

UNIVERSITY OF KWAZULU –NATAL

LOCAL GOVERNMENT FINANCING AND DEVELOPMENT - A CASE STUDY OF  
KWADUKUZA MUNICIPALITY

By

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**DATE**

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**T. G. SIMELANE**

## **ABSTRACT**

This study focuses on Local Government restructuring with particular reference to KwaDukuza Municipality. The objectives of the study are firstly, to investigate the challenges facing local government with particular emphasis on local government financing, establishes key factors and challenges facing local government financial management, and lastly, provide a recommended course of direction for effective financial reform, methods of financial restructuring and business re-engineering within the broader context of the South African local government system.

The research, design and methodology used in the study involves both qualitative and quantitative data analysis. An extensive range of literature was also consulted during the study. Questionnaires and interviews were conducted with staff and councillors of KwaDukuza Municipality.

The findings exemplified in the study of KwaDukuza Municipality are a reflection of the broader set of challenges experienced by most municipalities across the country. Examples cited include debt management, expenditure control, budget reform and restructuring, asset management, financial reporting, procurement, and internal control. The challenges are viewed as pertinent aspects irrespective of the size of the municipality.

The recommendations brought forward by the study involve a range of issues including capacity building, staff training and development, institutional capacity, community participation, performance management, monitoring and control, rather the budget as an instrument of empowerment and development.

## **ACRONYMS**

<b>IDP</b>	<b>INTERGRATED DEVELOPMENT PLAN</b>
<b>LGTA</b>	<b>LOCAL GOVERNMENT TRANSITION ACT</b>
<b>MFMA</b>	<b>MUNICIPAL FINANCE MANAGEMENT ACT</b>
<b>RSA</b>	<b>REPUBLIC OF SOUTH AFRICA</b>
<b>JSB</b>	<b>JOINT SERVICES BOARD</b>
<b>LED</b>	<b>LOCAL ECONOMIC DEVELOPMENT</b>
<b>PFMA</b>	<b>PUBLIC FINANCE MANAGEMENT ACT</b>
<b>AG</b>	<b>AUDITOR - GENERAL</b>
<b>STATSA</b>	<b>STATISTIC SOUTH AFRICA</b>
<b>DPLG</b>	<b>DEPARTMENT OF PROVINCIAL AND LOCAL GOVERNMENT</b>
<b>MTEF</b>	<b>MEDIUM TERM EXPENDITURE FRAMEWORK</b>
<b>TTA</b>	<b>TENDER AND AUDIT COMMITTEE</b>
<b>GAMAP</b>	<b>GENERALLY ACCEPTED MUNICIPAL ACCOUNTING PRACTICES</b>
<b>MAP</b>	<b>MANAGEMENT ASSISTANCE PROGRAMME</b>
<b>AFS</b>	<b>ANNUAL FINANCIAL STATEMENTS</b>

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND TO THE STUDY**

South Africa has a long history of divided communities where people lived segregated lives. People were segregated according to race, creed, ethnic origin, religion, gender, geographical points of origin and in many other ways. The democratic elections of 1994 and the adoption of the Constitution of the Republic of South Africa in 1996 created a new order and political dispensation.

The framework provided by the new dispensation has created a platform for the integration of the historically divided communities into a unified society sharing a common destiny in one democratic country. Ironically, with all the democratic changes that have taken place, the legacy of apartheid and its injustices remains active among communities. The reality is that meeting the challenges that will eradicate these anomalies is going to take time and is likely to extend beyond a generation before a significant impact can be made.

### **1.2 FOCUS OF THE STUDY**

For the purpose of this study, the research will focus on local government financing and development. Financial management will be the main focal area since financial management plays a pivotal role in the effective provision of services. KwaDukuza Local Municipality was the focus as a case study. The research will cover areas such as the financial policy framework, financial management and internal business support systems at the local government level.

### **1.3 NEED FOR THE STUDY**

Developments since the 1994 elections have had an overwhelming impact on the direction which the country intends to pursue. It is within the spirit of such challenges and the ensuing developments that empirical research and other forms of scientific studies have become a necessity. Research becomes even more important within the public service environment and state institutions where democratic changes are still struggling to define and assert themselves. This study intends to look into challenges facing local government. This particular study will focus on the local sphere of government without ignoring the other spheres of government, with a particular interest in the area of local government financial management.

It is at this point that it becomes important to appreciate and acknowledge that modern day local government is far too complex and has more challenges than the traditional municipal administration system of past decades and centuries. The modern day municipality is driven by global challenges fuelled by the demands of the information age and developmental local governments.

### **1.4 OBJECTIVES OF THE STUDY**

The objectives of the study are to:

- investigate the challenges facing local government with special emphasis on local government financing;
- establish key factors and challenges facing local government financial management;
- provide directives for effective financial reform, methods of financial restructuring and business re-engineering within the broader context of the South African local government system; and
- draw conclusions and make recommendations on local government financial management and development.

## **1.5 RESEARCH METHODOLOGY**

Data and supporting information was obtained from books, literature, observations, questionnaires and official reports. Key officials and councillors associated with KwaDukuza Municipality were consulted and interviewed. Questionnaires were also distributed and they represented an important part of the project.

The methodology used in the study was a qualitative method of research and included materials gathered from the case study in order to obtain practical perspectives on the subject. For the benefit of this study, data was classified into two categories, namely primary and secondary as was discussed below.

### **1.5.1 Primary data**

Pilot interviews were conducted among employees, interest groups and councillors of KwaDukuza Municipality and other municipalities in the Ilembe District.

### **1.5.2 Secondary data**

Relevant literature reviews was conducted in order to develop and obtain a broad understanding of the subject matter under consideration. Municipal records, policies, manuals, reports, agendas, and legislations was also studied in order to gain a better understanding of, and insight into the dynamic environment of municipalities, and local government financing in particular.

Questionnaires were be formulated and administered among relevant stakeholders such as employees, interest groups and councillors.

## **1.6 LIMITATIONS OF THE STUDY**

Local government administration is a very wide subject. The study was limited to financial management and development within a local government environment. The

study focused on KwaDukuza Municipality as a case study. Interviews, consultation, and questionnaires were directed to staff, committee members, and councillors serving within the administration of KwaDukuza Local Municipality, which is one of the municipalities located within the Ilembe District's area of jurisdiction.

## **1.7 FIELD OF RESEARCH**

For a more effective understanding of the field of research undertaken, it is important to understand the study of local government financial management.

Local government is one of the three spheres of government in terms of the Constitution of the Republic of South Africa. In South Africa, municipalities are classified into local municipalities, metropolitan and district municipalities within the respective provinces. In this particular instance, focus was on KwaDukuza municipality which is a local municipality situated within the Ilembe District Municipality within the Province of KwaZulu-Natal. It is classified as a category "B" municipality in terms of the Local Government Municipal Structures Act. This research project focused on the spatial, structural, political, legislative, executive and the administrative composition of local government and the municipality.

The study further investigates aspects of financial management and the developments surrounding local government.

The structural boundaries of the KwaDukuza Council cover a geographic area comprising the three former Transitional Local Councils, cited as Zinkwazi, Ballito and Stanger.

Political council representatives are voted councillors through proportional representation. Other representatives are drawn from party lists and, councils have executive and legislative powers.



The administrative component comprises officials and all other support structures and systems employed by council including the municipal manager who in terms of the Act is the accounting officer and the administrative head of the municipality.

Local government finance stands at the apex of municipal service delivery. It is the lifeblood of a municipality and as such, an important support function at the core of business and the municipal service delivery. The study will investigate local government financial management and development. It is important therefore at this point to define important terminology that will be used in this research.

## **1.8 CLARIFICATION OF TERMS**

### **(i) Local Government**

Local democratic units lie within the unitary democratic system. These are members of the government vested with the prescribed, controlled governmental powers and sources of income, and render specific local services in order to develop, control and regulate the geographic, social and economic development of defined local areas (Meyer 1978:10).

### **(ii) Municipal Manager**

The municipal manager is the head of administration and also the accounting officer for the municipality. This is a person appointed in terms of section 82 of the Local Government Municipal Structures Act 117 of 1998.

### **(iii) Local Municipality**

This means a category B Municipality envisaged in section 155(1) b of the Constitution of the Republic of South Africa Act 108 of 1996.

(iv) Public Finance

According to Visser and Erasmus (2005:4), the term public finance relates to the finances of the state in a multi-dimensional way:

- a. Public finance is manifested in the budget, which is financed mainly through taxation;
- b. taxation implies that certain monies are collected from the total monies available in the country;
- c. the use of tax income by the state results in government being a role player in the national economy; and
- d. government expenditure – spending of tax.

## **1.9 PRESENTATION OF DATA**

Data is presented in the sequence of chapters, the contents of which will be reflected briefly below.

### **1.9.1 Chapter 1: Introduction**

The first chapter is the introduction and it gives the basic and theoretical perspective of the subject. It is in this chapter, where the following are defined: the objectives of the study, the need for the study, the primary and secondary data, the classification of key terms, and the limitations to the study.

### **1.9.2 Chapter 2: Local Government Restructuring and Transformation in South Africa with particular reference to KwaDukuza Municipality**

The second chapter focuses on Local Government restructuring with particular reference to KwaDukuza Municipality. This chapter provides the background to the theory of public administration. It further provides the framework of the Integrated Development Plan for KwaDukuza Municipality, and the reasons behind Council's decision to engage in the reform programme.

### **1.9.3 Chapter 3: Local Government Financing and Development in South Africa**

This chapter focuses on Local Government financing and development in South Africa. The study examines local government financing and development in South Africa with special attention to KwaDukuza Municipality.

### **1.9.4 Chapter 4: Financial Reform and Transformation in KwaDukuza**

This chapter deals with Financial reform and transformation in KwaDukuza Municipality. It elaborates on the details of the reform process and gives account of the specific actions and the results thereof.

### **1.9.5 Chapter 5: Research, Design, Methodology and Analysis**

This chapter focuses on the research design, methodology, data analysis and interpretation. It deals with the methodology and the systematic analysis of data gathered in all the above chapters. It provides the summary of the findings and details of the overall scope of this study.

### **1.9.6 Chapter 6: General Conclusions and Recommendations**

Chapter Six addresses General Conclusions and Recommendations. It is where views are expressed about the entire study, and areas for further study are suggested.

## **CHAPTER TWO**

### **LOCAL GOVERNMENT RESTRUCTURING AND TRANSFORMATION WITH PARTICULAR REFERENCE TO KWADUKUZA MUNICIPALITY**

#### **2.1 INTRODUCTION**

South Africa has evolved through a history of diverse socio-political and economic changes over the past decades and centuries. These changes culminated in the first democratic elections of 1994. The landmark elections ushered the country into the new political era with a wide range of developmental challenges. The new dispensation provided a platform for the emergence of a new and vibrant society with a different cultural identity. The institution of the public service has had to adapt and transform to reflect the effects of prevalent developments.

This chapter introduces the key aspects of the democratic changes that flow from the transition which took place as a result of the 1994 elections. The country adopted the Constitution as the supreme law of the country. The Constitution of the Republic of South Africa introduced democratic values which are entrenched in the Bill of Rights. The Constitution further created democratic institutions, some of which are defined in Chapter Nine of the Constitution. It created different spheres of government, progressive legislation, and other positive measures to ensure successful transformation of the country from a racially divided society into a unified and harmoniously-living society.

The process of reform took place in the local government sphere as well and, in this particular instance, in KwaDukuza Municipality. The reform and development in KwaDukuza Municipality gained momentum after the 2000 local government elections

where the process was developed into actions and programmes targeted at achieving set results. The programme developed by the municipality made a deliberate decision to prioritise financial reforms, targeting the finance department for effective and meaningful changes. Key to the reform programme was the design of the Integrated Development Plan. This study will focus on institutional changes which took place in KwaDukuza Municipality, including developments that ensued.

## **2.2 BACKGROUND**

It will be proper at this juncture to look at the developments that took place within the country with particular reference to local government. South Africa is emerging from a racially segregated and divided society. The apartheid machinery of the Nationalist Party regime engineered, legislated and entrenched a model founded on the basis of a divided society. The divisions were designed to effectively cut across all spheres of civilian life. Apartheid policies created disproportionate socio-political and economic disparities which deliberately discriminated against the majority of the people in the country (Cloete, 2005:1).

The delivery of services to the population of the country was designed and structured along racial lines. The legacy of these anomalies, in the form of service delivery backlogs, transcends the current generation and will prevail for some time into the future. These disparities continue to define the make-up of the social fabric of the South African population in all spheres of government (Cloete, 2005:1).

This study investigated the developments which took place within the discipline of public administration with particular reference to the sphere of local government.

## 2.3 PUBLIC ADMINISTRATION

There have been suggestions that “*public administration*” should be renamed “*public management*” (Cloete, 2004:114). The view supporting the philosophy of “*public management*” suggests that government should be managed and run along business lines. Inherently, the public-management view suggests that government must be “*freed from politics*”. The difficulty with such a view is that it assumes that the values of public administration are similar to those governing private business.

According to du Toit *et al.* (2006:8) public administration has to do mainly with government institutions producing certain goods for society. Governments are expected to render services to society because individuals cannot meet some of their own needs in specific services.

### 2.3.1 Definition of Public Administration

According to du Toit *et al.* (2006 : 9), the words “*public administration as an activity refers to work done by officials within the total spectrum of government institutions to enable different government institutions to achieve their objectives at three levels of government*”.

Du Toit *et al.* (2006: 41) refer to public administration as a **discipline** which is concerned with the public sector and studies within the field of the public service.

According to Cloete (2004:88), there are two main categories of institutions namely:

- a. “*private institutions*” such as trading institutions owned by individuals, and
- b. “*public institutions*” such as those run by governments and legislatures.

The activities created to manage private institutions are referred to as “*business management*”, whereas activities designed to run public institutions are referred to as “*public administration*”.

### **2.3.2 THE PRINCIPLES OF PUBLIC ADMINISTRATION**

According to du Toit *et al.* (2006:91), there are four principles of public administration which can be described as:

- *The Constitution and the authority of parliament,*
- *the values of society,*
- *the legal rules, and*
- *the Batho Pele principles.*

Meyer (1997:55) states that in Chapter 10 of the Constitution the basic values and principles of public administration are articulated as follows:

- (a) A high standard of professional ethics must be promoted and maintained;
- (b) Efficient, economic and effective use of resources must be promoted;
- (c) Public administration must be developmental oriented;
- (d) Services must be provided impartially, fairly, equitably and without bias;
- (e) People’s needs must be responded to , and the public must be encouraged to participate in policy making;
- (f) Public administration must be accountable;
- (g) Transparency must be fostered by providing the public with timely accessible and accurate information;



- (h) Good human resource management and career development practices to maximise human potential must be cultivated; and
- (i) Public administration must be broadly representative of South African people in terms employment and personnel management practices;

The above principles will be discussed, in detail, below.

### **2.3.3 VALUES OF SOCIETY**

Values within the context of public administration refer “*to what is fundamentally good and desirable, that individuals hold on to as a guide through their lives.* (Du Toit *et al.*, 2006:103). Values, therefore, are what bind societies and communities into a unit.

#### **(i) Reasonableness and fairness**

Government structures and institutions must promote and uphold welfare in the delivery of services. It is, therefore, incumbent upon government that it exercises fairness and reasonableness.

#### **(ii) Balance**

Balance within the scope of public administration means that thorough consideration must be exercised before a decision is made.

#### **(iii) Truth**

Truth involves norms and standards that government officials and politicians must uphold when performing their duties. These norms include “*reliability, honesty, integrity, tolerance, level headedness and objectivity*” (Du Toit, 2006: 105).

**(iv) Justice**

According to Heins (1986: 105), justice has to do with coercion. It amounts to actions which create structures and maintain order to form and stabilize living space for people.

**(v) Thoroughness**

Thoroughness means that services are of the necessary quality and are provided in good time, with the minimum of cost, time and labour.

**(vi) Efficiency**

Efficiency in public services means that the services must be achieved in an economical and effective manner.

**(vii) Religion**

In dealing with the public, the government must consider the religious convictions of people.

Public administration should always strive to reflect the views of the society it represents and serves.

#### **2.3.4 LEGAL RULES**

Legal rules can be defined as “*rules which direct and can be used as a code of conduct for government officials in fulfilling their obligations*”. Such rules consist of rules for natural justice, *bona fide* action and the *ultra vires* doctrine (Du Toit, 2006: 109).

**(i) Rule of natural justice**

The contents of the rules of natural justice are recognised in the *audi alteram partem* rule which means that the other party must be heard.

**(ii) Bona fide action**

The *bona fide* act means an act in good faith. The acts of government and government officials must not be in bad faith.

**(iii) Ultra vires doctrine**

Government institutions and people are granted authority, and they must act within the confines of such powers. An act beyond set parameters is considered *ultra vires* or outside the scope of a given power or authority.

### **2.3.5 THE BATHO PELE PRINCIPLES**

Section 195 of the Constitution of the Republic of South Africa (Act 106 of 1996) calls for the following principles to be observed in the public service:

- (i) public service to be provided impartially, fairly, equitably and without bias;*
- (ii) resources to be organised efficiently, economically and effectively;*
- (iii) the public service to be responsive to people's needs;*
- (iv) the public to participate in public service policies; and*
- (v) public services to be accountable, transparent and oriented towards development.*

The White Paper on Transforming the Public Service Delivery lists principles that must guide the public servants in the delivery of services. These principles can be summarized as follows:

- (i) consultation;
- (ii) service standards;
- (iii) access;
- (iv) courtesy,;
- (v) information;
- (vi) transparency and openness;
- (vii) redress; and
- (viii) value for money.

(i) **Consultation**

Citizens should be consulted about the level and quality of the public services they receive and, whenever possible, should be given a choice about the services that are offered.

(ii) **Service Standards**

Citizens should be told what level and quality of public services they will receive so that they are aware of what to expect.

(iii) **Access**

All citizens should have equal access to the services to which they are entitled.

(iv) **Courtesy**

Citizens should be treated with courtesy and consideration.

(v) **Information**

Citizens should be given full, accurate information about the public services they are entitled to receive.

(vi) **Openness and transparency**

Citizens should be told how national and provincial departments are run, how much they cost, and who is in charge.

(vii) **Redress**

If the promised standard of service is not delivered, citizens should be offered an

apology, a full explanation, and a speedy and effective remedy; and when complaints are made, citizens should receive a sympathetic, positive response.

(viii) **Value for money**

Public services should be provided economically and efficiently in order to give citizens the best possible value for money

It is the doctrine which finds its basis in the principle of customer service, hence “*people first*”.

### **2.3.6 NEW PUBLIC MANAGEMENT**

Improving local management led to the emergence of a new model of public management. The model referred to as the New Public Management entails a more streamlined and better government, which is decentralised, empowering and customer driven. The New Public Management model advocates a shift from inputs and processes to outputs and outcomes. It introduces a shift towards measurements, and a preference for more specialised, lean, flat and autonomous organisation (De Vries *et al.* 2008:114).

## **2.4 CONSTITUTIONAL STATE OF SOUTH AFRICA**

According to Burns (1999:3), a constitutional state is “*a state founded in law*”. The constitutional state upholds the notion of limited government as opposed to arbitrary rule. The Constitution of a country is a very important piece of legislation. Constitutions may be classified as written or unwritten, as in the case of South Africa where it is written, and the United Kingdom where it is unwritten. “*It may be flexible or rigid, federal or unitary, parliamentary or presidential.*” (Burns, 2000:1).

In South Africa, the Nationalist Party government was deposed in the first democratic election of the country in 1994. An Interim Constitution was adopted and during the negotiations in 1993 and in 1996, the South African Government adopted the Final Constitution of the Republic of South Africa, Act 108 of 1996.

According to Cloete (2004:9), the Republic of South Africa is one sovereign, democratic state founded on the following values:

- (a). *human dignity, the achievement of equality and the advancement of human rights and freedoms;*
- (b). *non racialism and non sexism;*
- (c). *supremacy of the Constitution; and*
- (d). *and universal adult suffrage, national common voters roll, regular election and multi party system of democracy to ensure accountability, responsiveness and openness.*

According to Bekink (2006:6), Constitutionalism symbolises a state that is “*founded on the basic principle of law*”. It is further stated that “*the Constitutional state expands on the concept of constitutionalism*”. That entails that the Constitution is supreme and that even the state is bound by the law. South Africa embraces both concepts.

#### **2.4.1 Three Spheres of Government and Intergovernmental Relations in South Africa**

Du Toit et al (2006:192) refers to the governmental hierarchy in a country and define “*how governments are organized at various levels*”. Countries may be organized to function by using one or more of the following methods:

- (a) central or national government;
- (b) regional or provincial government;
- (c) local or municipal government.

The Constitution of South Africa created three spheres of government, namely the central sphere, also referred to as national; the regional sphere also referred to as provincial; and the local spheres of government also referred to as municipal. The powers and functions allocated to the three spheres of government are detailed in the Constitution. Chapter 2 of the Constitution states that:

***All spheres of government and all organs of state within each sphere must preserve the peace, national unity and the indivisibility of the Republic...***

That assertion is further entrenched in Chapter 3 of the Constitution which affirms cooperative governance amongst the spheres and strong intergovernmental relations.

Burns (1999:35) emphasises that the three spheres of government are “***distinct, interdependent and interrelated***”. The three spheres of government must coexist in the spirit of mutual understanding and co-operation.

Chapter 3 of the Constitution sets out the relationship guidelines for the different spheres of government. In terms of section 41 of the Constitution, all spheres of government have the following responsibilities:

***“41(1) All spheres of government and all organs of state within each sphere must co-operate with one another in mutual trust and good faith by:***

- i. fostering friendly relations;***
- ii. assisting and supporting one another;***
- iii. informing one another of, and consulting one another on, matters of common interest;***
- iv. co-ordinating their actions and legislation with one another;***
- v. adhering to agreed procedures; and***
- vi. avoiding legal proceedings against one another.***

It is incumbent upon all spheres of government to observe the above guidelines and ensure that the spirit of cooperative governance is prevalent amongst the three spheres at all times.

National legislation has been promulgated to ensure cooperation among spheres of government. Cooperative government of financial matters is regulated through the Inter-governmental Fiscal Relations Act 97 of 1997. The Act was promulgated in order to:-

- a. promote cooperation between all governmental spheres on fiscal, and budgetary matters,*
- b. prescribe a process for the determining of an equitable share of and the allocation of revenue,*
- c. provide for related matters.*

It can therefore be concluded that the Inter-governmental Fiscal Relations Act 97 of 1997 provides a platform for the three spheres to cooperate on all matters related to finance.

#### **2.4.2 Rule of Law Principle**

The Rule of Law stipulates that no person may be deprived of his or her basic rights. Courts are set as custodians of justice and must arbitrate and make pronouncements that protect and maintain the integrity of the Constitution. No one, including the state, is above the law. Action and conduct without “*lawful authorisation is unlawful and invalid*” (Bekink, 2006:6).

#### **2.4.3 Principle of Separation of Powers**

The principle of separation of powers is very important to any democratic state. It entails division of powers among three state functions namely; the judiciary, executive and parliament. The divisions were designed to ensure less concentration of powers in one person or body. These divisions are entrenched in the Constitution of the Republic of South Africa, and apply to all spheres of government.

#### **2.4.4 Principle of Cooperative Government**

According to Burns (1999:63), the government of the Republic of South Africa consists of three spheres of government which can be classified as national, provincial and local.



The spheres of government are distinct, interdependent and interrelated. Section 40 of the Constitution states:

*“40(1)...*

*1. In the Republic, government is constituted as national, provincial and local spheres of government which are distinctive, interdependent and interrelated.*

*All spheres of government must observe and adhere to the principles in this Chapter and must conduct their activities within the parameters that the Chapter provides.”*

It therefore follows that the three spheres of government must coexist within the framework determined by the Constitution of the country.

## **2.5 THE STATE AND THE NATIONAL SPHERE OF GOVERNMENT**

According to Cloete (2004:3), individuals are unable to provide for all their needs. Therefore, humans live together in communities as individuals. Such socialization has led to the formation of more than 200 states around the world. The term ‘*state*’ in colloquial language is used with a number of meanings.

Cloete (2004:3) refers to a state as:

- (i) a territory;*
- (ii) with a population constituting a community;*
- (iii) independent from and not part of another sovereign political entity ...*

The word “*state*” within the context of this exercise refers to a country with a government in place.

Kottak (1997:264) contends that three factors influence the existence and the evolution of states, and those factors are:

- a. warfare;*
- b. population growth; and*
- c. environmental circumscription.*

Security and the ability to provide collective goods are the main drivers of the existence of states. The Central Government comprises the Legislature, the Executive and the Judiciary (Du Toit *et al*, 2006:216).

## **2.6       DISTINCTIVE NATURE OF LOCAL GOVERNMENT IN SOUTH AFRICA**

Local government is the product of the process of urbanization (Du Toit *et al.*, 2006:246). In certain instances it may be true, but local government may also precede urbanisation. Urbanisation entails:-

- (a) Availability of resources such as water;
- (b) Presence of useful minerals;
- (c) Safety of the community; and
- (d) Forced or compulsory settlement.

In South Africa, local government is one of the three spheres of government. It is the sphere of government positioned closest to the people. The local government demarcation process established 283 wall-to-wall municipalities across the country. Section 151 establishes municipalities and the status of municipalities.

### ***151. Status of municipalities***

- 1. The local sphere of government consists of municipalities, which must be established for the whole of the territory of the Republic;***
- 2. The executive and legislative authority of a municipality is vested in its Municipal Council;***

3. *A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation, as provided for in the Constitution;*
4. *The national or a provincial government may not compromise or impede a municipality's ability or right to exercise its powers or perform its functions.*

It is clear that local government has an important role to play in setting up the agenda for the local development of communities across the country. Local government is the sphere at the bedrock of development.

The sphere of local government is a distinct sphere recognized by the Constitution of the Republic of South Africa (Act 108 of 1996).

Du Toit and van der Walt (2006:250) defines local government as “*an institution that the central government has established by law for the residence of a particular area, an institution that has the jurisdiction to exercise legislative authority in an area that has been demarcated by law a competent authority, an heteronomous body which, within the limit of legislation by the central and relevant provincial government, has the powers and authority to provide services and amenities to residents in its area of jurisdiction, to maintain and promote their well being*”.

The character of local government endorsed by the Constitution is threefold according to Meyer (1997:7). The characters referred to are:

- (a) a local area and a local community formed and kept together by common interest, whether rural, urban or regional;
- (b) participation by local community in the government of its local affairs, also referred to as grassroot democracy;

- (c) a local political unit endowed with executive and legislative powers of local government as the third sphere of government, and powers of taxation to control, regulate and develop local affairs and to render local services in a system of cooperative government.(Meyer, 1997:8).

Local government is the bedrock of development and service delivery and, therefore, the most sensitive when it comes to matters affecting communities at grassroots' level (Bekink, 2006:61). The apartheid system purposely created disproportionate socio-political and economic disparities which discriminated against the majority of the people in the country.

The local sphere of government consists of municipalities, which must be established for the whole of the juristic territory of the Republic of South Africa in what is commonly referred to as wall-to-wall municipal boundaries (Bekink, 2006:65).

### **2.7.1 THE OBJECTS OF LOCAL GOVERNMENT**

The fundamental reasons for the existence of modern day local government are contained in the objects of local government. According to Meyer (1997:9), Section 152 of the Constitution identifies the objects of local government as:-

#### ***152. Objects of local government***

##### ***1. The objects of local government are –***

- a. to provide democratic and accountable government for local communities;***
- b. to ensure the provision of services to communities in a sustainable manner;***
- c. to promote social and economic development;***
- d. to promote a safe and healthy environment; and***

- e. to encourage the involvement of communities and community organisations in the matters of local government.*
- 2. A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).**

The goal of local government “*is to give priority to the basic needs of the community and to promote the social and economic development of the country*”(Meyer 1997:55).

In summary, it can be said that local government must bring government closer to the people since it is the sphere of government closest to the people. Local government must display tendencies of being responsive, accountable, transparent and open to public scrutiny.

## **2.7.2 THE DEVELOPMENTAL DUTIES OF LOCAL GOVERNMENT**

South Africa is a developmental state and so is local government. Section 153 of the Constitution subjects local government to developmental duties and in particular the following:-

### **153 Developmental duties of municipalities**

*A municipality must -*

- a. structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and*
- b. participate in national and provincial development programmes.*

According to Meyer (1997:55), municipalities must be “*developmental*” in their approach to service delivery.

To achieve these objectives, municipalities must ensure that proper administrative, financial and planning processes are in place. Such activities must be underpinned by a desire to provide basic needs on the one hand, and eagerness to encourage social and economic development on the other hand.

### **2.7.3 THE ROLE OF LOCAL GOVERNMENT**

In any form of democracy, local government is the sphere of government which is located closest to the community. It is therefore the sphere of government which is in constant contact and in touch with the needs of the communities at grassroots’ level. There are a number of basic features which identify local government, and they are its geographic existence on one hand, and its politics and the socio-economic dynamics on the other hand.

It follows, therefore, that local authorities are normally created to render services in defined geographical areas. This is primarily because of the inability and constraints of the central government to attend to all the detailed aspects of government. The provision of municipal services has taken centre stage within local government. In addition, local government must assume a developmental approach to the administration of its business. It is the sphere of government where successes and failures can effectively be exposed. It is the sphere of government where service delivery can be easily felt, ascertained and measured by ordinary people and communities (Reddy, 1996:49).

According to De Beer and Swanepoel (2000: 98), local government is established to achieve certain roles and objectives as will be discussed below.

### **(i) Engines of development**

In South Africa, local government plays a key role in the economy. Local economic development supports broader provincial and national initiatives. Local government must become integrally involved in the lives and the future of the communities they serve (De Beer and Swanepoel, 2000: 98).

### **(ii) Improving the quality of life**

Local government must continuously play a role in helping communities improve their quality of life by providing basic services and also by creating the environment conducive to the development of small and medium-sized enterprises and employment opportunities (De Beer and Swanepoel, 2000: 99).

### **(iii) Service delivery role**

Because of its strategic position and the fact that local government is closer to communities, it will continue to act as an agent for other spheres of government and the private sector. This role, however, should be coupled with the developmental role of local government and should not be viewed in any subservient form (De Beer and Swanepoel, 2000: 99).

Local government is responsible for the development and provision of infrastructure such as roads, airports, harbours, railways, electricity networks, water and sewerage. These services and their infrastructure must be aligned with provincial and national spatial plans and networks (De Beer and Swanepoel, 2000: 102).

### **(iv) Developmental role**

From the foregoing exposition, it is clear that local government can no longer evade the responsibility of acting as an instrument of change. It must take the initiative to ensure

the development of communities in every sphere and aspect of life. The Constitution insists on that role as being a necessity for municipalities (De Beer and Swanepoel, 2000: 101).

**(vi) Creation of conducive entrepreneurial conditions**

Besides creating jobs for local people, entrepreneurs want to make profits as well. Trading regulations are a responsibility of the municipality. Such regulations and laws must ensure that they offer sufficient support to the development of the local economy by creating an environment conducive to sustainable development (De Beer and Swanepoel, 2000: 102).

**(vii) Building capacity**

According to the White Paper, local government should invest and focus on human capacity building to ensure that South African human resources are properly capacitated to meet the demands of the rapidly changing work environment (De Beer and Swanepoel, 2000: 104).

**(viii) Consulting experts**

To assist municipalities in achieving their developmental tasks, authorities must consult with experts from institutions including tertiary institutions such as universities.

It is clear that local government has many varied roles. Some of these roles are related to core service delivery issues, whilst some are indirect and agency-related roles (De Beer and Swanepoel, 2000: 104).



## **2.8 LEGISLATIVE FRAMEWORK GOVERNING MUNICIPALITIES**

To ensure better understanding of local government, and financial management, it is important to review key legislation. In addition to the Constitution, the structure, systems, obligations and functions are embodied in the following legislation.

### **2.8.1 WHITE PAPER ON LOCAL GOVERNMENT**

In 1998, the National Parliament published the White Paper on Local Government. Section B of the White Paper introduces the concept of developmental local government. Developmental local government is defined in the White Paper on Local Government as a *“local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives”* (White Paper on Local Government, 1998:17).

In the past, the primary responsibilities of municipalities were to provide basic municipal services such as water, refuse removal, roads, cemeteries, health, electricity and so on. The phenomenon of developmental local government brings in a new dimension. Local government functions and responsibilities have been extended to include social development and local economic development. Municipalities are required by section 23 of the Local Government Municipal Systems Act to draw up and produce integrated development plans for visionary leadership.

Programmes for local government developments must consider external elements such as global trends in technology, economic development and politics. Creativity and innovation therefore become very important for the success of local government.

## **2.8.2 LOCAL GOVERNMENT MUNICIPAL STRUCTURES ACT, 117 OF 1998**

The purpose of the Local Government Municipal Structures Act is:

*To provide for the establishment of municipalities in accordance with the requirements relating to categories and types of municipality; to establish criteria for determining the category of municipality to be established in an area; to define the types of municipality that may be established within each category; to provide for an appropriate division of functions and powers between categories of municipality; to regulate the internal systems, structures and office-bearers of municipalities; to provide for appropriate electoral systems; and to provide for matters in connection therewith.* (Local Government Municipal Structures Act 117 of 1998).

In summary, the Local Government Municipal Structures Act provides the framework for the establishment of municipalities and sets the political framework. The Act prescribes the structural framework for the administration of municipalities. The Act delegates to municipalities all the functions which they must perform. The Act establishes municipalities, prescribes categories for municipalities, and sets regulations for by-elections. The Local Government Municipal Structures Act is intent on focusing more on municipal policy matter rather than operational and administrative matters.

## **2.8.3 LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT, 32 OF 2000**

The Local Government Municipal Systems Act and the Local Government Municipal Structures Act play a complementary role. The focus of the Local Government Municipal Systems Act is on operational and administrative matters. It establishes processes and provides the framework for effective local government administration.

The purpose of the Local Government Municipal Systems Act is defined in the Act as:

*To provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that is affordable to all; to define the legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures; to provide for the manner in which municipal powers and functions are exercised and performed; to provide for community participation; to establish a simple and enabling framework for the core processes of planning, performance management, resource mobilization and organisational change which underpin the notion of developmental local government...*(Local Government Municipal Systems Act 32 of 2000).

The Local Government Municipal Systems Act provides municipalities with methods and systems designed to provide direction and sustain operations for municipalities. The Local Government Municipal Systems Act prescribes specific activities for local government including public participation and the rights and duties of municipalities. The Act provides a framework for local public administration and human resource development. The Act further empowers the poor and ensures that municipalities put in place instruments such as service tariffs and credit control policies.

The Local Government Municipal Systems Act devotes Chapter 4 to public participation, good governance, openness, transparency, consultation and communication. Chapter 4 of the Local Government Municipal Systems Act of 2000 requires that municipalities must engage communities during the crafting of programmes for delivery of functions, budgeting and prioritization of programmes.

Chapter 5 of the Local Government Municipal Systems Act introduces the concept of Integrated Development Planning. The Act states that:

*23. (1) A municipality must undertake developmentally - oriented planning so as to ensure that it:—*  
*(a) strives to achieve the objects of local government set out in section 152 of the Constitution;*  
*(b) gives effect to its developmental duties as required by section 153 of the Constitution; and*  
*(c ) together with other organs of state contributes to the realisation of the fundamental rights contained in sections 4, 25, 26, 27 and 29 of the Constitution.*

The Local Government Municipal Systems Act provides a specific framework and the tools to guide and direct the operations of municipalities towards the attainment of set goals and the wellbeing and development of society at large.

#### **2.8.4 LOCAL GOVERNMENT PROPERTY RATES ACT, 6 OF 2004**

Property rates are the most important source of revenue for municipalities. It is on that basis that the government promulgated the Local Government Property Rates Act of 2004. Property rates were previously regulated through different Provincial Ordinances for Natal, the Transvaal, the Orange Free State and the Cape Province.

The purpose of the Local Government Property Rates Act is defined as:

*To regulate the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policy to make provision for fair and equitable valuation methods of properties; to make provision for objections and, an appeal process; to amend the Local Government: Municipal Systems*

*Act, 2000, so as to make further provision for the serving of documents by municipalities; to amend or repeal certain legislation; and to provide for matters connected therewith* (Local Government Property Rates Act 6 of 2004).

The Municipal Property Rates Act is designed to establish a framework for the fair distribution of taxes, revenues and proper allocation of funds to the benefit of the broader community as opposed to a preferred section of the community which was the case during the previous set-up designed on the basis of racial discrimination. The Act intends to strike a balance where on the one hand it addresses issues related to financial management, and on the other hand issues relating to social development. The Act sets up a framework for redress and removes all manner of discriminatory practices of the past.

#### **2.8.5. LOCAL GOVERNMENT FINANCE MANAGEMENT ACT,56 OF 2003**

Local Government Finances used to be administered through the application of Provincial Ordinances. The Ordinances were administered by different provincial administrations, and that arrangement could not provide uniformity in local government financial administration across the country.

The purpose of the Local Government Finance Management Act (Act 56 of 2003) is:-

*To secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith* (Local Government Finance Management Act 56 of 2003).

The Municipal Finance Management Act sets the basis for good governance of finances for local government as its foundation. The Municipal Finance Management Act

prescribes standards and norms for proper management of finances in municipalities across the country. Although the Municipal Finance Management Act is specifically designed for the service of municipalities, it complements and collaborates efforts with the Public Finance Management Act which was designed for application by the Provincial and National spheres of government. The Municipal Finance Management Act is an empowering legislation with clearly defined punitive clauses for application, where necessary. It is clearly not structured to engender a negative and prohibitive mentality which emphasizes things “*not to do*”, but rather enforces a progressive way of thinking.

#### **2.8.6 REMEDIAL MEASURES AND INTERVENTIONS IN LOCAL GOVERNMENT**

The government has, over the past ten years, embarked on a series of interventions in an attempt to improve the performance and service delivery at local government. Project Consolidate is one such intervention coordinated at National Government by the Department of Provincial and Local Government. Project Consolidate was launched by the National Minister of Provincial and Local Government on 29 October 2004. The government set out to identify innovative ways of organising and improving local government systems by strengthening and coordinating the actions of national, provincial and local government in key areas of service delivery together with key stakeholders. (<http://www.info.gov.za/speeches/2006/06062615151001.htm>).

The objective of Project Consolidate as set out by the government is to identify ailing municipalities across the country with the intention of providing technical assistance. The primary steps undertaken by the Ministry of Provincial and Local Government were to undertake a thorough profiling and analytical exercise in all 283 municipalities. The profiling exercise looked at critical service delivery indicators and provided a clear diagnosis of the main challenges and bottlenecks facing municipalities (<http://www.info.gov.za/speeches/2006/06062615151001.htm>).

The Project undertook to deepen the thrust and the impact of existing policies and programmes directed at local government. The two-year engagement programme allowed national and provincial government, together with key partners in the private sector, to find new, creative, practical and impact-orientated modes of engaging, supporting and working with local government. The primary focus of the targeted, hands-on engagement programme required immediate and direct action

<http://www.info.gov.za/speeches/2006/06062615151001.htm>).

Teams were deployed to work at municipal level to assist in addressing practical issues of service delivery and local governance. Specific focus areas include the following:-

- public participation, ward committees and Community Development Workers;
- indigent policy, free basic services, billing systems and municipal debt;
- expanded Public Works Programmes, Municipal Infrastructure Grants and Local Economic Development; and
- performance management framework, indices and communication.

<http://www.info.gov.za/speeches/2006/06062615151001.htm>).

Financial recovery elements of Project Consolidate focus on addressing problems emanating from the billing systems. Innovative proposals were developed to bring appropriate established and prospective service providers working in the area of billing to provide targeted assistance to municipalities throughout the country.

The Department of Provincial and Local Government set up institutional oversight and management arrangements to support Project Consolidate. Throughout the set-up of these provisions, emphasis was placed on national government working closely with provinces, local government, and key stakeholders and partners

<http://www.info.gov.za/speeches/2006/06062615151001.htm>):accessed on 15/09/2008.

Priority municipalities receiving additional support were identified and approved by the Minister of Provincial and Local Government. Municipalities were spread across all nine provinces and represented Metropolitan, District and Local municipalities, including both urban and rural municipalities.

Annual Performance Reports are presented and published by the Minister of Provincial and Local Government outlining the successes, milestones, blockages and challenges encountered in the roll out of the project.

## **2.9 PROCESS OF REFORM IN KWADUKUZA MUNICIPALITY**

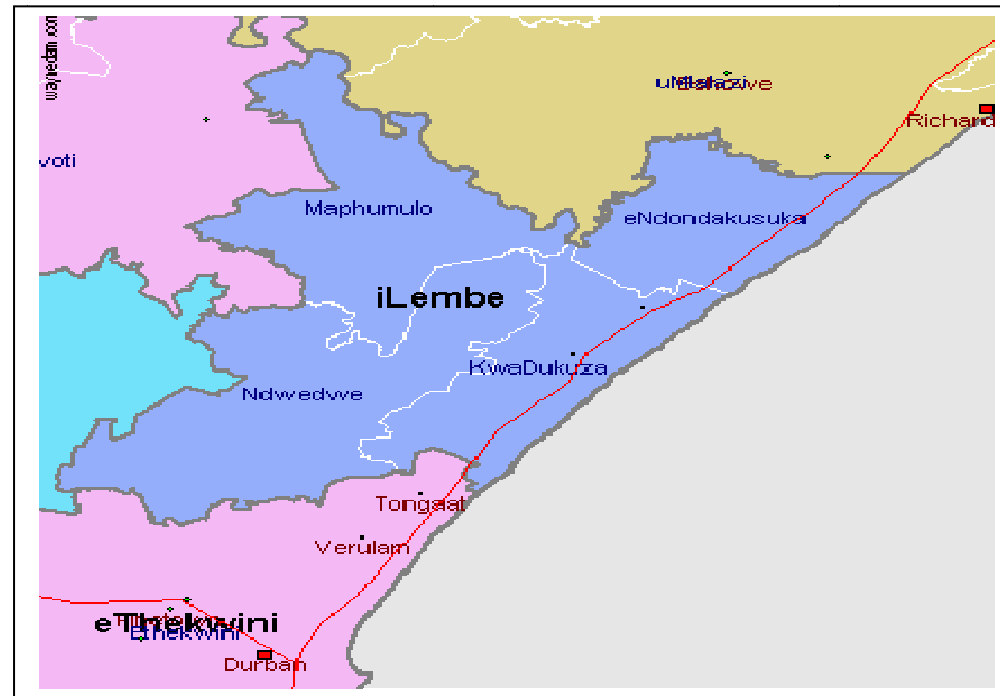
It would be important at this point for one to give a synopsis of KwaDukuza Municipality, as it fills a vital role in this study. KwaDukuza Municipality lies geographically on the north coast of the Province of KwaZulu-Natal (<http://www.thedplg.gov.za/index>). It is situated along the north coast of KwaZulu-Natal with the Indian Ocean on the east, the border of eThekweni Municipality on the south, Mandeni Local Municipality on the north, Ndwedwe and Maphumulo Municipalities on the west. It incorporates what was previously referred to as Stanger Municipality, Zinkwazi and Ballito Municipality. It is one of the four municipalities that make up the Ilembe District Municipality. KwaDukuza functions as the district node and dominant commercial centre in the Ilembe District. KwaDukuza Municipality occupies a coastal and inland stretch of approximately 50 km in length and 14km in width. A variety of clustered and ad hoc settlements and small towns exist and are linked with a well-developed network of roads and rail infrastructure. The key feature of KwaDukuza is the N2 Development Corridor that runs through the area (KwaDukuza Municipality IDP 2006:14).

KwaDukuza Municipality's area of jurisdiction is approximately 633 square kilometres. According to Statistics (SA:2001), the area has a permanent population of 158 583



people. However, the Municipality has recorded its population at approximately 170 000 people. That population number increases to over 200 000 during peak holiday seasons in December and Easter (<http://www.kwadukuza.gov.za>).

**FIGURE 2.1 : DEMARCATION OF ILEMBE DISTRICT MUNICIPALITY.**



**Source:KwaDukuza Municipality Integrated Development Plan.(2006:14).**

KwaDukuza is also strategically located between two major ports namely, Durban and Richards Bay ports. The location gives KwaDukuza an advantage of strategically re-aligning the district into a competitive and attractive investment destination. The close proximity of the Dube Trade Port is also an added advantage to the area in terms of investment attraction (<http://www.kwadukuza.gov.za>): accessed on 17/09/2008.

The population dynamics of KwaDukuza Municipality are highly diverse due to its multi-racial composition and rich settlement history. The name KwaDukuza epitomizes the historical background of the area being the home to King Shaka's Gravesite and

Memorial. The town KwaDukuza is built on the original site of King Shaka's Royal settlement called Dukuza. The KwaDukuza museum is situated opposite the site of King Shaka Memorial and is dedicated to the sugar industry and colonialism, the cultural heritage of the early settlers of the town, Stanger. KwaDukuza has a distinct eastern flavour and is linked to the earlier settlement of Indian families who were imported to work on the sugar cane farms of the big sugar barons such as Sir Liege Hullett (<http://www.kwadukuza.gov.za>).

The King Shaka Cultural Heritage Tourism Trail is in process of being implemented in KwaDukuza in honour of the heritage that King Shaka left behind. That project is also known as the "Gateway to the Zulu Kingdom" of KwaZulu-Natal (<http://www.kwadukuza.gov.za>).

KwaDukuza also boasts of being home of the first African to win the Nobel Peace Prize, Chief Albert John Mvumbi Luthuli. During the month of August 2004, South Africans from all walks of life joined the people of KwaDukuza in celebrating the life and times of this son of Groutville, KwaDukuza. KwaDukuza tourism has also been boosted by the declaration of Chief Albert Luthuli's House as a National Monument. Coupled with this was the restoration of Chief Luthuli's Grave, as well as the renovation of the Church in which Chief Albert Luthuli's body laid in state (<http://www.kwadukuza.gov.za>).

Investment opportunities range from the tourism sector, light industry, communications and information technology, transport, and specifically agriculture in the form of sub-tropical fruits, vegetables, sugarcane and flowers. The main economic sectors are tourism, sugar, forestry, agro-industrial manufacturing, furniture manufacturing, clothing, plastic products, paper manufacturing and paper products. Holiday letting and exclusive elite residential and golf estates property development are among the high prized unique selling propositions of the area (<http://www.kwadukuza.gov.za>).

Concomitant with the further development of industry and tourism and up-market residential and estate development, prospects for commercial investment look promising. Major developments include the King Shaka Cultural and Tourism Heritage Trail, the Zimbali Golf and Leisure Estate extension, the Zimbali Lakes and Golf Estate development on the Tongaat River, Simbithi Eco-Estate, Ballito Business Park, Seaward Estate Phases I and II, Dunkirk Estate, Sheffield Manor, Brettonwood and Zululami Estate (KwaDukuza Municipality IDP 2006:15).

The dominant land-use outside of the urban areas of the KwaDukuza Municipality is sugar cane plantations interspersed along the coast and in some inland areas with forestry plantations. Land taken up by other forms of agriculture is limited. The primary rural landform is agriculture with farmhouses, compounds and smaller rural settlements dispersed throughout the area. The only major traditional settlement within the area is located in the northwest portion of the Municipal Area (KwaDukuza Municipality IDP 2006:15).

The urban landscape in the KwaDukuza areas is diverse, and the area is home to major formal and informal residential areas. The southern portions of the coastline are formally developed and include areas such as Ballito and Salt Rock. Developments in these areas are generally focused on the middle-to high- income or up market holidaymakers. The coastline to the north of Salt Rock is relatively underdeveloped with only smaller coastal settlements such as Tinley Manor Beach, Blythedale Beach and Zinkwazi located in this coastal strip. The KwaDukuza Municipality is one of very few municipalities that have such stark economic differences in the area (<http://www.kwadukuza.gov.za>).

## **2.10 HISTORICAL BACKGROUND AND THE GOVERNANCE IN KWADUKUZA MUNICIPALITY**

It is important to note that KwaDukuza Municipality evolved as a merger and a product of fragmented administrations known as health committees, municipal councils, provincial administrations, the House of Delegates, the House of Representatives, Bantustan and Amakhosi or Traditional administrations which in the main were previously structured along racial lines. The first phase of the amalgamation process resulted in three Transitional Local Councils of Stanger, Dolphin Coast and Zinkwazi after 1994. These Transitional entities later merged to form KwaDukuza Local Municipality in 2000.

The exercise will deliberately examine the transitional arrangements which prevailed after the 1994 elections, and the state of affairs in 2001, when the decision to effectively engender financial reform took place.

### **2.10.1 Transitional arrangements**

The process of transformation and restructuring of local government started with the Local Government Negotiating Forum in 1993. The Forum identified challenges facing local government and further provided a framework for the transition and transformation of the fragmented set of municipalities, previously designed along racial lines, into the unified and representative system of local government.

In 1993, the government promulgated the Local Government Transition Act 109 of 1993. The primary role of the Local Government Transition Act of 1993 was to *“integrate and provide the basis for local government structures during the transformation of the previously race based municipal system”* (Bekink, 2006:29).

The transitional phase created Transitional Local Municipalities with the first democratic local government election taking place in 1996. It is important to acknowledge the impact of the transitional period because this was the period which exposed the extent and the level of challenges that local government inherited from the apartheid system of government. It relates to the period between 1994 and 1999 which is the period when final municipal boundaries were accepted. Some observations point to the fact that a number of problems were deliberate as part of an internal political resistance to changes that were a product of the negotiated settlement before 1994. This can easily be interpreted as an attitude and a ploy to frustrate the takeover by a Black government and in this instance, the takeover at local government level by a predominantly Black administration.

It is also evident that the resistance machinery continued well into the transitional local government era. The attitude of resistance to change revealed itself in many forms and may be summarized to mean that these resistance forces were bent on making sure that the local government sphere collapsed, hence the problems encountered by local government. For the purposes of this study, focus will be placed on challenges within the ambit of local government financial management. Section 4.1 of the White Paper on Local government summarises challenges experienced by local government as follows:

- (i) infrastructure backlog;
- (ii) skills and capacity shortages;
- (iii) uneven distribution of resources and uneven tax base;
- (iv) unco-ordinated planning and development;
- (v) the legacy of racial segregation;
- (vi) limited financial resources;
- (vii) community participation; and
- (viii) preparation of municipal budgets (<http://www.thedplg.gov.za/index.php>).

The Local Government Municipal Demarcation Act established local government boundaries across the country. KwaDukuza Municipality was created through the merger of three former Transitional Local Councils; namely, Stanger, Ballito and Zinkwazi. KwaDukuza Municipality had its own share of challenges which, in analysis, were similar to challenges experienced by municipalities across the country. The state of affairs in KwaDukuza Municipality will be briefly discussed below.

## **2.11 INTEGRATED DEVELOPMENT PLANNING**

Integrated Development Plans are structured in line with a prescribed framework and must consist of the following core components in terms of section 26 of the Local Government Municipal Systems Act (Act 32 of 2000):

- a. finance;
- b. people development;
- c. local economic development; and
- d. infrastructure development.

In the preamble to the Local Government Municipal Structures Act (117 of 1998), it is stated that:

- e. "... there is fundamental agreement in our country on a vision of democratic and developmental local government"*.

Section 153 of the Constitution of the Republic of South Africa (Act 108 of 1996) stipulates that local government must be developmental in the discharge of its duties. Implicitly, South Africa is a developing country.

In terms of section 26 of the Local Government Municipal Systems Act:

### ***26. An Integrated Development Plan must reflect:-***

- (a) *the municipal council's vision for the long-term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs;*
- (b) *an assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services; and*
- (c) *the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs.*

Integrated Development Plans are structured in line with a prescribed framework and must consist of the following core components in terms of section 26 of the Local Government Municipal Systems Act (Act 32 of 2000). In terms of section 26 of the Local Government Municipal Systems Act:-

KwaDukuza Municipality designed and adopted the Integrated Development Plan in line with the prescriptions of the Local Government Municipal Systems Act. The make-up and the contents of this plan will be discussed below.

#### **2.11.1. Integrated Development Plan for KwaDukuza Municipality**

The make-up and the content of the Integrated Development Plan for KwaDukuza which was adopted by Council contain various sections, as will be discussed below.

#### **2.11.2 Vision of KwaDukuza Municipality**

According to the KwaDukuza Municipality Integrated Development Plan (2006:25), the vision of KwaDukuza Municipality is that "*KwaDukuza Municipality shall, by the year 2010, through unity and good governance, be an economic powerhouse delivering*

*sustainable and affordable services in a safe and healthy environment”*  
(<http://www.kwadukuza.gov.za>).

### **2.11.3 Mission Statement for KwaDukuza Municipality**

According to the KwaDukuza Municipality Integrated Development Plan (2006:25),  
“*For KwaDukuza Council to realise that vision, more effort will have to be injected through fast tracking and fine tuning KwaDukuza programmes and strategies*”  
(<http://www.kwadukuza.gov.za>).

### **2.11.4 Development in KwaDukuza Municipality**

The Integrated Development Plan for KwaDukuza Municipality is a strategic document prepared and provided for implementation by municipalities. The Local Government: Municipal Systems Act, 32 of 2000 determines that a municipality must undertake a developmental-oriented plan to ensure that it strives to achieve the objectives of local government and gives effect to its developmental duties as set out in the Constitution. There are, however, critical challenges facing KwaDukuza Municipality which are captured in the document and will be discussed below (KwaDukuza Municipality Integrated Development Plan 2006:25).

## **2.12 REFORM PROGRAMME FOR KWADUKUZA MUNICIPALITY**

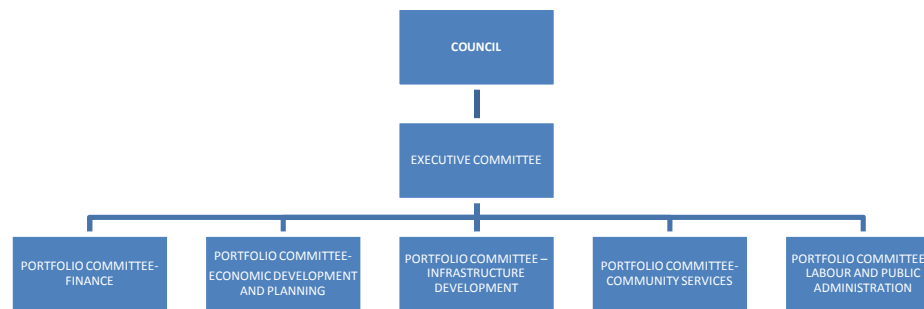
KwaDukuza Municipality acknowledged that the affairs and the performance of the municipality were not meeting the expectations. An open, frank and transparent approach was adopted, resulting in the municipality’s deliberate adoption of a position to effect meaningful changes. A three-phase approach to financial reform, together with the Integrated Development Plan, were adopted and implemented by the Municipality.



Furthermore, a needs analysis exercises were conducted as part of the Integrated Development Plan and will be discussed below.

The highest decision-making body in KwaDukuza Municipality is Council. It comprises 36 Councillors drawn from wards and political parties proportional representative lists. Council delegates powers to the Executive Committee, which is entrusted with taking operational decisions on day-to-day matters. The Executive Committee is complemented by five Portfolio Committees which are Finance, Economic Development and Planning, Infrastructure Development, Community Services, and the Labour and Public Administration Committee (<http://www.kwadukuza.gov.za>).

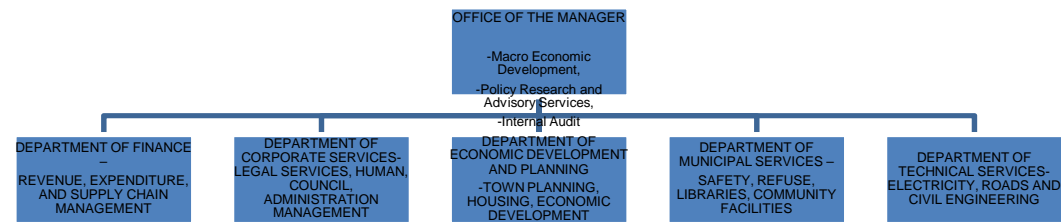
FIGURE 2.2 : POLITICAL FRAMEWORK FOR THE MUNICIPALITY



Source: KwaDukuza Municipality Integrated Development Plan 2006.

Council further constituted fora and *ad hoc* committees to deal with special circumstances which include Integrated Development Forum, Rates Forum, Housing Development Forum and the Labour Forum (<http://www.kwadukuza.gov.za>).

FIGURE 2.3: THE MACRO ORGANISATIONAL STRUCTURE FOR KWADUKUZA MUNICIPALITY :



Source: KwaDukuza Municipality Integrated Development Plan (2006:25)

The administration of the municipality is guided by the municipal manager who is the accounting officer of the municipality. The municipal manager is assisted by sector managers who are appointed specialists in different disciplines such as finance, corporate services, economic development and planning, municipal services, and engineering services (<http://www.kwadukuza.gov.za>).

### 2.12.1 Critical Development Challenges

Through an intensive consultative and participative process with communities and stakeholders, KwaDukuza Municipality was able to identify and prioritise eight development challenges that the Municipality is faced with. It is also important to note that KwaDukuza Municipality has put these development challenges in an integrated form with the aim of addressing them holistically. These development challenges hold the key for KwaDukuza Municipality to realise its Vision 2010. The current programmes and projects of KwaDukuza Municipality are aimed at addressing these challenges

<http://www.kwadukuza.gov.za>): accessed on 16/09/2008.

Therefore, it is important to state that the programmes and projects that KwaDukuza Municipality is engaged in are not in any way incidental but they are well-planned with the aim of realizing the KwaDukuza Vision 2010. It must be noted that these challenges are complex and are developmental, institutional and management in nature. The KwaDukuza Municipality Integrated Development Plan (2006:25), lists the critical challenges in broad terms as follows:

- (a) to improve service delivery;
- (b) to provide basic services;
- (c) to develop people;
- (d) to address poverty and unemployment and improve service delivery;
- (e) to manage the health environment and the HIV/Aids pandemic;
- (f) to ensure strict credit control;
- (g) to improve relationships; and
- (h) to ensure a safe and secure environment (<http://www.kwadukuza.gov.za>).

The critical challenges were further re-classified and analysed into community needs, as will be discussed in the paragraphs below.

#### **2.12.1.1 Providing basic services**

According to the KwaDukuza Municipality IDP, the municipality is characterised by areas where major service backlogs exist. That assessment is in comparison with areas where the full range of services exists. In KwaDukuza, it is easy for a person to distinguish between the first and the second economy. One of the challenges that KwaDukuza is facing is that, while property development is promoted along the coast of KwaDukuza, it must be ensured that basic services are adequately provided for the poor communities. This makes it important for the Municipality to forge good working

relationships with sector departments and all stakeholders so that they will be able to contribute to the provision of basic services to poor communities. One of the proposals that the Municipality put forward ensures that agreements entered into with property developers along the coast include a clause on social responsibilities. This will ensure that while the up-market development goes on, the poor communities also get a slice of development (<http://www.kwadukuza.gov.za>).

#### **2.12.1.2 Improving service delivery**

According to the KwaDukuza Municipality Integrated Development Plan (2006:26), improving the level of service delivery is one of the critical challenges that requires serious attention. A proper strategy and programme was developed in order for the KwaDukuza Municipality to address that challenge (<http://www.kwadukuza.gov.za>).

#### **2.12.1.3 Developing the people**

In terms of KwaDukuza Municipality's IDP (2006:26), the people of KwaDukuza are the Municipality's greatest asset. Therefore, programmes have been identified that will address this challenge. The municipality works with various Sector Employment and Training Agencies, (SETA) and it is important to strengthen relationships for the benefit of every person. People development is meaningless if it does not address economic development. KwaDukuza Municipality has reviewed its Local Economic Development Strategy. The strategy aims at building the economy of KwaDukuza and empowering people in the process (<http://www.kwadukuza.gov.za>).

#### **2.12.1.4 Addressing poverty and unemployment**

According to the KwaDukuza Municipality Integrated Development Plan (2006:26), at the centre of the KwaDukuza development challenges is the need to create employment opportunities and the need to strengthen the economic base of the area. The development that is taking place within KwaDukuza is not incidental. These development initiatives

are aimed at creating employment opportunities for the community of KwaDukuza. Most of these employment opportunities that are created are temporary, but they are playing a very important role in the fight against poverty and unemployment (<http://www.kwadukuza.gov.za>).

#### **2.12.1.5 Managing the health environment and the HIV/Aids pandemic**

Council is faced with the major challenge of responding to the problem of HIV/AIDS and AIDS-related issues, such as Aids orphans. The Council has approved a number of projects aimed at providing care for AIDS orphans. The Belgian Government has also funded an AIDS Orphanage Project. The Orphanage was incorporated within the Groutville Priority 2 Housing Project (KwaDukuza Municipality Integrated Development Plan 2006:26).

#### **2.12.1.6 Ensuring strict credit control**

According to the KwaDukuza Municipality's Integrated Development Plan (2006:26), it was acknowledged that KwaDukuza has to deal with huge unemployment and poverty challenges. It is therefore critical for Council to realise what the affordability levels for payment of services are and then to adopt appropriate credit control policies (<http://www.kwadukuza.gov.za>).

#### **2.12.1.7 Improving relationships**

In terms of KwaDukuza Municipality's IDP (2006:27), it is a legal imperative for the Municipality to act in a more developmental way, and to provide an enabling environment for all its stakeholders to engage in a meaningful partnership with the council to ensure that these needs are met (<http://www.kwadukuza.gov.za>).

#### **2.12.1.8 Ensuring a safe and secure environment**

According to the KwaDukuza Municipality's IDP (2006:27), if the area is to meet its Vision, the issues of crime, traffic-related offences, fire and emergency services, disaster management and prevention and households subject to flood risks need to be addressed.

### **2.13 COMMUNITY NEEDS ANALYSIS**

In 2001, KwaDukuza Municipality conducted a needs assessment exercise in all its 19 wards as part of the Integrated Development Plan. During that exercise, a number of needs were identified throughout the wards of KwaDukuza. The identified needs were reclassified accordingly to enable the budget programme to allocate costs in terms of sector plans and programmes. The period between 2002 and 2005 saw the vigorous implementation of programmes. Obviously, the financial constraints have prevented the municipality from addressing all the identified needs (KwaDukuza Municipality IDP 2006:27).

Every year since the adoption of the Integrated Development Plan, these community needs were revisited. This occurred during the process of the annual review of the Integrated Development Plan, as required by legislation. The Integrated Development Plan Representative Forum, Ward Committees, and the ward representatives are afforded a chance of presenting the projects, services and infrastructure in their respective wards. It is apparently clear that much has been done since needs assessment was initially undertaken. However, it is clear from the findings that there is still much work to be done. The exercise was also very important since it was able to confirm that development must be biased towards the poorest sections of the population. The pressing needs from the affluent areas indicated that those areas were content with maintenance of the existing infrastructure. The ward representatives again are also given an opportunity to phase in and prioritise needs over the period of five years (KwaDukuza Municipality IDP 2006:27).

According to the KwaDukuza Municipality's IDP (2006), the pressing needs from all wards can be summarized as follows:

**(a) Re-gravelling of roads**

Most of the wards, especially those having gravel roads, reported grave concerns about the state of the gravel roads. According to the representatives from these wards, the municipality undertook to gravel and resurfaced those roads on a regular basis, especially during the rainy season.

**(b) Electricity**

Electricity is also a concern from those wards that are not serviced by the municipality, but by the parastatal Electricity Supply Commission. These communities felt that the Municipality should urge the Electricity Supply Commission and the parastatal to prioritise the programme to install electricity in these areas.

**(c) Refuse Removal**

The issue of refuse removal was raised by ward representatives particularly, where there are new townships. They recommended that a programme be drawn up to remove waste and refuse in such areas.

**(d) Streetlights**

The issue of streetlights was also identified as a pressing need in most wards. Street lighting is a very important crime prevention tool.

**(e) Water**

The concern regarding lack of portable water was raised by the representatives from most wards. The recommendation was that a programme be developed by the Water Authority to ensure the provision of water in the underdeveloped areas.

**(f) Graveyards**

The lack of space for graveyards was also raised by the wards as a very pressing issue. The recommendation was for the need to be prioritised in the Land Usage Plan.

**(g) Land**

Land usage was noted as a concern, particularly in areas where the issues of land restitution and redistribution have not yet been resolved. The ward representatives urged the Municipality to approach the Department of Land Affairs with the intention of speeding up the process.

**(h) Poverty Alleviation and Local Economic Development Projects**

A number of the ward members requested that a poverty alleviation programme be developed with specific relevance to the needs of each Ward clearly defined.

Other pressing needs were identified, and they are as follows:

**Table 2.1: Other Infrastructural Community Needs**

Housing	Storm water
Schools	Road humps
High school in the southern cluster	Road maintenance
Crèches	Tarred roads
Upgrade and general maintenance of community halls	Maintenance and upgrade of promenade – tourism
Crime prevention	Extension of Ballito Promenade and new Promenade for Salt Rock
Bus stops and lights at stops	Transport and roads to the training centre – pass training center
Safety of pedestrians – from west of N2 to east	
Church sites in Stanger Manor and Lindelani	Upgrade of lifesavers buildings and safety equipment– Willard’s, Salt Rock



Pension pay points	Clarke Bay
Street lights	Community halls
Poverty alleviation/LED projects	Renovation of the old Melville Hall

Source: KwaDukuza Integrated development Plan 2006.

Specific programmes were developed for each need, including costs, budget and the location.

## **2.14 STRATEGIES AND PROGRAMMES**

In its efforts to address challenges facing KwaDukuza Municipality, Council took a view to ensure that the strategies and programmes designed give cognisance to Principles of Batho Pele.

According to KwaDukuza Municipality's IDP (2006), six strategies were formulated to ensure integrated and sustainable development within the Municipality. Each strategy entices the Municipality towards an outcome-based approach. The strategies cover the entire spectrum of development needs and opportunities in the Municipality. The strategies and the budgets are integrated during the planning cycle and, therefore, guide the development of KwaDukuza over the period of five years. Each strategy contains a number of programmes and related projects attached to it, which on completion translates into the achievement of the strategy goal.

### **2.14.1 Strategy One: Effective Infrastructure**

The strategy is focused on the improved maintenance for infrastructure, as well as the provision of new infrastructural services within the Municipality. This approach ensures that there is spatial integration of the Municipality, especially the transportation system. The strategy aims at improved service delivery and ensures a basic standard of living for

all. The strategy ensures that there is sufficient consultation among stakeholders, and value for money on services delivered (KwaDukuza Municipality IDP 2006:29).

#### **2.14.2 Strategy Two: Integrated Human Settlement**

The strategy aims at the provision of human settlements that serve people in a way that is different from simply providing housing. It is premised on the understanding that people deserve to live in an environment suitable for community development and the development of children. It further provides services and amenities to enhance the quality of life for the residents. Redress is a very important component of integrated human settlement since its very main focus is provision of services to the poor (KwaDukuza Municipality IDP 2006:29).

#### **2.14.3 Strategy Three: Economic Development and Job Creation**

The strategy aims to establish economic growth and development in all economic sectors with a particular focus on agriculture, tourism, trade and industry (Small Medium, Micro Enterprises), whilst contributing to poverty alleviation in the area. The Municipality aims at ensuring the promotion and management of formal and informal business. Business development ensures and encourages growth and employment in the area. Procurement policies and the tender processes adopted by Council ensure redress, transparency and openness (KwaDukuza Municipality IDP 2006:14).

#### **2.14.4 Strategy Four: Integrated Development**

The strategy focuses on the co-ordination of the spatial development and the service delivery components. It strengthens the developmental nodes of the Municipality whilst equitably pursuing the development of the rural areas. It encompasses environmental management and spatial integration of development. Integrated development ensures that the Batho Pele Principles are considered and adhered to by KwaDukuza Municipality. The Integrated Development Planning process ensures that there is sufficient consultation

among stakeholders, openness, access to information for effective decision-making, value for money on services, redress by way of such programmes as land reform, and all other Batho Pele principles (KwaDukuza Municipality IDP 2006:30).

#### **2.14.5 Strategy Five: People Development**

The focus of the strategy is social development and community empowerment. It addresses a wide range of issues from health care, education, the provision of community facilities e.g. disaster management, and so on. The strategy aims at uplifting the community and raising awareness in areas around gender, health care, safety and security, thereby ensuring a strong, participatory and inclusive community (KwaDukuza Municipality IDP 2006:30).

#### **2.14.6 Strategy Six: Good Governance**

The strategy encapsulates the municipality's commitment to the provision of the highest quality of service to its constituents and to ensuring that all the strategies and objectives are adhered to and pursued. This strategy aims at establishing a network of municipal service delivery throughout the municipal area.

The approach utilised in each strategy is that of outcomes-based planning. It means, therefore, that for each strategy to be achieved, a number of actions need to be completed. In the case of the Integrated Development Plan, that means the fulfilment of a number of programmes and their associated projects. The strategies and programmes encompass all Batho Pele Principles directly and indirectly (KwaDukuza Municipality IDP 2006:30).

### **2.15 IMPLEMENTATION OF SECTOR PLANS AND STRATEGIES**

The KwaDukuza Municipality made progress regarding a number of sector plans as will be discussed below. Similarly, the sector plans were developed as part of the

comprehensive strategic development plan. According to KwaDukuza Municipality IDP (2006:32), the sector plan includes frameworks, as will be discussed below:

#### **2.15.1 SPATIAL DEVELOPMENT FRAMEWORK**

The Spatial Development Framework for the municipality was prepared and approved by Council. The plan is a detailed document which is revisited on an annual basis as part of the review process (KwaDukuza Municipality IDP 2006:32).

#### **2.15.2 LAND USE MANAGEMENT FRAMEWORK**

The Land Use Management Framework complements the Spatial Development Plan and is aligned to the Plan of the District Municipality. The plan is a detailed document which is subject to review on an annual basis (KwaDukuza Municipality IDP 2006:32).

#### **2.15.3 LOCAL ECONOMIC DEVELOPMENT PLAN**

The Municipality formulated a Local Economic Development Strategy which was approved by Council. The plan is contained in a detailed report which is also subject to review on an annual basis (KwaDukuza Municipality IDP 2006:32).

#### **2.15.4 STRATEGIC ENVIRONMENTAL ASSESSMENT**

The Environmental sector plan complements the Land Usage Plan. It is also aligned to the Framework developed by the District Municipality. The Plan is also contained in a detailed document which is subject to review on an annual basis (KwaDukuza Municipality IDP 2006:30).

#### **2.15.5 INTEGRATED HUMAN SETTLEMENTS STRATEGY**

The Integrated Human Settlements Strategy for KwaDukuza Municipality was formulated in response to the need for housing, as well as factors that contribute to the quality of life for the people. The plan is contained in a detailed document which is also

reviewed on an annual basis as part of the review process (KwaDukuza Municipality IDP 2006:32).

#### **2.15.6 DISASTER MANAGEMENT PLAN**

The Disaster Management Plan was formulated by the KwaDukuza Municipality to prevent, mitigate and respond to disasters beyond the normal capacity of the Municipality. The plan promotes a coordinated and integrated multi-disciplinary approach to disaster management. The plan is also contained in a comprehensive document which is reviewed on an annual basis as part of the review process (KwaDukuza Municipality IDP 2006:32).

#### **2.15.7 INTEGRATED POVERTY ALLEVIATION STRATEGY**

The Poverty Alleviation Plan forms part of the broader Local Economic Development Strategy for KwaDukuza. It focuses on poverty alleviation and includes projects such as community gardens and poultry projects. The strategy is contained in a comprehensive document which is reviewed on an annual basis (KwaDukuza Municipality IDP 2006:33).

#### **2.15.8 INTEGRATED COMMUNITY SAFETY STRATEGY**

The Community Safety Strategy aims at reducing the level of risk and crime for residents and visitors by creating and promoting a safe and secure environment. This plan is targeted at both the developed and traditional areas in KwaDukuza. It is contained in a detailed document which is also reviewed on an annual basis (KwaDukuza Municipality IDP 2006:33).

#### **2.15.9 KWADUKUZA HEALTHY COMMUNITY STRATEGY**

The Healthy Community Strategy is firstly aimed at increasing the number of households that have access to primary health care services and secondly, at increasing the

HIV/AIDS awareness amongst the people of KwaDukuza by co-ordinating all HIV/AIDS activity within the municipal boundary. This strategy is also reviewed on an annual basis (KwaDukuza Municipality IDP 2006:33).

#### **2.15.10 CLEANING AND GREENING KWADUKUZA**

The Cleaning and Greening Strategy is based on the premise that KwaDukuza has a high prevalence of poor access to basic household services, and on a poor or bad image of the town. The Cleaning Strategy is, therefore, aimed at making KwaDukuza one of the cleanest towns in the country. The strategy also seeks to promote entrepreneurship, community empowerment and poverty alleviation. The strategy is contained in a detailed document which is reviewed on an annual basis as part of the review process (KwaDukuza Municipality IDP 2006:33).

#### **2.15.11 LEARNING AND LEISURE PLAN**

The learning strategy serves to address the problems of low usage of libraries and the lack of recreational facilities. The plan hopes to reach the following targets:

- ❖ 70% of the population to have access to library services; and
- ❖ 10 sport and recreational facilities to be built in five years (KwaDukuza Municipality IDP 2006:33).

#### **2.15.12 KWADUKUZA HIV/AIDS STRATEGY**

The HIV and AIDS strategy is aimed at reducing the impact of HIV/AIDS on the community through:

- ❖ Education, Awareness, Openness and Prevention
- ❖ Treatment and Care for people living with HIV/AIDS
- ❖ Care for Orphans
- ❖ Organisational Arrangements

Although part of the community health strategy, this strategy gives more impetus and focus to HIV and AIDS issues (KwaDukuza Municipality IDP 2006:33).

#### **2.15.13 INFORMATION TECHNOLOGY STRATEGY**

The Information Technology Strategy is targeting the increasing of the IT Systems performance from 80% to at least 95%, which is the international benchmark. The plan is contained in a detailed document. The targets are assessed and reviewed on an ongoing basis (KwaDukuza Municipality IDP 2006:34).

#### **2.15.14 PERFORMANCE MANAGEMENT SYSTEM**

The Performance Management System is currently being operated at an organisational level. The plan is being cascaded to all operational levels. The system is contained in a comprehensive document where targets are being reviewed on a regular basis. The Systems for the Municipal Strategies, Programmes and Projects are also being implemented. The implementation of the System needs to be expanded as well (KwaDukuza Municipality IDP 2006:30).

#### **2.15.15 ELECTRICITY PLAN**

An Electricity Plan was developed and completed by the Municipality as a component of the Spatial Development Plan. The plan guides the provision and maintenance of electricity in the KwaDukuza Municipal area and focuses on the supply of energy. The plan is contained in a detailed document which is reviewed on an annual basis (KwaDukuza Municipality IDP 2006:30).

### **2.15.16 OTHER SECTOR PLANS**

The municipality drives and facilitates a number of sector plans which involve national and provincial functions. These sector plans include the various functions and are as follows:

- a) Integrated Water Management Plan;
- b) Water Services and Sanitation Plan;
- c) Municipal Infrastructure Plan;
- d) Transport & Roads Plan;
- e) Cemetery & Crematoria;
- f) Land Reform Plan;
- g) Tourism Plan;
- h) Agriculture Plan;
- i) Geographical Information Systems; and
- j) Education Plan (<http://www.kwadukuza.gov.za>).

The above sector plans form part of the comprehensive development plan for the municipality (KwaDukuza Municipality IDP 2006:34).

### **2.16 PROGRESS AND REVIEW**

The implementation of plans and strategies has yielded positive results, as demonstrated in the table below. According to KwaDukuza Municipality IDP (2006: 57), the following progress was achieved over the five-year period (<http://www.kwadukuza.gov.za>).



**TABLE 2.1: PROGRESS TABLE IDP IMPLEMENTATION**

<b>INTEGRATED DEVELOPMENT PLAN FOCUS AREAS</b>	<b>COMMENTS ADDRESSING THE FOCUS AREAS IN THE KWADUKUZA IDP REVIEW 2006/11</b>
Service Delivery	The Municipality developed a strategy within the Integrated Development Plan, which focused on the provision of effective infrastructure. That strategy encompasses a number of programmes and related projects as outlined above. However, there is acknowledgement that there are a number of sector plans that need to be prepared, reviewed, and implemented.
Institutional Arrangements	<p>The aspects mentioned under Institutional Arrangements are included in Strategy 6: Good Governance. There is acknowledgement that there is a need to develop the individual sector plans, which will emphasise good governance whilst focusing into the future.</p> <p>The Performance Management System was implemented, but requires time to permeate down to the lower levels.</p>
Economic Development	<p>The Municipality is in the process of reviewing its local economic development plan, which will take account of the National, Regional and Provincial Growth and Development Strategies. Economic Development is addressed in Strategy 3: Economic Development and Job Creation. The strategy does focus on bridging the gap between the 1<sup>st</sup> and 2<sup>nd</sup> economies.</p> <p>However, it must be acknowledged that the result will be felt once the implementation of the infrastructural, planning and economic development programmes and projects has been realised. The District and the Local Municipality are committed to working together to ensure that there is alignment of planning at all levels.</p>
Financial Management & Corporate Governance	The financial management of the municipality is being undertaken in compliance with the Local Government Municipal Finance

	Management Act and the Municipal Systems Act. However, in the past the Municipality did not prepare a five-year financial plan. The current review processes incorporate the development of the five-year plan.
Governance	Public participation is encouraged in all decision-making where it is required. Top-down decision-making is not encouraged. The Ward Committees in the Municipality are functional and are well represented at the Integrated Development Plan meetings, where their inputs are used in the planning and Budgeting processes. The Municipality developed and launched a website for public relations, e-commerce and e-Government purposes. The Municipality also has a strong link with the public and the stakeholders.
Intergovernmental Relations	At present the District Municipality and the Local Municipalities have finalised the establishment of relevant structures for appropriate intergovernmental relations in terms of the legislation.
Spatial Development Framework	The Municipality is in the process of implementing its Spatial Development Framework. It is reviewed on annual basis. It is on the basis of this plan that KwaDukuza received National and Provincial awards for best Housing Developments in 2004, 2005 and 2006.

Source: KwaDukuza IDP 2006

## 2.17 CONCLUSION

This chapter provided the background and theory on public administration which illustrated the importance of public administration, public management, governance, the Rule of Law, public accountability, public finance and how each relates to the

Constitutional framework and establishments within the country. The Batho Pele Principles of good governance advance the basis of service delivery in government to which all three spheres must aspire. The discussion revealed and confirmed that local government is the bedrock of service delivery primarily by virtue of its close proximity to the people. It is on this basis that government introduced and passed enabling legislation to ensure quality service delivery at local government level.

Having provided the framework for public financial management and administration, and how these operate within local government, the following chapter will focus on the theoretical perspectives of local government finance.

The Integrated Development Plan for KwaDukuza Municipality is a living document which is being implemented, monitored and reviewed on a constant basis. The background information reveals that KwaDukuza Municipality inherited a backlog in infrastructure and socio-economical development. In its design and implementation, the plan attempts to focus on effective development and measurable results. The Integrated Development Plan comprises sector plans, strategies and roll-out programmes which are constantly being measured and reviewed.

For better and more effective results, finances become the core of the programme. It is for that reason that Council undertook to focus on financial reform and financial recovery. The financial recovery plan and programme will be discussed in detail in the following chapter.

## **CHAPTER THREE**

### **LOCAL GOVERNMENT FINANCING AND DEVELOPMENT IN SOUTH AFRICA**

#### **3.1 INTRODUCTION**

It must be appreciated at this point that public finance generally embraces financial management for the national sphere of government, the provincial sphere of government, local government finance, and financial management for public utilities. The previous chapter gave a broad spectrum and analysis of government financial management in South Africa.

Notably, the impact of national macro-economic developments has a significant ripple effect on local economic development and, ultimately, on the local tax base and local government finance in general. Modern day municipalities can, therefore, no longer ignore the impact of globalization. Therefore this chapter will focus on local government financing and development. The chapter will explore challenges facing local government, resources allocation to local government, municipal budgets, financial reform, integrated development planning, public participation and public accountability and reporting.

#### **3.2 PUBLIC FINANCE**

According to Visser and Erasmus (2005:4), the term 'public finance' relates to the finances of the state in a multi-dimensional way. For the study to obtain a fair understanding of public finances, the subject will be categorized into three classes, as will be discussed below. The three areas will focus on policy and policy development, implementation, and review and control.

- a. policy and policy development refers to the legislation and the policy framework regulating the finances for the country;
- b. financial management covers implementation aspects, budgets, budgetary processes, organizational arrangements, operations, financial systems, administration; and
- c. financial control refers to financial review, financial control, expenditure management, revenue control, accounting standards, auditing, and reporting (Pauw et al 2002:62).

### **3.3 THE THEORY OF PUBLIC FINANCIAL MANAGEMENT**

The study of public financial management forms an integral part of the discipline of public administration. It is an important component of public administration. Furthermore, public financial management touches vital elements adapted from various disciplines such as accounting, economics and business management.

The discipline of public finance encompasses government economics and, as such, encompasses matters of the state fiscus, fiscal policies of the government, the monetary policies and components of macro-economics of the country. Public finance further incorporates elements of business management such as financial planning, accounting, budgeting, financial control and auditing.

According to Visser and Erasmus (2005:3), public sector finances form an integral part of society, and public finances in the broadest sense impact on the social, economic and political dimensions of the country. The state assumes responsibility for welfare, health, and the prosperity of its citizens. For the state to achieve these objectives, it has to perform certain functions and services through government institutions and departments. The principles and assumptions are based on the premise that:

- a. Government provides services and functions on a collective basis;
- b. government is a non-profit organization;
- c. government is dependent on its taxing powers and authorities for the generation of income;
- d. the market economy cannot make provision for services requiring large capital outlay with limited extended long-term dividends;
- e. government and not market systems, assumes final overall responsibility for the country's economic wellbeing, and therefore fulfils economic regulatory functions; and
- f. the country's resources belong to all inhabitants and not exclusively to the market sector. (Visser and Erasmus, 2005:5)

Public finance is a vital component of public administration. It is within that context that elements of public administration relating to finance should be viewed. Governments provide services on a collective basis. For the government to effectively deliver on such services, resources would have to be organized. To organize resources requires a strong financial muscle and particularly strong revenue base. Government revenues derive in the main from taxes.

Pauw *et al* (2002:1) make a distinction between the private sector and the public sector and define the two as follows:

- (a) The private sector is that “*sector in which profit is allowed as a main measure of success*”, and
- (b) the public sector is that “*sector in which service to the populace is the main measure of success*”.

Visser and Erasmus (2005:5) state that public finance relates to finances of the state in a multi-dimensional way. The reasons are:

- a. *public finance is manifest in the budget which is financed mainly through taxation;*
- b. *taxation implies that certain moneys are collected from the total moneys available in the country;*
- c. *the use of tax income by the state results in the government being a role player in the national economy; and*
- d. *government expenditure.*

Public finance consists of elements relating to the fiscal policy of the government, monetary policy, budgets and budgetary process, revenue collection, and expenditure management, all of which must be co-ordinated into an effective programme for service delivery and development.

Public finance is the study within the field of economics focusing on the economic behaviour of the government. *“Economics of the public sector lies in the study of political economy and Economics of the public sector involves the study of public finance, government’s policies and its role in the industrial sector of the economy”* (Trotman Dickenson 1996:3). Public Finance encompasses financial management for all spheres of government; namely, national, provincial and local sphere of government.

According to Visser and Erasmus (2005:4), *“macroeconomics and public finance are theoretical fields within economics. Public finance as discussed by economics is concerned with economic principles as they relate to the public sector impact on the private economy. Macroeconomics deals with the behaviour of national economies and is the basis for fiscal and monetary policy recommendations. Neither of the two approaches focuses on the administrative activities of public organisations”*.

Section 195 of the Constitution outlines the basic principles governing public administration across the three spheres of government.

**195. Basic values and principles governing public administration**

*a. Public administration must be governed by the democratic values and principles enshrined in the Constitution...*

The principles of public administration set in the Constitution generally apply across all three spheres of government. Public Administration outlined above relates to the administration of the affairs of all three spheres of the public service sector. Local government as a sphere of government in terms of the Constitution is located within that broader public sector definition and environment.

Public Administration consists of various generic areas of practice; namely, finance, organising, staffing, procedure and control. Finance, and in this instance, public finance, is located within the generic processes of public administration as an important player. Public finance encompasses financial management within national, provincial and local government. It can be concluded, therefore, that Local Government Finance is an area of public finance concerned with financial management at local government level.

### **3.4 COMPONENTS OF PUBLIC FINANCIAL MANAGEMENT**

Public financial management consists of several components which though separate form a complete framework of the financing function.

#### **3.4.1 Budgeting**

Budgets form an important component of public financial management. According to Visser and Erasmus (2005:8), public finances represent a “*process*”, whereas budgets represent a “*mechanism*”. A Public Budget has four dimensions. Firstly, it is a “*political instrument*” that allocates scarce resources among social and economic needs of the jurisdiction. Secondly, a budget is a “*managerial and/or administration*” instrument. Thirdly, a budget is an “*economic instrument*” that directs a nation. Fourthly, a budget is an “*accounting instrument*” that holds government officials responsible.



A government budget can be regarded as an “*operational plan*” that government presents to indicate how it will use financial resources to deliver services. Budgets set out taxes to be paid, how the money will be spent, the services that will be delivered (Pauw *et al*, 2002:61)

A government budget is therefore a plan of action for government expressed in financial terms.

### **3.4.2 Expenditure Management**

Once public budgets have been approved and adopted by the state, systems must be put in place to ensure the economic, effective and efficient disbursement of state funds. A variety of tools are used to ensure effective expenditure management. In South Africa, the state designed and implemented the Medium Term Expenditure Framework (Visser and Erasmus, 2005:11). The purposes of programming budgets to run over a period of three years are as follows:

- (a). *It helps institutions and provinces to plan with greater certainty because they have a better indication of what their allocations will be .*
- (b). *It encourages departments to set long-term priorities and to plan further ahead.*
- (c). *It gives the public a clear picture of how government intends to spend its money” (Pauw, 2002:75).*

Pauw (2002:65) makes a distinction between capital and current expenditure. Current expenditure is expenditure of a “*recurrent nature*”. Capital expenditure is expenditure of “*a non recurrent nature*”. It is usually a once-off expenditure.

### **3.4.3 Accounting**

The accounting system in South Africa has been converted from a “*cash system*” to an “*accrual system*” (Visser and Erasmus, 2005:8). The intention of the conversion was to obtain a clearer picture and insight into the financial affairs of the state. According to Pauw (2002:170), “*accounting is the process of identifying, measuring and recording of financial transactions and events regarding an entity, and communicating the economic information obtained in this way in order to make informed decisions*”.

Accounting as process involves:

- (a) obtaining financial data;
- (b) recording financial data;
- (c) processing the data; and
- (d) reporting the results. (Pauw *et al*, 2002:170).

Accounting, therefore, is the method of obtaining data, recording and reporting accurately.

### **3.4.4 Financial Management System**

Financial Management Systems refer to technologies and instruments used to effect control over appropriated funds. Instruments refer to conceptual devices used to exercise control.

The Financial Management System sets standards and procedures for recording transactions. The systems provide regular records of spending patterns according to which the following can be determined:

- i. Spending to date compared to the budget;
- ii. current expenditure and future commitment;
- iii. deviation from the budget; and
- iv. increased and/or decreased spending. (Visser and Erasmus, 2005:10)

Financial management systems ensure that records follow correct patterns and procedures.

### **3.4.5 Public Accountability and Control**

Public representatives have a responsibility to provide oversight over state resources, operations and finances. The National legislature has to ensure that mechanisms are put in place to ensure public accountability. In South Africa, the Standing Committee on Public Accounts is the Parliamentary Committee charged with oversight responsibility on financial matters. Internal controls must be maintained by all public entities (Visser and Erasmus, 2005:11).

Accountability at local government level must be maintained between council, the executive committee, the speaker, and all public representatives. Local councils have an option to adopt “*codes of conduct*” for their respective councillors (Bekink, 2006:483).

### **3.4.6 Performance Management**

Performance management in the public service is used to assess the effectiveness and efficiency of service delivery. In the private sector, performance is measured mainly by how much profit and money the business generates. In government institutions, money is generally a “*means rather than an end*” (Pauw *et al*, 2002:143).

Special instruments are put in place to measure deliverables on tools such as budgets and procurement.

### **3.4.7 Strategic Plans and Business Plan**

A strategic plan consists of key performance outcomes for the public service. The strategies are designed by the department. Business plans are derived from strategic plans. The business plans consist of indicators, programmes and operational guidelines. Budgets can be viewed as important components of business plans and do not necessarily replace business plans ( Visser and Erasmus,2005:12).

### **3.4.8 Provisioning**

Provisioning or procurement is a very important component of public financial management. Procurement is charged with the acquisition, disposal, and management of assets and services for the state. Mechanisms such as legislation and policies are put in place to ensure that proper procurement processes and asset management take place (Visser and Erasmus, 2005:11).

## **3.5 BUDGET AND BUDGETARY PROCESS**

Financial management refers to the operational aspects of finance such as budgets, budgetary processes, organizational arrangements, operations, financial systems, administration, and the development of human capital. These fundamental requirements are specified in the following legislation, Constitution of South Africa Act 108 of 1996, Public Finance Management Act 1 of 1999, as well as the Municipal Finance Management Act 56 of 2003.

Section 215 of the Constitution of the Republic of South Africa states that: “*National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.*”

National legislation must prescribe the format of national, provincial and municipal budgets, the tabling thereof, and the sources of revenue, and the way in which proposed expenditure will comply with national legislation. The budgeting cycle is categorised into four phases, namely:

- (a). Preparation of the budget;
- (b). Approval of the budget;
- (c). Implementation or the execution of the budget; and
- (d). Control (Pauw *et al*, 2002:48).

Chapter 4 of the Act lays down the process and procedure that must be followed by municipalities in preparation of budgets. The four distinct processes are discussed below.

### **3.5.1 Preparation of the budget**

The initial stage in the budget process is the preparation stage. The preparation stage involves information gathering, the type of budget, the structure of the budget, projections, identification of revenue sources, comparative analysis of expenditure and revenue patterns. It is at this stage that extensive participation by various state institutions takes place. The result is a draft budget which is a comprehensive, consolidated document ready for parliamentary debate and approval (Pauw *et al*, 2002:48).

In local government preparation stage commences with the adoption of the Mayoral Notice which grants the municipality approval to commence with the preparation for the budget. The Notice must be adopted ten months before the commencement of the financial year. The financial year cycle for municipalities starts in July and it ends in June of the following year, which means, therefore, that the budgeting process commences in September of each year. The adoption of the Mayoral Notice must take place before the end of August of each year (Pauw *et al*, 2002:48).

### **3.5.2 Approval of the budget**

The approval of the budget is the climax of the budgetary process. The approval is preceded by a series of events such as intensive public input and parliamentary and council debates. The approval of the budget must take place before the commencement of the financial year, ideally one month before the commencement of the ensuing financial year. In local government the final date for the approval is the end of May each year. The approval of the budget cannot be delegated. Various committees are involved. Budgets can only be approved and adopted by the full sitting of Council. (Pauw *et al* , 2002:48).

### **3.5.3 Implementation of the Budget**

After the approval of the budget, implementation takes place. This is the stage where programmes are set in motion to achieve set objectives. The implementation is guided by relevant policies and operational guidelines. Policies lie under the leadership of the Minister as the political head, and administration lies under leadership of the accounting officer (Pauw, 2002:48). Accounting officers ensure that the atmosphere is conducive for policies to be implemented.

In local government implementation of the budget commences with the approval and adoption of the Budget Implementation Programme which must be adopted not later than two weeks after the adoption of the budget. The Budget Implementation Programme is a plan of action which details the manner in which the budget must be spent (Pauw *et al* ,2002:48).

### **3.5.4 Control**

Control and evaluation form a vital part of effective budget execution. The budget cycle is completed once the report of the Auditor General has been accepted by parliament. The Report of the Auditor General is paramount to effective control of the public purse.

Pauw *et al* (2002:78) state that budgets by “*their own nature are ex ante control measures*”. Budget are therefore control measures before the effect, whilst the Auditor General’s report is a “*post facto*” control measure.

Control starts with the preparation of the budget. The approval of the budget provides a certain measure of control. Control is also exercised through the implementation stage with the use of procurement procedures, accounting systems, internal audit, training of personnel and other means. Council must set policies and provide an oversight role. The Office of the Auditor General must conduct an annual audit into the finances of the municipality and present its report to Council and to Parliament. The control of the budget for the year ends when parliament adopts the report of the Auditor General.

Budgets for municipalities are streamlined according to two avenues; namely, the revenue stream and the expenditure stream. The Constitution assigns certain functions to municipalities and the following may not be delegated:

- (a) *approving budgets,*
- (b) *imposing rates, taxes, levies and duties, and*
- (c) *raising loans*”. (Pauw *et al*, 2002:256).

The budgeting guidelines and procedures are outlined in the Local Government Municipal Finance Management Act (Act 56 of 2003). Chapter 4 states:

*Appropriation of funds for expenditure:*

15. *A municipality may, except where otherwise provided in this Act, incur expenditure only in terms of an appropriated budget; and*

*(h) Within the limits of the amounts appropriated for the different votes in an approved budget.*

*Annual budgets*

16. (1) *The council of a municipality must for each financial year approve an annual budget.*
17. ( 1 ) *An annual budget of a municipality must be a schedule in the prescribed format setting out realistically anticipated revenue for the budget year from each revenue source appropriating expenditure for the budget year under the different vote for the municipality; setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year; setting out...*

Municipal budgets must be approved on an annual basis. Budgets must follow a prescribed format, be realistic and should enlist all the sources of revenue.

According to Reddy *et al*, (2003: 10):

*Budgets must*

- a. *follow a prescribed format;*
- b. *be balanced and realistic; and*
- c. *comply with the Integrated Development Plan.*

In addition, budgets must reflect the following:

- a. *estimated revenue;*
- b. *estimated current expenditure;*
- c. *estimated interest, debt servicing charges and loan repayment; and*
- d. *Estimated capital expenditure.*

In South Africa, the Municipal Finance Management Act (Act 56 of 2003) prescribes that a multi-year budget be prepared on the basis of the national approved Multi-Term Expenditure Framework.



### **3.6 EXPENDITURE MANAGEMENT**

Expenditure management forms part of public financial management. Expenditure management relates to normal routine operations by different sectors and departments against attainment of set policy objectives. Expenditure is charged according to departments, their statutory mandates and functions. Accounting officers must ensure that systems are put in place to foster effective and efficient disbursement of financial resources and effective utilization of all state resources. Expenditure management entails determining methods for the acquisition of services and goods, payments for such services and goods, and proper, effective and efficient utilization of such resources.

It is therefore imperative that an effective financial management system be put in place to facilitate expenditure management. Standards must be set and recording procedures established to ensure proper accounting and management records.

Visser and Erasmus (2005:11) contend that an effective financial management system must determine patterns such as:

- (a) comparative expenditure against the budget;*
- (b) current expenditure against future commitments;*
- (c) deviations from budgets; and*
- (d) increase or decrease in spending.*

Basic financial and accounting requirements can be adapted to suit the needs and requirements for individual departments and organs of state.

### **3.7 PUBLIC ACCOUNTABILITY AND CONTROL**

Financial control refers to financial review, financial control, expenditure management, revenue control, accounting standards, auditing, and reporting. One of the fundamental

requirements of democracy is the accountability of public officials to the electorate. Accountability is meant to ensure that good governance is maintained and sustained by the state and public representatives at all times (Pauw *et al.* .2002:30).

### **3.8 KEY CHALLENGES FACING LOCAL GOVERNMENT FINANCE**

Local government is faced with a multitude of challenges. These challenges have evolved from years of neglect by the government of the Nationalist Party, resulting in vast areas of backlog on the one hand, and the global developmental challenges facing the South Africa and the world on the other hand. Chapter 4 of the White Paper on Local Government 1998 lists the challenges facing municipalities which can be summarized as follows:

- (i) infrastructure backlog;
- (ii) skills and capacity shortages;
- (iii) uneven distribution of resources and uneven tax base;
- (iv) uncoordinated planning and development;
- (v) the legacy of racial segregation;
- (vi) limited financial resources;
- (vii) community participation; and
- (viii) municipal budgets.

The challenges will be discussed briefly in the following paragraphs (White Paper on Local Government,1997:14).

#### **3.8.1 Infrastructural Backlogs**

The government and several institutions have developed models to assess and determine the levels of backlog inherited by the current government in 1994. Some of the models are used by various government departments to assess and monitor the progress or lack

thereof in their attempt to alleviate the backlogs.

In 1994, a number of studies were commissioned by government departments relative to their functions. The Water Research Commission commissioned the Palmer Development Group to undertake a study on water and sanitation. The National Electricity Regulator, the World Bank and the Central Statistical Services conducted a Household Survey under the Municipal Infrastructure Investment Framework. The major shortcoming of the study is that the findings were not fully quantified to reflect costs in financial terms. The second shortcoming of the data was a complete lack of data relating to rural infrastructure but was provided for further research.

**TABLE 1. Percentage of urban residents with inadequate access to infrastructure**

**Source : (MIIF, 1996).**

<b>SERVICES</b>	<b>URBAN CORE</b>	<b>URBAN FRINGE</b>
Water	17%	80%
Sanitation	5%	56%
Electricity	14%	80%
Waste removal	26%	91%
Roads and storm water	32%	81%

With all its shortcomings, the available data at that stage did provide government with a baseline to set up programmes for infrastructural development. The most glaring infrastructural backlog was in semi-rural (urban fringe) areas. In urban fringe areas, the backlog on water infrastructure was 80%, sanitation was 56%, electricity was 80%, and waste removal was 91 %, while the roads and storm water backlog was at 81% (MIIF, 1996).

In an attempt by the government to meet the above challenges, the following programmes were approved and assigned to respective departments. In 2004, the Government introduced a coordinated approach under the Municipal Infrastructure Grants. The primary objective of the programme was to streamline operations and do away with the

fragmented approach. The Municipal Infrastructure Grants have over the past three years increased allocation of funding to municipalities across the country. The policy approach is centred on the following key aspects:

- a. commitment to basic minimum levels of service for all;
- b. the principle that consumers should pay for services; and
- c. a welfare role for government to support consumers who cannot afford basic levels of service. (MIIF, 1996)

The challenge of infrastructure backlog was identified as being prevalent in KwaDukuza. The main reason for the existence of such backlogs was years of neglect of areas populated by Black people. It was the policy of the Nationalist government that such areas be underdeveloped and neglected. Such areas were fragmented and serviced by a number of different authorities such as the Joint Services Boards, KwaZulu Government Services, Natal Provincial Government, Department of Development Aid, House of Delegates, and the House of Representatives. Infrastructure such as roads, bridges, water, rail, sanitation, housing, telephone, schools and electricity virtually did not exist, and where such infrastructure existed, it was poorly developed and poorly maintained. KwaDukuza Municipality, therefore, inherited well developed areas such as Ballito, and poorly resourced and underdeveloped areas such as Groutville, Shakaville, Shakaskraal, and places under Tribal Authorities (KwaDukuza Municipality IDP 2006:15).

### **3.8.2 Information on dwellings and access to resources is derived from the categories used by Statistics South Africa in the 2001 census.**

The information presented by Statistics South Africa in their census for 2001 provided the government with the basis from which minimum standards for service delivery could be set (Census, STATS S.A., 2001).

- **Water**

Piped water inside dwelling, piped water inside yard, piped water on community stand: distance less than and distance greater than 200m from dwelling.

- **Sanitation**

Flush toilet (connected to sewage system), flush toilet (with septic tank), chemical toilet, pit latrine with ventilation (VIP), pit latrine without ventilation.

- **Refuse removal services**

Removed by local authority at least once a week, removed by local authority less often, communal refuse dump.

- **Telephones**

Telephone in dwelling and cellphone, telephone in dwelling only, cellphone only, at a neighbour nearby, at a public telephone nearby, at another location nearby.

- **Electricity**

Electricity provided directly by an authority for lighting purposes, or obtained from another source (solar).

- **Formal dwellings**

House or brick structure on a separate stand or yard, flat in block of flats, town/cluster/semi-detached house (simplex, duplex, triplex), house/flat/room in backyard, room/flatlet not in backyard but on a shared property.

### **3.8.3 Challenge of skills and capacity shortages**

Apartheid policies of the former government brought about an uneven spread of capacity resulting in a situation where there was a high concentration of skills for a category of privileged communities and an under-capacitation especially for underdeveloped areas.

In terms of the Annual Report published by the National Department of Provincial and Local Government (2006:54), it is clear that the roll-out of programmes experienced a number of challenges and bottlenecks.

- a. The first challenge that was identified was capacity to manage projects. This could be verified by the low levels of disbursements of funds which, in turn, resulted in slow delivery of services.

- b. The second challenge was the shortage of funds measured against the size of the backlog government inherited.
- c. Thirdly, it became clear that the programmes were not well coordinated.

The government has since adopted a number of programmes such as Project Consolidate which aims at capacitating ailing municipalities (National Department of Provincial and Local Government, 2006:54).

The amalgamation of the three former transitional entities resulted in the expansion of areas to be serviced on one hand, and services to be provided by municipality on the other hand. Services provided to less than ten thousand households in the Ballito area expanded to more than thirty thousand households overnight in the KwaDukuza area as a result of expanded boundaries. The expansion immediately put pressure on the administration, the provision of services, and ultimately in the quality of services provided which were severely overstretched by the sudden intake (KwaDukuza Municipality IDP 2003:12).

#### **3.8.4 Uneven distribution of resources and uneven tax base**

Sustainable provision of services relies on stable financial resources. Apartheid created uneven patches of areas with sound financial capabilities on the one hand, and poorly resourced areas incapable of sustaining themselves. These divisions were created and maintained along racial lines. A method of redress is being initiated as part of government policy where equitable distribution of resources is pursued through equitable share distribution in state revenue, the reconstruction and development programme of government, integrated development plans, and the provisions of the Property Rates Act No 6 of 2004 (White Paper on Local Government, 1998:14).

The apartheid policy of separate development left a legacy of uneven distribution of resources, particularly finance and infrastructure. The fact that certain areas were well resourced and developed, such as Ballito and Stanger, meant that there were good quality services and a representative tax base for such areas. It therefore became very difficult for

the municipality to raise taxes in incorporated areas, especially those areas with poor services or no services at all. Similarly, it becomes very difficult to provide requisite services to such areas. Services such as disaster management were concentrated and confined to affluent areas and under-resourced areas were very often left unserved. Funding to provide services to underdeveloped areas flows largely from the National fiscus by way of infrastructure and services grants (<http://www.kwadukuza.gov.za>).

### **3.8.5 Unco-ordinated planning and development**

The apartheid policy of the Nationalist Party government managed development and the provision of services along racial lines. The emphasis on service delivery and development was mainly situated in demarcated white areas and urban areas where the concentration of people required orderly administration and some form of representation or political structure elected by the residents to look after specific local interests. As a result, planning and development were concentrated in certain areas to the exclusion of certain sections of the population (White Paper on Local Government, 1998:14).

The Reconstruction and Development Programme was developed as a blueprint to provide guidelines and coordinate the reconstruction and development agenda of the country. Subsequently, the Constitution of the Republic of South Africa, and the Local Government Municipal Systems Act (Act 32 of 2000) in the case of municipalities, gave guidelines and, in so doing, provided a framework for the development of Integrated Development Plans for National Departments, Provinces and Municipalities (White Paper on Local Government, 1998:14).

Inherent in the policy of apartheid and separate development is the legacy of disjointed and unco-ordinated planning and development. Services, such as water, in what has been demarcated as KwaDukuza Municipality, were previously provided by Umgeni Water, Stanger Council, Joint Services Board, KwaZulu Government Services and Natal Provincial Administration. All of these service providers had their specific mandates and

plans. A similar set-up existed with all services, including services presently provided by national and provincial government such as education, housing, police and so on. The introduction of the Integrated Development Plan provided an avenue for solutions, particularly planning and development ( KwaDukuza Municipality IDP 2003:5).

### **3.8.6 Legacy of racial segregation**

Effective local government accompanied by a good quality standard of service delivery in South Africa was a preserve exclusive to white local authorities. Urban communities in places such as the City of Durban with a predominantly white population enjoyed the best of services (White Paper on Local Government, 1998:14).

Black populations living in demarcated areas within urban environments, in places such as the Umlazi Township in the south of the Durban Functional Area, were excluded from participating in any form of meaningful local government and hence received substandard services which came with no option to complain (White Paper on Local Government, 1998:1).

In areas demarcated for Blacks, municipal services, which would normally be provided by local government, were provided by various role players including government departments, parastatals in the form of the Development Services Boards, Provincial Administrations, the then Indian House of Delegates, the Coloured House of Representatives, and Self-Governing States (White Paper on Local Government, 1998:1).

Similarly, within the commercial farming areas, the responsibility for providing various services rested with different departments and whatever structure was responsible for providing various services was largely determined by race.

The Department of Development Aid and the Self-Governing Territories were responsible for the administration of African affairs in areas such as so-called “black



spot” areas and black freehold communities outside homelands areas. The black spots were designated for removal, and there was a tendency to neglect such areas (White Paper on Local Government, 1998:1).

In rural areas and in farming community areas, the provision of services such as water, housing, transport and health care was the responsibility of farm owners and, in some instances, neighbouring homeland governments. Farmers and other service providers had few reliable links with public representatives where information could be obtained. Apparently service providers had little knowledge about respective local conditions. There was little or no consultation on the provision of services (White Paper on Local Government, 1998:1).

The policy of separate development entrenched segregation along racial lines. Segregation being the policy assured development for certain sections of the population and total neglect for the other population groups. The White section of the population had all the privileges and rights whereas the Black section of the population was left underdeveloped socially, economically and politically. The social and economic realities are still prevalent within the society and the population at large. Businesses and properties in affluent areas such as Ballito are predominantly owned by Whites, and Blacks still live under squalid conditions. These economic realities are a legacy of separate development (<http://www.kwadukuza.gov.za>).

### **3.8.7 Limited financial resources**

Municipalities cannot ignore the economic changes taking place at local and regional, and at global level. The impact of an industry’s rise or decline is significant on local income, employment and tax revenue.

Local government, being developmental in nature, must develop programmes aimed at attracting investment based on promoting the competitive advantages of the area. It will

become increasingly important for municipalities to maintain a healthy balance between competition whilst maintaining co-operation amongst themselves (White Paper on Local Government, 1998:2).

The process of merging and amalgamating previously divided areas has markedly increased the population and the geographic area which municipalities must serve, with very little or no corresponding increase in the revenue base of the municipality.

As a result of the challenges of redressing the imbalances of the past, coupled with service backlogs, collapsed or deteriorating infrastructure, deteriorating creditworthiness and borrowing capacity, administrative inefficiencies and non-payment, South African municipalities are experiencing financial stress and, in some instances, problems that have reached crisis proportions (White Paper on Local Government, 1998:2).

Municipalities have a limited revenue base which is basically rates income, commercial and trading services income and nationally distributed revenue in the form of grants, subsidies and loans. The needs and service requirements, especially the infrastructure, far exceed available funding resources (White Paper on Local Government, 1998:2).

The municipal demarcations process of 2000 incorporated areas which previously were marginalised outskirts on the fringes of the developed towns. The expansions placed a heavy burden on financial resources for the municipality. The limited budget formerly designed to cater for less than ten thousand households suddenly had to be stretched over a population in excess of thirty thousand households. Fortunately, national and provincial departments provide grant funding to aid in infrastructure development and service provision (KwaDukuza Municipality IDP 2003:11).

### **3.8.8 Community participation**

The previous government policy discouraged any form of public participation, especially

where such participation involved black communities. There were no formal structures of note that could effectively contribute to the community development programmes. The current government is faced with the challenge of setting up structures that ensure they are empowered and have sufficient capacity to make meaningful contributions. National and provincial government spheres conduct public participation exercises through submissions and Izimbizo. At the local government level, the Local Government Municipal Systems Act prescribes the format which must be followed by municipalities. This includes ward committees and sector representative forums, Integrated Development Plan Forum and Budget Preparation Meetings (White Paper on Local Government, 1998:8).

Development and planning undertaken under the apartheid regime were imposed on communities without any form of consultation and discussion. The new dispensation demands consultation and public participation at all times. Municipalities and public representatives are required and obliged by laws to consult communities on development. Various structures exist within KwaDukuza with the Integrated Development Planning Forum at the centre of development. Other sector forums exist such as the Water Forum, Electrification Forum and the Rates Policy Forum (<http://www.kwadukuza.gov.za>).

### **3.8.9 Municipal budgets**

Budgets for municipalities face various challenges which include under-capacitation in finance departments and the budget office in particular. Unrealistic budgeting is another challenge, where wish lists are presented as budgets. There is also a lack of effective participation in the budgeting process. A number of factors can be attributed to the lack of effective participation such as poor understanding of the budgetary process, lack of technical skills, and political manipulation of the budgetary processes. The Municipal Finance Management Act prescribes the budgetary process that must be followed by municipalities when compiling municipal budgets (White Paper on Local Government, 1998:2).

Municipal budgets were previously prepared with very little input or no input at all from communities. Stanger Town Board and Ballito Town Board were ten kilometres apart but had different tax bases, different rates policies, different tariffs, and different valuation rolls. The anomaly created disparities which took a lot of undoing and effort from KwaDukuza Municipality in order to normalise. What used to be the preparation of simple, small budgets became a complex matter which required a lot of preparation and analysis (KwaDukuza Municipality IDP 2003: 7).

### **3.9 FINANCIAL REFORM IN LOCAL GOVERNMENT**

Local government finance is that area of public finance concerned with the financial management of the local government sphere of government or municipalities. Generally, local government finance forms part of public finance. However, local government finance has its own distinct features and peculiarities which require special attention and legislation. These peculiar features will be discussed below.

The administration of local government finance is underpinned by the following principles of governance:

- *the promotion and maintenance of a high standard of professionalism;*
- *the promotion of efficiency, economic and effective use of resources;*
- *municipal administration;*
- *services must be provided impartially, fairly, equitably and without bias;*
- *people's needs must be responded to and the public must be encouraged to participate in policy making;*
- *public administration must be accountable; and*
- *transparency must be fostered.* (Pauw *et al*, 2002:256)

Although the above principles feature generally to all spheres of government, the element of municipal administration makes local government peculiar. According to De Beer and Swanepoel (2000: 98), local government is established to achieve certain roles and

objectives. These features which are discussed in detail in Chapter 2 of this study entitled “Local government restructuring with particular reference to KwaDukuza Municipality” stipulate that municipalities are established to achieve certain role and objectives which are:

- *Engines of development;*
- *Improving the quality of life;*
- *The lackey role;*
- *The developmental role;*
- *Provide appropriate infrastructure;*
- *Create conducive entrepreneurial conditions;*
- *Build capacity; and*
- *Consult experts.* (De Beer and Swanepoel 2000: 98)

Understandably, local government is that sphere of government closest to the people. The above listed peculiarities therefore compel the local government sphere to manage its finances in a manner uniquely fitting to the local government environment. Although the basis and the general platform for government finance applies similarly across all spheres of government, these unique municipal features require a special approach and application peculiar to municipalities.

Local government finance in South Africa faces challenges as enumerated above. Attention to these challenges must consider and subscribe to the set of above-mentioned defining principles.

National Parliament passed the Local Government Finance Management Act (Act 56 of 2003) with the purpose of instituting fundamental and revolutionary reforms to the management of local government finances in the country.

According to the Local Government Municipal Finance Management Act Circular No. 7 of 2004, National Treasury adopted an implementation programme which allotted time

frames. According to the programme, municipalities were classified into High, Medium and Low Capacity Municipalities and were allocated time lines accordingly. The programme dissected the roll-out programme for the implementation of the Municipal Finance Management Act into manageable blocks and allotted a time line to each section.

However, elements of local government finance provide the required framework, as will be discussed below (Local Government Municipal Finance Management Act Circular No.7 of 2004).

### **3.10 ELEMENTS OF LOCAL GOVERNMENT FINANCE**

Functions assigned to municipalities play an important role in determining the framework and the basis for municipal financial management. The Constitution of the Republic of South Africa, the Local Government Municipal Structures Act (Act 117 of 1998) and the Local Government Municipal Finance Management Act (Act 56 of 2003) provide the core legislative framework for local government finance. The legislative framework captures the following elements:

- (a) local government budgets;
- (b) sources of revenue;
- (c) expenditure management;
- (d) Integrated Development Plans; and
- (e) reporting and accountability.

The basic elements of local government finance is discussed in detail below.

### **3.11 MUNICIPAL REVENUE**

According to Visser and Erasmus (2004:132), the traditional types of revenue for municipalities comprise the following basic sources:

### **3.11.1 Levies and taxes**

Levies include property rates and taxes, licences, business levies and similar levies and taxes.

### **3.11.2 User levies**

User levies comprise service charges, receipts from disposal of municipal assets, sale of permits, hospital fees, cemetery charges, library fees, and any other charges related to services sold by the municipalities.

### **3.11.3 Sundry revenue**

Sundry revenue consists of grants, loans, subsidies, dividends, commissions, fines, penalties, forfeitures, gifts, and inspection fees.

In the South African environment, local government sources of revenue and revenue streams are dictated to the municipality and determined by the functions allocated to the municipality by an Act of Parliament. According to the Municipal Property Rates Act, District Municipalities are not eligible to raise and charge property rates. Property Rates are a preserve of Metropolitan and Local Municipalities.

## **3.12 SOURCES OF MUNICIPAL REVENUE IN SOUTH AFRICA**

There are various sources of revenue available to municipalities as will be discussed below.

### **3.12.1 Property Rates**

In South Africa, the most important source of municipal revenue is Property taxes or rates. According to Bekink (2006:432), the reasons for giving preference to property tax is that:

- (a) it produces predictable and stable income;*
- (b) it is fixed in the location; and*
- (c) it is impossible to conceal.*

The current rating system in South Africa is the assessed value of property or the market value of the property. Tax is determined by the valuation of the land with the exclusion of the building, or with the combination of land and building.

Local government property rates are regulated by the Local Government Property Rates Act (Act 6 of 2004), although previously rates were regulated through Provincial Ordinances. The key fundamental to the Property Rates Act is the establishment of the property rating policy which makes provision for a fair and equitable valuation method for properties. Chapter 2 of the Property Rates Act addresses municipal powers to levy rates. Section 20 of the Act states that:

*2. (1) A metropolitan or local municipality may levy a rate on property in its area...*

*(2) (a) A district municipality may not levy a rate on property... except in a district management area within the municipality;*

*(3) A municipality must exercise its power to levy a rate on property subject to:*

- (a) section 229 and any other applicable provisions of the Constitution; and*



*(b) the provisions of this Act; and the rates policy it must adopt in terms of section 3.*

It follows, therefore, that the category (Category A) which consists of Metropolitan municipalities and Category B municipalities which are local municipalities are the only categories charged with the responsibility to levy property rates.

### **3.12.2 User Levy or Service Charges**

Municipalities offer four categories of services. These services include:

- (a) trading services which include services such as electricity and water;
- (b) economic services which include services such as housing;
- (c) subsidised services which include services such as ambulances and libraries; and
- (d) community services which include services such as clinics and street control.

According to Visser and Erasmus (2004:131), certain services or functions offered by municipalities are eligible to be offered at a fee or a service charge. Such services or functions that are classified as commercial and trading services include electricity, water, sewerage, refuse, and library services, which are offered or sold to customers on a need-to-have basis. Where the service is offered on a need-to-have basis, the onus rests with the customer to ascertain the need and on that basis decide whether to acquire the service or not.

According to Bekink (2002:464), “*a charge*” is a payment for something to be done; for example, a connection charge for electricity.

### **3.12.3 Sundry Revenue**

Municipalities can invest monies held in municipal accounts with financial institutions for the purpose of generating “*interest*” from such “*investments*” (Pauw *et al*; 2002:290).

Municipalities can also charge interest for late payments for services where such arrangements exist. Penalties can also be charged for services where a breach of contractual obligations is encountered.

Municipalities can also charge fines for contraventions such as traffic fines, town planning, hire of caravan parks, reconnection fees, rent of municipal property, hire of community halls, inspection fees, cemeteries and crematoria, ambulances fees, parking meters, fines for contravention of municipal bylaws, and so on.

### **3.12.4 National Transfers, Grants and Subsidies**

Municipalities receive grants and subsidies from national and provincial allocations. In 1994, the government set out a programme for the Reconstruction and Development of the country. The programme encompasses functions that are occasionally assigned and delegated to various spheres of government including municipalities. According to the Development Bank of Southern Africa Annual Report 2003, these programmes are categorized into the following functions or mandates:

**TABLE 3.1: APPROVED GOVERNMENT PROGRAMMES ON RECONSTRUCTION AND DEVELOPMENT.**

DEPARTMENTS	PROGRAMME
Provincial and Local Government	1. Municipal Infrastructure Programme 2. Extension of Municipal Services
Housing	1. Housing Subsidy Programme 2. Bulk and Connector Infrastructure Programme 3. Special Integrated Presidential Projects
Land Affairs and Agriculture	Land Acquisition and Settlement Grant
Eskom and NER	Electrification Grant
Water Affairs and Forestry	Community Water Supply and Sanitation Programme

Source: DBSA Annual Report: 2003.

Grants and transfers that flow from individual funds and municipalities entail a duty to ensure that programmes are successfully implemented. These programmes have, since, been consolidated into Municipal Infrastructure Grants which are distributed by the Department of Provincial and Local Government.

### **3.12.5 Division of Nationally Raised Revenue**

Local government and provincial government spheres are entitled to an “*equitable share of nationally raised revenue.*” The National Treasury developed a formula for the introduction of an equitable share of national revenue for local government, which is a Constitutional requirement. The Equitable Share formulae which determine allocations comprise the following variables:

- (a) a municipal basic services transfer or the S Grant;
- (b) a tax base equalisation transfer or the T Grant; and

- (c) the municipal institutional transfer or the I Grant.

National and Provincial transfers flow from the Division of Revenue Act, as well as the Annual Equitable Share Appropriations (Division of Revenue Act 2 of 2008).

The Division of Revenue Act introduced greater consistency and predictability into the revenues of municipalities, improving the capacity to budget properly, credit worthiness, and the acquisition of loans (Division of Revenue Act 2 of 2008).

Rural municipalities and smaller urban municipalities generally benefit from the new transfer system, as they are the worst affected and most in need of support. The largest part of the formula aims to allocate an operating subsidy to municipalities that will enable municipalities to provide essential services to indigent households in a sustainable manner (Division of Revenue Act 2 of 2008).

### **3.12.6 Loans and Advances**

Municipalities may acquire loans and advances to fund and finance long-term programmes such as infrastructure development. In South Africa the process and procedure to be followed when such developments take place are encapsulated in the Local Government Municipal Finance Management Act (Act 56 of 2003). Section 46 of the Local Government Municipal Finance Management Act stipulates that:

*(1) A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of this Act, including section 19, and only for the purpose of:-*

*(a ) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution, including costs referred to in subsection (4); or*

*(b) re-financing existing long-term debt subject to subsection;*

The process involves the following:

*(a) a resolution of the municipal council, signed by the mayor, and approved by*

*(b) accounting officer...*

**Municipality-**

*(a) has, in accordance with section 21A of the Municipal Systems Act –*

*(i) at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt. Including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and*

*(ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations.*

In South Africa, municipalities may invoke Section 46 of the Municipal Finance Management Act should it be necessary to raise loans for infrastructure development. Such decisions must be signed by the Mayor and must as well be approved by Council.

### **3.13 EXPENDITURE MANAGEMENT IN LOCAL GOVERNMENT**

Local government expenditure can be classified into capital expenditure and operating expenditure. Capital expenditure refers to financing or acquisition of long-term investments such as motor vehicles, infrastructure and buildings. According to Pauw et al; (2002:308), capital expenditure is expenditure incurred:

*(a) in the acquisition of a durable assets;*

*(b) in the extension of the useful life of the such an asset; and*

*(c) For any long term work.*

The Institute of Municipal Finance Officers sets out guidelines which classify municipal expenses. It is these guidelines that were adopted and are currently applied by municipalities across the country. Capital expenditure can be classified into three categories:

**a. Movable assets**

Movable assets refer to items such as furniture and computers (Pauw, 2002:133).

**b. Immovable assets**

Immovable assets refer to land and buildings (Pauw, 2002:133).

**c. Infrastructure**

Infrastructure refers to the construction of roads, dams, reservoirs, electricity stations, pylons, and so on. The major portion of capital investment in municipal administration is for infrastructure development.

Operating expenditure is the day-to-day expenditure of a municipality. Operating expenditure refers to running costs for short-term requirements. Operating expenditure can be classified into different categories. Statement 100 of the Generally Accepted Municipal Accounting Practices prescribes that municipalities present financial statements according to the following categories:

- a. Salaries, Wages and Allowances;
- b. General Expenses;
- c. Repairs and maintenance;

- d. Capital finance costs;
- e. Depreciation; and
- f. Other expenses.

Provisions such as bad debts, depreciation, maintenance and renewal, and loss of rent provisions are accommodated under the category of Other Expenses. Bulk purchases such as electricity, water and insurance fall under the category of General Expenses.

To ensure proper control of disbursements and acquisition of services and goods, the National Government promulgated legislation governing procurement. The Supply Chain Management Act for Municipalities of 2004 sets guidelines on the procedures to be followed when goods and services are acquired by municipalities.

### **3.14 REPORTING STANDARDS**

The Local Government Municipal Finance Management Act (Act 56 of 2003) charges National Treasury with the duty to prescribe and set uniform standards to be adopted and applied by municipalities in conducting their duties. Section 85 of the Local Government Municipal Finance Management Act prescribes that each municipality must maintain a Revenue Account in which all monies will be deposited. Each municipality must have a main bank account kept with a registered commercial bank.

Chapter 10 of the Act prescribes methods and procedures to be followed by municipalities in the acquisition of goods and services. Supply Chain Management Regulations for municipalities were promulgated to provide specific directions for procurement.

Section 74 of the Local Government Municipal Finance Management Act 56 of 2003 prescribes a set of accounting standards to be followed by municipalities when reporting on financial matters.

National Department of Treasury approved Generally Accepted Municipal Accounting Standards or Generally Recognised Accounting Standards for implementation by municipalities. The standards prescribe budgeting format, monthly reporting format, annual financial statements and formats for annual reports to be effected and practised by municipalities.

### **3.15 CONCLUSION**

Local government in South Africa must be developmental. The challenge of development facing local government presents itself from two fronts; namely the challenge of the backlog caused by years of neglect by the racist government and, secondly, that of globalisation. The study identified finance as a resource not available in abundance, hence serious attention was given to financial management and development by the government. The government developed and promulgated legislation to specifically provide support to local government finance, financial reform, financial management, skills development, integrated planning, public participation, and financial control.

Standards of reporting for local government were set by National Treasury. Support programmes were designed to assist financial management at local government level. Notably, the challenges facing local government are enormous, with very limited resources at their disposal. Finance, as it were, is one such scarce resource.

The following chapter focuses on the programme of financial reform within the KwaDukuza Municipality.



## CHAPTER FOUR

### FINANCIAL REFORM IN KWADUKUZA MUNICIPALITY

#### 4.1 INTRODUCTION

KwaDukuza Municipality inherited an administration which was on the brink of collapse. Tough decisions had to be taken in order to save the situation. The challenges of infrastructure backlog, skills and capacity shortages, uneven distribution of resources and uneven tax base, uncoordinated planning and development, the legacy of racial segregation, limited financial resources, lack of community participation, and poor and uncoordinated system of budgeting were taking place in KwaDukuza Municipality.

Easily translated into financial terms, these challenges could be summarised as:

- (a) poor credit control and debt management;
- (b) budget restructuring and related constraints;
- (c) uneven revenue base;
- (d) uncoordinated rates policies;
- (e) haphazard procurement practices;
- (f) obsolete and outdated systems and financial systems;
- (g) inadequate staff training and development;
- (h) unmatched accounting standards performances; and
- (i) poor internal control methods (KwaDukuza Municipality Internal

Memorandum: Corporate Reporting–Finance Monthly and Annual Report. Item: TAA 114 dated 18/10/2002.).

The simplification of the challenges into their financial aspects provided KwaDukuza Municipality with a basis for a pragmatic approach to the resolution of problems. This

will be discussed in detail in this chapter. The researcher was employed as Chief Financial Officer for KwaDukuza Municipality, as mentioned in Chapter One.

## **4.2 INTRODUCTION OF FINANCIAL REFORM IN KWADUKUZA MUNICIPALITY**

By way of background information, it is important to visit the state of affairs in 2001/2 when the process of financial reform started to gain momentum. The municipality inherited a Department of Finance which was fragmented into three entities on the basis of the former Transitional Local Councils, namely Stanger, Ballito and Zinkwazi. Systems, personnel and all other administrative and institutional matters were also fragmented. According to KwaDukuza Municipality (Internal Memorandum: Year Plan/ Programme of Action 2003. Item: TAA 06 dated 21/01/2003), records indicate that there used to be the following:

- (a) budget structured along three entities;
- (b) three sets of financial statements;
- (c) three personnel and payroll systems;
- (d) three financial IT systems;
- (e) three sets of financial regulations and bylaws;
- (f) three rates systems and valuation rolls;
- (g) three assets registers;
- (h) three different Heads of Department responsible for finance and three different corporate cultures, procedures and tariffs;
- (i) loans raised were used to finance operating expenses;
- (j) equitable share funding was used to cushion tariffs especially rates and services;
- (k) budgets could not be finalised and adopted in time;
- (l) financial statements could not be finalised in time;
- (m) the debt was escalating;

- (n) financing of short-term commitments was in crisis, loan funding destined for capital expenditure was used to finance operating expenditure, e.g. salaries, electricity, etc;
  - (o) there were no reconciliations of the bank account;
  - (p) there was no valuation roll and reconciliation thereof;
  - (q) there were no creditor reconciliations; and
  - (r) there were no Value Added Tax (vat) reconciliations
- (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003)

The reform process as mentioned above gained momentum and started off with the filling of senior positions through the appointment of the senior management within the Finance Department. This was subsequently followed by the immediate review of the organogram for the municipality with particular emphasis on the Department of Finance.

### **4.3 APPROACH TO FINANCIAL REFORM**

The report, as well as a system documentation process, was submitted to the Tender and Audit Committee of KwaDukuza Municipality on 21 January 2003 (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003).

The approach to the reform was based on a process comprising Three Phases in terms of the KwaDukuza Municipality Strategic Plan.

- (a) The first phase was directed toward the containment of the crisis, the identification of problems, and the immediate development of interventions.
  
- (b) The second phase was the introduction of the interventions in the medium to long term and their implementation.

(c) The third phase involves the evaluation of progress, the consolidation of gains and the measures to sustain the gains advanced in previous phases with any necessary improvements (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003).

#### **4.3.1 Initial Phase – Phase One**

According to KwaDukuza Municipality (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003), the first phase involved three major exercises which culminated in three key documents. Three documents were used in the development of the financial strategy.

- (a) The first document was a result of the Risk Audit exercise which was developed internally with the assistance of the Internal Audit Unit.
- (b) The second exercise was the attention given to the audit which culminated in the Auditor-General's report.
- (c) The third was the Management Audit developed by the Provincial Government.

The three documents resulted in a financial recovery strategy which was developed by the department and was duly implemented through action plans which were presented to Council (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003).

#### **4.3.2 Implementation of Interventions – Phase Two**

According to KwaDukuza Municipality (Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003), the implementation plan which was part of the strategy was presented to Council as a programme of action for 2003 at the beginning of that year. The interventions as proposed in the plan of action covered 17 core areas, as will be discussed below. The plan for 2003 targeted the following areas and the following milestones were reached:

- (a) The equitable share was ring fenced and targeted for the services to the poor.

- (b) Financial statements were compiled, finalised and submitted in time.
- (c) The budget was finalised in time for Council to adopt it.
- (d) Equalisation of tariffs was achieved.
- (e) The bank reconciliation which had not been reconciled for two years was brought up to date.
- (f) The valuation roll which had not been updated in seven years was reconciled and Council commenced with the compilation of a new roll in line with the Property Rates Act.
- (g) Measures were set in place to compile the new asset register in line with new accounting standards.
- (h) Three valuation rolls were consolidated into one and balanced.
- (i) A data-cleansing exercise was conducted, where
  - i. 1500 properties were identified as not being on the data base for refuse removal, and
  - ii. 7800 properties were identified and found not to be on the valuation roll.
- (j) Creditors and debtor's reconciliation were completed.
- (k) Value Added Tax reconciliations were completed.
- (l) The escalation of the debt was contained (KwaDukuza Municipality Internal Memorandum: Year Plan /Programme of Action 2003. Item: TAA 06 dated 21/01/2003).

The programme of action was submitted to Council on 13 January 2003.

#### **4.3.3 Consolidation Phase - Phase Three**

According to KwaDukuza Municipality (Internal Memorandum: Year Plan 2006. Item Fin:06 dated 24/01/2006), the third phase was the consolidation phase. All the gains and milestones achieved in the previous phases were reviewed and sustained as outlined in the plan of action for the year 2004. The plan of action 2004 (Phase 3) included the following:

- (a) the continuation of the budget reform programme;
- (b) a plan to upgrade Information Technology and computer programmes;
- (c) clearing of the previous year's remainder of audit matters;
- (d) a cash budget and cash management programme;
- (e) the introduction of Generally Accepted Municipal Accounting Practices, (GAMAP) implementation programme;
- (f) the implementation of Procurement Policy;
- (g) a revenue enhancement programme;
- (h) the reduction of debt and debt recovery;
- (i) the implementation of the Internship Pilot Project funded by National Treasury; and
- (j) the implementation of the recovery Project funded by the Development Bank of Southern Africa

(KwaDukuza Municipality Internal Memorandum: Year Plan 2006. Item Fin:06 dated 24/01/2006).

The listed core areas were an addition to the existing challenges.

#### **4.4 ONGOING REVIEW OF THE FINANCIAL STATUS OF THE MUNICIPALITY**

The Annual Financial Statements for 2002/3 were the first that consolidated the records for the former Transitional Local Governments of Stanger, Ballito and Zinkwazi. Each of the three entities brought into the equation its own set of baggage and problems, the majority of which were a result of the first amalgamation of 1996. It must be accepted that Council underestimated the magnitude of the problems inherited. That resulted in a disclaimer of the statements by the office of the Auditor-General. The main contentious issues were the debtors, the loans and advances register, and the asset register. In summary, the records from the three entities that were brought into the creation of the new consolidated record could not be relied upon when the audit was conducted

(KwaDukuza Municipality Internal Memorandum: Corporate Reporting –Finance Monthly and Annual Report. Item: TAA 114 dated 18/10/2002).

On 24 October 2004, KwaDukuza Municipality considered the Audit Report for 2002/3. As a consequence of the decisions taken, council felt it prudent that a report be forwarded to the Provincial Government Minister responsible for local government, particularly on the specific steps taken in order to monitor the situation. On the very same basis, it was also important to note that the report that was submitted was in terms of Chapter 13 of the Local Government: Municipal Finance Management Act (Act No 56 of 2003) (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

It is important to acknowledge as a matter of principle that in terms of paragraph 4 on page 4.3 of the Auditor-General's report, the Auditor-General issued a disclaimer on the 2002/2003 financial statements of Council and that the reasons for the disclaimer are tabled in the said audit report.

#### **4.4.1 Reasons for the disclaimer**

KwaDukuza Municipality had a legacy of successive qualified audit reports and numerous unresolved audit queries going back to the period prior to the first democratic elections (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Many factors contributed to the adverse audit report, some of which will be discussed below:

- a. Chief amongst the reasons was the fact that the officials responsible for the compilation of the 2002/2003 Financial Statements resigned from the services of

Council at the end of December 2003. As a result, it was not possible to respond to all the queries raised during the audit of the financial statements to the satisfaction of the Auditor- General.

- b. Furthermore, there were many outstanding issues that remained unresolved from the previous, as well as prior, amalgamation processes. These issues remained unresolved largely owing to the fact that the Department of Finance had had a high turnover rate in the top management echelon.
- c. There has been no stability in terms of this top management structure, and therefore continuity has been impaired. As a result, these unresolved issues accumulated to the point where they resulted in a disclaimer on the financial statements (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).

KwaDukuza Municipality acquired the services of an external expert in order to address, the backlog of unresolved matters. All the prior years' unresolved issues were targeted, and Council established a reliable basis in order for Council's finance managers to have a proper platform on which they could then build.

#### **4.4.2 Audit Report for the 2003/4 Financial Year**

On the 31<sup>st</sup> of August 2004, Council noted the failure to submit the 2003/2004 annual financial statement to the Auditor-General in accordance with section 126 (1) of the Local Government: Municipal Finance Management Act and accepted that the 2003/2004 annual financial statement be submitted to the Auditor-General by 31 December 2004 (KwaDukuza Municipality(KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

The following reasons were given:



- a. The high level of staff turnover, in particular the departure of managers responsible for finance management in the former Local Councils on the eve of the amalgamation and shortly thereafter, resulted in inadequate competence levels amongst remaining officials, coupled with a backlog of queries raised in previous years' audits, and new demands and competency levels imposed by the introduction of the new Act (the Local Government: Municipal Finance Management Act). Problems associated with the migration to the new Information Technology financial management package resulted in the conclusion that the Finance Department did not have the capacity to compile the annual financial statement for 2003/2004, hence the decision to source external expertise to facilitate the preparation of the annual financial statement and concurrently to create internal capacity through concerted hands-on training of internal staff (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).
- b. Furthermore, the process of upgrading the financial management package resulted in incorrect data being recorded and thus more time was spent on cleansing the data, especially in respect to the general ledger, as incorrect data would impact negatively on the quality of the annual financial statement for 2003/2004 (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).
- c. In the light of a legacy of qualified audit reports for previous years and a disclaimer with respect to the audit for the 2002/2003 financial statement, the Executive Committee resolved that substantial work was needed in the preparation of the 2003/2004 financial statement in order to rectify the

situation (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

- d. It became apparent that before proper financial statements could be prepared, Council's accounting information should first be properly reconciled and adjusted prior to the preparation of the 2003/2004 annual financial statement to truly reflect the financial position of Council as at 30 June 2004 (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).
- e. The single most important impediment to the finalization of the annual financial statement at the prescribed time was the non-availability of a balanced and verified assets register which owing to objective factors was not in place by the end of June 2004 and was scheduled to be completed only by the end of November 2004 (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).
- f. In the final analysis, it became self-evident that it would be in the Council's best interest to adopt a high-impact strategy whereby sufficient time, effort and resources were spent to, once and for all, fix, reconcile, resolve and adjust all the material issues raised by the Auditor-General in previous years' audit reports and in the 2002/2003 audit report so that a platform could be created to ensure that in future years Council would not be faced with similar audit reports (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

It was abundantly clear that the issues raised by the Auditor-General were being vehemently addressed with great determination, and that all role players were committed to the process. All relevant issues were being pursued. A platform of reliable information was developed, and that platform needed to be maintained and monitored.

Furthermore, symptoms of the underlying problems were identified, and processes were put in place to ensure that the financial accounting and accountability aspects were dealt with in a manner deemed fit.

It was also evident from the reports that a serious commitment and partnership had developed amongst all role players. The confrontational, deadline-driven culture had to be replaced by one of co-operation, quality and an emphasis on doing the right things as well as doing things right.

#### **4.4.3 Special interventions targeting the Audit report for 2002/3 and subsequent years**

As indicated in the above paragraphs, Council, in consultation with the Auditor-General, the Department of Traditional and Local Government Affairs, and Council's internal auditors, advised all the relevant role players that a high-impact approach was needed in order to resolve the years of negative audit reports (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

It was encouraging to observe that all the role players agreed with that approach. Stake holders were also advised that for Council to rectify all the problems, sufficient resources needed to be dedicated to the tasks at hand (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

A decision was taken by Council to prepare and finalise financial reports for 2003/2004 at the end of 31 December 2004. That set of financials was meant to address the

deficiencies identified by the Auditor-General, and one expected a complete reversal of the years of negative audit reports in that regard (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

#### **4.4.4 Project to cleanse the municipal records**

Furthermore, in dealing with the findings of the Auditor General in the report, Council resolved to take the following specific actions (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council noted that in terms of paragraph 4 on page 4.3 of the Audit Report for 2002/2003, the Auditor-General issued a disclaimer on the said financial statements. On the basis of the disclaimer, Council took a decision to resolve the problems and that decision was endorsed (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council undertook that the general ledger and final trial balance be reconstructed to tie up the annual financial statements for the 2002/2003 financial year and render the relevant working papers available for audit (KwaDukuza Municipality Internal Memorandum: Phase 3 Project-Annual Financial Statements. Item Fin:76 dated 22/06/2006).

Council employed the services of external consultants to finalize the compilation of a detailed assets register. The register had to meet all the requirements of the Institute of Municipal Finance Officers. The assets register was to be made available to the Auditor-General during the audit of the 2003/2004 financial statements (KwaDukuza

Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).

Council took a decision that the Investments Register be fully reconciled and substantiated with detailed working papers and certificates from relevant Investment Institutions (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council took a decision to ensure that Appendix B, *Analysis of Property, Assets and Equipment*, and Appendix C, *Segmental Analysis of Property, Assets and Equipment* in the Annual Financial Statements were reconciled and that the working papers were to be made available for audit (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council undertook to make a submission to waive the contributions to the Capital Redemption Fund to the Office of the Premier of KwaZulu-Natal. The application was made and subsequent approval was received (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council took a decision to ensure that the Leave Pay Provision was adjusted to meet the requirements of the Council's accounting policies, and that full working papers of the relevant calculations were made available as appendices in the 2003/2004 financial statements (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council ensured that the budget-related figures were correctly adjusted and disclosed in the 2003/2004 financial statements. Proper reconciliations were made (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

A decision was taken to ensure that Debit and Credit Balance figures on Debtors' Accounts were split and properly reflected in the 2003/2004 Financial Statements (KwaDukuza Municipality Internal Memorandum: Housing Debt. Item Fin:03 dated 24/01/2006).

Council took a decision to ensure that the Debit Balances on the Trade Creditors were split and properly reflected from the Consolidated Credit Balances in the 2003/2004 financial statements (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council took a decision to ensure that Street or Verge Deposits were separated and reflected as Current Liabilities in the 2003/2004 financial statements. The accounting policy for Bad Debt Provisions was revisited, and the Council's debt profile was analysed in order for the figure to be correctly accounted for in the 2003/2004 financial statements. The immediate impact of the provision required was spread over current and future years depending on the availability of funds (KwaDukuza Municipality Internal Memorandum: Reversal of Rates – Land Reform Properties. Item Fin:72 dated 22/06/2006).

Council took a decision to ensure that the Balances and Cash Investment position of the Capital Development Fund be rectified in the 2003/2004 financial statements and that full working papers thereof be available for audit (KwaDukuza Municipality Internal

Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council took a decision that Salary Overpayments be raised as debtors and that the accounts be dispatched accordingly with specific instructions issued that the amounts be handed over for recovery if no response was received thereto (KwaDukuza Municipality Internal Memorandum: Date of Statements . Item: C209 dated 20/04/2005).

Council took a decision that the compilation of the new assets register should ensure that the correct asset situation be established and that the records be adjusted to correctly reflect the situation in the 2003/2004 financial statements. Substantial work was undertaken to ensure that a Consolidated Asset Register was prepared and produced (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

Council ensured that the Cash Flow Statement for the financial year 2002/3 was correctly compiled to reflect the real cash movements. Council took a decision to ensure that properly substantiated Working Papers were produced with the 2003/2004 financial statements (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

A decision was taken to ensure that all income credited to the Public Improvement Fund be fully supported with the relevant documentary proof and be made available to audit (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council undertook to engage the services of external consultants to rectify the accounting errors, backlogs and non-disclosures and ensured that the reasons for the issue of a disclaimer were attended to and resolved. The Council adopted a high-impact approach, whereby Council resolved and instructed that the problems encountered by the Treasury should be rectified once and for all. This approach enabled Council to move forward and deliver on its objectives and responsibility to the community (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

Council took a decision to ensure that the General Ledger and the Trial Balance (for 2002/2003) were reconstructed to tie in with the annual financial statements for 2002/2003, and that a comprehensive set of working papers in that regard be produced and be made available for audit. Furthermore, Council was adamant that a repetition of past and present negative audit reporting should not recur and that accountability and responsibility be instituted (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

The organogram of the Department of Finance was reconfigured in order to facilitate the operation of a more coherent unit (KwaDukuza Municipality Internal Memorandum: Organogram for the Municipalities. Item: Fin 77 dated 22/06/2006).

Council further realized that every effort was made to ensure that the Annual Financial Statements for the 2003/2004 financial year were properly prepared and presented in accordance with the laid-down Institute of Municipal Finance Officers' standards, and that the disclosure problems were identified and corrected (KwaDukuza Municipality Internal Memorandum: Implementation of New Accounting Standards. Item Fin :151 dated 18/10/2005).



Council ensured that the over-expenditure was investigated and a report was prepared for the attention of Council in accordance with section 10(G)(2)(J)(1) of the Local Government Transitional Act (Act No 209 of 1993).

Council took a decision that Procedures be put into place to ensure that Monthly Bank Reconciliations be prepared on a monthly basis. It was envisaged that from 1 January 2005 the bank reconciliation would be fully reconciled (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council took a decision to ensure that all Sundry Creditor balances were properly analysed with a view to ensuring that they be substantiated and treated in accordance with laid-down Institute of Municipal Finance Officers' standards. Full working papers were produced with the 2003/2004 financial statements (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

Council recommended that management, supervision, control and monitoring receive top priority in the treasury. Properly documented procedures and controls were implemented at all levels in order to ensure that all revenue was raised and collected and that all expenditure was legally incurred and accounted for (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

The original terms of reference calling for proposals from prospective service providers to conduct an Internal Audit at the Municipality compiled during 1999/2000 by the

Acting Treasurer and the then Deputy Treasurer from the erstwhile Borough of Dolphin Coast were visited. The Terms of Reference and the Scope of Work were not based on risk or any structured approach. However, after the tenders were awarded, the successful service providers advised the Municipal Manager and the Executive Committee on 17 July 2002 that the initial scope of work was not based on risk and that a structured approach to the Internal Audit assignment would be of more benefit to Council and staff. The revised approach was presented and accepted by the Executive Committee (KwaDukuza Municipality Internal Memorandum: KwaDukuza Municipality - Audit Committee: Allocation of Work to Attorneys. Item: C629 dated 05/10/2005).

There was no approved internal audit plan in place as there were other competing priorities in terms of the amalgamation of the three administrative entities and the consolidation of the various systems. For any Internal Audit Plan to be efficient, and effective, there needs to be a structured strategic approach in terms of risk management and internal control procedures. The business risk identification workshop was conducted on 13 September 2002, and the report was submitted to the Auditor-General. The risk management results were taken into consideration in developing a detailed plan for 2004/2005. All internal audit reports submitted by the Internal Auditors were subsequently submitted to the Auditor-General (KwaDukuza Municipality Internal Memorandum: Internal Audit Report. Item: C627 dated 05/10/2005).

It must be noted that in the consolidation of the various functions between the three administrative entities, there were logistical problems encountered in the central registry and filing procedures as there were three offices where filing was done. The report, as well as system documentation processes, was submitted to the Tender and Audit Committee 13 on 21 January 2003 (KwaDukuza Municipality Internal Memorandum: Corporate Reporting –Finance Monthly and Annual Report. Item: TAA 114 dated 18/10/2002.)

In the absence of a detailed internal audit plan, management used its prerogative to undertake ad hoc special internal audit reviews. Ad hoc audits were done on the basis of management's concern over the effectiveness of internal controls over certain sections within the Municipality. The undertaking of ad hoc assignments is common practice in business, industry and municipalities and clearly is in the best interests of the institutions. Management continued to undertake specific investigations where these were deemed necessary, as it was more beneficial for internal audits to close the gaps immediately rather than wait for the annual statutory audit. The mandate to undertake an ad hoc audit was granted (KwaDukuza Municipality Internal Memorandum: Internal Audit Report. Item: C627 dated 05/10/2005).

Council subsequently constituted an Audit Committee in terms of the applicable legislation in terms of section 166 of the Municipal Finance Management Act, and until resolved otherwise by Council all matters pertaining to the Performance Management System were undertaken by the Audit Committee as provided for in section 166(2) (KwaDukuza Municipality Internal Memorandum: Audit Committee and Performance Audit. Fin: 129 dated 20/09/2005).

The opinion expressed in the audit report highlighted the Council's concerns and prompted Council to immediately take corrective steps, and the Debt Recovery Plan was put in place to address the shortcomings pointed out by the Auditor-General in the audit report for 2002/2003 (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team – Prepaid Vending. Item Fin: 68 dated 14/06/2005).

The Final Distribution Accounts concerning the transfer of Assets and Liabilities to the Ilembe District Council were prepared with the 2003/2004 financial statements. Council submitted a claim to the Ilembe District Municipality for costs incurred in respect of water and sanitation services after 30 June 2004 (KwaDukuza Municipality Internal Memorandum: Internal Audit Report. Item: C627 dated 05/10/2005).

The rating of certain areas was investigated, and an informed decision was taken to de-rate such areas and grant a tax holiday for a period of eight years as prescribed by the Rates Policy. A report for consideration was submitted to the Council by the Executive Committee on 17 November 2004 (KwaDukuza Municipality Internal Memorandum: Reversal of Rates – Land Reform Properties. Item Fin:72 dated 22/06/2006).

The Housing Operating account was properly balanced off and reconciled with the preparation of the 2003/2004 financial statements. Full working papers to this effect were made available to audit (KwaDukuza Municipality Internal Memorandum: Housing Debt. Item Fin:03 dated 24/01/2006).

#### **4.5 PROGRAMME FOR THE EFFECTIVE IMPLEMENTATION OF THE COUNCIL'S RECOMMENDATIONS**

Council adopted a recovery plan which covered a multitude of areas of reform, as will be discussed below. The plan was presented to Council for consideration (KwaDukuza Municipality Internal Memorandum: Finance Reform Programme. Item Fin: 53 dated 14/10/2004), could be summarised as follows:

##### **4.5.1 Billing**

Consolidated billing was implemented and had to include refuse charges which were consolidated into owners' rates accounts. Furthermore, the Finance Department ensured that innovations were put in place to improve and promote efficient billing, and an effective billing cycle, and continued with the disconnection of services supplied to customers. (KwaDukuza Municipality Internal Memorandum: Date of Statements. Item: C209 dated 20/04/2005).

#### **4.5.2 Indigent support**

Implementation considered reviewing the threshold of R1300. The old-age pension was more than R700 and therefore the threshold was lifted to R1600 in tandem with Social Security Grants (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team – Prepaid Vending. Item Fin: 68 dated 14/06/2005).

#### **4.5.3 Monthly payment of rates**

A policy to encourage monthly payment of rates was drawn up with a clear implementation strategy. Current annual ratepayers willing to convert to a monthly rate could be encouraged to make part payments as long as the arrangements would not interfere with the existing policy.(KwaDukuza Municipality Internal Memorandum: Valuation Roll Report. Item:C628 dated 05/10/2005).

#### **4.5.4 Debt collection task team**

The multi-task team comprising representatives from diverse backgrounds was appointed in terms of a council resolution to vigorously drive debt collection efforts. The team met on a weekly basis to review progress and set programmes and tasks for each week (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team – Prepaid Vending. Item Fin: 68 dated 14/06/2005).

#### **4.5.5 Revenue enhancement and debt recovery plan**

Council implemented an aggressive recovery plan which targeted the following areas:

- (a) undertake vigorous disconnection for non-payment of services;
- (b) conduct disconnections for all accounts older than 90 days;
- (c) collect monies owed by state/and other state agencies to the total of R1,5m;
- (d) recover monies owed by the Ilembe District Municipality in respect of water to the total value of R16m;

- (e) review investments and external loans to the estimated value of R22m;
  - (f) vigorously implement measures contained in the credit control policy;
  - (g) pursue consolidation/distribution agreements with major creditors;
  - (h) review operating and capital budgets;
  - (I) review asset policy with a view to unbundling assets;
  - (j) review Value Added Tax;
  - (k) review the current tariff structure;
  - (l) review the billing cycle; and
  - (m) acquire electronic meter reading equipment
- (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team – Prepaid Vending. Item Fin: 68 dated 14/06/2005)

#### **4.5.6 Public awareness**

The implementation of certain aspects of the policy required a public awareness campaign. Where Council felt such was required, appropriate awareness initiatives were implemented such as an Izimbizo, newspapers adverts and pamphlets (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team – Prepaid Vending. Item Fin: 68 dated 14/06/2005).

#### **4.5.7 Submission of the Annual Financial Statements for 2003/4**

In terms of existing legislation, Council should have completed the 2003/2004 financial statements and submitted them to the Office of the Auditor-General by 30 September 2004. Owing to the nature of the problems as highlighted by the Auditor-General during the 2002/2003 audit, it was not possible to comply with that deadline. In order to place the financial records of Council on a reliable footing, it was crucially necessary for the focus to shift from deadline-driven to quality-driven. As a natural consequence of that philosophy, the date of completion of the 2003/2004 annual financial statements was set

for 31 December 2004. It must also be stressed that the extension was a one-off event. With a clean set of records and a firm foundation at their disposal, finance managers could better function to the benefit of the municipality (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

#### **4.5.8 Restructuring the Department of Finance**

Apart from the issue of Annual Financial Statements, institutional arrangements were undertaken to ensure that the structure (organogram) and processes within the Department of Finance were correctly aligned to enable officials to carry out their respective responsibilities (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme . Item: C540 dated 07/09/2005).

Further to that, one of the single most serious impediments to the compilation of a financial statement, that of an accurate or fair representation of the financial position of the Municipality, was the absence of a balanced, consolidated, correctly valuated and verified asset register. The project was vigorously pursued with the assistance of a firm of accountants.

The above basically sums up the reasons for the inability by the municipality to submit annual financial statements as prescribed. It is a concise report on what efforts were made to rectify the situation. In short it was accepted that a quick-fix solution was not desirable since most of the problems were historical and materially affected key financial disclosures and accounting requirements. Hence the decision to adopt an approach to sort out the fundamental issues at once so that reliable and fair annual financial statements could be produced in going forward (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).

The issue of organizational re-engineering was also addressed by way of reviewing the organogram and internal business processes and systems. Another pertinent issue was the filling of posts subject to outcomes of the review of the departmental organogram and the capacity-building programme (KwaDukuza Municipality Internal Memorandum: Organogram for the Municipalities. Item: Fin 77 dated 22/06/2006).

## **4.6 MILESTONES AND ACHIEVEMENTS**

### **4.6.1 The Annual Financial Statements**

The annual financial statement for the former local government entities had for a long period of time displayed signs of underlying operational problems reflected by persistent recurrence of qualified audit reports dating back to the early 1990s. This problem was further compounded by the first amalgamation which resulted in the establishment of the three transitional local entities of Ballito, Stanger and Zinkwazi in 1996 (KwaDukuza Municipality Internal Memorandum: Phase 3 Project- Annual Financial Statements. Item Fin :76 dated 22/06/2006).

During the 1996 amalgamation, the three entities inherited a host of unresolved matters from the previous dispensation. Furthermore, complications were compounded by the second phase of the amalgamation in 2000 which came at the time when the transitional local authorities were still in the midst of resolving issues inherited from the first amalgamation of 1996. In 2000/01, both Ballito and Stanger received qualified audit reports. The two qualified reports were amalgamated into KwaDukuza Municipality before each could receive any attention. That consolidation created an even bigger problem, which resulted in a disclaimer. The amalgamation of the two accounts which had inherent flaws required extensive attention as an aftermath. The baggage received attention, and the outstanding issues were finally resolved (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).



#### **4.6.2 Trend analysis**

The analysis of operating revenue and expenditure shown below reflects growth in monetary terms from the total expenditure of R215 million in 2003 to R295 million in 2007. Revenue increased from R215 million in 2003 to R331million in 2007.The major contribution in revenue increase came from rates, Service charges and grants (KwaDukuza Municipality Internal Memorandum: Phase 3 Project - Annual Financial Statements. Item Fin :76 dated 22/06/2006).

**FIGURE 4.1 : REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD  
2003 TO 2007**

<b>REVENUE</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
PROPERTY RATES	46,810,694	56,359,781	70,207,364	80,995,525	84,635,221
PENALTIES AND CHARGES	0	0	5,012,345	7,072,649	5,136,662
SERVICE CHARGES	116,552,501	112,130,002	130,652,534	140,376,819	163,357,159
RENTAL OF FACILITIES	0	0	1,113,325	702,529	591,988
INTEREST FROM INVESTMENTS	3,448,217	6,926,746	6,486,143	5,773,113	8,571,732
INTEREST FROM DEBTORS	0	0	4,140,400	4,871,229	3,717,060
FINES	0	0	3,536,111	4,296,212	5,747,604
LICENCES AND PERMITS	0	0	63,007	3,897,961	3,978,154
GRANTS AND SUBSIDIES	17,843,763	20,122,230	21,703,351	23,078,382	44,796,081
OTHER INCOME	30,835,480	26,976,916	9,262,861	8,560,042	11,133,166
<b>TOTAL INCOME</b>	<b>215,490,655</b>	<b>222,515,675</b>	<b>252,177,441</b>	<b>279,624,461</b>	<b>331,664,827</b>
<b>EXPENDITURE</b>					
EMPLOYEE COSTS	63,571,700	65,318,697	67,984,439	74,129,497	82,091,345
COUNCILLORS REMUNERATION	2,985,107	3,555,068	3,732,738	4,074,555	7,167,028
BAD DEBTS	0	0	11,500,000	0	0
COLLECTION COSTS	0	0	992,942	2,000,915	1,612,179
DEPRECIATION	0	0	0	23,150,181	25,446,142
REPAIRS AND MAINTENANCE	15,656,590	14,761,926	15,851,356	21,726,446	24,527,780
INTEREST PAID	15,532,393	14,140,735	27,398,561	8,094,100	10,215,217
BULK PURCHASES	63,067,733	68,929,060	74,340,327	80,151,176	92,342,390
CONTRACTED SERVICES	0	0	7,060,041	8,245,039	10,172,995
RETIREMENT BENEFITS	0	0	0	26,276,615	2,877,686
GENERAL EXPENSES	91,838,146	62,353,051	41,598,761	49,129,795	64,782,442
LOSS ON DISPOSAL OF PROPERTY	0	0		0	78,710
CONTRIBUTIONS	4,497,886	2,250,682	7,518,251	0	0
ADJUSTMENT TO PROVISIONS	0	0	0	0	(3,854,746)
LESS : RECHARGES	(41,373,587)	(8,361,198)	(7,992,626)	(20,341,242)	(22,529,754)
<b>TOTAL EXPENDITURE</b>	<b>215,775,968</b>	<b>222,948,021</b>	<b>249,984,790</b>	<b>276,637,077</b>	<b>294,929,414</b>
<b>SURPLUS / (LOSS)</b>	<b>-285,313</b>	<b>-432,346</b>	<b>2,192,651</b>	<b>2,987,384</b>	<b>36,735,413</b>

Source: Figure 4.1. Audited Financial Statements for KwaDukuza Municipality.

In 2004/5 financial year, the Municipality generated profits for the first time after many years

of operational losses. The profits were in excess of R13 million. That enabled Council to write off bad debts to the amount of R11,5 million. The bulk of the debt was made up of irrecoverable debts accrued to indigent households. In 2006 the Municipality generated profits in excess of R25 million. An amount of R23,5 million was utilised to restructure asset finance by financing depreciation. In 2007 the municipality generated profits in excess of R36 million. The profits were utilised to finance capital investment in the 2007/8 financial year (KwaDukuza Municipality Internal Memorandum: Phase 3 Project- Annual Financial Statements. Item Fin :76 dated 22/06/2006).

**FIGURE 4.2 : REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD 2003 TO 2007**

REVENUE	2002/3	2003/4	2004/5	2005/6	2006/7
TOTAL INCOME	215,490,655	222,515,675	252,177,441	279,624,461	331,664,827
	0	0	0	0	0
	<b>215,490,655</b>	<b>222,515,675</b>	<b>252,177,441</b>	<b>279,624,461</b>	<b>331,664,827</b>
<b>Variance</b>	<b>0</b>	<b>7,025,020</b>	<b>29,661,766</b>	<b>27,447,020</b>	<b>52,040,366</b>
<b>% Variance</b>	<b>0</b>	<b>3.26%</b>	<b>13.33%</b>	<b>10.88%</b>	<b>18.61%</b>
<b>EXPENDITURE</b>					
TOTAL EXPENDITURE	215,775,968	222,948,021	249,984,790	276,637,077	294,929,414
	0	0	0	0	0
	<b>215,775,968</b>	<b>222,948,021</b>	<b>249,984,790</b>	<b>276,637,077</b>	<b>294,929,414</b>
<b>Variance</b>	<b>0</b>	<b>7,172,053</b>	<b>27,036,769</b>	<b>26,652,287</b>	<b>18,292,337</b>
<b>% Variance</b>	<b>0</b>	<b>3.32%</b>	<b>12.13%</b>	<b>10.66%</b>	<b>6.61%</b>
<b>SURPLUS / (LOSS)</b>	<b>-285,313</b>	<b>-432,346</b>	<b>2,192,651</b>	<b>2,987,384</b>	<b>36,735,413</b>

Source: Figure 4.2. Audited Financial Statements for KwaDukuza Municipality.

The year-to-year analysis reflects that revenue collection between 2002/3 and 2003/4 increased by 3,26%. The revenue increase between 2003/4 and 2004/5 rose to 13,3%. That was when the impact of the recovery project began to take effect. The revenue increase between 2004/5 and 2005/6 rose again to 16,59% on a year-to-year basis. That was when the impact of the recovery plan began to take effect.

**FIGURE 4.3 : REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD 2003 TO 2007**

REVENUE	2002/3	2003/4	2004/5	2005/6	2006/7
		<b>Variance</b>	<b>Variance</b>	<b>Variance</b>	<b>Variance</b>
PROPERTY RATES	0	9,549,087	13,847,583	10,788,161	3,639,696
PENALTIES AND CHARGES	0	0	5,012,345	2,060,304	(1,935,987)
SERVICE CHARGES	0	(4,422,499)	18,522,532	9,724,285	22,980,340
RENTAL OF FACILITIES	0	0	1,113,325	(410,796)	(110,541)
INTEREST FROM INVESTMENTS	0	3,478,529	(440,603)	(713,030)	2,798,619
INTEREST FROM DEBTORS	0	0	4,140,400	730,829	(1,154,169)
FINES	0	0	3,536,111	760,101	1,451,392
LICENCES AND PERMITS	0	0	63,007	3,834,954	80,193
GRANTS AND SUBSIDIES	0	2,278,467	1,581,121	1,375,031	21,717,699
OTHER INCOME	0	(3,858,564)	(17,714,055)	(702,819)	2,573,124
<b>TOTAL INCOME</b>	<b>0</b>	<b>7,025,020</b>	<b>29,661,766</b>	<b>27,447,020</b>	<b>52,040,366</b>
<b>EXPENDITURE</b>					
EMPLOYEE COSTS	0	1,746,997	2,665,742	6,145,058	7,961,848
COUNCILLORS REMUNERATION	0	569,961	177,670	341,817	3,092,473
BAD DEBTS	0	0	11,500,000	(11,500,000)	0
COLLECTION COSTS	0	0	992,942	1,007,973	(388,736)
DEPRECIATION	0	0	0	23,150,181	2,295,961
REPAIRS AND MAINTENANCE	0	(894,664)	1,089,430	5,875,090	2,801,334
INTEREST PAID	0	(1,391,658)	13,257,826	(19,304,461)	2,121,117
BULK PURCHASES	0	5,861,327	5,411,267	5,810,849	12,191,214
CONTRACTED SERVICES	0	0	7,060,041	1,184,998	1,927,956
RETIREMENT BENEFITS	0	0	0	26,276,615	(23,398,929)
GENERAL EXPENSES	0	(29,485,095)	(20,754,290)	7,531,034	15,652,647
LOSS ON DISPOSAL OF PROPERTY	0	0	0	0	78,710
CONTRIBUTIONS	0	(2,247,204)	5,267,569	(7,518,251)	0
ADJUSTMENT TO PROVISIONS	0	0	0	0	(3,854,746)
LESS : RECHARGES	0	33,012,389	368,572	(12,348,616)	(2,188,512)
<b>TOTAL EXPENDITURE</b>	<b>0</b>	<b>7,172,053</b>	<b>27,036,769</b>	<b>26,652,287</b>	<b>18,292,337</b>
<b>SURPLUS / (LOSS)</b>	<b>0</b>	<b>-147,033</b>	<b>2,624,997</b>	<b>794,733</b>	<b>33,748,029</b>

Source: Figure 4.3. Audited Financial Statements for KwaDukuza Municipality.

In the 2006/7 financial year, revenue increased by 18,6% compared to the 2005/6 financial year. These results reflect marked improvements from in revenue collection and bears testimony to the fact that the Recovery Plan was yielding good results.

The net increase or decrease on a year to year comparison reflects that property rates, service charges, interest and grant funding were major performers in the drive by the municipality to improve revenue collection. The trend reflects that major cost drivers in the expenditure side were employee costs, councillor remuneration, bulk purchases and general expenses. Figure 4.4.is an Extract from the Audited Financial Statements for KwaDukuza Municipality.

**FIGURE 4.4 : INDEXED ANALYSIS OF REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD 2003 TO 2007**

REVENUE	2002/3	2003/4	2004/5	2005/6	2006/7
PROPERTY RATES	100.00%	120.40%	144.97%	160.34%	164.83%
PENALTIES AND CHARGES	100.00%	0.00%	100.00%	141.10%	113.73%
SERVICE CHARGES	100.00%	96.21%	112.72%	120.17%	136.54%
RENTAL OF FACILITIES	100.00%	0.00%	100.00%	63.10%	47.37%
INTEREST FROM INVESTMENTS	100.00%	200.88%	194.52%	183.53%	232.00%
INTEREST FROM DEBTORS	100.00%	0.00%	100.00%	117.65%	93.96%
FINES	100.00%	0.00%	100.00%	121.50%	155.28%
LICENCES AND PERMITS	100.00%	0.00%	100.00%	6186.55%	6188.61%
GRANTS AND SUBSIDIES	100.00%	112.77%	120.63%	126.96%	221.07%
OTHER INCOME	100.00%	87.49%	21.82%	14.24%	44.30%
<b>TOTAL INCOME</b>	<b>100.00%</b>	<b>103.26%</b>	<b>116.59%</b>	<b>127.47%</b>	<b>146.09%</b>
<b>EXPENDITURE</b>					
EMPLOYEE COSTS	100.00%	102.75%	106.83%	115.87%	126.61%
COUNCILLORS REMUNERATION	100.00%	119.09%	124.09%	133.25%	209.15%
BAD DEBTS	100.00%	0.00%	100.00%	0.00%	0.00%
COLLECTION COSTS	100.00%	0.00%	100.00%	201.51%	182.09%
DEPRECIATION	100.00%	0.00%	0.00%	100.00%	109.92%
REPAIRS AND MAINTENANCE	100.00%	94.29%	101.67%	138.73%	151.62%
INTEREST PAID	100.00%	91.04%	184.80%	114.34%	140.54%
BULK PURCHASES	100.00%	109.29%	117.14%	124.96%	140.17%
CONTRACTED SERVICES	100.00%	0.00%	100.00%	116.78%	140.17%
RETIREMENT BENEFITS	100.00%	0.00%	0.00%	100.00%	10.95%
GENERAL EXPENSES	100.00%	67.89%	34.61%	52.71%	84.57%
LOSS ON DISPOSAL OF PROPERTY	100.00%	0.00%	0.00%	0.00%	100.00%
CONTRIBUTIONS	100.00%	50.04%	284.08%	184.08%	0.00%
ADJUSTMENT TO PROVISIONS	100.00%	0.00%	0.00%	0.00%	100.00%
LESS : RECHARGES	100.00%	20.21%	15.80%	170.30%	181.06%
<b>TOTAL EXPENDITURE</b>	<b>100.00%</b>	<b>103.32%</b>	<b>115.45%</b>	<b>126.11%</b>	<b>132.72%</b>
<b>SURPLUS / (LOSS)</b>	<b>0.00%</b>	<b>-0.0638%</b>	<b>1.1394%</b>	<b>1.3619%</b>	<b>13.3603%</b>

Source: Figure 4.4.Audited Financial Statements for KwaDukuza Municipality.

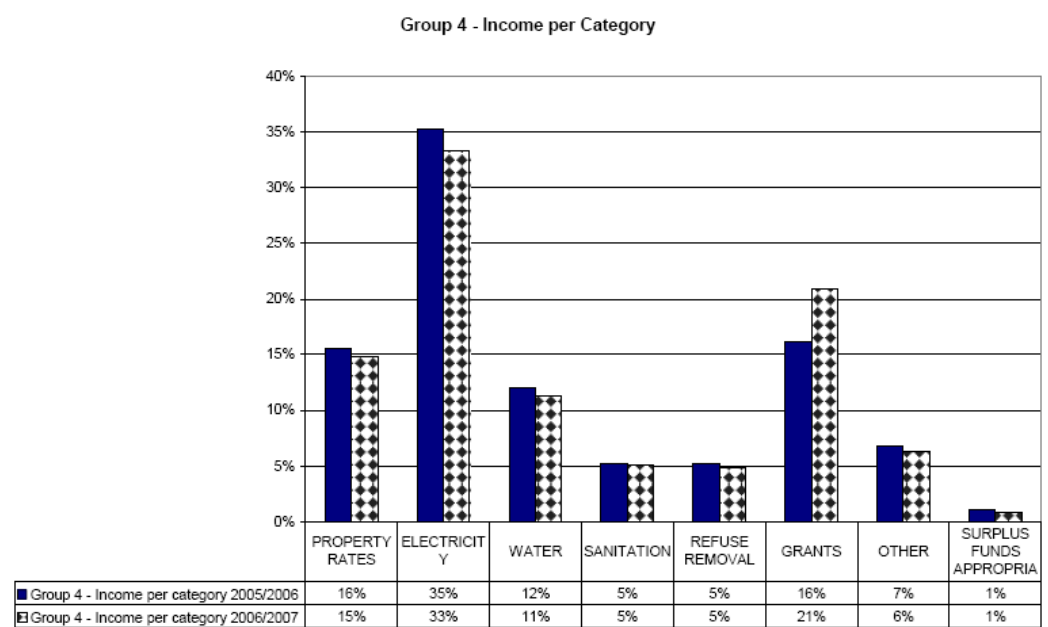
The indexed analysis which uses annual increment reflects an upward trend, particularly on the revenue side. The trend analysis reflects that best performers under the revenue section of the income and expenditure statements over the period 2003 to 2007 were property rates at 164%, interest from investments at 232%, grants and subsidies at 221%, and licences at over 6000%.

Expenditure trends reflects that councillor remuneration increased two folds to 209% over the period, financing of debt recovery efforts increased by 182% over the period, and repairs and maintenance increased by 151% over the period. The overall increase reflects 132% over the period 2003 to 2007 compared to 151% of revenue within the same period. The conclusion can therefore be drawn that expenditure was well contained not to overrun and exceed revenue.

**FIGURE 4.5: REPORT ON THE ANALYSIS OF MUNICIPAL BUDGETS 2007**

**REPORT ON THE ANALYSIS OF MUNICIPAL BUDGETS – 2006/2007 FINANCIAL YEAR**

**2.3.5 Income per Category – Group Four Local Municipalities**



**SOURCE : Commonwealth Local Government, 2007**

International experiences compare well with the South African scenario in that in Australia, taxes comprise 39% on aggregate; Sale of services comprise 31% of the budget; grants make up 11% of the total revenue, interest and other sources make up 20% of total revenue(Commonwealth Local Government Handbook, 2007:23).

**FIGURE 4.6 :REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD 2003 TO 2007**

**COMMON SIZED ANALYSIS**

REVENUE	2002/3	2003/4	2004/5	2005/6	2006/7
PROPERTY RATES	21.72%	25.33%	27.84%	28.97%	25.52%
PENALTIES AND CHARGES	0.00%	0.00%	1.99%	2.53%	1.55%
SERVICE CHARGES	54.09%	50.39%	51.81%	50.20%	49.25%
RENTAL OF FACILITIES	0.00%	0.00%	0.44%	0.25%	0.18%
INTEREST FROM INVESTMENTS	1.60%	3.11%	2.57%	2.06%	2.58%
INTEREST FROM DEBTORS	0.00%	0.00%	1.64%	1.74%	1.12%
FINES	0.00%	0.00%	1.40%	1.54%	1.73%
LICENCES AND PERMITS	0.00%	0.00%	0.02%	1.39%	1.20%
GRANTS AND SUBSIDIES	8.28%	9.04%	8.61%	8.25%	13.51%
OTHER INCOME	14.31%	12.12%	3.67%	3.06%	3.36%
<b>TOTAL INCOME</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>EXPENDITURE</b>					
EMPLOYEE COSTS	29.46%	29.30%	27.20%	26.80%	27.83%
COUNCILLORS REMUNERATION	1.38%	1.59%	1.49%	1.47%	2.43%
BAD DEBTS	0.00%	0.00%	4.60%	0.00%	0.00%
COLLECTION COSTS	0.00%	0.00%	0.40%	0.72%	0.55%
DEPRECIATION	0.00%	0.00%	0.00%	8.37%	8.63%
REPAIRS AND MAINTENANCE	7.26%	6.62%	6.34%	7.85%	8.32%
INTEREST PAID	7.20%	6.34%	10.96%	2.93%	3.46%
BULK PURCHASES	29.23%	30.92%	29.74%	28.97%	31.31%
CONTRACTED SERVICES	0.00%	0.00%	2.82%	2.98%	3.45%
RETIREMENT BENEFITS	0.00%	0.00%	0.00%	9.50%	0.98%
GENERAL EXPENSES	42.56%	27.97%	16.64%	17.76%	21.97%
LOSS ON DISPOSAL OF PROPERTY	0.00%	0.00%	0.00%	0.00%	0.03%



CONTRIBUTIONS	2.08%	1.01%	3.01%	0.00%	0.00%
ADJUSTMENT TO PROVISIONS	0.00%	0.00%	0.00%	0.00%	-1.31%
LESS : RECHARGES	-19.17%	-3.75%	-3.20%	-7.35%	-7.64%
<b>TOTAL EXPENDITURE</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>SURPLUS / (LOSS)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source : Figure 4.6. Audited Financial Statements for KwaDukuza Municipality.

The South African Local Government Association Report for 2007 reflects that Group Four Local Municipalities average 15% income from taxes or rates, 35% on electricity, 12% on water, 5% on sanitation, 5% on refuse, 16% on grant funding, and 8% under other, which will include interest and surplus funds.

Both scenarios compare well with the reports sourced from KwaDukuza Municipality. Trend analysis reflects that the main contributions to revenue over the period 2003 to 2007 were property rates at an average of 25%, services charges at an average of 50%, and grants at an average of 10%. The three streams of income contribute over 80% of total revenue and should always be targeted and sustained as main sources of revenue for the municipality.

According to Saito (2008:199), metropolitan municipalities in South Africa account for 90% of own revenue, whereas poor municipalities account for 92% being subsidies and grants.

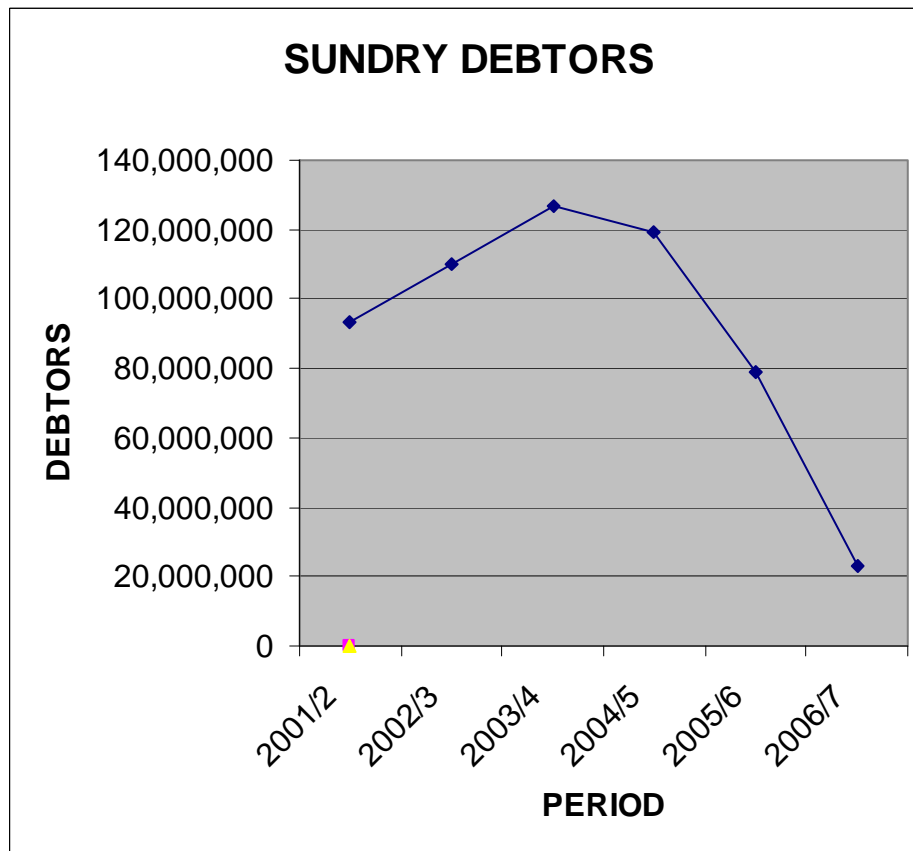
**FIGURE 4.7: ANALYSIS OF OPERATING (CURRENT) DEBTORS FOR THE PERIOD 2003/4 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>SUNDRY DEBTORS</b>	<b>93,415,628</b>	<b>110,238,525</b>	<b>126,735,189</b>	<b>119,173,515</b>	<b>79,186,261</b>	<b>23,185,195</b>

Source: Figure 4.7. Audited Financial Statements for KwaDukuza Municipality.

**FIGURE 4.8:**

**ANALYSIS OF SUNDRY DEBTORS**



Source: Figure 4.8. Audited Financial Statements for KwaDukuza Municipality.

The total debt recorded in 2002 was R93 million. In 2003 that increased to R110 million, and in 2004 debt reached its highest level at R126 million. In 2005 the impact of the programme began to yield results and the debt began decreasing and reached R119 million. In 2006 the downward trend continued, and the total debt was reduced to R79 million. In 2007 total debt reached its lowest level of R23 million (KwaDukuza

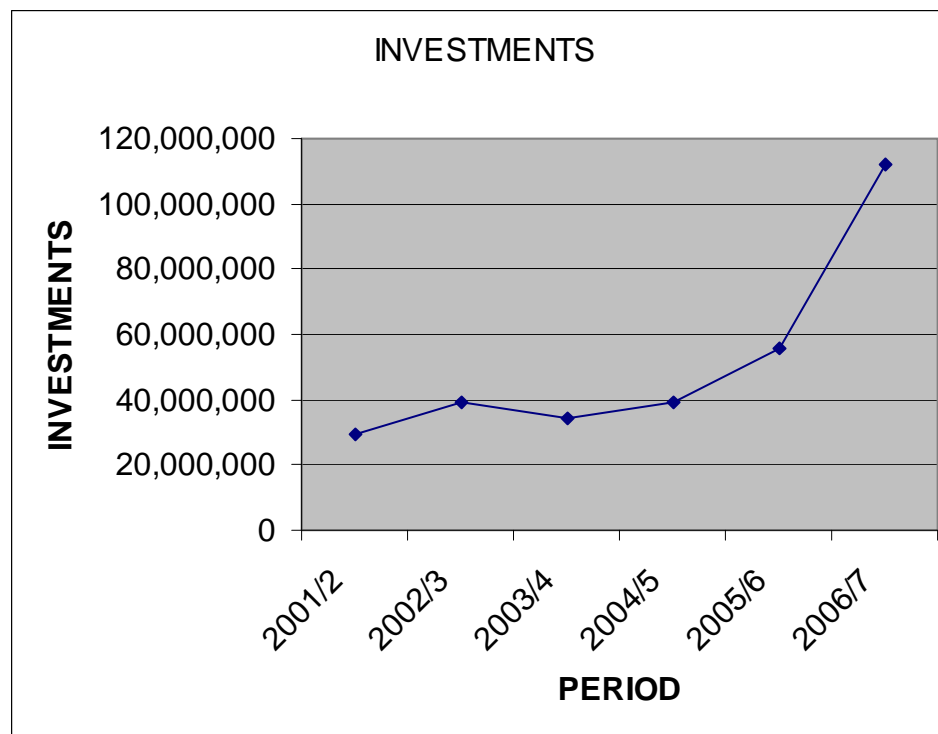
**FIGURE 4.9 : ANALYSIS OF INVESTMENTS FOR THE PERIOD 2001/2 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>INVESTMENTS</b>	<b>29,636,661</b>	<b>39,035,304</b>	<b>34,566,951</b>	<b>39,035,304</b>	<b>55,871,393</b>	<b>112,130,069</b>

Source : Figure 4.9. Audited Financial Statements for KwaDukuza Municipality.

The information presented in Figure 4.9 above is represented graphically in 4.10.

**FIGURE :4.10 : ANALYSIS OF INVESTMENTS FOR KWADUKUZA MUNICIPALITY**



Source: Figure 4.10.Audited Financial Statements for KwaDukuza Municipality.

Total investments in 2002 were R29 million, which represented investments hedged against reciprocal coupons. The investment portfolio improved in 2007 and reached the highest level of R112 million with liquidity level of more than 80% (KwaDukuza Municipality Internal Memorandum: Phase 3 Project- Annual Financial Statements. Item Fin :76 dated 22/06/2006).

**FIGURE: 4.11 : ANALYSIS OF CASH BANK ACCOUNT FOR THE PERIOD 2003/4 TO 2006/7.**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>CASH/ BANK</b>	<b>45,573,241</b>	<b>25,833,373</b>	<b>8,392,280</b>	<b>25,833,373</b>	<b>36,554,448</b>	<b>18,933,381</b>

Source: Figure 4.11.Audited Financial Statements for KwaDukuza Municipality.

In 2001/2 financial year, total cash at the bank was R45 million, and the creditors were R49 million. That represented a shortfall of R5 million. The situation worsened in the 2002/3 financial year when cash at the bank totalled R25 million, and creditors totalled R44 million, representing a shortfall of R19 million. In 2003/4 the situation worsened further when total cash in the bank amounted to R8 million against R41 million in creditors, representing a shortfall of R33 million.

**FIGURE: 4.12: ANALYSIS OF CREDITORS FOR THE PERIOD 2001/2 TO 2006/7 FINANCIAL YEAR.**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>INVESTMENTS</b>	<b>49,709,321</b>	<b>44,434,189</b>	<b>41,791,685</b>	<b>51,299,576</b>	<b>59,058,574</b>	<b>56,475,945</b>

Source: Figure 4.12.Audited Financial Statements for KwaDukuza Municipality.

The programme then began to gain ground, and in 2004/5 cash at the bank increased to a total figure of R25 million, with creditors at R51 million.

The shortfall was reduced from R33 million in 2003/4 to R25 million. In 2005/6 financial year the total amount of cash in the bank increased to R36.5 million, and liquid investments increased to more than R20 million.

**FIGURE: 4.13 : ANALYSIS OF INVESTMENTS FOR THE PERIOD 2003/4 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
INVESTMENTS	29,636,661	39,035,304	34,566,951	39,035,304	55,871,393	112,130,069

Source: Figure 4.13. Audited Financial Statements for KwaDukuza Municipality.

Total cash and liquid investments amounted to R57 million. In 2005/6 financial year sundry creditors amounted to R59 million. The shortfall was reduced to R2 million.

In the 2006/7 financial year creditors totalled R56 million compared to liquid investments of R72 million, a positive net effect of R16million.

Progress to date can be summed up as follows:

- (a) A substantial portion of the disclosures contained in the 2002/2003 annual financial statements were reconciled. A revised trial balance as at 30 June 2003 was completed, and some reliance could be placed on the annual financial statement for the 2002/2003 financial year. In 2006, KwaDukuza Municipality received an unqualified audit report. (KwaDukuza Municipality Audited Annual Financial Statements 2006:2).
- (b) A reliable trial balance was produced using information derived from the Financial System for the 2003/2004, 2004/2005 and 2005/2006 financial year. (KwaDukuza Municipality Audited Annual Financial Statements 2006:2).

- (c) A detailed training framework focusing on the modules to be utilised, the proposed participants, deliverables and timeframes was prepared and training was conducted concurrent with the preparation of the annual financial statement. The programme was monitored by the National Department of Provincial and Local Government under Project Consolidate (KwaDukuza Municipality, 2004:78).
- (d) In the 2002/3 financial year, Council received a disclaimer where the Office of the Auditor-General refused to pronounce an opinion as a result of the condition of the books. In 2003/4 and 2004/5, the Municipality received a qualified report. The main reason was the unreliable condition of the asset register. In 2005/6 and 2006/7 the Municipality received a clean unqualified report which was a testimony to the successful implementation of the recovery programme (KwaDukuza Municipality Audited Annual financial Statements 2006:2).

#### **4.6.3 Cash position and cash investments with banks**

According to the Management Audit Report of 2003 (2003: 3), KwaDukuza Municipality had for a number of years failed to meet short-term financial requirements. The Municipality operated on an overdraft facility provided by the bank. In 1998 the overdraft facility with Standard Bank totalling R30m was converted into a long-term loan. In 1991 an amount totalling R9 million was raised from Siza Water, being an advance payment to ease the burden of the cash flow.

In 2000 and 2001 the entire grant funding from National Treasury, being an Equitable Share in terms of the Division of Revenue Act, was used to finance operational expenses. National Government earmarks Equitable Share allocation for poverty relief programmes and free basic services (KwaDukuza Municipality Management Report,2003: 3).

During the 2000/01 Budget, an amount of R2m allocated by the Provincial Department of Housing for low income housing was used to finance short-term operating expenses. The Municipality had to refund the entire amount in terms of the Public Finance Management Act.

During the 2001/2002 Budget, a loan to the amount of R20m was raised from a financial institution with the intention of funding a financial capital project. The entire amount was used to finance operating expenses (KwaDukuza Municipality Management Report 2003: 3).

During the period 1996 to 2000, loans were raised on collateral. Loans totalling R40m were raised, and R10million of that was reinvested with the bank so that by the time it matures, the entire loan is automatically redeemed. The entire amount raised was used to finance operating expenses and not capital as initially intended (KwaDukuza Municipality Management Report 2003: 3).

In 2005 the Municipality realized for the first time the positive benefits of the turnaround strategy. According to the Monthly Reports for the period November 2005, the Municipality realized a cash surplus to the amount of R40m which was invested with different banking institutions. According to Monthly Reports for April 2006, the amount of investments increased to R70m. Council was at this stage in a comfortable position to meet short-term cash requirements and begin to plan for the future without focusing a large part of municipal resources in clearing the backlogs. (KwaDukuza Municipality Financial Reports. 2006:4).

According to Figure 4.14, the total of investments at the end of 2006/7 financial year amounted to R112 million.

Figure 4.14 is an Extract from Audited Financial Statements for KwaDukuza Municipality.

**FIGURE 4.14 : ANALYSIS OF INVESTMENTS FOR THE PERIOD 2003/4 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>INVESTMENTS</b>	29,636,661	39,035,304	34,566,951	39,035,304	55,871,393	112,130,069

Source: Figure 4.14.Audited Financial Statements for KwaDukuza Municipality.

Liquidity ratios were also used to analyse and determine the strength of the cash positions of the Municipality. Current ratio weighs current assets against current liabilities, and a healthy position is reflected by a result of 1:1 and above. Current ratio assesses the ability of the organisation to remain solvent over a short term; however, debtors were excluded since they cannot convert as quickly as expected.

**FIGURE 4.15: ANALYSIS OF ASSETS FOR THE PERIOD 2001/2 TO 2006/7 FINANCIAL YEAR.**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>ASSETS</b>	148,630,345	143,852,477	138,292,676	147,213,668	171,844,117	183,995,669

Source: Figure 4.15.Audited Financial Statements for KwaDukuza Municipality.

Current assets for the periods 2001/2, 2002/3, 2003/4, 2004/5, 2005/6, and 2006/7 include trade debtors. In the interest of a more accurate assessment, the exercise will exclude trade debtors.

**FIGURE 4.16: ANALYSIS OF LIABILITIES FOR THE PERIOD 2001/2 TO 2006/7 FINANCIAL YEAR.**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>LIABILITIES</b>	57,224,053	53,462,576	50,389,497	62,521,079	77,705,017	93,395,640

Source: Figure 4.16.Audited Financial Statements for KwaDukuza Municipality.



Totals in Figure 4.16 for current liabilities for the periods 2001/2, 2002/3, 2003/4, 2004/5, 2005/6 and 2006/7 were extracted from published financial statements for the KwaDukuza Municipality.

**FIGURE: 4.17 : ANALYSIS OF ASSETS (LESS DEBTORS) FOR THE PERIOD 2001/2 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
ASSETS LESS DEBTORS	148,630,345	143,852,477	138,292,676	147,213,668	183,995,669	171,844,117
TRADE DEBTORS	93,415,628	110,238,525	126,735,189	119,173,515	72,274,308	79,186,261
NET	55,214,717	33,613,952	11,557,487	28,040,153	111,721,361	92,657,856

Source: Figure 4.17.Audited Financial Statements for KwaDukuza Municipality.

**FIGURE :4.18 : LIQUIDITY RATIO FOR THE PERIOD 2001/2 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
RATIO	0.96	0.63	0.23	0.45	1.44	0.99

Source: Figure 4.18.Audited Financial Statements for KwaDukuza Municipality.

The liquidity ratio considered Current Assets with the exclusion of Debtors.

Trade debtors within local government are very difficult to covert to cash. It is on that basis that debtors were excluded from the formula instead of following common practice where stock is excluded. The impact derived from the fomulae is similar, as will be interpreted below.

The trend shows a decline from the period 2001/2 which was at 0.96:1, to 0.63:1 in 2002/3, to 0.23:1 in 2003/4. The period 2003/4 reflects the worst performance displayed by the Municipality at 0.23: 1. Performance started improving in 2004/5 from 0.23:1 to 0.45:1. In the 2005/6 financial year, the performance improved further to 1.44: 1, which

reflected the best performance over the period of six years (KwaDukuza Municipality Internal Memorandum: Phase 3 Project- Annual Financial Statements. Item Fin:76 dated 22/06/2006).

#### **4.6.4 Equitable share**

During the period of the 1999/2000 to 2001/02 financial years, National Government allocated an amount of R9 million per annum towards the poverty relief programme. The entire allocation was used by the Municipality firstly, to cushion rates increases and secondly, to finance a range of operating expenses. Effectively, monies allocated for the poor ended up benefitting the rich and privileged communities by way of rates subsidies. For the first time in 2002/03 the Equitable Share allocation was ring-fenced and targeted to the services of poor communities such as free basic services, capital developments and infrastructure in underdeveloped areas. Council took a decision to ring-fence the equitable share and ensure that it was targeted to the service of poor communities by way of free basic services and grants (KwaDukuza Municipality Internal Memorandum: Budget Process Plan 2006/7.Item Fin: 149 dated 18/10/2008).

#### **4.6.5 Ability to raise loans**

From the period of the first amalgamation in 1996, Council experienced a problem of escalating debt as a result of rates and services boycotts propagated during the days of the struggle. Secondly, Council overcommitted when raising loans and ended up with a sizable repayment liability in the books. As result, council experienced cash flow problems and could not meet short-term financial commitments. To complicate this further, Council's financial statements for 2002/03 were given a disclaimer where the auditors could not pronounce an opinion. As a result, Council found it impossible to raise loans to finance capital projects.

Within a period of two years after the commencement of the turnaround strategy, Council was in a position to secure a loan for the amount of R43m with the Development Bank of

Southern Africa. That was a result of concerted effort exerted by council in ensuring that finances were well managed (KwaDukuza Municipality Internal Memorandum: Bulk Resources for Municipal Services. Fin: 150 dated 18/10/2005).

#### **4.6.6 Staff development**

It was discovered during the review of functions performed by the finance department that one challenge facing the department was that of skills development. The Municipality in conjunction, with the Development Bank of Southern Africa and the National Treasury, provided resources to finance the Internship Programme and the Training Programme. The results became immediate, with the turnaround as explained above. Furthermore, sister municipalities started to aggressively recruit a large number of staff from the department (KwaDukuza Municipality Internal Memorandum: Organogram for the Municipalities. Item: Fin 77 dated 22/06/2006).

#### **4.6.7 Budget**

In 1998, 1999 and 2000, the Municipality experienced problems with compilations and approval of budgets. In 1999, the Provincial Minister of Local Government intervened and to ensure that the budget was passed when Council struggled to approve the budget after it had reached a stalemate.

In 2003/4 the financial year budget was approved a month before the start of the financial year, which represented a change of fortunes. The 2004/5 budget and the 2005/6 budget were completed and approved 90 days before the start of the financial year, and both were adopted 30 days before the start of each financial year.

During the period 2002/3 and 2005/6, Council experienced a sizable growth in the budget. The total budget for the year 2002/03 was R220m compared to R486m in 2005/6. The budget growth and expansion came about as a result of prudent budgeting and an effective strategic implementation of the rates policy (KwaDukuza Municipality Internal Memorandum: Budget Process Plan 2006/7. Item Fin: 149 dated 18/10/2008).

#### **4.6.8 Valuation roll and the Rates policy**

The amalgamation of 2000 presented KwaDukuza with three separate valuation rolls from the former transitional authorities of Ballito, Stanger and Zinkwazi. The three valuation rolls were successfully consolidated in 2004 as part of the recovery plan. Since all three rolls were older than the required five years, in 2004 Council took a decision to review the roll and a new roll was compiled. Council employed a team of qualified valuers to undertake the task.

In 2004, the National Minister of Provincial and Local Government promulgated the Municipal Property Rates Act of 2004 (Act 6 of 2004). The new roll was compiled in terms of the Municipal Property Rates Act and was adopted for implementation in the 2007/8 financial year (KwaDukuza Municipality Internal Memorandum: Valuation Roll Report. Item: C 628 dated 05/10/2005).

#### **4.6.9 Debt recovery**

The Municipality had for a long time experienced the problem of escalating debt. One key issue was proper identification of debtors. Council undertook to resolve the problem by profiling the debt and cleansing the data base. The project of data cleansing commenced in 2003 and in 2005 debt profiling was finalized. Major debtors, especially businesses, could be identified and targeted. That exercise ensured packaging of debtors according to value, size and type, making it easy to conceive and institute a plan. The exercise also revealed that some of the debtors were fictitious, and some of the debtors should not have been targeted as debtors and had to be written back (KwaDukuza Municipality Internal Memorandum: Housing Debt. Item Fin: 03 dated 24/01/2006).

The efforts reduced the debt from R110 million to R79 million within a period of three years start from 2002/3 to 2005/6. More effort is required to further reduce the debt and, in so doing, recover as much as possible of the outstanding debt. In the 2006/7 financial

year, the debt was reduced to R23 million (KwaDukuza Municipality Internal Memorandum: Debt Collection Task Team. Item Fin: 68 dated 14/06/2005).

**FIGURE: 4.19: ANALYSIS OF OPERATING (CURRENT ) DEBTORS FOR THE PERIOD 2003/4 TO 2006/7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>SUNDRY DEBTORS</b>	<b>93,415,628</b>	<b>110,238,525</b>	<b>126,735,189</b>	<b>119,173,515</b>	<b>79,186,261</b>	<b>23,185,195</b>

Source: Figure 4.19. Audited Financial Statements for KwaDukuza Municipality.

#### **4.6.10 Assets register**

Dating back to the first amalgamation of 1996, Council had experienced problems regarding the reliability of the information in the asset register. In 2003, Council set aside resources and funds to appoint a team of experts to review and compile the register. The asset register had to conform initially to guidelines provided by the Institute of Municipal Finance Officers and later converted to Generally Accepted Municipal Accounting Practices. According to the Generally Accepted Municipal Accounting Standards (2005:194), three categories are generally reflected in the asset register for municipalities namely:

- property;
- plant; and
- equipment.

A register which conforms to and complies with generally accepted standards was compiled and completed for an audit of the 2005/6 financial year. In 2007, the total asset book was recorded at R518 million on the newly designed asset register (KwaDukuza Municipality Internal Memorandum: Phase 3 Project-Annual Financial Statements. Item Fin: 76 dated 22/06/2006).

#### **4.6.11 Audit report**

The three former transitional entities namely, Ballito, Zinkwazi and Stanger had a continuous record of poor audit reports dating from the days of the first amalgamation. In 2002 the audit report for Stanger had in excess of 220 queries and Ballito had more than 115 informal queries. The results were again a qualified report issued by the Office of the Auditor-General (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004).

That number was reduced to less than 40 formal audit queries in 2005. That was an indication of the effects of the changes. In 2005, the asset register was incomplete and therefore had an effect on the overall assessment of the report. The register was the only major query which resulted in a qualification for 2005. It must be noted that the issue of the assets register is a challenge facing the majority of municipalities across the country (KwaDukuza Municipality Internal Memorandum: Phase 3 Project-Annual Financial Statements. Item Fin: 76 dated 22/06/2006).

As mentioned earlier in the report, in the 2002/3 financial year, Council received a disclaimer where the Office of the Auditor-General refused to pronounce an opinion as a result of the condition of the books.

In 2003/4 and 2004/5, the Municipality received a qualified report. The main reason was the unreliable condition of the asset register. However, in 2005/6 the Municipality received a clean unqualified report which was a testimony to the successful implementation of the recovery programme (KwaDukuza Municipality Internal Memorandum: Phase 3 Project-Annual Financial Statements. Item Fin: 76 dated 22/06/2006).

## 4.7 Conclusions

In conclusion it can be said that Council in collaboration with the finance management team, achieved the following key objectives:

- complete reconciliation of the 2002/2003 financial records to the financial statements of that year and subsequent years (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004);
- the identification of all the disclosure deficiencies in the 2002/2003 financials and subsequent years (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004);
- the re-structuring of the general ledger on the Financial Management System in order to facilitate meaningful management accounts and quicker turnaround times in financial reporting (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004);
- the compilation of various categories of consolidated registers and schedules (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004); and
- the accounting separation of all services (rates and general, electricity, water, etc.) (KwaDukuza Municipality Internal Memorandum: Date of Statements. Item: C209 dated 20/04/2005);

In addition, the following value-adding services were undertaken:

- capacity building programmes and practical training sessions directed at finance managers in order to develop the necessary internal skills level of officials (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005);
- review of the staff structure of the Finance department in order to align functional responsibilities and enhance work-flows and procedures (KwaDukuza Municipality Internal Memorandum: Organogram for the Municipalities. Item: Fin 77 dated 22/06/2006);
- filling of strategic positions (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005);
- a thorough analysis of the causes of Council's cash flow problems;
- an analysis and review on the status of Council's statutory funds;
- a review of the meter reading, billing and cut-off cycles (KwaDukuza Municipality Internal Memorandum: Date of Statements. Item: C209 dated 20/04/2005);
- an in-depth Value Added Tax review and reconciliation (KwaDukuza Municipality Internal Memorandum: Report on Plans for the Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004);
- the analysis of the 2004/2005 operating and capital budget to ensure that it was cash-backed (KwaDukuza Municipality Internal Memorandum: **Finance Reform Programme**. Item Fin: 53 dated 14/10/2004);
- analysis and compilation of a claim to the District Council in respect of the transfer of the water and sanitation function to the District;
- compilation of the annual report;
- improved cash position from an overdraft in the 1990s to investments (KwaDukuza Municipality Internal Memorandum: Report on Plans for the



Preparation of the 2003/04 Annual Financial Statements in Terms of the Municipal Finance Management Act. Item: C467 dated 31/08/2004); and

- a clean audit report in 2006 (KwaDukuza Municipality Internal Memorandum: Phase 3 Project-Annual Financial Statements. Item Fin: 76 dated 22/06/2006).

This chapter has dealt with financial reform and development in the KwaDukuza Municipality. Critical issues relating to transformation of local government finance were identified and discussed. Specific challenges facing the Municipality were identified and resolved according to a set methodology. Successes were outlined, and strategies were developed to address outstanding matters. Experiences and lessons learned from the entire exercise can be viewed and adapted for application to relatively similar situations by other municipalities.

The following chapter deals with the methodology used in the development of the study.

## CHAPTER FIVE

### RESEARCH DESIGN, METHODOLOGY AND ANALYSIS

#### 5.1 INTRODUCTION

The chapter on research methodology deals with an important aspect of research which is the analysis and the interpretation of data. Two types of research styles; namely, qualitative and quantitative, were used for the purpose of this exercise. Literature, municipal records, questionnaires, and other relevant documents were used in support of this exercise. Financial records and reports were incorporated and used to support the qualitative analysis and interpretation of the subject. The analysis and interpretation of data was classified into primary and secondary data. Further detail and discussion will follow in this chapter.

#### 5.2 DEFINING RESEARCH

Research involves the continuous search for and pursuit of new knowledge and insight using scientifically planned and executed actions. Research involves meticulous observations and arguments with the intention of establishing relationships and links between new and existing knowledge. Research can therefore be used to confirm or repudiate existing perceptions, beliefs, tendencies and theories.

According to Welman and Kruger (2003:2), research refers to the “*process in which scientific methods are used to expand knowledge in the particular field*”. Research involves the application of various methods and techniques to create scientifically obtained information.

Cooper and Schindler (2006:5) define business research as: “*a systematic inquiry that provides information to guide managerial decisions. More specifically it is a process of*

*planning, acquiring, analyzing, and dissemination of relevant data, information, and insights into the makers in ways that mobilize the organization to take appropriate actions, that in turn maximize business performance”.*

Research therefore entails a search for answers. Research is fundamental to decision-making for both private and public organizations.

### **5.3 TYPES OF RESEARCH**

For the purposes of this exercise two types of research will be analysed and compared; namely, qualitative and quantitative research. According to Cooper and Schindler (2009:199), the comparative differences between the qualitative and quantitative style of research can be summarized as follows:

**Table 5.1: Types of Research**

<b>QUANTITATIVE STYLE</b>	<b>QUALITATIVE STYLE</b>
Researcher’s involvement is limited	Researcher’s involvement is high
Sample size is small	Sample size is large
Sample design is based on probability	Sample design is based on non-probability
Progress is often known by competitors	Data security is absolute
Focuses on measurements	Focuses on social reality
Facts must be reliable	Facts must be authentic
Statistical analysis	Thematic analysis

It can be inferred that the quantitative approach normally yields, at best, more fruitful results if employed in the resolution of business-related problems, whereas the qualitative approach is more suitably applied in social research.

## **5.4 NATURE OF SCIENTIFIC RESEARCH**

According to Mouton (2006:17), there are many possible interpretations of the nature of scientific research. These interpretations are:

- (a) research as the search for truth (epistemic model);
- (b) research as a problem-solving social activity ( sociological model);
- (c) research as the production of knowledge (economic model); and
- (d) research as project management (management model) (Mouton, 2006: 17).

The epistemic approach focuses on the individual who relentlessly searches for truth. The sociological model focuses on the collective and social nature of all research. The economic model focuses on the scientist as a worker or an entrepreneur. The project management approach focuses on the scientist as a manager of resources.

## **5.5 OBJECTIVES OF THE STUDY**

It must be noted that at the outset, the objectives of the study were mentioned as follows:

- To critically examine the transformation of local government and the development of municipal administration within the ambit of the legislative framework;
- To identify and establish challenges facing local government with particular focus on the transformation that took place in KwaDukuza Municipality. It is imperative that the exercise should place emphasis on financial management without obviously undermining other related issues of equal importance;
- To develop a model for efficient, effective and economic administration for local government; and
- To draw conclusion and recommendations arising from the study.

The objectives of the research were dealt with in the study with the intention of reaching conclusions, thereafter, formulating recommendations. These will be dealt with in the next chapter.

## **5.6 COLLECTION OF DATA**

The collection of data was mainly limited to a literature review, observation, interviews and questionnaires circulated to individuals within the KwaDukuza Municipality.

### **5.6.1 Literature Review**

Cooper and Schindler (2006:165), in dealing with secondary data, outline five steps that must be incorporated into the literature review, and they are:

- (a) Define your management dilemma or management question;
- (b) Consult literature , encyclopedias, dictionaries , handbooks and textbooks to identify key terms, people or events , relevant to your management dilemma or question;
- (c) Apply these key terms;
- (d) Locate and review specific secondary sources for relevance; and
- (e) Evaluate the value of each source and its content.

It must be noted that books, reports, articles, and other relevant literature were used to obtain a conceptual and contextual understanding of the subject.

## **5.7 ANALYSIS AND INTERPRETATION OF FINDINGS**

The financial management of KwaDukuza has been analysed within the context of local government finance. It was concluded that focus areas to be covered should include the following:-

- (a) the institutional arrangement;
- (b) planning; and
- (c) control.

## **5.8 INTERPRETATION OF FINDINGS**

The interpretation of findings will be discussed in detail below.

### **(a) Institutional arrangement**

The findings established that the institutional arrangements for the KwaDukuza Municipality are contained in the Strategic Document referred to in the study as the Integrated Development Plan. In addition to the Strategic Document, specific circumstances dictated that special decisions be taken to ensure good governance in general and effective financial management in particular. Such decisions manifested in a range of programmes in:

- (i) staff training and development;
- (ii) financial planning and budgets;
- (iii) staff establishment, restructuring and the review of the organogram;
- (iv) review of internal business systems; and
- (vii) audit, risk assessment and internal control.

These programmes will be discussed briefly below.

#### **i. Staff training and development.**

The municipality embarked on a training programme designed with the assistance of the Development Bank of Southern Africa. The generic design of the programme was imported from existing programmes within the Development Bank of Southern Africa

and adapted to suit the environment of KwaDukuza Municipality. The main emphasis of the programme is hands-on, practical, and on-the-job mentorship training. The programme considered and incorporated the requirements of legislation such as the Local Government Municipal Finance Act, Local Government Municipal Rates Act, Local Government Municipal Supply Chain Management Act, and Generally Accepted Municipal Accounting Practices. The training was designed to cover such areas as:

- the reconciliation of the bank account;
- the reconciliation of the creditor's account;
- the reconciliation of debtor's account;
- the reconciliation of the valuation roll;
- the design, maintenance and reconciliation of the asset register;
- the design and the implementation of the debt recovery programme;
- the maintenance and reconciliation grants accounts;
- the reconciliation of advances and loans accounts;
- supply chain management for municipalities;
- preparation of annual financial statements;
- preparation of the municipal budget; and
- billing (KwaDukuza Municipality Internal Memorandum: Management Assistance Programme. Item: C540 dated 07/09/2005).

#### **(ii) Financial Planning and Budgets**

The study identifies financial planning and budgets as potential areas of weakness for the municipality. Cash flow management was reviewed and structured to support the Budget, Integrated Development Plan and the overall administration of the municipality. There was an improvement and a shift away from the position of the municipality which used to experience difficulties trying to approve the budget, to that of the municipality which approved its budget long before the close of the financial year. The budget was

restructured and aligned to the Integrated Development Plan. The revenue budget improved from R215 million in the 2002/3 financial year to R331 million in the 2006/7 financial year. That interpreted into a growth percentage of 164% over a period of five years.

**FIGURE 5.1 : TITLE : REVENUE AND EXPENDITURE ANALYSIS FOR THE PERIOD 2003 TO 2007**

REVENUE	2002/3	2003/4	2004/5	2005/6	2006/7
TOTAL INCOME	215,490,655	222,515,675	252,177,441	279,624,461	331,664,827
	0	0	0	0	0
	<b>215,490,655</b>	<b>222,515,675</b>	<b>252,177,441</b>	<b>279,624,461</b>	<b>331,664,827</b>
<b>Variance</b>	<b>0</b>	<b>7,025,020</b>	<b>29,661,766</b>	<b>27,447,020</b>	<b>52,040,366</b>
<b>% Variance</b>	<b>0</b>	<b>3.26%</b>	<b>13.33%</b>	<b>10.88%</b>	<b>18.61%</b>
<b>EXPENDITURE</b>					
TOTAL EXPENDITURE	215,775,968	222,948,021	249,984,790	276,637,077	294,929,414
	0	0	0	0	0
	<b>215,775,968</b>	<b>222,948,021</b>	<b>249,984,790</b>	<b>276,637,077</b>	<b>294,929,414</b>
<b>Variance</b>	<b>0</b>	<b>7,172,053</b>	<b>27,036,769</b>	<b>26,652,287</b>	<b>18,292,337</b>
<b>% Variance</b>	<b>0</b>	<b>3.32%</b>	<b>12.13%</b>	<b>10.66%</b>	<b>6.61%</b>
<b>SURPLUS / (LOSS)</b>	<b>-285,313</b>	<b>-432,346</b>	<b>2,192,651</b>	<b>2,987,384</b>	<b>36,735,413</b>

The debt declined from a peak of R126 million in 2003/4 to R23 million in 2006/7.



**FIGURE: 5.2 : ANALYSIS OF OPERATING (CURRENT ) DEBTORS FOR THE PERIOD 2003/4 TO 2006/ 7**

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>SUNDRY DEBTORS</b>	93,415,628	110,238,525	126,735,189	119,173,515	79,186,261	23,185,195

Cash and investments increased from R34 million in 2003/4 to R112 million in 2006/7 financial year.

**FIGURE: 5.3 : ANALYSIS OF INVESTMENTS FOR THE PERIOD 2003/4 TO 2006/7**

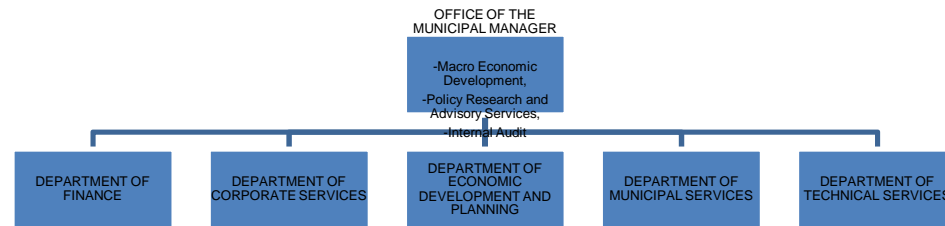
	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
<b>INVESTMENTS</b>	29,636,661	39,035,304	34,566,951	39,035,304	55,871,393	112,130,069

That translates into a turnaround of fortunes from severe cash shortage in the municipality, into a position of favourable cash flow.

**(iii) Staff establishment, restructuring, and the review of the organogram.**

The organogram approved by the municipality in 2001 was a compromise decision to accommodate the merger of the three former Transitional Municipalities of KwaDukuza, Ballito and Zinkwazi. The organogram was revised and restructured and targeted to the attainment of the goals set in the Integrated Development Plan. The Municipality adopted a new organogram as will be displayed below in Figure 5.4.

**FIGURE 5.4: MACRO-ORGANISATIONAL STRUCTURE FOR KWADUKUZA MUNICIPALITY:**



Source: Figure: 5.4. KwaDukuza Municipality Integrated Development Plan 2003.

Key vacant positions were identified across the Municipality and were filled, particularly strategic positions on a macro-level, and in the Finance department in particular.

**(vi) Review of internal business systems**

The Municipality embarked on a programme of policy review. Policies were interrogated and aligned to the legislation. Internal systems were reviewed and aligned to performance targets and are subjected to constant monitoring. New devices such as improved software systems were acquired and installed in order to improve efficiency levels. Funds were made available for the upgrade and installation of operational resources such as the buildings, equipment, new computer infrastructure, computer programmes, software, and other basic operational utilities to ensure effective functioning for individual departments.

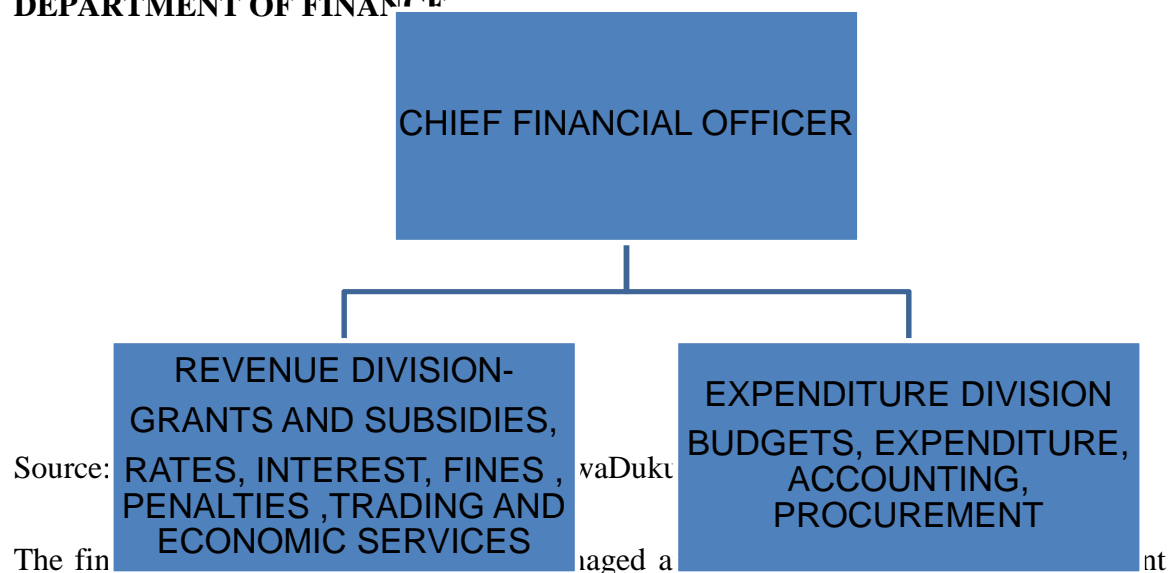
**(v) Audit, risk assessment and internal control**

Risk audit was identified as a potential area of weakness. Annual risk audits are conducted to ensure tighter controls and measures. The Audit Committee was formed and implemented by Council. Furthermore, Council created the Internal Audit Unit to assist Council and management in running the affairs of Council.

**(b) Restructuring the Department of Finance, Financial Planning and the Budgets**

The study revealed that Council had taken a decision to restructure the finances. The focus in the restructuring process was the improvement of internal business systems, improved financial planning and improvement of the internal control systems. A new organogram for the Department of Finance was adopted by Council as displayed in Figure 5:5.

**FIGURE: 5.5: TITLE: FUNCTIONAL ORGANOGRAM FOR THE DEPARTMENT OF FINANCE**



Source: The fin... which operates under the guidance of the Chief Financial Officer. The Chief Financial Officer is appointed as a requirement in terms of the Municipal Finance Management

Act. In KwaDukuza the Chief Financial Officer is deputized by the two divisional heads with one divisional head responsible for expenditure, and the revenue stream on the other side. The Expenditure division was assigned two new responsibilities, namely that of

- (i) Supply Chain Management, and
- (ii) Budgetary Services.

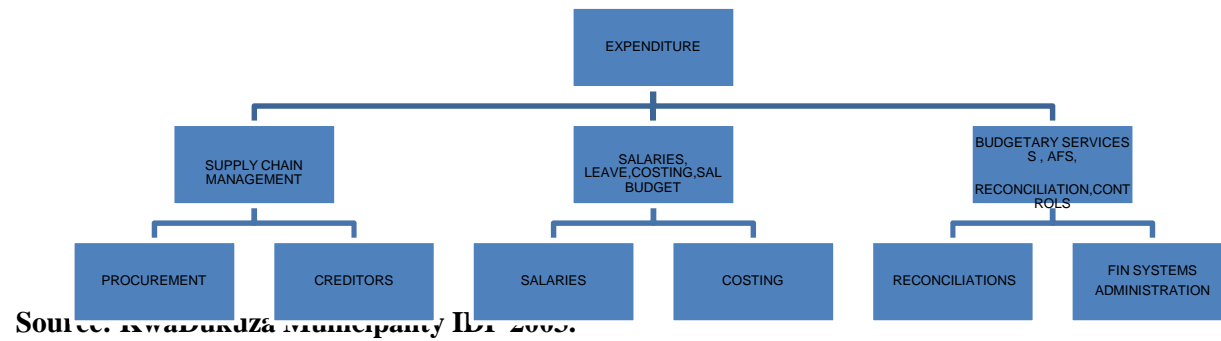
The two subdivisions are specified as requirements in terms of the Municipal Finance Management Act 56 of 2003. The strategic decision and bold move toward financial reform paid positive dividends. The study discovered the following regarding financial planning and budgets:

- (i) Budgets are compiled and approved in time for adoption by Council;
- (ii) There is sufficient public participation and public engagement during budget preparation;
- (iii) Budgets are aligned with the Integrated Development Plan;
- (iv) Council operates on a Multi-Year Budgeting Framework; and
- (v) There are adequate systems in place to effect budget monitoring and evaluation.

The budgetary process received attention, and the budget review process was improved. The concept of a secondary budget or additional budget was introduced.

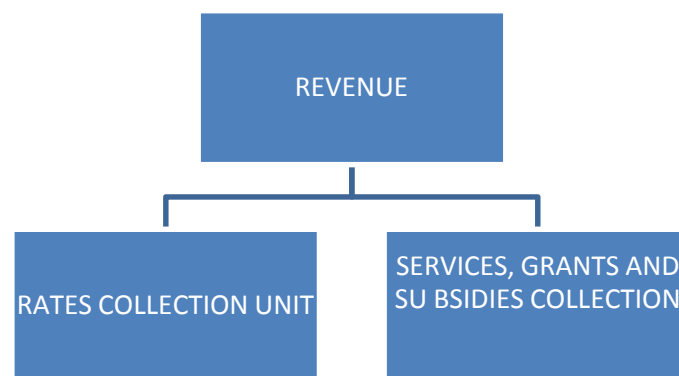
In conclusion, the Medium-Term Expenditure Framework was adopted for effective budgetary control and monitoring. A programme of public participation was adopted and implemented to ensure that the budget and the Integrated Development Plan received adequate community involvement and support. Realistic budgeting on the basis of the zero-based budgeting was introduced. Council adopted a revised organogram for the department of finance as displayed in Figure 5.5 above.

**FIGURE 5.6 : THE ORGANOGRAM OF THE EXPENDITURE UNIT OF THE DEPARTMENT OF FINANCE**



The Expenditure Division is further subdivided into three units; namely, the Supply Chain Management Unit, the Budget Unit and the Salaries Unit. The three sub-units are responsible for Supply Chain Management which deals with Procurement, Salaries, Leave and Costing and lastly, Budgetary Services, which administers budgets, accounting and financial reports.

**FIGURE 5.7: THE ORGANOGRAM OF THE REVENUE DIVISION OF THE DEPARTMENT OF FINANCE**



Source: KwaDukuza Integrated Development Plan for 2003.

The Revenue Division comprises the Rates Collection Unit on one hand and the Unit responsible for Service, Grants and Subsidies on the other. The main purpose of the Revenue Division is revenue collection. The Revenue Unit is considered the life blood for the municipal survival and success.

**(c) Internal Control**

Council adopted a zero tolerance approach to the plight of financial mismanagement. The study discovered that a number of recommendations were implemented, ranging from recommendations by the Provincial Department of Local Government, the Office of the Auditor-General, Council's Audit Committee and the Internal Audit component of the Municipality.

Prudent financial management and ardent financial discipline were realized in the following areas:

- (i) expenditure management;
- (ii) revenue collection;
- (iii) asset management and utilization;
- (iv) procurement; and
- (v) Internal control, performance and financial reporting.

However, it is evident from the study that periodic reviews need to be a constant feature so as to sustain the gains.

An independent Audit Committee and an Internal Audit Unit were set up to advise Council and management on matters relating to finance in particular and governance and council administration in general. Council further designed and adopted a Risk Plan

which is revised and reviewed on an annual basis. The plan ensures that matters raised by the Office of the Auditor-General receive the necessary attention.

Council placed the Internal Audit Unit directly under the leadership of the Municipal Manager. To put more impetus into the exercise of control, expert additional resources were accessed from institutions such as the Internal Audit Unit of eThekweni Metropolitan Council, the Supply Chain Management Unit of National Treasury, and Training Divisions of both Provincial and National Departments for Local Government and that of Finance.

Annual Financial Statements, monthly reports and quarterly reports are compiled and finalized in time for presentation to Standing Committees, Council, the Office of the Auditor-General, Provincial Government Departments, National Government departments and other statutory bodies requiring such reports.

## **5.9 CONCLUSION**

The purpose of this chapter was to determine and demonstrate the relationship between the theory of research and its practical aspects. The results concisely demonstrate a distinct relationship between theory and practice on this particular subject. The study managed to identify fundamentally important areas of municipal finance. The results of the study point to capacity as the primary elements of successful financial reform.

The case study demonstrates similarities in the experiences between local government reform programmes and the reforms at national and provincial levels. It is interesting to note from the study that successful strategies applied at national and provincial level adapted to local government can yield positive results.

## **CHAPTER SIX**

### **GENERAL CONCLUSION AND RECOMMENDATIONS**

#### **6.1 INTRODUCTION**

This chapter focused on the conclusion and recommendations derived from the research exercise. It was mentioned in the first chapter that the objectives of the study are firstly, to investigate the challenges facing local government with special emphasis on local government finances and financial management; secondly, to establish key factors and challenges facing local government financial management and, thirdly, to provide a recommended course of direction for effective financial reform, methods of financial restructuring and business re-engineering within the broader context of the South African local government system. The first chapter focused on the introduction, and it gave the basic and theoretical perspective of the subject. The second chapter presented a discussion on Local Government restructuring with particular reference to KwaDukuza Municipality. This second chapter provided the background to the theory of public administration. The third chapter elaborates on Local Government financing and development in South Africa. The fourth chapter dealt with financial reform and transformation in KwaDukuza Municipality. Chapter Five presented research, design, methodology, and analysis. Chapter Six addressed general conclusion and recommendations. It is in this chapter where views are expressed about the entire study, and areas are suggested for further study. All three objective were highlighted earlier in the study.

#### **6.2 GENERAL CONCLUSION**

States and governments around the world consist of public institutions. Public institutions, unique as they may be to individual states, have a common objective which



is the provision of collective goods for the well-being of communities. Public institutions are continuously faced with the dynamics of global challenges at macro-level, and specific institutional and local dynamics at micro-level. Public institutions must at all times be mindful of these challenges and changes.

South Africa is a constitutional state. The Constitution is the foundation for public administration in the country, and it is the supreme law of the country. Human rights are entrenched in the Constitution, by providing protection for all South Africans.

The Constitution created three spheres of government; namely, national, provincial and local government. The existence of the three spheres of government is further guided by the generic processes and principles which dictate the nature of public administration in South Africa. The generic principles underpin the values and ethics of society and, in a democratic country such as South Africa, such values and norms reflect on the functioning of the public service machinery, the state and government.

Local government is the focal point of this study. The study acknowledges that the previous regime and government left a legacy of underdevelopment and poor service delivery, particularly in areas apartheid chose to neglect on the basis of race and the policy of segregation.

The current local government dispensation is entrusted with the responsibility of effecting redress, socio-economic integration and the development of communities. The Constitution refers to South Africa as a developmental state. Similarly, local government, as it is one of the spheres of government. Municipalities are charged with the responsibility of designing Integrated Development Plans. The main thrust of Integrated Development Plans is mobilization and coordination of resources toward community development, democratization, public participation and the improvement of community lives in general.

With such a magnitude of challenges and expectations at hand, local government requires resources. Resources require large capital and financial investments. It follows then that financial management is at the centre of development. Notably, public finance in South Africa has undergone an overhaul over the past decade of democratic government. Similarly, financial management in the local sphere has experienced an equally exhaustive metamorphosis.

The challenges exemplified in the study of KwaDukuza Municipality are a reflection of the broader set of challenges experienced by most municipalities across the country. Examples may be cited, such as:

- (i) debt management;
- (ii) expenditure control;
- (iii) budget reform and restructuring;
- (iv) asset management;
- (v) financial reporting;
- (vi) procurement; and
- (vii) internal control.

These challenges are cited as key aspects affecting municipalities.

The turnaround strategy adopted and implemented by KwaDukuza Municipality provides key learning experiences and solutions which can be adapted for effective use by struggling municipalities across the country. The National Government recently launched a programme aimed at assisting struggling municipalities in improving their status. The programme referred to as Project Consolidate reflects on similar issues and tackles the very same issues outlined and targeted by KwaDukuza Municipality in its recovery programme adopted in 2003, and in a very similar fashion and with similar vigour.

## **6.3 RECOMMENDATIONS**

The Recovery Plan for KwaDukuza Municipality achieved a mixed range of successes. Key to the successes was the initial act of containing the escalation of financial mismanagement and thus preventing the total collapse of the administration. The bigger challenge facing the Municipality is to sustain the gains and propel the Municipality towards higher levels of success which are stated in the Integrated Development Plan.

The following recommendations are proposed:

### **6.3.1 Capacity building, staff training and development**

The study affirms the importance of staff training and development at local government level. The global changes and development that continue to take place under the new dispensation dictate continuous skills improvement for local government employees, councillors and communities. Clearly defined programmes must be developed and implemented by municipalities to ensure sustained training and development of talent in local government. Resources must be made available to ensure that skills development programmes are designed, developed and implemented on a sustainable basis.

Capacity building must include all sectors and stakeholders such as communities, councillors, staff members, and beneficiaries.

- Community members

Community members must be trained and capacitated to ensure effective participation in structures of government. Training must include governance, financial management and budgets, strategic management and decision-making, public accountability and reporting.

- Councillors

Councillors need to understand their responsibilities and roles in the evolving and ever-changing environment which is continuously affected by the dynamics of the global environment.

- Staff and officials

Staff and officials must continuously keep abreast of developments surrounding government, both domestically and internationally.

- Beneficiaries

Recipients and consumers of public goods must be kept informed of developments in their immediate surroundings. Their involvement and development will go a long way in ensuring that resources are well spent and safeguarded.

### **6.3.2 Institutional Capacity**

The study revealed that municipalities do not provide sufficient resources to ensure effective delivery of services. Human resource capacity is lacking in many different ways and manifests as vacant positions at strategic levels, rampant skill shortages, and high levels of staff turnover.

Resources must be made available in the following areas:

- finance;
- human resources;
- technical and engineering;
- community development; and
- infrastructure development.

An integrated approach must be developed to ensure that all spheres of government contribute effectively to the provision of resources which will enable all sectors of government to deliver in a coordinated manner.

### **6.3.3 Community participation**

South Africa comes from an era where there was no active participation and consultation by the government in the affairs of the state. The state dictated to people, and the decisions were imposed on the citizenry. The new dispensation demands that communities be active participants in the decision-making process.

Communities are expected to participate in the development and compilation of a number of programmes which include the following:

- an integrated Development Plan;
- sector plans;
- performance Management Systems; and
- the Budgets.

More resources, including training of the communities, must be made available to ensure that participation by the communities is effective. Participation helps to minimize tensions between communities and government by providing space and an appropriate platform for communities to make meaningful inputs into the decisions taken.

### **6.3.4 Performance management system**

It is important for the municipality to ensure that decisions taken in terms of the budget and the Integrated Development Plan are implemented. Systems must be developed and maintained to ensure that programmes are identified and implemented effectively, economically and efficiently. Performance management systems must be developed and

implemented with programmes and measurements that will ensure accountability at all levels, politically and administratively. The systems must clearly identify the following:

- goals and objectives;
- programmes and deliverables;
- timelines;
- allocation of responsibilities;
- reporting lines;
- monitoring mechanisms; and
- review and feedback.

The system must ensure that sufficient feedback is provided to both the communities and the municipality.

### **6.3.5 Monitoring and control**

Council has policies in place which ensure compliance with legislation. National legislation has created structures such as Committees for Council, Internal Audit Unit, Sector Forums and Audit Committees.

Council must ensure that committees and individuals entrusted with responsibilities remain accountable at all times. Structures put in place must be provided with adequate resources to ensure effective functions. Systems must be put in place to ensure that adequate reporting takes place.

In addition, independent structures must be created to monitor performance against set objectives. An independent monitoring and evaluation method must be established and implemented to complement the existing structures.

### **6.3.6 Empowerment of the budget as an instrument of economic development**

South Africa is a developmental state. Municipalities are entrusted with the mandate to provide development and a climate conducive to economic development. Meaningful economic transformation should impact positively on communities. For effective transformation to take place, municipalities must target key sectors and ensure that budgets and procurement policies deliver effective broad-based economic transformation.

The budget must be properly structured to ensure that effective transformation takes place. Transformation using the budget as an instrument of change can be achieved by ensuring that the budget fulfils the following:

- full alignment with the Integrated Development Plan;
- full integration of the budget in the procurement systems;
- training and capacitation of the budget office;
- community awareness of budget imperatives;
- full cooperation by all stakeholders;
- impact assessment; and
- monitoring and review.

## **6.4 AREAS FOR FUTURE RESEARCH**

The Municipal Finance Management Act is still in its early stages. The implementation programme was designed by National Government to ensure effective implementation. The impact is yet to be realized. A study must be conducted to determine the following:

- An impact assessment of the legislation on the restructuring of financial management in local government;
- a gap analysis between the intentions of the Act and the results on the ground;

- challenges to the original features of the current legislation and regulations regarding financial management;
- public participation as a tools of community empowerment and development;
- the budget as an instrument of economic transformation and development;
- the impact of performance management systems used in local government;
- the impact of Integrated Development Plans in local government; and
- the effect of internal systems of control in curbing wasteful expenditure.

## **6.5 CONCLUSION**

The transition from apartheid to democracy and the steady transformation of society have brought about new challenges to the country. These challenges are reflected in all spheres of government. Local government faces immediate pressures by virtue of its proximity to the communities. It is at this point that it becomes important to emphasise the relevance of putting more resources at the disposal of local government.



## **ANNEXURE: 1**

### **Questionnaire**

The key areas covered by the questionnaire were statutory compliance, business operation, planning and control. The key questions asked were the following:

### **Section B**

1. Does your municipality have an established Finance Department?
2. Is the Department sufficiently capacitated?
3. Does your municipality have a Committee responsible for financial oversight?
4. Does your municipality have a Committee responsible for the audit of accounts?
5. Does your Municipality have a designated internal audit unit?
6. Is the budget completed in time for adoption by council?
7. Are the annual financial statements completed in time?
8. What is the status of the audit report?
9. Does your municipality have an audit/risk plan?
10. Does the budget process sufficiently accommodate the element of public participation?

11. Is the budget aligned to the IDP?
12. Does your municipality have a measurement tool to monitor budget performance?
13. Does your municipality consider the results and the recommendations of the performance assessment report?
14. In your view, does the standard of the financial management compare with other municipalities?
15. Do you think improvement is required?

END OF QUESTIONNAIRE



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