Municipal Services and Financial Performance of Three Metropolitan Municipalities in South Africa

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Abstract

The study aimed to evaluate the level of public satisfaction in the provision of municipal services. Specifically, the study examined the relationship between municipal services and financial performances in the three metropolitan municipalities in the Gauteng province of South Africa using secondary and primary data from a survey conducted in 2019. The study is based on the theory of social contract. The study employed both qualitative and quantitative techniques to examine the level of public satisfaction on municipal services delivered to the urban residents in the study areas. Data were gathered using semi-structured interviews and the annual financial statements from the three metropolitan municipalities in the Gauteng province of South Africa. The results from financial ratio indicators confirmed that the metropolitan municipalities were in a good financial position. However, the findings from financial ratio analysis should be used with utmost caution due to the major limitations and drawbacks associated with such financial measures. The content analysis in the study revealed that the demand for basic municipal services would remain high, costly, with severe backlogs, insufficient, and often with unresponsive management practices in the study areas. Moreover, the lack of entrepreneurial, innovative, and problem-solving skills and expertise among municipal managers compromised the provision of basic municipal services, and the residents remained unsatisfied in the three metropolitan municipalities of Gauteng Province. Other factors that contributed to the poor performances are also discussed.

Keywords : **content analysis, financial performance, financial ratio analysis, municipal services, South Africa**

JEL Classification Codes : G28, H72, R51

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Urbanization promotes productivity and drives economic growth, making it worth a thorough investigation (Duque et al., 2022). Economists use recent quantitative spatial models (QSM) in urban economics literature to study cities as centers of economic growth. Financial empowerment and institutional strengthening are key strategies for ensuring sustainable urbanization (Budhedeo & Pandya, 2018; Chattopadhyay & Das, 2018; Joshi, 2022; Nengi & Jain, 2022; Viet Ha et al., 2019). As developing countries urbanized at unprecedented rates, cities play more important roles than ever in the attainment of the Agenda 2030 of the South African government, meeting the targets of the sustainable development goals (SDGs) and ensuring local economic development endeavors (Choi, 2021; Krantz & Gustafsson, 2021; OECD/UN-HABITAT/UNOPS, 2021). Local urban infrastructure development is a crucial goal for sustainable development

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that can only be achieved if municipal managers take charge of implementing developmental policies in the interest of the public (Chattopadhyay & Das, 2018; Choi, 2021; Goel et al., 2015).

South Africa has an internationally respected fiscal framework for local governance (National Treasury, Republic of South Africa, 2018). However, there is still the quest for local governments to improve the quality of municipal managerial capacity and sound financial performance to meet their sustainable development goals in South Africa (Krantz & Gustafsson, 2021). In addition, a lack of essential skills and poor financial governance has already created a distressed fiscal framework among South African local government structures (Crumpton, 2018; Kanyane, 2014; Mbulawa, 2019; Winarna et al., 2017). Moreover, South African municipalities are not in good shape in terms of good governance. For example, it is worth mentioning the recent incidence of the COVID-19 personal protective equipment corruption scandals, and absence of internationally acceptable audit committee functions, and dwindling public trust in municipal governance (Erasmus & Matsimela, 2020).

This study is carried out based on the theory of social contract that emphasizes the importance of societal expectations matching state capacity to deliver services (McCandless, 2020; Viet Ha et al., 2019). The motivation for this study is the need to analyze the relationship between municipal services and financial performance (Joshi, 2022; Loewe et al., 2021; Zerihun & Mashingo, 2022). This study is important since, in recent years, studies on rapid urbanization and its effects on economic growth and social welfare have got attention. This study assumes that the effectiveness and efficiency of a country's public sector are critical determinants of the growth and development of municipalities (Essuman-Mensah, 2019; Nealer, 2014).

From a methodological point of view, this study employs qualitative content analysis and quantitative financial ratio analysis to examine and suggest financially viable ways for the metropolitan municipalities in the Gauteng province of South Africa. One of the major reasons for poor performances in the three municipalities is ever increasing population in the province due to the inflow of people from other provinces in the country and international migration that poses financial constraints on the municipalities. In addition, payment defaults, particularly by the local communities dwelling in the informal settlements, have significantly affected the financial viability of the City of Ekurhuleni, Johannesburg, and Tshwane (Enwereji & Uwizeyimana, 2020). Therefore, South African municipalities should perform efficiently and effectively across the country to address the massive problems of unemployment, poverty, and inequality. Furthermore, informal settlements are becoming more entrenched within South African cities as the urban population continues to grow.

This study finds that uncontrolled growth in the human population in the Gauteng municipalities in South Africa has overstretched the limited budget available and has caused the municipal infrastructure to deteriorate much faster, thus decreasing the estimated life span of the existing infrastructure. Aging infrastructure has created an additional burden on the socioeconomic status of the residents in the three municipalities studied. This study also finds that it is demanding to keep up with the increasing population in the study areas, which limits the adequate provision of basic municipal services to the public in a feasible way as per their mandate because of limited financial resources available.

Literature Review

A Brief Review of the Status of Municipal Services

South African municipalities are mandated to optimally provide basic municipal services to their residents. However, the massive influx of people to the three metropolitan municipalities in the Gauteng province makes this constitutional mandate challenging to meet. Essential municipal services are hardly provided to local and international migrants, and they are subject to move to the pool of informal settlements (Adegun, 2017; Dinbabo & Nyasulu, 2015).

For South African municipalities to remain financially viable and resilient, they should draw on their core administration revenue that comprises rates on property, surcharges on fees for services, service charges, other taxes, levies or duties, administrative fees, fines, municipal loans and credit control, and debt collection (Enwereji & Kadama, 2018). In addition, the higher spheres of government should transfer money to municipalities to fill the budget gap that makes up to 9% of the total division of revenue over the medium term (National Treasury, Republic of South Africa, 2015). Furthermore, the national government also provides funding for municipalities in the form of grants (Auditor-General of South Africa, 2021). For example, the equitable share is a financial allocation from the national government to municipalities for the purpose of providing essential services to poor households. In addition, equitable shares enable municipalities to provide municipal services to households with limited resources so they can enjoy affordable basic services and enhance the governance capacity to perform core municipal functions adequately (National Treasury, Republic of South Africa, 2018). Likewise, conditional grants are provided to use for a specific purpose and in compliance with specified requirements. However, there is a problem with revenue collection since municipal consumers are not paying what they owe, which has been a trend for many years and continues to worsen. Municipal debt recovery is expected to deteriorate further in 2020 – 21 because of the economic downturn in the wake of the COVID-19 pandemic (Auditor-General of South Africa, 2021).

Measuring Financial Performances : The Use of Financial Ratio Analysis

In this paper, better financial performance is understood as the ability of public administrations to continue providing public services for the current generation and future generations, upholding the principle of intergenerational equity without causing the debt to rise continuously to ensure adequate and sustainable well-being of citizens (City of Mitcham, 2020; Migliorelli, 2021; Sinervo, 2020). Liquidity, financial leverage, operating efficiency, and profitability are the most common aspects of financial health (Curtis et al., 2020). The financial health of municipalities is of great relevance since service delivery depends on financial conditions (Kleynhans & Coetzee, 2019). Many studies use financial ratio analysis to measure the financial health of public service-providing institutions. For example, financial ratio analysis is important to the management, owners, customers, suppliers, competitors, regulatory agencies, taxpayers, and lenders, each having their views in applying financial statement analysis in their evaluations and making judgments about the financial health of organizations (Theogene et al., 2017). In addition, financial ratio analysis is used in calculating the profitability and financial position of private organizations and public institutions (i.e., liquidity and operational efficiency) (Goel et al., 2015; Rehman et al., 2015). Financial ratios are financial statement analyses derived from information obtained from financial reports and are mechanisms for exploring different aspects of the economic well-being of an economic entity.

There are various ratios used as measures of the financial well-being of municipalities. Here, we discuss some selected financial ratios applied in Australian municipalities that can be applied in the context of South African municipalities. Firstly, we have the operating surplus ratio, calculated as the adjusted operating surplus divided by adjusted operating revenue. The operating surplus ratio is believed to be a key indicator of financial performance. If a given municipality consistently achieves a positive operating surplus ratio, it is considered financially sound. Secondly, we have the net financial liabilities ratio, calculated by expressing net financial liabilities at the end of a financial year as a percentage of adjusted operating revenue for the year. The net financial liabilities are a broader and more appropriate measure of indebtedness than the level of borrowings, as they include employee long-service leave entitlements and other amounts payable, as well as taking account of municipalities' cash and investments. Thirdly, we have a debt service coverage ratio calculated as adjusted operating surplus (excluding contributions/grants for asset renewal, depreciation, and interest) divided by debt service costs (principal and interest). Fourthly, the current ratio is calculated as current assets divided by current liabilities. It is designed to focus on the liquidity position of a municipality that has arisen from the past year's transactions. Additional financial ratios are discussed further in the methodology section.

Objectives of the Study

(1) To evaluate the level of public satisfaction in the provision of municipal services towards financially realizable and resilient public services in the study areas.

(2) To perform qualitative content analysis and quantitative financial ratio analysis to further assess the financial performance of the City of Ekurhuleni, Johannesburg, and Tshwane.

Data and Methodology

In this study, we have used both qualitative and quantitative research methods. Secondary data for the empirical analysis were obtained from the annual financial statements of the three municipalities included in this study. In addition, semi-structured interviews were carried out in the three municipalities in the Gauteng province of South Africa to obtain credible information from the respondents. Furthermore, financial ratios were analyzed to augment and crosscheck the findings from the interviews of the respondents. According to Berthilde and Rusibana (2020), financial analysis entails selecting, evaluating, and interpreting financial data, along with other pertinent information, to assist in financial decision-making. In addition to content analysis, we used financial ratios to evaluate and interpret the annual financial statements of the above-mentioned metropolitan municipalities in the Gauteng province in an attempt to verify whether these municipalities are financially realizable and resilient. The following financial liability ratios are widely applied in Australian municipalities in assessing financial sustainability measures. We believe these techniques, widely applied among Australian municipalities, best fit our analysis of the three major metropolitan municipalities in the Gauteng province of South Africa. Australian sustainability ratios, also called net financial liabilities ratio, are calculated as follows:

$$NFLR = \frac{TL - CA}{TORBE}$$

where,
$NFLR$ = net financial liability ratio,
TL = total liabilities,
CA = current assets,
$TORBE$ = total operating revenue before expenses.

The net financial liabilities ratio is used to measure the extent to which the net financial liabilities of the municipalities can be serviced by their total operating revenues. If the ratio drops, this means that the capacity of the municipality to settle its financial liabilities using the total operating revenue becomes better. The operating surplus ratio is calculated as follows:

$$OPSR = \frac{OP}{TORBE}$$

where,
$OPSR$ = operating surplus ratio,
OP = Operating surplus,
$TORBE$ = Total operating revenue before expenses.

Likewise, the operating surplus ratio was computed to quantify whether the raised municipal revenues cover operational expenses or not. If the total operating revenue surpasses the operating expenses, it is an operating surplus, and if the total operating revenue is lower than the operating expenses, it is an operating deficit. If the financial position is surplus, it means that municipal financial resources are available for miscellaneous capital funding and other developmental purposes.

Analysis and Results

We used primary and secondary data sources as discussed in the methodology section. Primary data were used to obtain reliable information on the quantity and quality of municipal services delivered in the study areas and to measure the level of public satisfaction. Secondary data obtained from annual financial statements are presented in table formats that offer a structured way to organize and present detailed data for further analysis, synthesis, and interpretation.

Qualitative Content Analysis

Content analysis is a set of procedures for collecting and organizing information in a standardized format that allows analysts to make inferences about the characteristics and meaning of written and other recorded material (Parveen & Showkat, 2017). Here we used content analysis to transcript the interviews and to tabulate the responses to identify central themes. Table 1 presents the central themes and descriptive analysis of 12 questions from the interview responses. The survey questions were administered in 2019.

Table 1. ***Summary of the Central Themes and Descriptive Analysis of Every Question from the Interview Response***

Q # 1	**Central Themes**						
What is the effect of high population inflow to the municipalities?	• Extreme pressure on the financial resources available for the provision of basic services in the study areas.						
	• The three municipalities are "victims of their own success" that attracted a massive influx of local and international migrants.						
	• Excessive demand for basic municipal services from residents in the informal setups.						
Descriptive Statistics							
Themes	**CoE**	**CoJ**	**CoT**	***n***	**Cumulative *n***	***f* %**	**Cumulative *f* %**
Theme: (1)	1	1	1	3	3	33	33
Theme: (2)	1	1	1	3	6	33	66
Theme: (3)	1	1	1	3	9	33	99
Q # 2	**Central Themes**						
Why are there persistent backlogs in basic service provisions in the study area?	• Aging infrastructures in all three municipalities						
	• Delay in building new infrastructures						

• Periodic budget cuts
• Insufficient budget allocation

Descriptive Statistics

Themes	**CoT**	**CoJ**	**CoT**	***n***	**Cumulative *n***	***f* %**	**Cumulative *f* %**
Themes: (1)	2	2	2	6	6	67	67
Themes: (2)	2	1	2	5	11	56	123

Q # 3

Is the financial support from your municipality's integrated national electrification program sufficient to cover the capital costs of providing electricity services?

Central Theme
• Not sufficient
• Budget deficit is a common phenomenon

Q # 4

Is the financial support from the municipal infrastructure grant in your municipality sufficient to cover the capital costs of providing basic waste removal services?

Central Theme
• Not sufficient
• Budget deficit is a common phenomenon

Q # 5

Does the financial support from the water services infrastructure grant cover the capital costs of providing basic water and sanitation services?

Central Theme
• Not sufficient
• Budget deficit is a common trend

Q # 6

Does the service charge recover the operational costs of basic service provision in your municipality?

Central Themes
• Municipalities are delivering basic municipal services at a loss.
• The tariffs charged by the municipalities are not cost-reflective.
• Operational expenditure is higher than operating income, i.e., persistent deficit.

Descriptive Statistics

Themes	**CoE**	**CoJ**	**CoT**	***n***	**Cumulative *n***	***f* %**	**Cumulative *f* %**
Theme: (1)	3	2	2	7	7	78	78
Theme: (2)	1	1	1	3	10	33	111
Theme: (3)	–	1	1	2	12	22	133

Q # 7

Does the local government's equitable share grant relieve the metropolitan municipality when providing free essential services to poor households?

Central Themes
• The poor households are not relieved by the grant since the costs are much higher than the subsidy, and there is an increasing number of households that cannot afford to pay.

Descriptive Statistics

Themes	**CoE**	**CoJ**	**CoT**	***n***	**Cumulative *n***	***f* %**	**Cumulative *f* %**
Theme: (1)	1	1	1	3	3	33	33
Theme: (2)	1	1	1	3	6	33	66
Theme: (3)	1	1	1	3	9	33	99

Q # 8

Does the revenue generated from various sources cover the capital, maintenance, and operational costs of providing basic municipal services?

Central Themes
• The grants are used to finance capital projects; however, municipalities cover the operational and maintenance costs.
• Insufficient
• Municipalities are limited by their resources ; thus, the revenue or cash received is also limited.

Q # 9	Central Theme
Is the South African financial legislation favorable in ensuring sound financial performance?	• Yes, such regulations are imposed on municipalities to safeguard regular operations and use financial resources.
Q # 10	**Central Theme**
What are the major factors that affect financial performance?	• Lack of entrepreneurial, innovative, and problem-solving skills and expertise among municipal managers compromised the quality and quantity of municipal service delivery in the study areas. • Backlogs in service delivery.
Q # 11	**Central Theme**
What is the link between the substandard delivery of basic municipal services and the lack of adequate financial resources?	• Compromised municipal service delivery both in quantity and quality.
Q # 12	**Central Theme**
To what extent are metropolitan municipalities financially self-reliant in providing basic municipal services?	• The municipal revenue capacity of the three municipalities is jeopardized because of an increasing trend of payment default by local communities. Hence, the service delivery is not self-reliant.

Note. CoE = City of Ekurhuleni ; CoJ = City of Johannesburg ; CoT = City of Tshwane.

As presented in Table 1, the following points are highlighted from the interview responses. Firstly, this study finds that it is demanding to keep up with the ever-increasing population in the study areas. Secondly, the participants identified factors for backlogs are obsolete and aged infrastructure facilities and insufficient budget available for timely maintenance of existing infrastructures. Thirdly, the participants also confirmed that financial support to the municipalities from the Integrated National Electrification Program (INEP) is insufficient. Such insufficient grants from higher tiers of government deplete funds raised by municipalities. The situation worsens during the outbreak of informal settlements, violent civil unrest, and the COVID-19 pandemic, as exhibited in 2020 and 2021 (Gębski, 2021). Fourthly, all the participants from the finance departments of the three municipalities included in this study agreed that the current legislation allows for the provision of basic services. However, this can be a reality when there is adequate staffing with capable and trustworthy people in all three metropolitan municipalities included in this study. Otherwise, the provision of basic municipal services will be compromised, and the residents will remain unsatisfied for the foreseeable future. Lastly, the study participants from the three institutions had a consensus that the municipality's limited cash-on-hand, unfunded mandates, the gap in the forecasted and actual revenue collected, violent unrests, ever-growing public dissatisfaction, and trust deficit are among the limiting factors for municipalities to honor their constitutional obligations fully. In general, in the context of developing countries, the demand for basic municipal services will remain high and costly, with severe backlogs, and awkward management (Bahl et al., 2013; Van der Walt, 2018).

Empirical Analysis

This section presents the results from the analysis of the financial ratios. Table 2 and Figure 1 summarize the analysis results of the net financial ratios. As shown in Table 3, the target for the net financial ratio is less than 60% per annum on an average, implying that the three municipalities are within the recommended levels for financial sustainability (Lukáč et al., 2021; Zorn et al., 2018; Zabolotnyy & Wasilewski, 2019).

Table 2. *Analysis of Net Financial Ratios*

Municipality	Total Liabilities (R'000'000)	Current Assets (R'000'000)	Total Operating Revenue (R'000'000)	Net-Results (%)
Ekurhuleni				
2015 – 2016	17 125.30	14 615.90	29 648.3	**<60%**
2016 – 2017	16 812. 84	13 865. 30	31 35.2	**<60%**
Johannesburg				
2015 – 2016	32.83	11. 08	20 190 792	**<60%**
2016 – 2017	33. 482	11. 67	20 136 977	**<60%**
Tshwane				
2015 – 2016	23 437. 57	6 307. 93	28 005.50	**<60%**
2016 – 2017	25 479. 53	8 570.60	30 567.53	**<60%**

Figure 1. *Synopsis of the Calculation of the Net Financial Liability's Ratios*

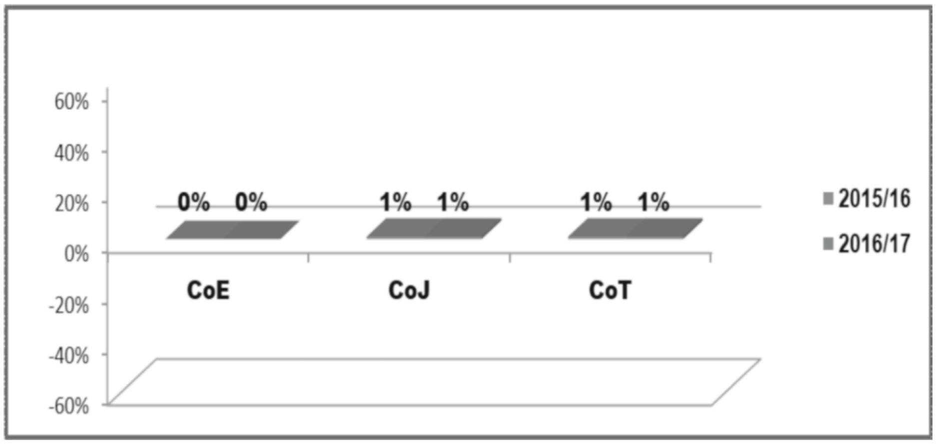

Table 3. *Analysis of Operating Surplus Ratios*

Municipality	OS (R'000'000)	TOR (R'000'000)	Percentages (R'000'000)
Ekurhuleni			
2015 – 2016	1 969. 21	29 648.30	**<10%**
2016 – 2017	2 274.55	31 351.20	**<10%**
Johannesburg			
2015 – 2016	1.3	20.20	**<10%**
2016 – 2017	1.1	20.14	**<10%**
Tshwane			
2015 – 2016	1 096.65	28 005.45	**<10%**
2016 – 2017	3 014.70	30 567. 53	**<10%**

Similarly, the target for operating surplus ratios is less than 10% per annum on average, which implies these three municipalities were within the recommended levels of revenue (McLaren & Struwig, 2019). In such a scenario, it is generally believed that the municipal services have been delivered to an acceptable standard of operational efficiency. However, such results obtained from financial ratio analysis should be used with a high degree of caution, as municipal authorities can manipulate or adjust the ratios in a favorable outcome (Donatella, 2020). In addition, financial ratio analysis is a very static indicator and may not reveal the real dynamics in the mentioned municipalities over the given period.

Conclusion and Policy Implications

As developing countries urbanize at unprecedented rates, cities play more important roles than ever in the attainment of the Agenda 2030 and in meeting the sustainable development goals (SDGs). The study finds that, based on financial ratio indicators, the three metropolitan cities included in this study delivered basic municipal services to their local communities according to the stated constitutional mandates. The qualitative content analysis in this study reveals that providing decent municipal services will remain demanding in the study areas due to the ever-increasing influx of population. In addition, insufficient support from higher tiers of government, obsolete and aged infrastructure facilities, and insufficient budget available for timely maintenance of existing infrastructures led to backlogs in service delivery. The situation worsens during the outbreak of informal settlements, violent civil unrest, and the COVID-19 pandemic, as exhibited in 2020 and 2021. Moreover, due to a lack of entrepreneurial, innovative, and problem-solving skills and expertise among municipal managers, the provision of basic municipal services will be compromised, and the residents will remain unsatisfied for the foreseeable future. Adapting better financial and non-financial measures and developing progressive mechanisms that accommodate the unplanned and ever-increasing number of informal settlements and human population is the quest for future studies.

To improve the current dire conditions of municipal services in the three municipalities and other municipalities in South Africa, we recommend the adoption of a comprehensive mechanism to improve the entrepreneurial, innovative, and problem-solving skills and expertise of municipal managers at all the levels of municipal administrations. To this end, improvement of staff qualifications on the skills needed and appropriate training on quality service delivery and improved municipal financial management is compulsory.

Limitations of the Study and the Way Forward

This study employs qualitative content analysis and quantitative financial ratio analysis. However, findings from financial ratio analysis should be used with utmost caution for major limitations and drawbacks associated with such financial indicators. Financial ratios analysis is not an adequate method by which to evaluate the overall performance of an organization. Some authors suggest that the balanced scorecard (BSC) is more efficient than financial ratios analysis (Alrafadi & Md-Yusuf, 2011). In this study, to augment for such limitation, we included content analysis as a qualitative measure for the performance of the three municipalities in the Gauteng Province of South Africa. Future studies can further assess the financial health of municipalities in South Africa and other developing nations by employing more compressive socio-economic indicators, not limited to financial factors, to evaluate financially and economically realizable and resilient basic municipal services to serve urban citizens with dignity (Budhedeo & Pandya, 2018).

Authors' Contribution

Prof. Mulatu F. Zerihun (the corresponding author) developed qualitative and quantitative design to undertake the empirical study. Prof. Mariann P. Mashigo extracted research papers with high repute, filtered these based on keywords, and generated concepts and codes relevant to the study design. Prof. Mariann P. Mashigo verified the analytical methods and supervised the study. The numerical computations were done by Prof. Mulatu F. Zerihun using SPSS 20.0. Prof. Mulatu F. Zerihun wrote the manuscript in consultation with Prof. Mashigo. Prof. Mulatu F. Zerihun incorporated comments from reviewers and the editor and did the subsequent revisions and final editing of the paper.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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Ethical Consideration

This article followed all ethical standards for research under the Research Ethics Policy of Tshwane University of Technology.

Disclaimer

The views and opinions expressed in this article are those of the authors and do not reflect the official policy of any affiliated agency of the authors.

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