the municipality's financial or governance functions. Individuals newly appointed, not directly engaged in financial or performance matters, or unavailable during the data collection phase, were excluded to maintain the credibility and relevance of the collected data.

3.7.2 Sampling Technique

Sampling is an essential methodological process in research that enables the selection of a subset of a population to represent the entire group, thereby allowing for efficient data collection within limited time and resource constraints (Afifah et al., 2022). Sampling techniques are typically categorised into probability and non-probability types. Probability sampling methods, such as simple, stratified, and systematic sampling, utilise random selection to ensure that every member of the population has an equal opportunity to be included (Rahman et al., 2022). Conversely, non-probability sampling relies on the researcher’s judgement to select participants deemed most pertinent to the study's objectives (Rahman, 2023). This research used non-probability sampling methods, namely purposive and snowball sampling, to investigate the factors contributing to financial distress in Matlosana Municipality.

The researcher selected participants through purposive sampling, specifically targeting individuals in strategic and operational roles relevant to the research focus. Nyimbili and Nyimbili (2024) indicate that this method enables researchers to intentionally select individuals possessing the requisite expertise and knowledge for comprehensive data collection. This study involved the purposive selection of participants, including the executive mayor, municipal manager, chief audit executive, and directors from the finance department, including those responsible for revenue management and debt management, due to their comprehensive understanding of the municipality's financial challenges. This method facilitated concentrated and thorough analysis while conserving time and resources (Adeoye, 2023).

Snowball sampling was used to recruit additional participants through referrals from initial interviewees, especially when individuals with particular insights were difficult to identify directly. Snowball sampling demonstrated efficacy in accessing interconnected individuals within the administrative network by utilising trust and accessibility (Adeoye, 2023). These methods facilitated the inclusion of informed stakeholders whose insights were essential for identifying the intricate institutional and operational factors contributing to municipal financial distress.

3.7.3 Sample Size

This study determined the sample size based on established qualitative research principles, emphasising depth, relevance, and data saturation rather than statistical generalisation. Mocănașu (2020) identifies several factors that influenced the sample size, including the research focus, population accessibility, available resources, and the study's epistemological orientation. Consistent with Kindsiko and Poltimäe (2019), who highlighted the lack of universal numeric guidelines for qualitative sample sizes, the study employed a flexible methodology.

The selection of 12 participants aimed to achieve thematic saturation, defined as the point at which no new information is generated from further interviews (Braun & Clarke, 2022b). This approach is consistent with the findings of Wutich, Beresford, and Bernard (2024), who contend that sample size should correspond to the richness of data rather than predetermined limits, particularly in thematic analysis, where saturation is typically reached with 10 to 20 interviews.

The concept of "information power," as proposed by Malterud, Siersma, and Guassora (2016), justifies the inclusion of participants with significant insights, thereby minimising the necessity for a larger sample size. The study's use of purposive sampling to select informed participants supports a smaller sample size, aligning with Hennink and Kaiser's

(2022) findings that saturation typically occurs within 12 to 17 interviews. The selected sample of 12 participants achieved conceptual adequacy and upheld analytical rigour.

3.8 Data Collection Methods

This study examined the determinants of financial distress in the City of Matlosana Municipality through a combination of semi-structured interviews and document analysis, ensuring thorough and contextually relevant data collection. Semi-structured interviews were selected from various data collection methods, including structured interviews, surveys, and observations, due to their capacity to produce rich, detailed narratives and their flexibility in addressing the complexities of municipal financial management (Elhami & Khoshnevisan, 2022). The interviews facilitated meaningful interaction between the researcher and municipal officials, enabling exploration of the underlying systemic issues contributing to financial distress.

A noteworthy technique that improved the quality and depth of data obtained from semi-structured interviews was probing. Probing entails the use of follow-up questions to elucidate ambiguous responses, enhance comprehension, and reveal further dimensions of meaning (Robinson, 2023). For example, when an official cited "poor financial controls" as a contributing factor to distress, the researcher asked probing questions such as, “Can you elaborate on which specific financial controls were deficient?” What was the impact of these control issues on service delivery and budgeting decisions? This method prompted participants to engage in critical reflection and offer more specific, illustrative responses, uncovering root causes such as non-compliance with the MFMA, inadequate expenditure tracking, and irregular procurement practices. The probing technique enabled the researcher to investigate non-verbal cues and contradictions, which frequently indicated underlying issues that were not initially expressed.

To mitigate the limitations typically associated with semi-structured interviews—namely, interviewer bias, logistical challenges, and reliance on participants' memory (Ruslin, Mashuri, Rasak, Alhabsyi, & Syam, 2022)—the study utilised document analysis as a supplementary data collection method. The study involved a systematic review of Matlosana Municipality's official documents, including audit reports, financial statements, Integrated Development Plans (IDPs), and budget performance evaluations. Document analysis, in conjunction with interview data, validated participant claims and addressed deficiencies in interview responses that were incomplete or ambiguous (Elhami & Khoshnevisan, 2022). Participants' vague references to “qualified audits” were complemented by official Auditor-General reports, which offered precise details and temporal trends, thereby enhancing the analysis.

Nonetheless, the data collection method exhibited certain limitations. Semi-structured interviews, although helpful for examining perceptions and experiences, are prone to bias and variability in participants' responses (Jain, 2021). The dynamic nature of financial governance suggests that some document sources may be outdated or insufficiently contextualised. The challenges were addressed through triangulation, which ensured that multiple data sources confirmed key findings, and through rigorous probing during interviews to validate and enhance participants' accounts. The study collected comprehensive data that revealed the underlying causes of financial distress in the City of Matlosana Local Municipality.

3.9 Data Analysis

Data analysis is an essential component of qualitative research because it allows researchers to systematically organise, interpret, and derive meaning from extensive textual data (Mattimoe, Hayden, Murphy, & Ballantine, 2021). This study examined the determinants of financial distress using thematic analysis to identify and interpret patterns in participant responses. Thematic analysis was an appropriate approach for this study because it facilitates the generation of insights based on participants’ experiences, which aligns with the exploratory nature of the research (Braun & Clarke, 2022b). This approach proved particularly effective in analysing complex socioeconomic phenomena, such as financial distress, due to its inherent flexibility and depth. The researcher used Atlas.ti (version 25) software to efficiently manage, code, and analyse qualitative data. The program enabled systematic coding, connection of concepts, memo creation, and visual depiction of themes (Bingham, 2023). The researcher adhered to the five-phase model of qualitative analysis as described by Bingham (2023).

In Phase 1 of the data analysis, I began by organising the interview transcripts and field notes systematically within Atlas.ti. I applied attribute coding to each document based on the actual details of the study such as participant code (e.g P1, P2), role in municipality, and any relevant demographic information. This process allowed the researcher to keep track of where each piece of information came from and made it easier to compare responses across different categories of participants. Also, brief analytic notes were kept during this phase, documenting early interpretations, and thoughts about recurring issues. These initial reflections later helped to refine the coding process.

Phase 2 entailed categorising the data into relevant topics corresponding to the research questions on financial distress. A priori codes, derived from the literature and theoretical frameworks, were utilised to analyse the data and identify pertinent content areas. The deductive phase enhanced focus and enabled the exclusion of irrelevant data (Bingham, 2023). Memos documented coding rationales and initial observations.

During Phase 3, the researcher conducted open (initial) coding to analyse the data inductively within the pre-sorted topical categories. The process involved a line-by-line examination of the transcripts, the generation of new codes as they emerged, and ongoing comparisons of data across categories to refine and distinguish the codes (Bingham, 2023). Memoing played a crucial role in documenting potential interpretations, coding modifications, and initial responses to the research questions.

Phase 4 involved identifying patterns, themes, and findings by consolidating similar codes into overarching themes through pattern coding (Bingham, 2023). This phase signified the shift from descriptive coding to interpretive analysis. Themes were developed to encapsulate the recurring concepts and relationships identified in the data. During this phase, memos facilitated analytical decision-making regarding code merging and theme derivation.

In Phase 5, the findings were analysed and explained in relation to theoretical frameworks and existing literature. Deductive coding was employed to correlate emerging themes with theoretical constructs and prior research. Inductive insights were employed to identify areas of divergence from or contribution to the existing literature. Analytic questioning and memoing facilitated the researcher's critical reflection on the implications of the findings regarding financial distress and the identification of the study's theoretical and practical contributions (Bingham, 2023).

This iterative approach to analysis ensured methodological rigour and enhanced the credibility and depth of the study's findings on determinants of financial distress. This study illustrates the five phases of thematic analysis in Figure 3.2.

Figure 3.2: Five Phases of Thematic Analysis adopted in the Current Study

Source: Bingham (2023)

3.10 Trustworthiness of the Study

Trustworthiness in qualitative research denotes the integrity and rigour of the study's execution, ensuring that the findings are credible, dependable, confirmable, and transferable. Contrary to quantitative research, which prioritises validity and reliability, qualitative studies emphasise the credibility and authenticity of the research process and its outcomes (Adler, 2022). Stahl and King (2020) assert that establishing trustworthiness requires demonstrating data confidence (credibility), maintaining consistency in research processes (dependability), ensuring neutrality in findings (confirmability), and allowing for the applicability of findings in other contexts (transferability). This study employed specific strategies to uphold each criterion.

The researcher ensured the study's trustworthiness by adhering to the four essential criteria of qualitative research: credibility, dependability, confirmability, and transferability. Credibility, indicative of confidence in the validity of the findings, was established through data triangulation and extended engagement with participants to ensure accurate and fair representation of their perspectives (Enworo, 2023). Dependability, defined as the consistency of findings, was ensured through the maintenance of systematic research procedures and comprehensive documentation of methodological decisions, facilitating the replication of the study process (Haq Kakar, Rasheed, Rashid, & Akhter, 2023).

Additionally, confirmability, which pertains to the degree to which findings are influenced by participants rather than by researcher bias, was established through the maintenance of a clear audit trail of raw data, transcripts, and field notes, as suggested by Stahl and King (2020). The data analysis process was articulated, enabling others to trace interpretations to the original data (Lemon & Hayes, 2020). Transferability, which concerns the applicability of findings across contexts, was examined through detailed descriptions and succinct reports, allowing readers to assess the relevance of the findings to their own environments (Riazi, Rezvani, & Ghanbar, 2023). The strategies employed corresponded with established best practices in qualitative research, thereby improving the overall trustworthiness of the study (Adler, 2022).

3.11 Ethical Considerations

Ethical considerations are essential in research, ensuring participant protection, study integrity, and adherence to societal values and norms (Bhandari, 2021). This study adhered to all key ethical principles, including ethical clearance, voluntary participation, informed consent, institutional permission, confidentiality, and protection from harm, throughout all stages of the research process.

Ethical clearance was secured from the North West University Research Ethics Committee before data collection commenced. The research design, methods, and procedures were ensured to be ethically sound and compliant with institutional and national research ethics standards. Consistent with Xu et al. (2020), the researcher sought and initiated the process of obtaining formal permission from the municipal manager of the City of Matlosana Municipality, where the study was conducted. This step was essential for gaining access to participants and ensuring the research complied with the municipality's internal protocols.

Voluntary participation was rigorously maintained throughout the study. Participants were allowed to make an autonomous decision regarding their participation, free from any coercion, as highlighted by Bhandari (2021). Participants were informed of their right to withdraw from the research at any time without repercussions. All participants provided informed consent before the commencement of interviews. According to Xu et al. (2020), the researchers provided clear, detailed information on the research objectives, methods, and potential risks and benefits, enabling participants to make informed decisions about their participation.

Confidentiality was maintained by anonymising all participant data. Pseudonyms, including P1, P2, etc., were used in the results presentation to prevent linking individual identities to the data, consistent with Bhandari's (2022) focus on protecting sensitive information. All collected data were securely stored and accessed solely by the researcher, ensuring adherence to strict confidentiality standards. The researcher implemented a respectful, non-intrusive, and context-sensitive approach during the interview process to minimise potential harm. Participants received prior information regarding the nature of the questions, and the researcher consistently maintained a professional and empathetic demeanour, as advised by Bhandari (2021).

Ethical principles were applied not only before and during data collection but also continued after the study concluded. The researcher guaranteed that the data would be utilised exclusively for academic purposes and that participants' rights would be upheld throughout the data analysis, reporting, and publication processes. These measures collectively upheld the ethical integrity of the study throughout all phases.

3.12 Chapter Summary

This chapter presents an overview of the research design and methodology utilised in the study. The qualitative research approach utilised to investigate the research problem in depth was outlined, the rationale for the case study design was justified, and the sampling strategies, data collection methods, and procedures implemented to ensure ethical compliance and trustworthiness were described. The researcher selected thematic analysis as the data analysis method, which includes distinct phases for identifying, analysing, and reporting patterns within the data. The discussion included measures to improve the study's credibility, dependability, confirmability, and transferability, as well as adherence to ethical principles throughout the research process.

The subsequent chapter outlines the research findings and discussion, presenting participants' perceptions and connecting the emerging themes to the study objectives and relevant literature.

CHAPTER 4: DATA COLLECTION AND ANALYSIS

4.1 Introduction

This chapter presents the qualitative findings from semi-structured interviews with municipal officials, political leaders, and key stakeholders in the City of Matlosana. The purpose of this chapter is to analyse the participants' experiences and perspectives in relation to the study's objectives, which are: to identify the factors leading to financial distress through insights from both the literature and the field; to determine the key contributors to financial distress within the municipality; to assess the effectiveness of current financial management practices in preventing or mitigating such distress; and to provide a basis for formulating recommendations to improve financial sustainability. The chapter, therefore, interprets the empirical data to offer a comprehensive understanding of the underlying conditions driving financial instability in Matlosana and to inform the discussion and conclusions presented in the subsequent chapter.

4.2 Demographic Information

The demographic profile presented in Table 4.1 reflects a sample composed predominantly of senior officials occupying strategic and operational positions within the City of Matlosana, including Assistant Directors in Budget, Debt Management, Revenue, Supply Chain Management, and Internal Audit, alongside the Manager for Performance Management, Director of Community Services, the Executive Mayor, and the MMC for Finance. This composition indicates that the study engaged participants who are directly involved in the municipality's financial governance architecture, revenue administration, expenditure control processes, and service delivery functions. The inclusion of both administrative and political leadership strengthens the credibility of the data, as the insights provided stem from individuals responsible for oversight, decision-making, policy implementation, and institutional compliance. The participants' departmental representation likewise spans the full municipal finance value chain, budgeting, revenue collection, debt management, procurement, auditing, and community service operations—ensuring that the determinants of financial distress are examined from multiple organisational angles.

In terms of experience, most participants have served in local government for more than a decade, with several possessing over 20 to 30 years of institutional knowledge. This depth of experience enhances the reliability of the findings because these officials have directly witnessed the long-term structural, economic, and political dynamics that have shaped the municipality's current financial position. Their accounts, therefore, reflect both historical and contemporary realities, allowing the analysis to draw from informed, experience-based perspectives rather than surface-level observations. Academic qualifications among the participants were generally strong, with many holding Master's degrees, Honours qualifications, postgraduate diplomas, or specialised municipal finance and management credentials. Such qualifications are directly relevant to the municipality's financial and governance environment, suggesting that participants understood the technical, legislative, and policy frameworks underpinning municipal financial management.

Table 4.1: Demographic profile of study participants

Current position	Department	Years served	Academic qualifications
Assistant Director: Budget	Budget & Treasury	Not indicated (described as having an extensive municipal finance background)	National Diploma in Municipal Finance
Assistant Director: Debt Management	Revenue & Debt Management / Finance	±15 years in finance at City of Matlosana	MBA; Postgraduate Diploma in Management; National Diploma in Cost & Management Accounting
Assistant Director: Revenue Management	Revenue Management / Finance	Over 34 years in local government	BCom Accounting & Auditing; Advanced Diploma in Real Estate & leadership courses
Assistant Director: Supply Chain Management	Supply Chain Management (SCM)	±30 years' government supply chain experience	Not explicitly indicated (experienced SCM practitioner)
Executive Mayor	Political leadership (Office of the Mayor)	Not indicated. Experience as an Administrator in government and a councillor/politician.	Not indicated (political and administrative background noted)

Manager: Performance Management	Performance Management / Office of MM	±20 years in performance management; ±40 years' municipal experience	First degrees and postgraduate study in performance management / municipal governance
Director: Community Services	Community Services	Not indicated (previously worked in MEC Finance office; municipal support)	Not indicated (senior government/municipal support background)
Assistant Director: Internal Audit	Internal Audit	Not indicated (described as having extensive internal audit experience)	Not indicated
Member of the public (resident)	External stakeholder (community)	Not applicable (community member; long-term resident of Matlosana)	National Diploma in Cost & Management Accounting
Member of the public (resident	External stakeholder (community)	Not applicable (community member; long-term resident of Matlosana)	National Diploma in Accounting; Postgraduate Diploma in Financial Management & MBA
Manager: Integrated Development Plan (IDP)	IDP	18 years (Experience not indicated)	PHD in Public Management & Administration
Assistant Director: Electrical Projects Planning & Monitoring	Electrical	2 years with City of Matlosana	B.Tech in Electrical Engineering. Currently studying a Master's in Engineering Management.
Member of the Mayoral Committee (MMC) for Finance	Political leadership – Finance portfolio	±4 years as MMC for Finance; long experience in public service & political leadership (Speaker, Deputy Speaker SALGA, etc.); former school principal	Teaching qualifications; extensive governance and leadership experience

Member of the public (resident	External stakeholder (community)	Not applicable (community member; long-term resident of Matlosana)	Not indicated.

Source: Author's own computation

Collectively, these demographic characteristics imply that the data generated in this study are grounded in the experiences and expertise of individuals who are institutionally positioned and professionally equipped to identify the determinants of financial distress. Their positions, combined with extensive experience and relevant qualifications, enhance the validity of the study's qualitative findings by ensuring that the perspectives offered are both authoritative and representative of the municipality's operational and governance realities. The presence of community members (P9, P10, and P14) further enriches the analysis by offering an external, citizen-oriented perspective, thereby broadening the study's interpretive lens. Overall, the demographic composition underscores the robustness of the study and the credibility of its conclusions regarding the drivers, manifestations, and implications of financial distress in the City of Matlosana.

4.3 Thematic Analysis

The qualitative data generated from the fourteen semi-structured interviews were analysed using Braun and Clarke's (2006) six-phase thematic analysis approach. The process began with repeated reading of the transcripts and field notes to ensure familiarisation with the data. Initial codes were then generated inductively to capture meaningful features of the participants' accounts, particularly regarding financial distress, governance dynamics, operational challenges, and service delivery failures. These codes were subsequently reviewed, compared, and grouped into broader categories that reflected recurrent patterns across participants occupying different roles within the municipality. Through iterative refinement, these categories were elevated into coherent themes that captured the structural, financial, administrative, and socio-economic determinants of municipal distress. The themes were validated against the raw data to ensure internal consistency, analytical depth, and alignment with the study's research questions. This process allowed the analysis to move beyond descriptive accounts toward a more interpretive understanding of how systemic weaknesses, economic decline, governance failures, and operational inefficiencies collectively shape financial distress in the City of Matlosana. The final themes and sub-themes that emerged from this rigorous analytical process are presented in Table 4.2.

Table 4.2 Themes and Sub-themes emerged from the study

Major Theme	Sub-Theme	Overall Summary of Findings
Severe Financial Distress and Revenue Decline	Low revenue collection and high consumer debt Unfunded budgets and persistent deficits High distribution losses (water & electricity) Inability to pay creditors (Eskom & Midvaal) Inaccurate billing and data integrity issues	Financial distress in the City of Matlosana is driven by systemic weaknesses across the revenue value chain, resulting in chronic under-collection, escalating debt obligations, persistent deficits, and operational insolvency. The municipality's inability to generate and safeguard revenue has produced a structural fiscal crisis that undermines its capacity to perform basic functions.
Governance and Leadership Failures	Political interference and instability Weak administrative leadership Poor financial management practices Lack of accountability and consequences High irregular, fruitless & wasteful expenditure	Governance failures characterised by political interference, weak leadership, poor oversight, and limited accountability have entrenched institutional instability and mismanagement. These deficits prevent effective financial recovery, weaken organisational performance, and normalise poor internal controls and administrative dysfunction.
Infrastructure Decay and Operational Inefficiencies	Ageing infrastructure and inadequate maintenance Sewer spillages, water disruptions, electricity failures Vandalism, theft, and illegal connections Inadequate tools of trade	Infrastructure collapse and operational inefficiencies severely constrain service delivery, increase losses, and elevate maintenance costs. The municipality's ageing systems exacerbated by vandalism, illegal connections, and inadequate tools have created a cycle of reactive repairs and declining operational capacity.
Socio-Economic Decline and External Pressures	High unemployment and poverty Closure of mines and business decline Migration into informal settlements	Financial and operational failures have led to widespread deterioration in service delivery, undermining public health, economic activity, and community well-being. Persistent failures have eroded public trust and entrenched a culture of non-

	Community dissatisfaction and resistance to payment	payment that further worsens financial distress.
Service Delivery Deterioration	Delayed or interrupted basic services	Participants emphasised that financial recovery requires decisive implementation of reform measures, disciplined credit control, substantial revenue enhancement, revitalised LED, and strengthened governance. Effective turnaround depends on coherent leadership, fiscal discipline, and alignment across all spheres of government.
	Poor refuse removal and illegal dumping	
	Negative health, safety, and business impacts	
	Loss of public trust and declining payment morale	
Strategic Reform and Recovery Measures	Implementation of the Financial Recovery Plan	
	Enforcement of credit control and debt collection	
	Revenue enhancement strategies	
	Strengthening LED and investment attraction	
	Cost containment and governance reforms	

Source: Author's own computation

4.4 Major Theme 1: Severe Financial Distress and Revenue Decline

Participants overwhelmingly indicated that the City of Matlosana is in a state of prolonged and deepening financial distress. The crisis was described as structural rather than cyclical, rooted in longstanding weaknesses in revenue management, budgeting practices, infrastructure performance, billing accuracy, and creditor obligations. Perspectives from municipal officials, technical managers, political leaders, and three community members converged around the view that financial instability has become entrenched and continues to undermine service delivery and institutional credibility. The following sub-themes outline the significant factors contributing to this financial decline.

4.4.1 Low Revenue Collection and High Consumer Debt

Participants consistently described chronic weaknesses in revenue collection as a core driver of the municipality’s financial crisis. Officials highlighted declining payment levels, inadequate credit control, and socio-economic hardship as central contributors to the ballooning debt book. One municipal official observed that the municipality is experiencing severe shortfalls, noting that it is:

> *"…gravelling with sizeable deficits, debt burdens, inefficient revenue collection, ultimately, leading to the severe shortages of funds, as a result, the municipality is struggling to pay service providers, we cannot provide services to our community, there is no maintenance of infrastructure."* (P6)

Another emphasised the magnitude of the debt challenge, stating that:

> *"Our debt book has ballooned to R11 billion."* (P13)

A revenue official added that revenue erosion is compounded by limited economic activity, explaining that:

> *"…we are unable to collect the revenue because most of the people are not working."* (P3)

The community member confirmed the lived experience of poor payment culture and non-responsiveness, noting that despite many residents paying for services, mismanagement persists:

> *"People in town are paying their services very well… basic services should be maintained very well… but there is disorder."* (P9)

These findings align with national evidence showing that municipalities with weak collection systems, outdated billing platforms, and declining economic activity face rapid revenue depletion (Phuc et al., 2020; AGSA, 2023). Literature further identifies rising consumer debt as a primary indicator of municipal fiscal distress (McKenzie & Marx, 2024).

4.4.2 Unfunded Budgets and Persistent Deficits

A recurring concern across participants was the municipality's pattern of adopting unfunded budgets, which deepens structural deficits and exposes financial mismanagement. One senior official noted that although a budget was adopted, its funding plan was never implemented:

> *"We have adopted an unfunded budget… the funding plan is not being… implemented."* (P11)

Another employee echoed the need for corrective measures, emphasising that:

> *"They must put the funded budget first."* (P7)

The political office-bearer confirmed the cumulative scale of financial mismanagement, explaining that:

> *"Municipality has recorded an authorised and irregular expenditure… amounting to R11 billion."* (P13)

The community member reinforced how these deficits manifest in deteriorating public services, noting that:

> *"You can see how the roads are… terrible… how is it impacting the municipality when businesses are struggling?"* (P9)

These insights are consistent with national AGSA findings showing widespread approval of unfunded budgets, persistent UIFW expenditure, and weak adherence to MFMA requirements (AGSA, 2023). Literature confirms that recurrent budget deficits undermine liquidity, weaken financial controls, and accelerate institutional decline (Enwereji & Uwizeyimana, 2019; McKenzie & Marx, 2024).

4.4.3 High Distribution Losses (Water and Electricity)

Participants noted that high water and electricity losses significantly erode revenue, driven by ageing infrastructure, illegal connections and inadequate maintenance. A technical official linked basic infrastructure failures to revenue loss, stating:

> *"…We buy electricity from Eskom, we lose about 43% of that electricity on illegal connection."* (P12)

Another highlighted the scale of technical losses in electricity:

> *"One of the issues is electricity and water losses… high number of electricity users… [are] illegally connected."* (P7)

A participant detailed the broader socio-economic nature of losses, explaining that:

> *"People invading the municipal land… illegally connecting themselves… the amount… is very huge… at the end of the day, the municipality must pay Eskom."* (P4)

The community member confirmed the reality of widespread leaks and sewer failures, explaining that:

> *"It's just dirt with water… the sewerage system flowing everywhere."* (P9)

These findings support the literature showing that municipalities with deteriorating infrastructure, illegal consumption, and inadequate asset maintenance experience severe revenue losses and higher operational costs (UNECE, 2021; AGSA, 2023).

4.4.4 Inability to Pay Creditors (Eskom and Midvaal)

Participants described the escalation of arrears to Eskom and the Midvaal Water Board as a defining feature of the municipality's fiscal collapse. One participant highlighted the liquidity crisis, stating:

> *"The municipality… does not have capacity to service those accounts."* (P2)

The political office-bearer affirmed the scale of these arrears, noting that:

> *"We owe the main creditors over R2.6 billion… and about R2.4 to Midval."* (P13)

Another participant provided a contrasting operational perspective, explaining that despite challenges, certain payments still occur:

> *"I've never seen a month pass without paying the third party."* (P7)

The community member highlighted the indirect impact of unpaid creditors, particularly on service reliability:

“The municipality is struggling to pay its service providers. There are companies taking the municipality to court due to non-payment.” (P10)

Literature identifies the inability to pay creditors as a core indicator of municipal insolvency, often triggering provincial intervention under Section 139 (Dollery et al., 2020; McKenzie & Marx, 2024). AGSA (2023) has repeatedly flagged Matlosana’s arrears as unsustainable, consistent with national patterns.

4.4.5 Inaccurate Billing and Data Integrity Issues

Participants emphasised widespread billing inaccuracies and unreliable customer data as major barriers to effective revenue collection. One interviewee explained the urgent need for restructuring:

“Data cleansing is… what the municipality should do… know its clients… categorise the clients.” (P2)

The participant further reported longstanding unresolved billing complaints:

“Some of the paying clients, like the schools and businesses, have complaints of more than 5 years.” (P2)

These findings reflect national concerns that weak financial systems, unreliable billing data and manual processes undermine municipal revenue collection (Nzama, 2019; AGSA, 2023). Literature further shows that poor data integrity reinforces distrust, contributing to non-payment and escalating debt (Phuc et al., 2020).

Overall, the findings demonstrate that financial distress in the City of Matlosana is deep-seated and multifaceted, driven by chronic under-collection, unfunded budgets, infrastructure losses, creditor arrears, and unreliable billing systems. Perspectives from municipal officials, technical managers, political leaders, and a community member consistently revealed a municipality trapped in a cycle of revenue decline, rising debt exposure, and institutional deterioration. The literature confirms that these conditions reflect both global determinants of municipal fiscal distress and South Africa’s unique challenges of governance failure, systemic non-compliance, and infrastructure decay. The consistency of these findings across diverse participants reinforces the conclusion that Matlosana’s financial crisis is structural, persistent, and reflective of long-term institutional breakdown.

4.5 Major Theme 2: Governance and Leadership Failures

Participants across all stakeholder groups, including administrative officials, technical personnel, political leaders, and community members, identified governance and leadership failures as central contributors to the municipality’s financial distress. Interviewees consistently described a dysfunctional institutional environment marked by political interference, weak administrative leadership, poor financial controls, and an entrenched absence of accountability. These failures were viewed as both a root cause and an amplifier of financial decline, undermining operational stability, eroding public trust, and enabling mismanagement to persist. The sub-themes below demonstrate how governance instability has weakened the municipality’s capacity to fulfil its mandate. These findings align closely with the literature linking municipal fiscal crises to leadership failures, weak oversight, and poor governance systems rather than financial pressures alone (AGSA, 2019; Dollery et al., 2020; Nzama, 2019).

4.5.1 Political interference and instability

Participants repeatedly identified political interference as a core barrier to effective administrative functioning and financial discipline. Officials described how political actors interfere in operational decisions, disrupt the enforcement of revenue measures, and weaken institutional stability. One participant explained that political decisions often override professional judgement, stating:

> *There is political interference. This politics is just controlling our accounting officers and our CFOs. So, they are unable to really do their work as they should.”* (P8)

Another highlighted the effect of such interference on public confidence and stability:

> *“Yes, that instability also… affected the service delivery, but first undermined public confidence in the… ability to govern.” (P13)*

A third participant confirmed that political interference has long been documented, noting:

> *“There’s been number of scholars agreeing that… political interference… political challenges.” (P7)*

The community member echoed the consequences of political instability, emphasising how it affects service delivery and accountability:

> *“There is poor political leadership, they seem to focus on political interests instead of service delivery. They are looking out for themselves and the the community. There is no accountability” (P10)*

These findings align with agency theory, which predicts that when political principals override administrative agents, decisions become politicised, weakening technocratic governance and financial discipline (Jensen & Meckling, 1976; Eisenhardt, 1989). South African studies similarly show that cadre deployment, factional politics and unstable coalitions disrupt governance continuity and deepen financial distress (Shava & Chamisa, 2018; Mlambo et al., 2022).

4.5.2 Weak Administrative Leadership

Participants also highlighted weaknesses in administrative leadership, particularly in strategic direction, implementation capacity and financial oversight. One participant noted that leadership fails to manage the financial value chain or stimulate local economic development:

> *“The leadership should understand that revenue is in a value chain… [but] we don’t have a strong LED, the cycle is broken.” (P2)*

Another raised concerns about administrative commitment to turnaround strategies, stating:

> *“Administratively, there is no willingness… willingness of implementing this financial plan.” (P13)*

A third participant described widespread organisational confusion and blurred responsibilities:

“Officials… don’t know who’s responsible… because of supply chain issues… [and] conflict of interest.” (P6)

The community member reinforced the perception that administrative leadership is ineffective, explaining:

“No strong leadership and accountability.” (P10)

These findings align with national evidence indicating that many municipalities lack strong, capable administrative leadership to enforce financial discipline or implement reforms (Mohale, 2019; Meyer & Neethling, 2021). Agency-theoretic analyses also emphasise that weak leadership increases information asymmetries, moral hazard and poor compliance (Shailer, 2023).

4.5.3 Poor Financial Management Practices

Participants frequently cited poor financial management practices as a central determinant of financial distress. Concerns included weak budgeting processes, inadequate cash-flow planning, poor expenditure management, and dysfunctional supply chain systems. One participant noted a basic absence of sound financial controls:

“Proper cash flow management is lacking in the municipality.” (P4)

Another described how poor planning and low collection rates undermine budget sustainability:

“Don’t spend on what you don’t have, and not prioritising what is important for the municipality, which is service delivery. Failure to enhance revenue and collect from residents have huge impact on funding the budget .” (P7)

A third highlighted failures across core financial and procurement systems:

“…there’s… inadequate revenue collection and financial management practices… [and] inefficient supply chain management…” (P6)

The community member confirmed the visible consequences of these failures, noting:

> *"You see the results… broken roads, sewage everywhere. Money is not managed well." (P9)*

These findings are consistent with MFMA requirements for credible budgets, in-year monitoring, and cash-flow oversight (RSA, 2003), and with literature identifying poor financial management as a primary driver of municipal liquidity crises (Wallace & Dollery, 2018; Mayr & Lixl, 2019). Research also links weak supply chain controls to irregular expenditure and inflated costs (Akomea-Frimpong et al., 2019; Khaile, 2020).

4.5.4 Lack of Accountability and Absence of Consequence Management

Participants emphasised that the municipality operates in an environment where misconduct goes unpunished, rules are inconsistently applied, and irregularities are seldom investigated. One participant linked governance failures to corruption and poor planning:

> *"…it's due to poor planning… it's not only poor planning, it's… fraud and corruption within the municipality." (P4)*

Another described how corruption goes unpunished:

> *"…Leaders are failing to act because they know they are corrupt themselves. They know that subordinates know something about them." (P8)*

The community member echoed the absence of accountability, stating:

> *"There must be stronger leadership…if someone has done something, they have to account." (P10)*

These statements reflect national AGSA findings that municipalities routinely fail to enforce consequence management, contributing to persistent irregular expenditure and weak internal controls (AGSA, 2019; AGSA, 2021). Governance scholars argue that failure to sanction misconduct increases agency costs and incentivises opportunistic behaviour (Jensen & Meckling, 2019; Kroukamp, 2016).

4.5.5 High Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Participants noted that unauthorised, irregular, fruitless, and wasteful expenditure has become entrenched in the municipality, driven by procurement failures, mismanagement and breakdowns in financial oversight. One participant described how governance failures disrupt financial value chains:

> *"…the value chain… from LED and SMMEs should flow…to the revenue of the municipality…" (P2)*

Another reiterated the link between irregular expenditure and weak procurement systems:

> *"…inefficient supply chain management and the procurement processes." (P6)*

The community member confirmed the public's perception that funds are frequently wasted:

> *"There is a strong perception that the municipality's financial mismanagement has placed unfair burden on ratepayers… " (P14)*

The literature supports these findings, showing that irregular expenditure often results from non-compliant procurement practices, weak internal audit functions, and poor council oversight (Ackermann & Marx, 2016; Barac et al., 2017). AGSA analyses highlight that wasteful and irregular expenditure diverts resources from service delivery and deepens municipalities' financial distress (AGSA, 2021).

Overall, participants' insights reveal that governance and leadership failures lie at the centre of Matlosana's financial decline. Political interference disrupts administrative processes, weak leadership undermines reform implementation, financial mismanagement weakens fiscal stability, and the absence of accountability enables irregularities to persist unchecked. These systemic failures, corroborated by community experiences and supported by national and international literature, demonstrate that financial distress in Matlosana is fundamentally a governance problem. The persistence of these failures mirrors patterns documented across distressed South African municipalities, reinforcing the conclusion that without strong leadership, effective oversight, and credible accountability mechanisms, sustainable financial recovery is unlikely.

4.6 Major Theme 3: Infrastructure Decay and Operational Inefficiencies

Participants across all groups including municipal officials, technical staff, political leaders, and a community member emphasised that the City of Matlosana faces severe infrastructure deterioration and persistent operational inefficiencies. These infrastructural challenges were described as long-standing, systemic and deeply intertwined with the municipality's financial distress. Ageing water, sanitation and electricity networks, recurrent system failures, vandalism, illegal connections, and shortages of basic tools of trade collectively undermine service reliability and contribute to rising costs. Participants consistently highlighted that infrastructure collapse not only reduces service quality but also erodes community trust and weakens revenue collection. These findings align with global and South African literature, which identifies underinvestment in infrastructure, inadequate asset management, and weak operational capacity as the primary drivers of municipal dysfunction and fiscal instability.

4.6.1 Ageing Infrastructure and Inadequate Maintenance

Participants consistently reported that the City of Matlosana's infrastructure has deteriorated due to decades of insufficient reinvestment, weak maintenance practices, and ageing beyond its useful lifespan. Officials described water pipes, electricity networks, and road infrastructure as severely outdated, repeatedly failing, and in urgent need of rehabilitation. One participant highlighted long-standing neglect, noting:

> *"…Invest or get grant funding to fix our ageing infrastructure. We are still using porcelain and ceramic pipes, we need to move with the time and install the latest PVC pipes" (P3)*

Another emphasised that outdated systems are constantly failing, stating:

> *"…There is insufficient investment in maintenance of infrastructure. In one town, infrastructure is 50-60 years old, it has never been replaced." (P6)*

The community member confirmed the visible impact of decaying infrastructure, particularly road and stormwater systems:

> *"Infrastructure across the municipality is deteriorating rapidly. Roads are poorly maintained with potholes seldom repaired adequately. Stormwater drainage systems are neglected." (P14)*

These perspectives align with Chapter 2 literature, which shows that historical under-maintenance and inadequate asset management systems significantly increase operational costs and accelerate infrastructure failure (Dollery, Kortt & Grant, 2011; McKenzie, 2023). AGSA reports similarly highlight that deteriorating water, sewer and electricity networks contribute directly to service outages, distribution losses, and escalating municipal debt. International evidence (UNECE, 2021) confirms that ageing infrastructure, when not rehabilitated, becomes a major determinant of fiscal distress.

4.6.2 Sewer Spillages, Water Disruptions and Electricity Failures

Participants described recurring sewer spillages, frequent water interruptions, and electricity failures as widespread indicators of systemic collapse. Interviewees emphasised that these disruptions are not isolated incidents, but predictable symptoms of deteriorating infrastructure and insufficient maintenance responses. One participant highlighted the severity of sewer failures affecting schools:

> *"I'm having a school where the sewer is spilling into the school yet." (P13)*

Another participant identified ongoing water quality and supply issues:

> *"The municipality has poor water quality and ongoing water interruptions." (P2)*

Electricity network failures were also highlighted:

> *"The electricity also collapses because the network is too old." (P6)*

The community member confirmed that residents face daily interruptions and health hazards:

> *"Sewage is everywhere… it's dangerous for children." (P9)*

These findings align with the literature, which establishes that deteriorating water, sanitation and electricity infrastructure significantly exacerbate financial distress by increasing repair costs, reducing revenue through non-payment, and undermining public trust (Borrella-Mas & Rode, 2021). AGSA reports note that sewer spillages, water outages and electrical failures reflect inadequate maintenance regimes and reinforce declining municipal performance.

4.6.3 Vandalism, Theft and Illegal Connections

Participants explained that vandalism, cable theft and illegal service connections exacerbate existing infrastructural weaknesses and significantly increase maintenance burdens. These acts disrupt service provision, damage equipment, and contribute to high distribution losses. One participant emphasised the financial impact of criminal interference:

> *"This resulted in theft of electricity by consumers as they could not afford the high electricity tariffs." (P1)*

Another participant highlighted the prevalence of illegal electricity connections:

> *"They also connect electricity illegally." (P4)*

The community member reinforced these concerns, noting that:

> *"People are connecting themselves… that's why the electricity keeps tripping." (P12)*

This aligns with Chapter 2 literature, which shows that vandalism, theft, and illegal connections are major contributors to revenue losses, infrastructure decay, and rising maintenance costs (Phuc et al., 2020). AGSA reports repeatedly link illegal connections and tampering to high electricity distribution losses, particularly in municipalities with weak enforcement and limited operational resources.

4.6.4 Inadequate Tools of Trade

Participants stressed that operational capacity is severely constrained by shortages of basic tools of trade, including vehicles, equipment and maintenance tools. These shortages hinder the municipality's ability to respond to service interruptions or perform preventative maintenance. One participant described the lack of basic operational resources:

> *"Workers don't have the tools of trade, like vehicles and equipment." (P4)*

Another explained that operational effectiveness is severely limited:

> *"There are no resources and no tools for them to work." (P6)*

These findings are consistent with the literature, which indicates that inadequate tools of trade reduce staff productivity, increase service delays, and undermine municipal responsiveness (Meyer & Neethling, 2021). Agency theory further suggests that insufficient oversight and poor resource allocation reduce worker motivation and heighten operational inefficiencies.

Overall, the findings show that infrastructure decay and operational inefficiencies lie at the heart of the City of Matlosana's declining service delivery capacity. Ageing and poorly maintained infrastructure, combined with sewer spillages, water and electricity failures, vandalism, illegal connections, and inadequate tools of trade, significantly weaken the municipality's operational performance. These structural challenges increase distribution losses, reduce revenue, and deepen financial distress, mirroring national and international evidence that infrastructure collapse is both a cause and consequence of long-term municipal fiscal crisis. The consistency of perspectives across participants, including the community member, reinforces the conclusion that without comprehensive rehabilitation, targeted investment, and improved operational capacity, the municipality's financial and service delivery performance will continue to deteriorate.

4.7 Major Theme 4: Socio-Economic Decline and External Pressures

Participants consistently indicated that the City of Matlosana's financial distress is deeply intertwined with broader socio-economic deterioration. The collapse of mining activity, escalating unemployment, business closures, the rapid expansion of informal settlements, and widespread community dissatisfaction have collectively weakened the municipality's revenue base. These external pressures reduce household affordability, intensify service demands, and reinforce non-payment behaviour creating a self-perpetuating cycle where weakened service delivery further undermines payment morale. This pattern is consistent with the national and international literature, which highlights that municipal financial health is strongly shaped by external economic and demographic trends rather than by internal governance practices.

4.7.1 High Unemployment and Rising Poverty

Participants consistently emphasised that high unemployment has severely compromised residents' ability to pay for municipal services. Interviewees linked the decline in household income particularly following mine closures and COVID-19 disruptions to chronic under-collection and rising consumer debt. One participant explained:

> *"We are unable to collect the revenue because most of the people are not to working… COVID also added unemployment in this city." (P13)*

An official confirmed that unemployment is widespread and directly affects payment behaviour:

> *"Unemployment is extremely high… people simply cannot pay." (P2)*

Another participant noted that poverty has deepened to the extent that residents increasingly depend on the municipality for economic relief:

> *"Poverty… the city is experiencing a lot of poverty… What is more the concern is unemployment… majority of the resident depend on local government to provide jobs for them." (P7)*

These findings align with the literature, which shows that unemployment and declining household income are major predictors of municipal fiscal stress (Dollery et al., 2020). Studies in Sub-Saharan Africa similarly reveal that socio-economic hardship decreases both the ability and willingness to pay for public services, leading to long-term declines in revenue and rising municipal debt (Habibov, Fan & Auchynnikava, 2019).

4.7.2 Closure of Mines and Business Sector Decline

Participants identified the collapse of mining activity and the broader business sector as a significant factor underlying Matlosana's fiscal crisis. They described how mine closures triggered mass retrenchments, reduced local spending, and weakened the economic base necessary for sustainable revenue generation. One participant explained:

> *"The economic situation has also impacted the financial situation, the mining giants closed in Klerksdorp, and this affected the economic activities. There were lots of unemployment." (P2)*

Another participant confirmed the impact on local businesses:

> *"The mines has also closed, this has a big impact on the economy." (P1)*

A political office-bearer highlighted the historical shift:

> *"Previously… we were not in this financial crisis because we did have the mining that were operating… most of the mines… most of them are closed down." (P13)*

Another political office-bearer emphasised the impact of mine closures:

> *"Many people relied on the mines for employment. Now the municipality is the only source of employment. People are becoming indigent. COVID-19 has also contributed" (P5)*

The literature corroborates these dynamics, noting that municipalities dependent on mining experience severe fiscal strain when mines close, triggering contraction of the tax base, rising unemployment, and reduced consumer spending (McQuestin, Drew & Miyazaki, 2021). South African studies further show that infrastructure failures and unreliable service delivery discourage investment, accelerating business decline and weakening municipal resilience.

4.7.3 Rapid Growth of Informal Settlements

Participants reported that the rapid expansion of informal settlements places substantial pressure on already fragile infrastructure and financial systems. These settlements often lack formal billing, generate minimal revenue, and contribute to high distribution losses. One participant stated:

> *"The mushrooming of informal settlements demanding services from the municipality is exacerbating the current financial situation." (P4)*

Another highlighted the municipality's inability to keep pace with unplanned growth:

> *"Informal settlement has a huge impact because it speaks to the finances and planning." (P5)*

A third participant explained that many informal residents connect illegally, further undermining cost recovery:

> *"We have people invading the municipal land… and end up illegally connecting themselves and we don't have the numbers of those people." (P4)*

The literature confirms that rapid urbanisation and the expansion of informal settlements strain infrastructure, increase technical losses, and complicate municipal planning (Borrella-Mas & Rode, 2021). Research shows that informal areas significantly increase service obligations while contributing minimally to revenue collection, deepening financial instability.

4.7.4 Community Dissatisfaction and Resistance to Payment

Participants highlighted that community dissatisfaction has intensified non-payment behaviour, primarily due to declining trust in the municipality's ability to deliver services. Interviewees described how years of unreliable service delivery, billing errors, and slow complaint resolution have eroded public willingness to pay. One participant noted:

> *"They don't have confidence on the municipality." (P2)*

Another recounted a resident's frustration with billing inaccuracies:

> *"I did pay R2000, R2500, but following month… the account statement is saying I'm owing R5000." (P13)*

A further participant linked dissatisfaction directly to non-payment:

> *“Obviously, maintenance of infrastructure has severly impacted service delivery. This has impacted the willingness of the residents to pay for their services, they are not satisfied with the municipality.” (P1)*

The community member underscored the same sentiment:

> *“People say, why must we pay if nothing is working?” (P9)*

These findings mirror the literature, which shows that trust in local government is a significant determinant of payment compliance (Habibov, Fan & Auchynnikava, 2019). Research in South Africa likewise demonstrates that residents’ willingness to pay declines when service delivery is unreliable, billing is inaccurate, and municipal responsiveness is weak, ultimately creating a debt spiral that intensifies fiscal distress.

Overall, the findings demonstrate that socio-economic decline significantly amplifies the City of Matlosana’s financial instability. High unemployment, widespread poverty, mine closures, limited business activity, rapid growth of informal settlements, and intensifying community dissatisfaction have collectively eroded the municipality’s revenue base. These socio-economic pressures interact with existing governance and operational weaknesses, creating a reinforcing cycle of non-payment, infrastructure strain, and fiscal deterioration. Consistent with the literature reviewed in Chapter 2, the municipality’s financial distress is therefore not solely the result of internal administrative failures but is deeply rooted in the broader socio-economic collapse of the region.

4.8 Major Theme 5: Service Delivery Deterioration

Participants across all categories, administrative staff, technical officials, political leaders and community members highlighted that service delivery deterioration has become a defining symptom of the City of Matlosana’s financial instability. Widespread water interruptions, sewer spillages, failing electricity infrastructure, deteriorating roads, poor waste removal, and escalating environmental hazards were described as routine occurrences. These failures undermine community wellbeing, weaken economic activity, and reinforce non-payment behaviour. The sub-themes below show how financial instability, infrastructure collapse and governance failures interact to produce deep and persistent service breakdowns. These patterns are widely supported by the literature, which links service collapse to weak governance, inadequate maintenance, and persistent financial mismanagement in South African municipalities.

4.8.1 Delayed or Interrupted Basic Services

Participants consistently reported frequent interruptions and delays in critical services particularly water supply, electricity provision, sanitation and road maintenance. Officials explained that ageing networks, poor maintenance and inadequate operational planning drive repeated failures. One participant stated:

> *"The municipality has poor water quality and ongoing water interruptions." (P2)*

Another participant highlighted electricity instability caused by obsolete infrastructure:

> *"The electricity also collapses because the network is too old." (P6)*

A technical official further emphasised that ongoing breakdowns stem from weak preventative maintenance:

> *"There's no proper maintenance… that is why the pipes burst all the time." (P3)*

The community member confirmed the daily disruptions residents face:

> *Water and sanitation services have also reached … critical levels of dysfunctionality." (P14)*

These findings align with research showing that inadequate maintenance, ageing infrastructure and deferred investment contribute to recurrent service interruptions and distribution losses (Dollery, Kortt & Grant, 2011). Audit reports also confirm that unreliable water and electricity supply erode public trust and weaken payment morale, further destabilising municipal finances.

4.8.2 Poor Refuse Removal and Widespread Illegal Dumping

Participants described waste management as a significant operational challenge, characterised by inconsistent refuse removal, accumulating backlogs and escalating illegal dumping. Operational constraints particularly non-functional vehicles, equipment shortages and weak fleet management were reported as key barriers to reliable waste collection. One participant highlighted:

> *“We don’t have the vehicles… the refuse is not collected on time….Illegal dumping is increasing… because people are not attended to” (P7)*

Another participant noted that inadequate collection services fuel escalating waste disposal problems:

> *“Refuse removal should be maintained well... As well as cleanliness of our area” (P1)*

These findings are consistent with the literature, which demonstrates that insufficient waste management capacity, deferred maintenance, and weak operational systems drive environmental decline and public health risks (Borrella-Mas & Rode, 2021; Habibov, Fan & Auchynnikava, 2019). Studies across South African municipalities show that financial distress commonly manifests through failures in waste management, driven by inadequate budgets, poor fleet availability, and declining organisational performance.

4.8.3 Negative Impact on Health, Safety and Economic Activity

Participants indicated that service delivery failures pose significant risks to public health, safety and economic productivity. Sewer spillages, failing sanitation systems and unmaintained roads were widely described as hazards that undermine daily life and business activity. One participant emphasised the dangers to vulnerable groups:

> *“I am having a school where the sewer is spilling into the school yard.” (P13)*

Another participant stressed how poor service reliability drives businesses away:

> *“They do not want to do business with us… it kills the economy… business people are even thinking of relocating.” (P8)*

Road deterioration was also highlighted as a barrier to mobility and safety:

> *“Roads are terrible even in our industrial side.” (P1)*

The community member echoed the same concerns:

> *"Reports of raw sewerage flowing in streets and residential areas… indicate systematic failure in wastewater management." (P14)*

These insights reflect established research showing that poor sanitation, road degradation and unreliable utilities undermine public wellbeing and weaken local economic growth (Adejumo & Adejumo, 2020; McQuestin, Drew & Miyazaki, 2021). Municipalities experiencing infrastructure decay often face declining investment, business closures and increasing community vulnerability all of which reduce revenue flows and deepen fiscal instability.

4.8.4 Loss of Public Trust and Declining Payment Morale

Participants repeatedly stated that service breakdowns have eroded community trust, resulting in deliberate non-payment for municipal services. Residents increasingly view the municipality as unresponsive and unreliable, weakening their willingness to comply with billing obligations. One participant summarised this clearly:

> *"They don't have confidence on the municipality." (P2)*

Billing inaccuracies further fuel distrust and resistance, as shown by one participant's account of a resident dispute:

> *"I did pay R2000, R2500, but following month… the account statement is saying I'm owing R5000." (P13)*

Another participant emphasised the link between service quality and payment behaviour:

> *"Residents are unsatisfied… they don't see the benefit of paying." (P1)*

The community member confirmed widespread lack of trust on the municipality:

> *"A growing sense of disillusionment and mistrust towards local government structures…" (P14)*

This aligns with research showing that declining trust in municipal governance reduces payment morale, increases arrear debt, and intensifies liquidity pressures (Nzama, 2019).

Studies further demonstrate that residents' willingness to pay is strongly influenced by perceived service quality and institutional effectiveness (Habibov, Fan & Auchynnikava, 2019).

Overall, the findings show that service delivery deterioration in the City of Matlosana is not an isolated outcome but the cumulative result of profound financial instability, failing infrastructure, operational inefficiencies, and weak governance. Frequent water interruptions, power failures, sewer spills, inadequate waste removal, and deteriorating roads undermine community well-being, weaken economic activity, and erode public trust, contributing to mounting non-payment and revenue decline. Literature confirms that such service failures reinforce a self-perpetuating cycle of fiscal distress: weakened services reduce payment willingness, reduced revenue undermines maintenance capacity, and poor maintenance accelerates infrastructure collapse. Restoring service delivery is therefore central to reversing the municipality's financial decline and rebuilding community confidence.

4.9 Major Theme 6: Strategic Reform and Recovery Measures

The sixth major theme reflects participants' shared belief that the City of Matlosana can recover from its financial and operational collapse. Still, only if core reforms are implemented decisively, and governance systems are strengthened. Participants consistently noted that although the municipality has several formal recovery instruments including the Financial Recovery Plan (FRP) and associated funding strategies, these tools remain largely ineffective due to weak implementation, fragmented coordination, and limited enforcement. There was a strong consensus that recovery requires a shift from compliance "on paper" to meaningful execution driven by committed administrative leadership.

A central dimension of this theme concerned the municipality's failure to enforce the complete revenue value chain. Participants highlighted chronic non-payment, inaccurate billing, weak credit control, and outdated customer data as significant obstacles to revenue improvement. They stressed that revenue enhancement requires accurate billing systems, reliable consumer information, and coordinated enforcement across finance, customer care and technical departments. The lack of trust in municipal billing processes was identified as a critical barrier to payment compliance, underscoring the need for transparent, credible revenue systems.

Participants also linked financial recovery to local economic revitalisation. They explained that the collapse of mining and industrial activities has significantly reduced the municipality's revenue base, increased unemployment, and weakened local investment prospects. Stabilising the municipality, therefore, requires broader economic renewal efforts to attract investment, support small businesses, and stimulate job creation.

The theme further highlighted significant inefficiencies in expenditure management. Participants pointed to widespread unauthorised, irregular, fruitless and wasteful expenditure, ineffective procurement practices, and uncontrolled operational costs as major contributors to financial instability. They emphasised that cost containment, improved oversight, and strict adherence to financial controls are essential to restoring fiscal discipline.

Overall, the analysis shows that strategic recovery in the City of Matlosana depends on disciplined implementation of the FRP, strengthened governance and accountability mechanisms, enhanced revenue management, revitalised economic activity, and aggressive cost control. These insights align with the literature, indicating that financially distressed municipalities recover only when institutional coordination improves, governance failures are addressed, and revenue and economic systems are stabilised.

4.10 Chapter Summary

This chapter presented and analysed the qualitative findings from semi-structured interviews with officials, political leaders, and stakeholders in the City of Matlosana. It examined the various factors that contribute to the municipality's financial distress, drawing on participants' lived experiences to highlight weaknesses in revenue management, budget practices, governance processes, infrastructure condition, operational capacity, and service delivery performance. The chapter further explored how socio-economic pressures, institutional instability, and declining public trust reinforce the municipality's financial challenges. In doing so, it provided an integrated understanding of the underlying determinants of financial distress and the operational realities shaping municipal performance. The insights developed in this chapter form the basis for the conclusions and recommendations that follow in the next chapter.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the conclusions derived from the study, drawing together the key insights from the empirical findings and the literature. It synthesised how the determinants of financial distress in the City of Matlosana aligned with or diverged from national and international scholarship, and it evaluated the implications for governance, financial management, and service delivery. The chapter also outlined the study's theoretical and practical contributions, provided evidence-based recommendations, and highlighted limitations that may guide future research.

5.2 Summary of the Study

The purpose of the study was to investigate the determinants of financial distress in the City of Matlosana. This municipality had been repeatedly identified by the Auditor-General for severe governance weaknesses, declining revenue performance, and rising irregular expenditure. The literature review (Chapter 2) demonstrated that municipal financial distress is a multidimensional problem influenced by internal control failures, weak financial management, corruption, political interference, inadequate revenue collection, infrastructural decay, and limited institutional capacity, with agency theory offering a lens to understand how misaligned incentives, information asymmetry, and poor accountability mechanisms exacerbate mismanagement within local governments.

The research methodology (Chapter 3) adopted an interpretivist paradigm, an inductive reasoning approach, and a qualitative, exploratory case study design, drawing on semi-structured interviews with purposively and snowball-sampled municipal officials, supplemented by document analysis of audit reports, IDPs, and financial statements. The data were analysed using thematic analysis supported by Atlas.ti, while trustworthiness was ensured through triangulation, audit trails, and clear documentation of analytic procedures. The study's demographic profile comprised senior and middle-level municipal officials, executive mayor, directors, assistant directors, and finance-related managers who collectively possessed relevant operational and strategic experience, offering diverse yet informed perspectives on the institutional, financial, and governance challenges confronting the City of Matlosana.

5.3 Conclusion of the Study Findings

The conclusions outlined in this section were derived directly from the four research objectives and are based on both the empirical findings and the body of literature reviewed in the study. Each objective is addressed individually to illustrate the degree to which the study's results correspond with theoretical expectations and prior scholarly evidence.

Research Objective 1: To identify factors leading to financial distress and mechanisms to address these factors through a literature study.

The study concluded that the determinants of municipal financial distress identified in the literature were multidimensional and consistently linked to failures in governance, leadership, accountability, and financial oversight. International and South African scholarship highlighted several recurring drivers of municipal distress: weak internal controls, corruption, political interference, unfunded mandates, high debt burdens, infrastructure neglect, and declining revenue performance (Nzama, 2019; Sibanda et al., 2020; McKenzie & Marx, 2024). These weaknesses undermine service delivery, erode financial stability, and weaken institutional performance.

The literature also pointed to key mechanisms to address municipal distress, including strong leadership, transparent procurement systems, strict enforcement of financial controls, improved revenue management, and investment in infrastructure maintenance. Turnaround frameworks such as the Back-to-Basics Programme and the LGMIM Scorecard were presented as potential solutions, but their success depended on committed implementation and capable leadership (COGTA, 2014; DPME, 2014). Overall, the literature provided a comprehensive foundation for understanding the drivers of financial distress and the institutional reforms required to restore financial sustainability. This foundation is strongly aligned with the dynamics observed in Matlosana.

Research Objective 2: To identify key factors contributing to financial distress in the City of Matlosana Municipality.

The study found that Matlosana’s financial distress stemmed from deeply entrenched structural, administrative, and operational deficiencies. Chronic revenue under-collection, inaccurate billing, a rapidly expanding debtors’ book, and severe distribution losses in both water and electricity weakened the municipality’s long-term financial position. Participants reported that Matlosana consistently operated with unfunded budgets, was unable to pay creditors, particularly Eskom and Midvaal Water, and accumulated billions in unauthorised, irregular, fruitless, and wasteful expenditure (UIFW). These fiscal weaknesses were compounded by ageing infrastructure, frequent sewer spills, and inadequate maintenance, which, in turn, exacerbated service delivery failures and community dissatisfaction.

Governance problems emerged as some of the strongest contributors to distress. The findings showed evidence of political interference, corruption, leadership instability, and cadre deployment issues that eroded institutional capacity and weakened decision-making. Poor supply chain management, ineffective contract management, and the absence of consequence management for wrongdoing further entrenched financial instability. These empirical findings closely align with South African research documenting how governance breakdowns, rising non-compliance, and corrupt procurement practices undermine municipal financial sustainability (Glasser & Wright, 2020; Khumalo & Scheepers, 2021). However, in Matlosana, these weaknesses were more acute, persistent, and systemic, confirming AGSA’s classification of the municipality as one of the most financially distressed in the country.

Research Objective 3: To analyse the effectiveness of current financial management practices in preventing financial distress.

The study concluded that Matlosana’s financial management practices were largely ineffective and insufficient in preventing or mitigating financial distress. Participants described a municipality characterised by fragmented administration, poor coordination across departments, inconsistent record-keeping, and weak oversight mechanisms. Financial management systems were outdated, billing processes were unreliable, and internal audit recommendations were frequently ignored or undermined. The recurring pattern of audit findings, high UIFW expenditure, failure to implement audit action plans, and non-compliance with MFMA provisions indicated a fundamental collapse of financial governance.

The findings showed that internal controls were either absent or poorly enforced. Procurement processes lacked transparency, credit control policies were inconsistently implemented, and the debt recovery strategy was inadequate. These weaknesses align with the literature, which asserts that municipal distress is often rooted in the failure to enforce basic financial disciplines, implement internal controls, and follow established governance frameworks (AGSA, 2021; Ackermann & Marx, 2016). Whereas some municipalities demonstrate gradual improvement after adopting MFMA-aligned controls, Matlosana shows the opposite trajectory, illustrating the consequences of leadership instability, administrative inefficiency, and a lack of political will to implement corrective action.

Research Objective 4: To make recommendations for improving financial sustainability and avoiding financial distress in the City of Matlosana Municipality.

Based on the findings, the study concluded that meaningful financial recovery in Matlosana requires an integrated, multi-layered, and long-term approach. Strengthening governance and promoting leadership stability emerged as first-order priorities. The municipality requires ethical, competent, and professional leadership capable of restoring institutional credibility, enforcing compliance, and prioritising service delivery. Improving revenue management through accurate billing, modernised financial systems, and disciplined credit control is critical to increasing cash flow and reducing dependency on external grants.

The study also concluded that infrastructure maintenance and renewal must be prioritised to reduce water and electricity losses, which currently account for a significant portion of municipal financial leakage. Strengthening supply chain management, enforcing transparent procurement processes, and implementing rigorous consequence management will help reduce corruption and irregular spending. These recommendations aligned with best-practice frameworks such as Back-to-Basics, MFMA financial recovery requirements, and international models advocating governance reform, operational efficiency, and financial restructuring in distressed municipalities (Schweizer & Nienhaus, 2017; Gillette, 2021). However, the study noted that while frameworks exist, their effectiveness in Matlosana will depend on political commitment, administrative discipline, and robust monitoring.

5.4 Contribution of the Study

This study made significant theoretical and practical contributions that advance understanding of municipal financial distress and offer actionable guidance for improving financial sustainability in South African local government.

5.4.1 Theoretical Contribution

The study expanded the application of agency theory by demonstrating how its core constructs information asymmetry, moral hazard, adverse selection, and misaligned incentives manifest specifically within South African municipal governance. The findings showed that financial distress in Matlosana was rooted not only in technical deficiencies but in deeper governance failures such as political interference, weak internal controls, and the absence of consequence management. By linking these behaviours to agency breakdowns, the study illustrated how municipal officials may prioritise personal or political interests at the expense of public accountability and financial prudence. This context-specific application of agency theory strengthened its explanatory power in the public sector and highlighted its relevance for analysing systemic governance failures in municipalities.

5.4.2 Practical Contribution

Practically, the study provided empirical insights into the lived experiences of municipal officials and the structural realities of a severely distressed municipality. These findings offered concrete, evidence-based recommendations for improving financial sustainability, including modernising billing systems, strengthening internal controls, enforcing credit control policies, enhancing supply chain transparency, rebuilding leadership stability, and investing in infrastructure maintenance. The study also contributed a detailed case analysis that can be used by policymakers, auditors, and municipal managers to understand the operational and governance conditions that lead to financial collapse. By aligning its recommendations with MFMA requirements, AGSA directives, and existing turnaround frameworks, the study provided practical guidance to support corrective interventions not only in Matlosana but also in other municipalities facing similar institutional challenges.

5.5 Recommendations of the Study

Based on the study's findings, several targeted recommendations were proposed to address the institutional, operational, and governance factors contributing to financial distress in the City of Matlosana, with interventions tailored to specific stakeholders responsible for municipal financial sustainability.

Recommendations for Municipal Leadership and Senior Management

Municipal leaders should prioritise strengthening governance by ensuring that key administrative positions such as the municipal manager, chief financial officer, and heads of supply chain and internal audit are filled by qualified, competent professionals appointed on merit rather than on political affiliation. Leadership must enforce a culture of accountability by implementing consequence management for irregular expenditure, non-compliance, and fraudulent practices. Senior management should champion organisational stability, improve coordination across departments, and institutionalise ethical leadership practices that promote transparency and effective decision-making.

Recommendations for Financial Management and Revenue Units

The finance and revenue departments must modernise billing systems to improve accuracy, reduce consumer disputes, and enhance revenue predictability. Credit control policies should be strictly enforced, with consistent follow-up on arrears and improved verification of indigent register entries to ensure the integrity of the debtor book. Financial management units should adopt robust internal controls, regularly update audit action plans, and strengthen expenditure management to minimise unauthorised, irregular, fruitless, and wasteful spending. Enhancing risk management frameworks and conducting frequent internal audits will also improve financial discipline.

Recommendations for Supply Chain Management (SCM) Units

SCM units should adopt transparent, competitive procurement processes that comply with MFMA and National Treasury regulations. Procurement staff must receive continuous training on compliance procedures, contract management, and ethical standards. To reduce irregular expenditure, SCM departments should digitise procurement workflows, strengthen oversight mechanisms, and ensure that all tender evaluations and awards comply with legislative requirements. Enhancing monitoring and reporting systems will help curb corruption and improve fiscal accountability.

Recommendations for Infrastructure and Technical Services Departments

Technical services should prioritise rehabilitation and maintenance of ageing water and electricity infrastructure to reduce high distribution losses. Asset management plans must be aligned with GRAP standards, supported by ongoing maintenance schedules, and budgeted appropriately. The municipality should invest in energy-efficient technologies, reduce unmetered consumption, and prioritise repairs to frequently failing infrastructure to restore service reliability and reduce operational costs. Addressing sewer spillages and water quality issues is essential for protecting public health and rebuilding resident confidence.

Recommendations for Provincial and National Government

Provincial Treasury and COGTA should intensify oversight of Matlosana by monitoring the implementation of financial recovery plans and enforcing compliance with MFMA provisions. National and provincial authorities may consider deploying technical support teams to assist with revenue enhancement, SCM reform, and strengthening internal controls. Where persistent non-compliance continues, stronger interventions such as Section 139(5) mandatory recovery plans should be implemented. Capacity-building programmes should be prioritised to uplift municipal financial competencies across all levels.

Recommendations for Community Stakeholders and Civil Society

Community members should be actively engaged through transparent communication on service delivery challenges, payment responsibilities, and progress on financial recovery interventions. Strengthening public participation in Integrated Development Plan (IDP) processes and budget consultations will help rebuild trust and encourage residents to pay for services. Civil society organisations should support accountability initiatives by monitoring municipal performance, promoting civic education, and partnering with the municipality on community-based development programmes.

5.6 Limitations and Areas for Future Study

This study had several limitations that shaped the depth and scope of its findings. First, the qualitative case study design relied on purposive and snowball sampling, which, although appropriate for interpretivist inquiry, limited the number of participants and the generalisability of the results. The study relied heavily on the perspectives of senior and middle-level officials, leaving views from lower-level staff or community members largely unexplored. Additionally, access to internal documents and specific stakeholders was constrained by municipal schedules, political sensitivities, and ethical considerations, which may have restricted the breadth of institutional insights available. The dynamic nature of municipal governance also meant that some financial documents and audit findings evolved after data collection, potentially affecting the temporal accuracy of the analysis.

Given these limitations, several opportunities for future research exist. A comparative study across multiple financially distressed municipalities such as Emfuleni, Mangaung, or Lekwa would allow for broader cross-case generalisation and deepen understanding of systemic governance failures in local government. Future research could also adopt a mixed-methods design to quantitatively test the relationships between governance indicators, financial control weaknesses, and service delivery outcomes, thereby strengthening causal insights. Longitudinal studies assessing the implementation and effectiveness of Municipal Financial Recovery Plans over multiple financial years would provide valuable evidence on sustainable turnaround strategies. Finally, future research could investigate the political economy of municipal governance, exploring how political dynamics, cadre deployment, and leadership instability influence financial decision-making and long-term fiscal sustainability.

5.7 Significance of the Study

This study aims to contribute to the practical understanding of financial distress in local governments by providing empirical insights into the specific factors driving it in the City of Matlosana. These insights can be applied to other municipalities facing similar challenges. It also enhances understanding of the role of leadership and governance in shaping municipalities' financial health, providing a basis for improving leadership and accountability mechanisms. Furthermore, the study provided practical recommendations for policymakers and municipal managers to implement more effective financial management practices and policies, thereby promoting financial sustainability. Similar benefits will extend beyond the City of Matlosana and the Republic of South Africa.

5.8 Chapter Summary

This chapter presented the study's overall conclusions by synthesising the empirical findings and aligning them with the research objectives. It summarised how the study identified the structural, administrative, and governance factors driving financial distress in the City of Matlosana and demonstrated strong alignment between the empirical evidence and the broader literature on municipal financial instability. The chapter further outlined the study’s theoretical and practical contributions, showing how agency theory illuminated persistent accountability failures and how the findings yielded actionable recommendations to strengthen financial governance, revenue management, infrastructure maintenance, and institutional oversight. In addition, the chapter highlighted the study’s limitations and proposed avenues for future research to deepen understanding of municipal distress across South Africa. Collectively, the chapter reinforced that Matlosana’s fiscal challenges stemmed from systemic governance weaknesses and that sustainable recovery requires an integrated, multi-stakeholder approach grounded in transparency, leadership reform, and strengthened financial controls.

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