An assessment of financial planning and financial performance in municipalities: The case of the City of Tshwane Metropolitan Municipality (CoT).

AN ASSSESSMENT OF FINANCIAL PLANNING AND FINANCIAL PERFORMANCE IN MUNICIPALITIES – THE CASE OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY (CoT)

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DECLARATION BY CANDIDATE

“I hereby declare that the dissertation submitted for the degree M Tech Cost and Management Accounting, at Tshwane University of Technology, is my own original work and has not previously been submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references”.

SK MAYO

DEDICATION

I dedicate this study to my parents for paving a way for me. Above all, God Almighty gave me the strength, excellent supervisors and a remarkable educational institution of higher learning (Tshwane University of Technology) to complete my dissertation.

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ABSTRACT

Long-term financial planning in South Africa was at the time of the study not regulated by legislation. In addition, municipalities were accused of failing to plan their finances, which included failure of adherence to the long-term commitments of long-term contracts, neglecting revenue collection, and consequent over-reliance on government grants and borrowing. The aim of this study was to assess whether the adoption of the Long-term Financial Strategy (LTFS) by the City of Tshwane (CoT), improved the municipality's financial performance, in order to determine whether a longer term financial strategy should become a legal requirement for all municipalities in South Africa.

This study applied content analysis to compare the South African legislative frameworks regulating financial planning with that of Australia and New Zealand to derive possible areas of learning for South Africa. In addition, financial management analysis was performed using financial ratios whose findings were quantified using Mann-Kendall Statistic and Pearson Correlation.

The findings of this study indicated that South Africa lagged in the long-term financial planning requirements and the financial plans lacked commitment to financing the operational needs of municipalities, in the long-term. CoT indicated improved financial management in certain areas compared to other municipalities in the sample that did not adopt an LTFS. Based on these findings recommendations were drawn to enable South Africa to develop legislation that would support both the short,

medium and long-term commitments of financial planning in South African municipalities.

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GLOSSARY

Basic municipal service

A municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment (SA, 2003:Sec1).

Billing

The process of determining the value that a consumer is liable for paying based on their usage or property value. The process determines the total revenue owed by consumers to the municipality.

Consumer

Residents who own a property within the boundaries of a municipality and/or make use of municipal services.

Current year

Current year refers to the financial year during which a municipal budget is implemented.

Household

All persons living together in the same dwelling or different dwelling but were classified by Statistics South Africa as such during the census. Households are the main users of municipal services.

Indigent

Those people who are too poor to pay for essential services. A debtor who is poverty stricken and whose whole household has been evaluated in terms of the social package policy and who is registered as being indigent (CoT, 2010**b**:1).

Meter readings

The total consumption expressed as units for a specific period as recorded by a municipality's meter readers on scheduled dates. The readings are used to calculate the total amount payable by the consumer to the municipality for the period under review.

Operating revenue

A municipality's own generated revenue and the grants and donations received for the purpose of funding the day-to-day operational expenses of a municipality.

Own revenue

Total revenue collected by or due to the municipality for services rendered by the municipality, interest charged by the municipality on arrear accounts and any fines imposed by the municipality. Own revenue excludes grants and donations received or receivable by the municipality.

Rates base

All the individual property owners and businesses that are legally required to pay rates to the local authority (CoT, 2011:7). The money received from these individuals is considered as own revenue.

Stock piling

Stock piling refers to the practice of keeping more inventory than necessary for the operational needs of a municipality.

Tariff

A tariff is a rate at which municipal services are charged and it is reviewed annually. This rate is used to calculate the revenue to be collected by the municipality for that year.

Tariff setting

Tariff setting refers to the process of determining the raise in the unit price of basic commodities or services rendered by a municipality. This process includes determining (investigating) the affordability level of the community as the process related with revenue collection as demonstrated in the definition of tariff above.

CHAPTER ONE

OVERVIEW AND BACKGROUND

1.1 INTRODUCTION

Amongst other responsibilities, South African municipalities are entrusted with the country's resources since they are responsible for its economic and social development (National Treasury, 2008:1). However, weaknesses such as poor cash management, lack of integration between policy making, planning and budgeting, and poor planning, undermine performance in municipalities (The World Bank cited by AFReC, 2008:25). Furthermore, South African municipalities were accused of poor financial planning due to their inability to collect revenue; consequently leading them to rely heavily on government grants (National Treasury, 2008:17). De Lange (2010:22) also opined that financial challenges faced by municipalities were due to their failure to adhere to the long-term nature of the infrastructure and service delivery responsibilities.

This study assessed how the aforementioned weaknesses affected the financial performance and planning practices - particularly the long-term financial planning - using the City of Tshwane Metropolitan Municipality (CoT) as a case study. As a result, the research objectives will be discussed next, followed by the scope and limitation of the research, the background literature, the significance of the research, research methodology, the dissertation chapter outline, and the summary for this chapter.

1.2 RESEARCH OBJECTIVES

1.2.1 Primary objective

The primary objective of this research was to assess the financial performance of CoT to determine whether the adoption of the Long-term Financial Strategy (LTFS) by this municipality improved its financial performance, in order to determine whether a longer term financial plan should become a legal requirement for all municipalities in South Africa.

1.2.2 Secondary objectives

- To conduct a literature review on the public and private sector practices of financial planning, to determine if the legislation regulating financial planning in municipalities catered for these requirements.

- To conduct a comparison and analysis on the legal frameworks regulating financial planning in South Africa, Australia and New Zealand as they are the basis for the LTFS in CoT and their local government underwent similar reforms to determine adequacy of financial planning legislation in South Africa.

- To perform a statistical analysis on selected financial ratios to assess whether the adoption of the LTFS by CoT improved its financial performance over time, and also compared to other municipalities that did not adopt a LTFS.

1.3 SCOPE AND LIMITATION OF THE RESEARCH

The study assessed the financial performance in CoT, based on its financial planning practices. CoT is one of the few South African metropolitan municipalities that have adopted a long-term financial planning strategy that culminated into what is called the LTFS. A two pillar approach was applied for this study in the quest to satisfy its objectives. First the legislation regulating financial planning in municipalities was reviewed and compared with the available literature to determine their compatibility. In this process, the legislation regulating financial planning in South Africa was compared with that of Australia and New Zealand as discussed in Chapter 3, to identify the strengths and weaknesses in the South African legislation. This assessment was used to determine if the legislative requirements were conducive to improved financial performance. For the second pillar, an analysis of selected financial ratios was performed on CoT, CoJ and Ekurhuleni as discussed in Chapter 3 as well - to determine whether there were any differences in the performance of CoT which had a long-term financial plan, to CoJ and Ekurhuleni, which are both in a comparable environment, but had not adopted long-term financial plans.

In terms of the comparison of the legal frameworks, it was important to select the legislation of countries that had long-term financial planning as a legislative requirement and a comparable legislation to the South African one. This resulted in Australia and New Zealand being selected as samples. What is more, these two countries served as examples for the development of the South African legislation. Australia and New Zealand had legislative requirements for an LTFS in their municipalities and the LTFS in CoT was developed based on the Australian model with the help of Nigel Graves, an international advisor appointed by the South African National Treasury to help with financial management reforms as part of the Municipal Finance Management Act (MFMA) implementation. This does not conclude that the comparison of the legislative requirement could be limited to Australia and New Zealand only; instead, it sought to determine whether the origins of the South African legislation and the LTFS in CoT were based on a suitable regulatory framework (the Australian and New Zealand legislation). A separate study would be necessary to determine if South Africa is regulating financial planning better than other countries with, *inter alia*, similar economic and demographic circumstances, which Australia and New Zealand do not have. Based on the findings of the legislation review, the actual financial performance in CoT was assessed, compared to other metropolitan municipalities which had not adopted any long-term financial plans.

Because the idea was to determine if adopting long-term financial plans in municipalities improved their performance, it was important to compare the financial performance of a municipality with an adopted long-term plan with those without long-term plans. This resulted in the comparison of financial performance between CoT, that adopted the LTFS, and South African Gauteng province metropolitan municipalities that employ shorter-term plans. In terms of analysing financial performance, emphasis was placed on revenue collection, the use of operational government grant funding, external long-term borrowing, and short-term assets and liabilities.

Ekurhuleni Metropolitan Municipality (Ekurhuleni) and City of Johannesburg Metropolitan Municipality (CoJ) did not have long-term financial plans or strategies during the period reviewed in this study, and were therefore considered good samples for the study since it concentrated on the Gauteng province. It was noted that there were other factors relating to the operational management of municipalities, such as the human resource development, the quality of the available skills and the overall strategic planning. Although all these are relevant and could derail the best of financial plans, they were not considered in this study. The reason is that, to determine if these factors affected the financial performance negatively, it was first necessary to establish whether the current legal framework and practices were conducive to an environment where optimal financial performance could be achieved – which this study sought to satisfy. In the end, the extent to which financial performance was affected, if at all, was not within the focus of this research and perhaps need to be established by future research. This study provides the research findings on whether the legislation regulating local government financial planning in South Africa is adequate, by comparing it with that of the countries that served as example, and if this legislation is conducive to improved financial performance.

1.4 BACKGROUND LITERATURE REVIEW

1.4.1 General literature review

This study borrowed the definition of financial planning from Walker and Baughn (1964:11), which is: determining policies for the organisation, establishing the organisation's objectives, and procedures that the organisation should take to accomplish its objectives. Literature even suggests that planning is often divided into long-term and short-term, and executed both upwards and downwards to allow flexibility (Lucey, 2002:264; Kavanagh, 2007:7). Lucey further distinguished that long-term planning is evaluating and selecting strategies for the purpose of preparing a long-term plan of action to attain objectives. Short-term planning is the utilisation of resources to achieve specific objectives in the most effective and efficient manner. Financial planning directly contributes to financial performance which, according to Aktan and Bulut (2008:70), is an entity's ability to generate new resources from day-to-day operations over a given period of time. It can also be argued that the word "sustainable" needs to be added to the creation of resources to ensure continuity in satisfying the objectives because the needs of communities are limitless.

AFReC (2008:37) opined that a financial plan is a long-term projection of financial information that contains historical revenue and expenditure trends used to anticipate and assess the impact of these trends on the future financial viability. In addition, a financial plan should include business objectives and elaborate how the achievement of such objectives should be monitored (Needles, Powers & Crosson, 2005:1162). Establishing the objectives of an organisation enhances the effective allocation of resources, the achievement of which (objectives) require clear and achievable targets to be set, and upon which performance will be measured (Le Roux, De Beer, Ferreira, Hubner, Jacobs, Kritzinger, Labuschcne, Stapelberg & Venter, 1999:116; Atrill & Mc Laney, 2009:7; Needles *et al.,* 2005:1162). Therefore, if an organisation needs to establish objectives, allocate resources, and provide a basis for assessing the achievement of these objectives to help managers monitor and assess the long-time financial viability, then regular review and updating of the objectives is necessary where variances exist. In turn this will help managers detect variances and problem areas timeously, thus presenting these managers with an opportunity to improve the quality of planning.

Monitoring can be achieved through the implementation of relevant policies since policies give direction to the administration and implementation of the strategic objectives (Du Plessis, 2005:16). A good policy is clearly understandable and sets out conditions of implementation and penalties for contravention thereof (Du Plessis, 2005:16). Municipal policies are regulated by legislation in local government. However, policies alone cannot prevent the impact of unforeseeable economic uncertainties on the outcomes of both public and private organisations, although they can provide guidance thereon. Therefore, both types of organisations need forecasting in their planning processes. Forecasting is a matter of accounting for the future by assessing the future impact of current trends on financial viability using current and historical data

(Penman, 2010:211). Organisations need to utilise the current economic activities to estimate and predict their future impact on the financial plans. Whilst forecasts reveal longer term trends and imbalances that may not be apparent in a shorter time period, they may lack precision (Kavanagh, 2007:9).

Based on the above, the availability of timely, complete and accurate information, and the continued monitoring and updating thereof, could increase the accuracy of forecasts. As a result, either a public or private organisation needs to have an accounting system in place to meet the needs of forecasting. Ferreira, Erasmus and Groenewald (2009:22) defined a “system” (read accounting system) as a series of subsystems consisting of interrelated procedures that help achieve a well-defined goal. To achieve this goal, Atrill and Mc Laney (2009:17-18) suggested that information from accounting systems should be relevant, reliable, comparable and understandable. If these requirements are met, an organisation would have information upon which to base forecasting, and also be able to record its current activities for future use in the financial planning process.

Ultimately, financial planning is essential for the survival of both private and public sectors. Although the public sector is not profit based, successful service delivery is dependent on the efficient allocation of scarce resources. CoT as a municipality, shares the same characteristics as a non-profit organisation, which is discussed in detail in Chapter 2 of this study. According to Statistics South Africa (2011**a**:31), CoT is one of the biggest metropolitan municipalities, as well as the capital city of South Africa that services at least 911 536 households. This number is likely to have increased significantly, mainly due to the incorporation of the Metsweding district municipalities into CoT. To put the literature reviewed above and the use of CoT in this study in context, in the next section the financial planning practices in CoT is discussed.

1.4.2 Financial planning practices in CoT

In 2004 CoT adopted the LTFS, covering a decade ahead. Upon adoption, the purpose of the LTFS was to effect financial viability and sustainability in CoT to ensure the attainment of the municipality's objectives (CoT, 2004:1). Knox City Council (2008:1) in Victoria, Australia, defined the LTFS as matching the objectives of an organisation with an appropriate resource plan, thus combining and integrating financial strategies to achieve a planned outcome. The strategy included the establishment of a framework against which strategies, policies and financial performance could be measured. Based on the definition given, Knox City sustained that the LTFS compels sound financial management principles and plan for the long-term financial sustainability using the Long-Term Financial Model (LTFM). The LTFM is a series of interlinked spreadsheets used to calculate projections for fifteen years ahead and helps understand alternative financial strategies. This model, as part of the LTFS implementation in CoT, would be monitored continuously and reviewed biannually (CoT, 2006).

The recent economic downturn posed major financial challenges to municipalities, and CoT was no exception. This all was regardless of CoT's collection rate of rates and service charges of 92.5% and the current ratio of 1:1, otherwise 0.8:1 when adjusted at the end of June 2009 (Viljoen, 2010:18). The crisis pressured the City Manager to introduce the Cash Flow Intervention Initiatives with the aim of monitoring expenditure more closely to discard wasteful expenditure in CoT. The Cash Flow Intervention Initiatives enforced prior approval by the City Manager on specific expenditure items (CoT, 2009). In addition, CoT introduced debt reduction schemes in August 2009 and March 2010. These schemes offered consumers discounts on their long outstanding debts if such accounts were settled in full (CoT, 2010**a:**7). The initiatives by CoT above were only included to highlight the extent to which CoT was affected by the economic recession, and were not discussed in further detail in other chapters of this study (although the implementation thereof by virtue of being part of the actual financial performance of CoT was included in the analysis of financial ratios). However, the next paragraph highlights the realities of introducing these initiatives.

It can be argued that consumers who intentionally ignored or delayed paying their municipal accounts in the past may not be encouraged by the rebate to change their habit (culture of non-payment) (National Treasury, 2011**a**:71; Klingelhöfer & Mathonsi, 2012). In addition, where consumers did not earn income during that period, the accounts were still unaffordable. In contrast, if big consumers started paying on time, the cash-flow of CoT would have improved and enabled the municipality to pay its creditors timeously. These scenarios were analysed holistically as part of the interpretation of financial ratios in Chapter 5 of this study.

If policies and by-laws could not achieve the objectives of the CoT alone, then the performance trends analysed and interpreted in this study assisted in indicating whether or not CoT was successful in implementing, monitoring and enforcing these policies and by-laws. Therefore, this study also concluded on whether the actual performance of CoT was consistent with the debt collection policy and practices required by legislation.

1.5 SIGNIFICANCE OF THE STUDY

Since municipalities are a core function for the country's economic growth, it is important to investigate ways to optimise value for money and sustainability in financial planning, especially long-term. The lessons of this study will help municipalities in South Africa to compare and benchmark their financial planning practices with, and against those of the private sector, and also the legislative requirements in other countries. South Africa needs more analytical and policy research for infrastructure development, as acknowledged by National Treasury (2008:3). This acknowledgement by National Treasury, which is the custodian of all public funds (SA, 1996**a**:Ch12; SA, 2003:Sec5), demonstrates how limited the knowledge was that South Africa had at its disposal, thus necessitating further research in this field.

The study reviewed and tested the existing literature and further compared this literature with the relevant legislation requirements for consistencies in addressing the financial planning needs in municipalities. In doing so, it has identified the differences and similarities between the financial planning processes of public and private sectors and the legal frameworks applied in selected countries. Ultimately, this study could help South African municipalities improve their processes by adopting some of the recommendations presented in this study.

The knowledge gained will enable planners, strategists and policy-makers to explore new avenues in their respective areas of specialisation in the quest for effective financial planning. In the process, the study has defined the relationship between short and long-term planning and how to coordinate both plans in municipalities. Furthermore, it has provided clarity on the myth that municipalities (CoT in this instance) have become more reliant on government grant funding and borrowed funds, due to neglecting the collection of own revenue. This is contrary to the fact that municipalities must ensure that all moneys entrusted to them are recovered from consumers for services rendered to ensure uninterrupted service delivery (SA, 2000:Sec81&96; Swanevelder, 2005:6).

1.6 RESEARCH METHODOLOGY

1.6.1 Overview

Research methodology refers to the approach to the research process, from the theoretical support, to the collection and analysis of data (Hussey & Hussey, as cited by Watkins, 2006:37). The goal of the study was to assess the financial performance resulting from the implementation of the LTFS as part of the financial planning process of CoT, in order to determine whether a longer term financial strategy should become a legal requirement for all municipalities in South Africa. Firstly, a legislative content analysis was conducted between the legislative frameworks of selected countries where an LTFS is legislated, and South Africa, where it is not. This was done to establish whether there were any discrepancies that might disadvantage South Africa in successfully conducting long-term financial planning, or even in improving performance using the current legislation. Secondly, comparisons and analyses were conducted on financial ratios from selected South African metropolitan municipalities that follow legislated medium-term plans and the CoT that follows an LTFS, for the period 2004/05 to 2011/12. This was aimed at assessing how CoT performed compared to other metropolitan municipalities which operated within the same conditions, but without long-term financial plans.

For the purpose of this study, a combination of qualitative and quantitative research methods was employed. Qualitative research methods provided a thorough understanding of the situation (how legislation affects the financial planning process in municipalities) and used qualifying descriptions or words to record this phenomenon (Cooper & Schindler, 2011:160; Bless, Higson-Smith & Kagee, 2006:43), thus content analysis was employed in this study. Financial ratios were analysed to determine the trend and correlation in the actual performance of CoT, CoJ and Ekurhuleni. Ultimately, comparative analysis tables were drawn for both content analysis and CoT's financial ratios to enhance better analysis of data upon which conclusions and recommendations were later derived.

1.6.2 Data collection

1.6.2.1 Sampling

Sampling entails selecting some of the elements of a population which are representative of the characteristics of the entire population, based on which a conclusion is drawn about the whole population (Cooper & Schindler, 2011:88 & 364). There were two considerations in this regards. Firstly, the countries against which South African legislation can best be compared based on the LTFS adopted by CoT. Secondly, the municipalities which share similar characteristics with CoT, except for the LTFS, since the primary objective of this study was to assess whether CoT performed better than those without ten year financial plans. Judgmental sampling was the most relevant method for this study because it relied on the researcher's judgment to choose a sample that represents the characteristics of the population (Bless *et al.*, 2006:108). After taking the statements cited above into account, the reasons presented in the next paragraph were derived.

This study applied content analysis to review the legislative requirements relating to financial planning practices at South African municipalities and compared them to countries whose legislation served as an example for current South African legislation, namely Australia and New Zealand. In terms of selecting municipalities for financial ratios analysis, the best means to determine if the LTFS improved CoT's financial performance, is by comparing this municipality with other metropolitan municipalities in the Gauteng province with no long-term financial plans. Therefore, CoJ and Ekurhuleni were selected. More details regarding sampling will be discussed in Chapter 3 of this study.

1.6.2.2 Content analysis

Part of this study was interpretive and comprised a content analysis of legislation and associated policy documents through a comparative theoretical (desktop) study. A content analysis can be defined as "…a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes, or biases" (Leedy & Ormrod, 2001:155 as cited by Williams, 2007:69). In this study, content analysis interprets the legal frameworks of South Africa, Australia and New Zealand to enable comparison. This comparison determined the similarities, areas that South Africa is regulating better, and possible areas of improvement on legislation regulating financial planning in South African municipalities.

1.6.2.3 Financial ratios analysis

Financial analysis entails "…the selection, evaluation, and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making" (Drake, S.a:1). Therefore, this study employed financial ratios (in addition to content analysis) to analyse and interpret the actual financial performance of CoT, in relation to the selected municipalities, to gather sufficient data to satisfy the research objectives. These ratios were calculated for the financial years starting 2004/05 and ending 2011/12. The financial ratio analysis was used to determine whether the current financial planning practice employed by the municipality, yielded positive results compared to municipalities without long-term plans through further statistical analysis of the results of the financial analysis.

1.6.2.4 Statistical analysis

Quantitative techniques were applied to determine whether the proportion increases and decreases were similar or differed between the selected municipalities (Chi-square – significance), after which Mann-Kendall Statistic tests were used to determine any monotony in the movements of the trends, specifically the financial ratios. Pearson Correlation Coefficient tests were performed to assess whether there was any correlation in the trends of the variables. The findings were used to determine if the financial performance of the CoT has improved since adopting the LTFS, compared to the financial performance of CoJ and Ekurhuleni in the same period.

1.7 DISSERTATION CHAPTER OUTLINE

Chapter 1 - Overview and background

In this chapter background and general information to the research objectives, the scope of the research, and the overall justification of the research is provided.

Chapter 2 - Literature review on financial planning

In chapter two, literature on the approach of the private and public sector on financial planning is reviewed. That is setting financial objectives, formulating financial policies, monitoring progress and revising the plan where necessary.

Chapter 3 - Research design and methodology

The research design and methods employed in this study to collect and analyse the data in support of the research objectives, based on the insight gained through the review of the literature, are discussed in chapter three. In this chapter the financial ratios selected and further statistical analysis applied on the financial ratio results are also discussed.

Chapter 4 - Review on municipal financial planning legislation and practice

South African legislation was reviewed and compared to that of Australia and New Zealand to determine the differences in legislation that affect financial planning. The reason for reviewing legislation in Chapter 4 is that the comparison of the legal frameworks of different countries requires a research method. Therefore, for better understanding by the reader, the legislation is only reviewed in Chapter 4 after the research method used has been discussed in Chapter 3.

Chapter 5 - Financial, statistical and inter-relational analysis and interpretation of municipal data

In this chapter the data collected is analysed using financial ratios, and the individual financial ratios are further interpreted in isolation from each other, and inter-relationally. Statistical comparisons between the municipalities were also performed to indicate statistical significant differences.

Chapter 6 - Conclusions and recommendations

This study applied a three tier approach, and in this chapter conclusions and recommendations on the findings of the legislation analysed using content analysis in Chapter 4, as well as the financial ratios analysed and interpreted in Chapters 5 and 6, are drawn. Lastly, in this chapter it is concluded whether CoT's financial planning practices and the LTFS improved its financial performance, and thus whether South African legislation needs to be amended.

1.8 CHAPTER SUMMARY

In this chapter an overview of the reasons for conducting this study, together with the research objectives and justification of the scope of the research, was provided. Furthermore, the research methodology applied and its rationale in achieving the primary objective of this study briefly explained, and the structure of the dissertation was set out. In the next chapter a literature review was performed on financial planning in general as foundation for proper interpretation of the data analysis to follow.

CHAPTER TWO

LITERATURE REVIEW ON FINANCIAL PLANNING

2.1 INTRODUCTION

In Chapter 1 a roadmap on how the study was conducted, together with the research objectives that this study intended to achieve, was provided. To better understand the topic and the research objectives at hand, it was necessary to review the related literature. The literature review of the financial planning process was aimed to provide an understanding as to what process the legislation is supposed to regulate and if it is applied correctly, to ultimately determine whether CoT followed the correct process when conducting financial planning. Literature review is a continuous process and must be up to date if it is to deliver accurate research findings. Therefore, in Chapter 2 literature background is provided of the financial planning process to support the research objectives mentioned in Chapter 1. Since the financial planning literature is only reviewed in Chapter 2, the corresponding review and comparison of legal frameworks is addressed in Chapter 4, together with the review of financial planning practices in CoT. In the end, it is necessary to establish an understanding of both the available literature and the legislation to comprehend the financial planning process in municipalities.

2.2 FINANCIAL PLANNING

The South African Concise Oxford Dictionary (1999:893) defined a plan as “a detailed proposal for doing or achieving something”. In addition, Wessels, McGee, Prinsloo, McGee and Van der Poll (2010:15) defined planning as “the establishment of objectives and the formulation, evaluation and selection of the policies, strategies, tactics and action required to achieve them”. Brewer, Garrison and Noreen (2010:28) opined that planning involves establishing basic strategy, selecting a course of action, and specifying how the action will be implemented. Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen (2006:8) were in agreement with the definition by Wessels *et al*., (2010), but were not specific on the formulation of policies although they require the determination of an optimum way to achieving objectives.

Therefore, based on the definitions cited, it is evident that planning focuses more on identifying the objectives and ensuring their achievement with available resources. In this context, planning means drafting a detailed proposal for identifying objectives, setting out how such objectives are to be achieved using available resources, and instigating measures to minimise deviations. However, the definition by Wessels *et al.,* (2010:15) may be incomplete. If planning includes the identification of the objectives to be achieved, then evaluating performance on the achievement thereof is necessary, but Wessels *et al*., (2010:15) do not provide for performance evaluation. Consequently, it is limiting to assume that the evaluation of policies will satisfy this need as the definition did not provide a clear link to performance measurement.

A better explanation would be that financial planning is a broad business activity and may have different meanings depending on the context within which it is used. The term includes compiling a budget for personal finance, saving money through markets for retirement or just investing and many more. This study focused on financial planning in municipalities and used CoT as a case study. The context, within which the term ‘financial planning’ was applied for the purpose of this study, is explained from the next paragraph.

Financial planning refers to activities that relate to the management of cash flow and may include maximisation of wealth, control and monitoring, and aims to achieve financial goals through balancing the gap between income and expenditure (Weng & Tseng, 2010:73). Ross, Westerfield and Jaffe (1996:686) opined that financial planning establishes guidelines for change in an organisation and were in agreement with the opinion of Hellriegel *et al.,* (2006:8).

In addition, Walker and Boughn (1964:13) explained the financial planning process as including the following steps: establishment of the organisation’s objectives, formulation of policies, and the establishment of procedures followed to accomplish the set policies. This explanation of the financial planning process is different from those mentioned in the beginning but both put emphasis on the use and allocation of resources to achieve the desired outcomes of short-term and long-term plans. The difference is that the definition by Walker and Boughn provided an insight into the flow of activities involved in the financial planning process to achieve a prior specified purpose or target.

Matschke, Hering and Klingelhöfer (2002:1) highlighted the targets of financial planning as rentability, liquidity and security. Furthermore, planning is also time related, or at least the achievement of objectives is. As a result, there are specific timeframes set to measure the achievement of the desired outcomes and targets of financial planning. Most organisations wish to remain financially sustainable in the long-term, but also have short-term objectives; consequently they need to plan around that. Accordingly, a financial plan needs to accommodate both the short-term and long-term objectives of an organisation if it is to achieve the objectives and targets.

To allow for flexibility in the process, planning can be conducted in two approaches. These approaches are the bottom-up approach, and the top-down approach. Literature indicates that a financial plan may be conceived as a single long-term plan that can be broken down into medium and short-term (subsidiary) plans, or it could equally be a series of short-term plans that can be built up to become long-term plans, thus allowing for flexibility in the process (Kavanagh, 2007:7; Lucey, 2002:265). In addition, the degree of uncertainty related to long-term plans raises a need for these plans to be broken down into short-term plans for easy monitoring and control, and literature shows support for this practice.

If the two approaches referred to in the previous paragraph are combined (bottom-up and top-down), financial planning could potentially improve. That way planning would be conducted in both directions and this could improve the monitoring and control of the plans through better understanding of both plans and how they relate. However, the success of a financial plan also depends on the proper implementation, monitoring and control of the activities involved. The following subheadings provide an in-depth literature review on all the steps of financial planning, in other words, the establishment of objectives, the formulation of policies, and performance evaluation. First, the financial planning process is illustrated using a figure as follows:

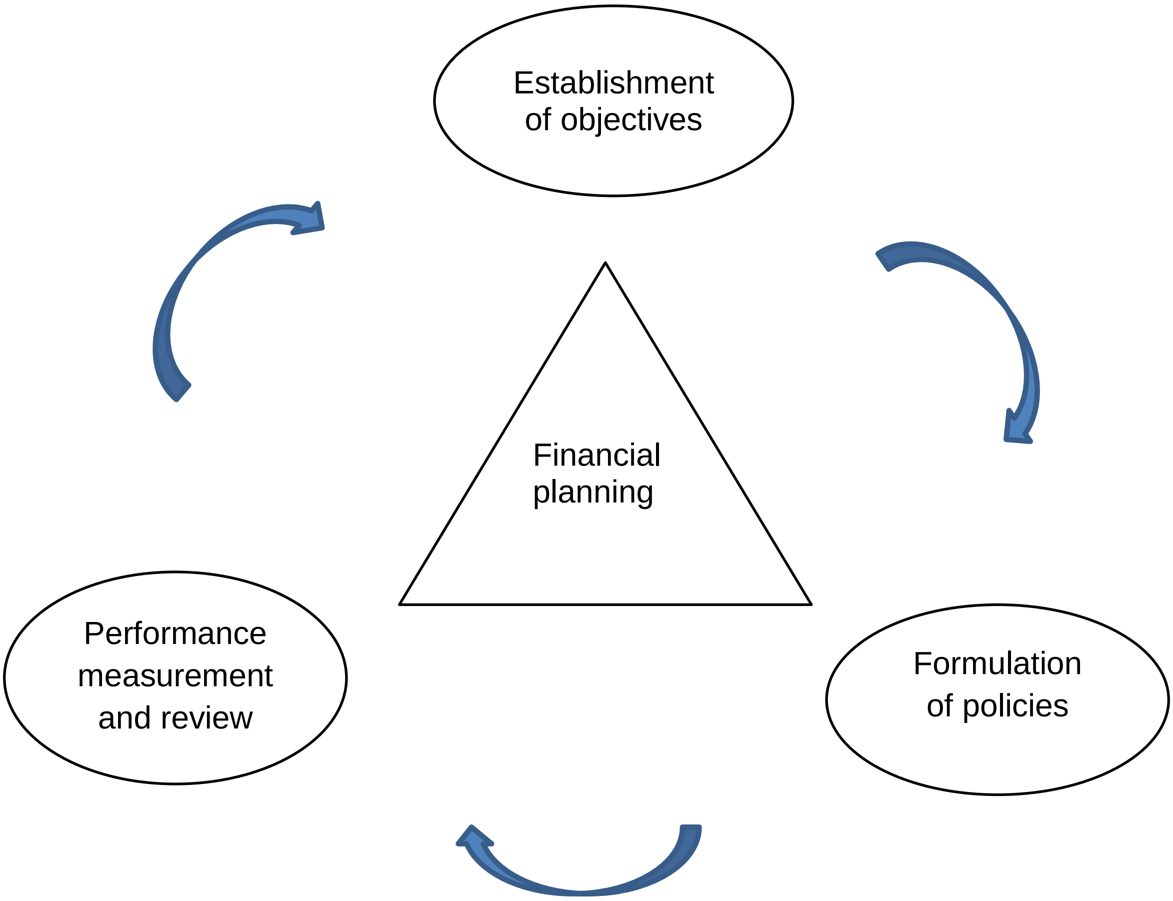

FIGURE 2.1: Illustration of the financial planning process (Source: own)

The strategic plans adopted by municipalities to this effect are discussed in Chapter 4 together with the financial planning practices of CoT. Each of the financial planning steps was reviewed in detail in relation to the current legislative requirements and later compared with the financial planning practices in CoT.

2.2.1 Establishment of objectives

To be effective, planning must involve establishing the organisation‘s vision, mission and overall goals for both the short-term and long-term (Hellriegel *et al.*, 2006:71). In this context the word “objective” means “a thing or place aimed at”, and the synonym thereof is “goal” (Geddes & Grosset English Dictionary, 2007:146 & 236). According to Hellriegel *et al.,* (2006:72) a goal (objective) is what an organisation is committed to achieve and may be expressed both quantitatively and qualitatively. That includes identifying what is to be achieved, how much is to be achieved, and the deadline for the achievement thereof. It should be noted that the establishment of objectives can be more challenging to execute than depicted by the previously mentioned statements, for the reasons discussed next. The successful identification of the requirement set in the last statement by Hellriegel *et al.,* (2006:8) depends on the ability of the planners to identify and link both the qualitative and quantitative requirements of an objective. In addition, this link needs to be in a clearly understandable and implementable manner because optimal contributions of people not familiar with planning are dependent on knowing what they are working towards. Clear and understandable guidelines are also necessary for planners when drafting plans.

Nonetheless, Kaplan, Norton and Barrows Jr. (2008:3) mentioned the development of a vision and mission statement that define the purpose of the organisation and inform employees of the objectives to be achieved as the starting point for financial planning. Therefore, if the vision and mission statement of organisations are the starting point for the financial planning process, then the objectives of an organisation must be derived from these statements. Atrill and Mc Laney (2009:7) indicated the requirement for the objectives of an organisation to provide achievable and clear targets which provide a basis for assessing performance. This view was also supported by Hill and Jones (2009:15) as they explained a goal as a precise and measurable desired future state that an organisation attempts to realise, and further reiterated the importance of setting realistic goals as it represents a yard-stick against which performance is measured. CoT has adopted a mission and vision statement (CoT, 2011**a**:3) and more corresponding details are discussed in Chapter 4.

Even so, unless planners fully understand the expected results of planning from the targets indicated by Matschke *et al.,* (2002:1), planning will remain theory. The literature reviewed in the previous paragraphs support the fact that objectives need to be clearly linked to the vision of an organisation and be clearly understandable to enable employees to positively contribute to the achievement thereof. This means that if neither the targets nor objectives are clearly defined as advised by the authors cited above (Kaplan *et al.*, 2008; Atrill & Mc Laney, 2009; Hill & Jones, 2009), it would be to the detriment of the financial planning process, since the strategic direction of an organisation would not be clear. For that reason, measures need to be put in place to continuously measure performance on the implementation of the objectives and to report deviations.

The statement by Atrill and Mc Laney (2009) that a goal is a precise and measurable desired future state demonstrates a clear link between objectives and performance measurement. It can be deduced from this statement that the development of objectives requires a clear determination of the desired strategic direction of an organisation, the best way to get it there, and providing a basis on which the achievement of the first two points would be measured. The corresponding development of objectives in CoT was reviewed in Chapter 4 after the legislation review. To continue the current section, the development of objectives in for-profit and non-profit organisations, is discussed hereafter.

The objectives of organisations differ from one organisation to another, depending on the nature of the organisation. What is more, the difference between for-profit organisations and non-profit organisations provides diverse needs of stakeholders on which the development of objectives is based. The next discussions focus on the differences and similarities of the objectives of for-profit and non-profit organisations in relation to the formulation of objectives. Municipalities are neither for-profit nor non-profit organisations, but share similar characteristics to both types of organisations to some extent. In the next paragraph these characteristics are discussed.

2.2.1.1 Establishment of objectives in general and specifically for profit making (for-profit) organisations

The primary objective of for-profit organisations may relate more to maximising the future inflow of money to the organisation, and limiting the risk to the lowest possible level (Merchant & Van der Stede, 2007:436). In addition, the purchases or outflow of money is also important and should be closely monitored if an organisation is to achieve the objective as per Merchant and Van der Stede (2007:436). Otherwise, this would encourage reckless expenditure patterns that will reduce the profits of an organisation. However, depending on the owner, some objectives may vary from focussing only on profitmaking. The long-term survival of a for-profit organisation is also a notable factor. An organisation that plans to survive in the long-term may not only focus on profit margins but also on the long-term sustainability of the organisation. Thus the financial planning targets mentioned by Matschke *et al.,* (2002:1) supported this argument. Additionally, shareholders and other stakeholders need assurance that their investments and interests are well looked after and will be soundly protected in the future. Therefore, the financial planning objectives of a for-profit organisation include ensuring a competitive rate of return on the shareholders' investments, and ensuring long-term financial sustainability of such organisations.

2.2.1.2 Establishment of objectives for Non-profit organisations

To continue the comparison, this section first explains non-profit organisations. Legislation in South Africa described a non-profit organisation as a trust, company or association of people established for public purpose (SA, 1997:Sec1(1)(x)). The referred section prohibits the distribution of any income and property of non-profit organisations to its members or office bearers, except as a reasonable compensation of services rendered. Hansmann, as quoted by Du Bois, Jegers, Schepers and Pepermans (2003:1), supported this by highlighting the prohibition of non-profit organisations from distributing any property and income of such organisation to members or office bearers. This means that profitmaking is not a primary objective of non-profit making organisations. However, to survive these organisations also need the equivalence of a profit to deliver on their mandate, since good value-for-money is necessary to achieve the objectives of such organisations. The next paragraph compares the for-profit and non-profit organisations and municipalities to determine the differences and similarities thereof.

2.2.1.3 Comparison

Based on the discussions in the previous two paragraphs it can be deducted that both for-making and non-profit organisation need financial planning to achieve their respective objectives. For example, donors of funds need assurance that their donations will acquire the maximum value for money on the intended purpose for their donations. In terms of for-profit organisations, shareholders may want to see maximum returns on their investments in the form of dividends, more investments into the growth of an organisation, etcetera. Non-profit organisations possess the closest characteristics to those of municipalities, compared to a profit-making organisation. The difference between municipalities and both for-profit and non-profit organisations is that municipalities are governed by specific legislation and not the Companies Act, but ultimately similar to non-profit organisations, they both do not focus primarily on profitmaking, but instead on benefitting the public or their members. However, this does not preclude municipalities from the competitive financial planning requirements to remain sustainable. Municipalities acquire their revenue from rates and taxes as well as government grants and donations.

Ultimately, municipalities, for-profit and non-profit organisations strive for sustainability, either short-term, long-term or both, except that their business objectives differ. This, in turn, necessitates the need for prudent financial management practices that support an effective financial planning process. To achieve their objectives municipalities, for-profit and non-profit organisations need policies that guide their processes. Policies may either be formulated at the same time as the development of objectives, or after the development of objectives. The decision depends on the extent to which the outcome of the development of objectives impact on the policy requirement. There is no specific requirement that policies must be formulated only after the objectives are developed. If a policy is needed to guide the entire financial planning process, then such policy would need to be formulated early in the process. More details on policy development as a stage in the financial planning process are discussed in Sub-section 2.2.2.

2.2.2 Formulation of policies

In this section of the study the policy development in relation to objectives as discussed in the previous sub-section is discussed. A link between policy development and performance evaluation (the third stage of the financial planning process) is also demonstrated as the study unfolds. The South African Concise Oxford Dictionary (1999:903) defines a policy as “a course or principle of action adopted or proposed by an organisation or individual”. A policy gives direction to the administration and implementation of the strategic objectives (Du Plessis, 2005:16; David, 2013:247). Otley and Berry (cited by Zahirul, 2003:44) were in agreement with the authors cited in the previous statement that policies and procedure are applied by organisations to direct, regulate and coordinate all business activities to achieve organisational objectives. In addition Du Plessis (2005:16) suggested the following as characteristics of a good policy:

- be understandable and indicative of desired outcomes and benchmarks against which the attainment thereof is measured; and
- set the conditions for the implementation thereof and penalties for the contravention of such policies.

The abovementioned characteristics depict policy formulation as a roadmap on how to achieve the objectives of an organisation and thus demonstrate a strong link between policy formulation and the development of objectives. This link is demonstrated by the requirement of policies to indicate the desired outcomes and benchmarks against which the attainment of the anticipated results is measured. In addition, the aforementioned definitions of a policy depict a policy as a tool which an organisation uses to bring stability and oversight to ensure optimal achievement of the objectives. If the financial planning process aims to achieve financial goals as conveyed by Weng and Tseng (2010:73), and policies give a strategic direction on the achievement of objectives, then the formulation of policy can begin even before the development of objectives. This means that the financial planning process as a whole can also be guided by a policy. The corresponding legislative requirement for the development of financial policies in municipalities, and the policy development practices in CoT, are reviewed and analysed in Chapter 4.

In furtherance of this discussion, the standards and qualities that a policy must possess to ensure optimal achievement, need to be determined. Herring (2009:106) opined that prudent planning and anticipating new risks to strengthen existing policies were vital in policy-making. In addition, Pierson (2005:39) emphasised the possibility of policy initiatives starting small but growing substantially over time, which should be considered when implementing policy requirements to ensure success. Based on these statements it is evident that the success of policies depends on the formulation, monitoring and reviewing thereof to ensure alignment with the intended purpose. Conversely, the complexity of the policies and the competency of policy-makers also contribute to the organisation's success in the development and implementation of viable policies. Against this, it needs to be argued that if, when formulating policies, the statements by Herring (2009) and Pierson (2005) are considered, and there is a continuous monitoring and reviewing of policies, the risk of unviable policies would be minimised.

Regular reviews on policies are necessary to identify any policy gaps and new threats to existing policies. One of the viable options is phasing in new policies or policy changes, as Pierson (2005) warned against policy objectives starting small and stabilising over time. The argument is that phasing in policy changes or newly developed policies, would enable policy makers to observe the impact of such policies or the changes thereof in the initial stages of implementation. This approach would allow policy-makers to gain more insight on the impact of such policies on the organisation's operations and allow for corrective action where necessary. However, this option also has its drawbacks. If policy implementations were delayed and there was no other measure in place to deter problems, the organisation would potentially lose its direction in achieving objectives. The financial planning process would be vulnerable and exposed to all possible risks.

Pierson (2005:36) further warned against dramatic enactments, as they could be highly misleading if analysts were not also attentive to the aftermaths. Policies that are too ambitious and thus difficult to implement are as good as non-existent, especially if such policies failed to address adverse circumstances that arise during the everyday activities of an organisation. Therefore, where uncertainties about the environment that a policy intends to regulate exist, phasing in its implementation could help minimise risks. However, there should be measures in place to regulate activities in the absence of a policy or during the phasing-in of a policy.

Nonetheless, to be effective in achieving its purpose, a policy needs to guide the decision making process in an organisation. Decision making is defined as selecting the most suitable course of action to solve a problem after carefully considering various alternatives (Erasmus, Ferreira, Boucher, Groenewalt, Rossouw & Van Rooyen, 2009:407). Therefore, if decision making is selecting a suitable course of action and a policy gives direction to the administration and implementation of the strategic objectives (Du Plessis, 2005:16), then the two are complementary. As a result policies should be developed in a manner that is easy to understand and clearly depict how each of the activities is to be managed; then decision making will be easier. However, as highlighted by Herring (2009:102) the decisions made are subject to some degree of uncertainty.

In conclusion, formulation of policies alone cannot satisfy the need of guiding the achievement of objectives. It is the implementation thereof that dictates the extent to which the objectives are achieved. As a result, managers need to continuously monitor and review the impact of available policies on the achievement of the policy objectives and ultimately the achievement of organisational objectives. If policies need to be improved upon based on the activities that took place during a specific period of time then it is important to have procedures in place that will measure the performance of such policies. Therefore, a complete financial planning process should include performance measurement.

The outcomes of the performance measurement process should provide a basis upon which the extent of achieving policy requirements and policies is measured. A logical step would be taking remedial steps where deviations between the planned and actual performance, especially negative, exist. Since both problem areas and areas of strength can only be identified as activities occur, initiating remedial action would be response reactive for the past performance but proactive for future performance, as this will ensure that the same does not happened in the future.

In terms of future performance, it is also known that the unpredictability of the future renders historical data somewhat unreliable, as risk patterns change (Ahlburg & Lindh, 2007:534; Kavanagh, 2007:9). This means that forecasting is necessary to ensure that future activities are estimated as accurately as possible to minimise the unpredictability. However, the limitation of forecasting is that it lacks precision and accuracy where forecasting is for longer terms. Therefore, continuous performance measurement could be instrumental in curbing deviations since historical data alone cannot be relied upon for future activities. Forecasting is discussed in detail under sub-section 2.2.3. Figure 2.2 on the next page illustrates the relationship between policy development and performance measurement.

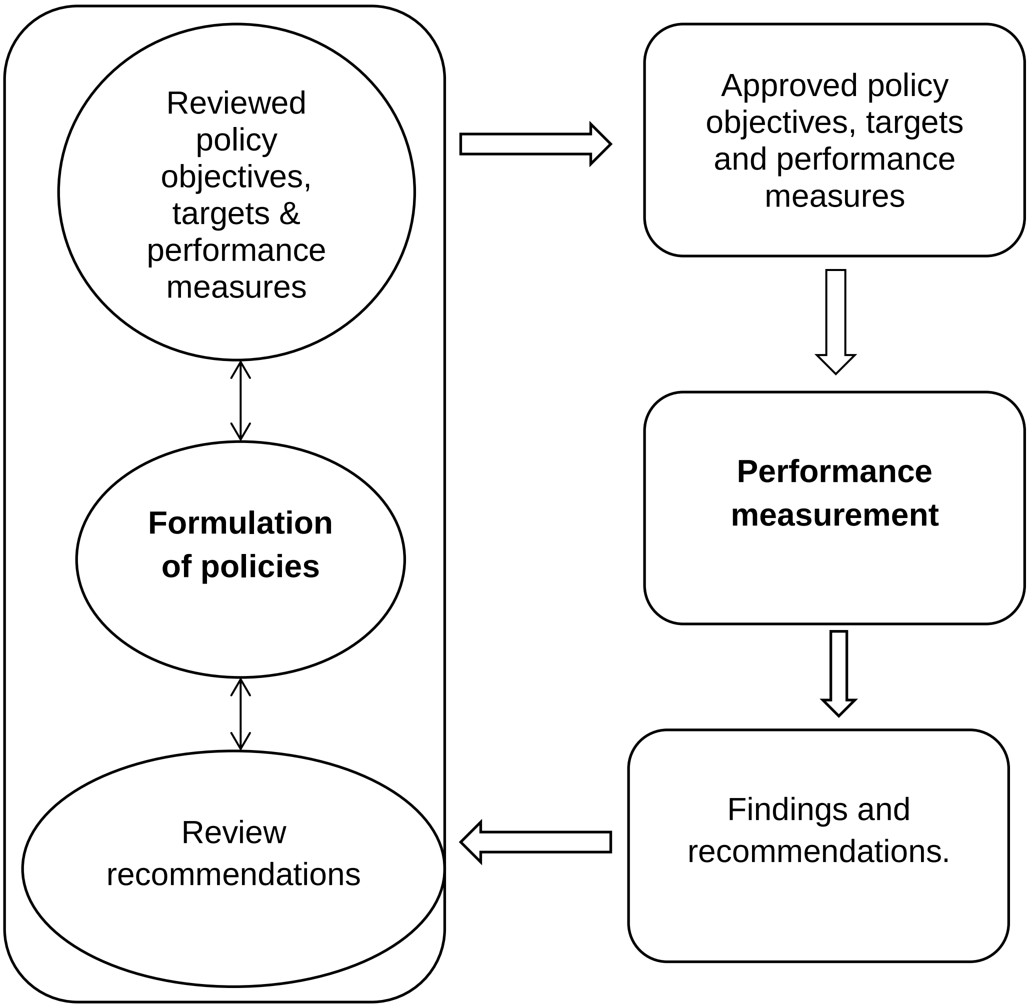

FIGURE 2.2: Illustration of a relationship between policy development and performance measurement (Source: own)

2.2.3 Performance measurement

The performance measurement process depends on a number of factors as it involves the past, present and the future. In the beginning, planners use historical data to predict future business activities and set specific benchmarks relating to the objectives of an organisation based on the assumptions. These assumptions are later compared with the actual business activities to measure the attainment thereof, and reviewed where necessary (remedial action). Drury (2008:402) warned of the disadvantage found in the possibility that historical data could include past inefficiencies that can be passed on into future activities. Taking this statement into account, action is required to minimise the possibility of past inefficiencies passed on into the future. This means that an organisation needs to have a good accounting system in place to ensure the accuracy of historical data, amongst others.

This section of the study reviews literature on performance measurement. Two aspects of performance measurement are discussed later in this chapter. These are, accounting systems and forecasting. The relationship of these aspects in the performance measurement process is illustrated in Figure 2.3 and then discussed later.

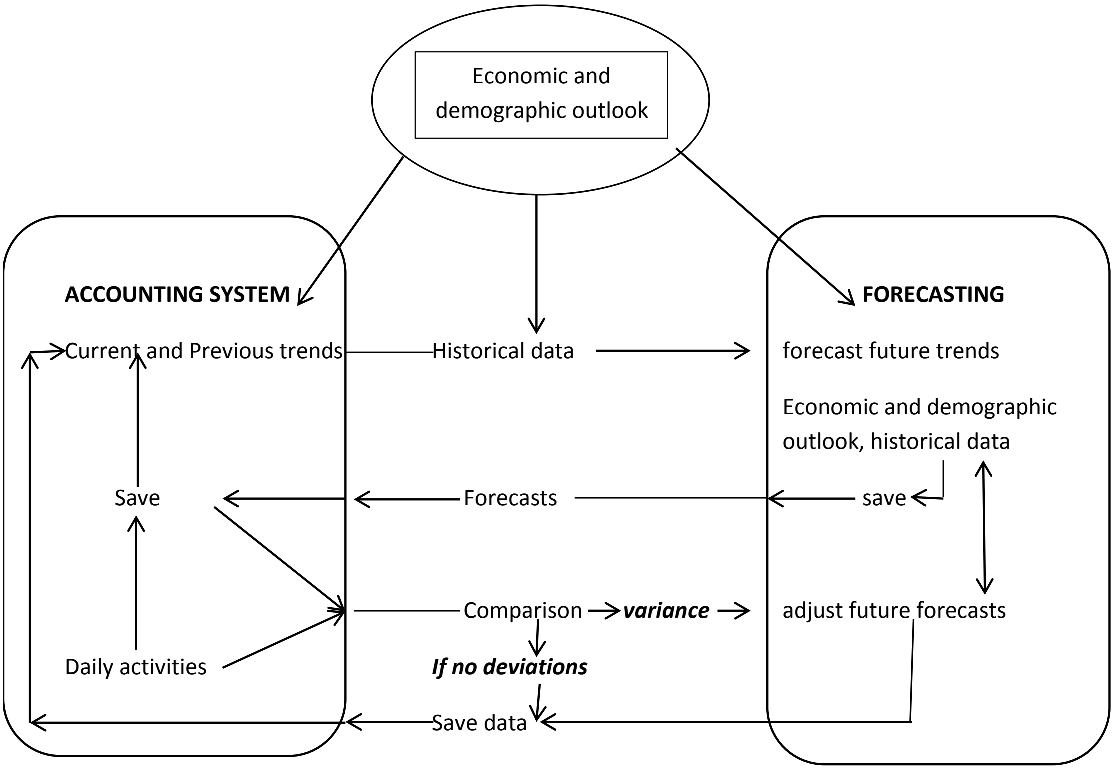

FIGURE 2.3: Illustration of a relationship between accounting systems and forecasting (Source: own)

Herring (2009:103) encouraged monetary authorities to ensure that there is adequate liquidity in the financial system and adjust monetary policy to counter the effects on the economic crises, such as recessions. This statement suggests that policy reviews are triggered and informed by the findings of the performance evaluation process and in so doing, also demonstrate a link between achieving objectives and performance evaluation. In addition, Gordon (2004:178) opined that performance measurement considers both financial factors and non-financial aspects of performance.

Therefore, if policies guide the achievement of objectives and do not involve money, then it is safe to consider the review thereof to be a non-financial factor. In terms of the financial factors of performance management, the availability of accounting systems is required. The reason is that these factors involve the analysis of financial statistics and ratios, thus accurate financial records are required to ensure the success of performance measurement of financial factors. This section first reviews the accounting systems and then forecasting.

2.2.3.1 Accounting system

Many researchers (based on Luhmann's system theory for most) described a system as a unit that involved different interrelated units that served as one to achieve an objective (Harary & Batell, 1981:38; Chen & Stroup, 1993:448; Laszlo & Krippner, 1998:8; Erasmus *et al.,* 2009:22). This description suggests that a system should record all the transactions from different sections of an organisation and be able to express the interrelationship of such transactions as one to enable decision-making and monitoring. At the same time, a system needs to cater for and adapt to any changes such as growth, steady state, and decay (Chen & Stroup, 1993:448), which occur during the implementation and provide feedback as such. Accordingly, "…the changes in the system are expressed by a set of differential equations in time. Properties of the system such as stability, wholeness and sum, growth mechanization, completion and finality are given precise expression using this mathematics" (Chen & Stroup, 1993:450). This is especially important when it comes to, for example, alternative financial scenarios, changes in the economic outlook, and changes in the risk appetite to guide the users of such information in achieving the objectives. Therefore, based on this theory, systems are concerned with the achievement of objectives and performance measurement, and should provide different scenarios for different activities that an organisation undertakes. In addition, a system has to be integrated and managed in such a manner that they function in a coordinated and productive manner (Erasmus *et al.,* 2009:21).

Owojori and Asaolu (2010:1) referred to accounting systems as the tool to achieve accuracy and growth in business activities. If this statement is true then a good financial information system should provide managers with all the information needed to achieve economic growth. In continuance of this argument, AFReC (2008:37) defined a financial plan as a long-term projection of financial information that contains historical expenditure and revenue trends used to anticipate and assess the impact of these trends on the future financial viability. It can be deducted from this statement that historical data is important for successful financial planning, thus accurate information through an accounting system is necessary. Therefore, accounting systems are a basis of providing information against which performance is measured to assess the success in achieving business activities. These include, but are not limited to; measuring if the organisation meets its obligations, collects sufficient revenue and will remain financially viable in both the short-term and the long-term.

Both financial accounting and management accounting systems are needed to achieve financial planning objectives and thus are referred to hereafter as accounting systems. Accounting systems should possess the following characteristics (qualities) (Atrill & Mc Laney, 2009:17-18; Rich, Jones, Heitger, Mowen & Hansen, 2010:59):

- Relevance – the information must meet the decision making requirements of the policy makers.
- Reliability – it must possess minimal errors and bias and represents what it is intended to represent.
- The information must be comparable, traceable, and understandable and also achieve the materiality threshold.
- Consistency – the same accounting principles must be applied by the organisation over time.
- Completeness – must be revealed and contain all the necessary facts.

The applicable characteristics are not limited to the aforementioned, but these are meant to highlight the basic requirements thereof. An accounting system that possesses the characteristics listed above satisfies the basic information needs for the performance measurement process. However, the unpredictability of the future can contribute to a deviation from the planned course of achieving objectives. This necessitates regular feedback provision by a system, and also financial forecasting. The forecasting process assesses the future impact of current trends on financial viability, thus if forecasts are regularly reviewed and realigned with actual performance, the risk posed by unpredictability can be minimised. It should be noted that the ability and level of skill of the people involved in the planning process can also influence the outcomes of the process in-spite of the quality of the information system. Skills development is not examined in this study, but forecasting is. In the next sub-section, forecasting in relation to performance measurement is discussed.

2.2.3.2 Forecasting

According to Penman (2010:211) "[f]orecasting is really a matter of accounting for the future". Forecasting, which aims to assist in the formulation and improvement of managerial decisions, entails drawing from a conditional distribution with the expected value given by provisional parameters applied to current observables and the risk due to the unpredictability of the future and based on demographic, macroeconomic and microeconomic assumptions, amongst other factors, the inclusion of which must be assessed by the degree to which they reduce errors in the process (Zarnowitz, 1974:570; Anderson & Sheppard, 2009:8).

Based on these opinions, if forecasting implies using current observables to estimate future movements and also considers the unpredictability of the future, and if forecasting further aims to improve and formulate managerial decisions, then accuracy in the forecasts (and consequently the input data) is a prerequisite.

Therefore, a reliable accounting system is needed to provide accurate data since it is the basis of formulating forecasts. Moreover, if forecasting is based on using current observables to draw conclusions on the likelihood of future events and relies on available data to do so (Penman, 2010:211), then continuously measuring the performance of such forecasts against actual results to determine deviations, is important.

In the end, the results of performance measurement need to be accurately stored for future comparisons, thus making forecasting a process dependent on performance measurement for accuracy. This means that performance is measured on the achievement of forecasts and must ideally never stop, since, unless an organisation ceases to exist, there is always a future. In short, running an organisation without anticipating the future could create more uncertainty in addition to the already unpredictable nature of the future. The next sub-section demonstrates a link between forecasting and financial planning.

Contributing to the existing literature, Needles, Powers and Crosson (2005:1162) opined that a complete financial plan should have balanced financial performance objectives which cover liquidity, profitability, long-term solvency and cash flow adequacy, among others. Long-term solvency and cash-flow adequacy require anticipating future activities and trends. What is more, planners only have current and past information at their disposal upon which to base decisions. These decisions include, for example, determining how to ensure liquidity, long-term solvency and cash-flow adequacy. For this reason forecasting is necessary.

The requirements highlighted by Needles *et al.,* (2005:1162) are similar to the financial planning targets mentioned by Matschke *et al.,* (2002:1). In addition, some authors (Shim & Siegel, 2007:243), opined that forecasting could minimise the impact of uncertain conditions on the planning and implementation of long-term objectives in both public and private organisations. Therefore, taking the statements of both authors into account suggests that forecasting provides guidelines on how to best achieve the target, if executed correctly. On this basis, forecasts must provide a basis on which to measure performance against the achievement of the financial planning targets.

However, Ahlburg and Lindh (2007:534) and Kavanagh (2007:9) warned of the limitation of forecasting, which is the lack of accuracy where forecasting is for longer terms. In addition Kavanagh (2007:9) opined that forecasts only revealed longer term trends and imbalances that may not be apparent in a shorter time period and were thus not a precision tool. If forecasting lacked precision and accuracy in longer terms, there is a need for regular performance measurement to ensure that the forecasts remain on course. Figure 2.4 illustrates the performance management process.

The literature reviewed in this chapter indicated that performance management requires the availability of established organisational objectives, financial policies and historical data, which requires a reliable accounting system. Taking other factors concerning the economy into account, this information is then used to anticipate future activities (forecasting). Based on the forecast a decision is made and the most accurate figures are selected for benchmarks against which performance is measured.

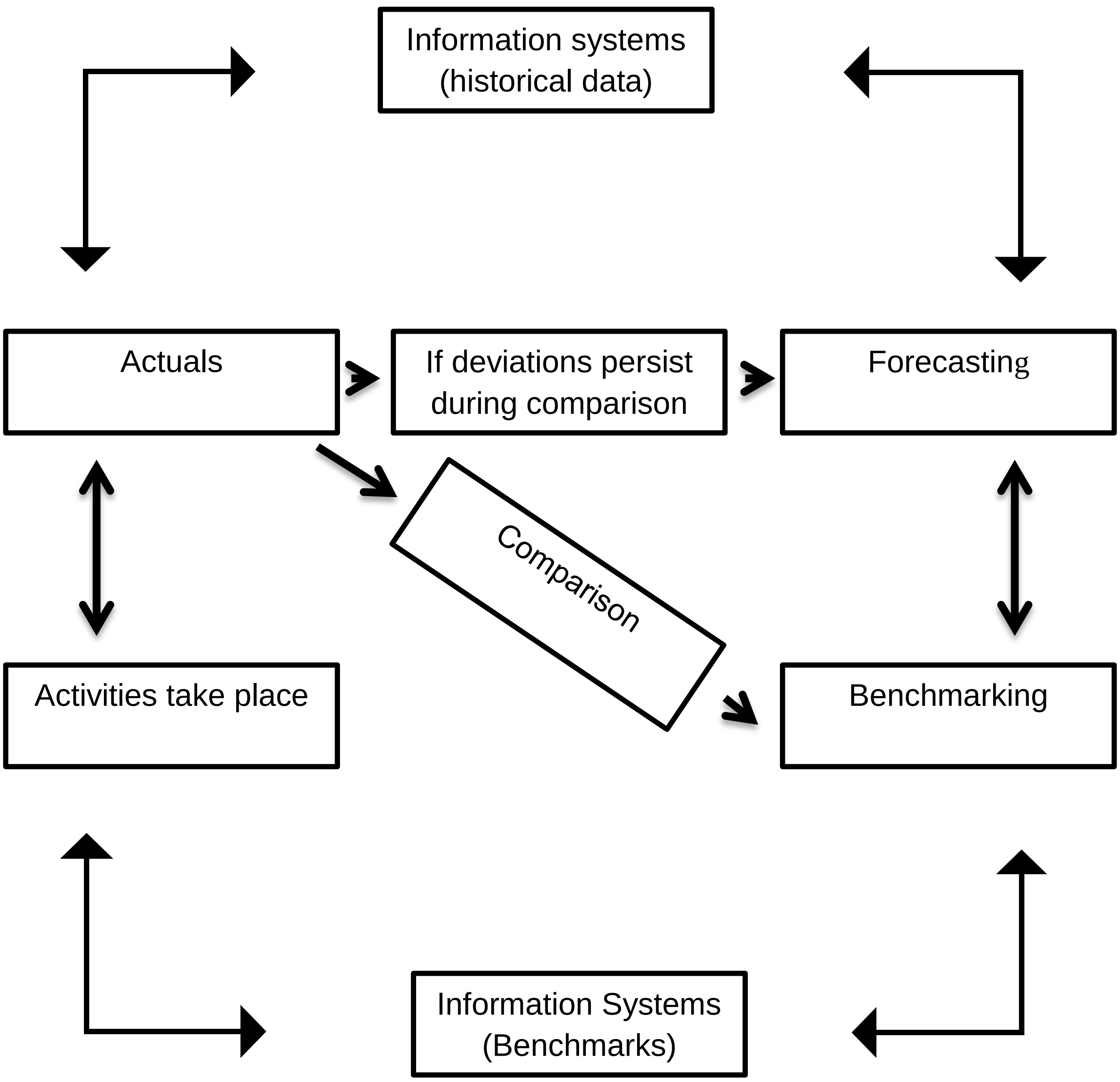

FIGURE 2.4: Illustration of the performance management process (Source: own)

These benchmarks are then recorded in the system for future use and adjusted as warranted by the performance measurement outcomes for accuracy. Where there are deviations, the forecasts for the remainder of the period are revised and the circle continues as depicted in Figure 2.4. Ultimately all actual performance, both financial and non-financial, is recorded in the accounting system for reference and future use. The use of historical data includes, but is not limited to, benchmarking and comparison purposes, a yardstick for estimating future activities and reporting. Therefore performance measurement is a vital circle within the financial planning process which assesses the extent to which the intended outcomes of each step are achieved and provide a basis for remedial action based on these findings.

2.3 CHAPTER SUMMARY

A financial plan consists of steps (which could also be considered as processes) that are interlinked, as discussed from the beginning of this chapter. The literature reviewed suggests that financial planning is an on-going cycle and enhances improvement if all the stages are correctly implemented. The following figure illustrates the financial planning process and is later explained.

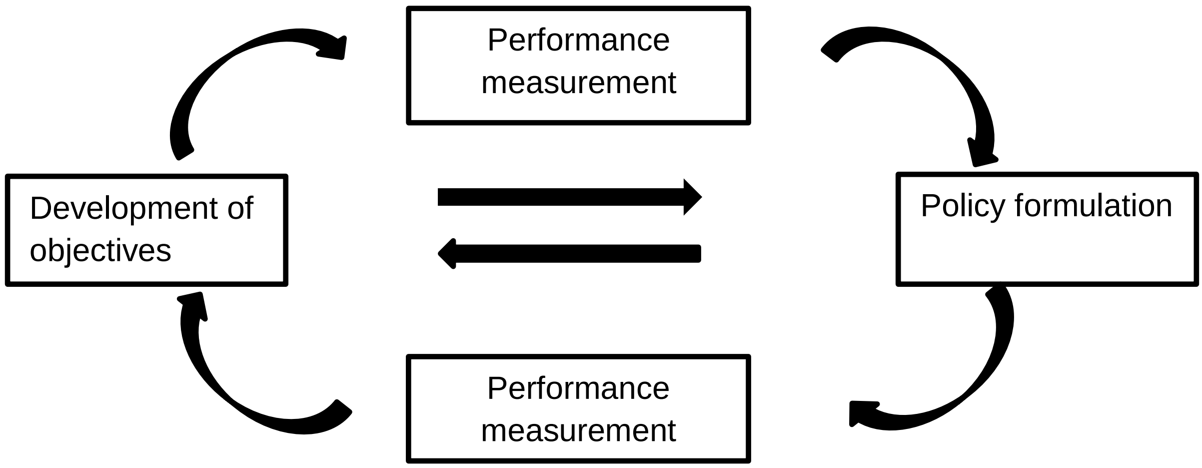

FIGURE 2.5: Illustration of the financial planning process based on the literature review (Source: own)

This means financial planning is not an end in itself (does not guarantee optimal achievement of objectives) but a means to an end (is a process that guides the achievement of the objectives through coordinated processes or stages). As indicated earlier in this study, the development of objectives can run parallel and one informs the other in both directions. During the implementation of both steps performance evaluation is always executed to bring harmony to the execution of these steps. This means that all steps are interlinked and interdependent. It is also vital to note that the success of financial planning is subject to human judgement. For example, both identifying the objectives of an organisation, development of policies and monitoring, require a certain degree of judgement and decision making to ensure that the plan meets the intended outcomes. In this chapter the concepts of financial planning was discussed to support the research objectives at hand. In the next chapter the research methodology and design applied in this study is discussed.

CHAPTER FOUR

REVIEW ON MUNICIPAL FINANCIAL PLANNING LEGISLATION AND PRACTICE

4.1 INTRODUCTION

The literature reviewed in Chapter 2 indicated that even though municipalities do not target profitmaking as a key objective, they still need to maintain liquidity, cope with restricted budgets, and be both financially viable and sustainable in the short, medium and long-term. Moreover, lower costs may allow for more and improved service delivery in municipalities without compromising the quality thereof. Therefore, although it has to be within the parameters of relevant legislative requirements, proper financial planning is necessary in municipalities, as in for-profit and non-profit organisations. This means that if legislation does not cater for best financial planning practices, it can hamper financial management in municipalities and consequently lead to poor financial performance and inadequate or poor service delivery. The legislative requirements relating to financial planning practices at South African municipalities is reviewed in Chapter 4 and compared to other countries whose legislation served as an example for current South African legislation (Australia and New Zealand) to ultimately derive some lessons for further South African development. In addition, the current financial planning practices of CoT are reviewed at the end of this chapter. Reviewing CoT's financial planning practices was amended to provide a perspective on whether this municipality complied with the relevant legislative requirements and its practices conformed to the literature reviewed in Chapter 2.

4.2 BACKGROUND

Some authors argued that the financial challenges faced by municipalities in South Africa were due to municipalities' failure to adhere to proper financial planning, including the inability to collect revenue and the resultant overreliance on government grants (De Lange, 2010:22; National Treasury, 2008:17). If this was accurate, then South Africa needs to improve financial planning practices in municipalities. However, in general there were other challenges that municipalities faced. Compared to Australian municipalities, some authors saw the reluctance of other government spheres to transfer more grant funding to municipalities in that country, as a contribution to failure in municipalities (Dollery & Wallis, 2001:5; Dollery, Crase & Byrnes, 2006:340; Comrie, 2013:18). This is known as vertical fiscal imbalance.

This entailed that municipalities faced a challenge that was outside the control of their own financial resources. Therefore, vertical fiscal imbalance was not addressed in detail in this study, but was noted to highlight some of the external factors that could negatively influence financial sustainability. Instead, the core of this study was the possibility that municipalities did not use the opportunities at their disposal to increase their revenue as was found in Australian municipalities (Dollery, Crase & Byrnes, 2006:340; McKinlay, 2008:151-152; Comrie, 2013:19). Even on this premise, contradicting theories existed on factors that contributed to financial problems in municipalities, for example, Dollery and Mounter (2010) found that there were limitations placed on municipalities' abilities to raise more revenue, such as involuntary rebates in addition to the vertical fiscal imbalance. Although this study by Dollery and Mounter (2010) was conducted on Australia and New Zealand, the same circumstance in terms of the devolution of responsibilities to municipalities and the limitations on capping of tariff increases, exist in South Africa (SA, 2003:Sec43).

In principle, if South Africa had infrastructure backlogs – most of which were the functions of other spheres of government devolved to municipalities – it would be imperative that more grant funding be transferred by the relevant spheres of government to municipalities (Stats SA, 2011**a**; McKinlay, 2008; Dollery & Mounter, 2010). Apart from this, municipalities still have the obligation to collect maximum revenue from services rendered and property taxes charged. Therefore, maximum efforts are required to ensure accurate and implementable financial plans. Furthermore, the extent to which the aforementioned opinions and arguments affected financial planning in municipalities is established by means of a comparative table in the current chapter.

In the end, if municipalities are not profit driven, but are expected to remain financially sustainable and viable in the medium and long-term, then proper financial planning is necessary. The advantage of adopting private sector financial planning practices as discussed in Chapter 2, is that it would ensure the alignment of resources to priorities.

However, aligning the principles of financial planning in the private sector to municipalities may be extremely complex. Australia and New Zealand have already bridged this challenge by incorporating proper long-term financial planning requirements for their municipalities into their legislation.

4.3 FINANCIAL PLANNING IN SOUTH AFRICA, AUSTRALIA AND NEW ZEALAND

4.3.1 South Africa

The South African Constitution (1996**a**:Sec151) recognises local government as an independent sphere of government and further vests legislative and executive powers in municipal councils. In line with the above statement, South African municipalities are independent even though they still depend on grant transfer from other spheres of government. As a result, prudent financial planning is necessary, especially given that municipalities are required to achieve objectives set for them by the Constitution through structured planning and budgeting processes (SA,1996**a**:Sec152). In terms of the Constitution (1996**a**:Sec152(1)), the objectives of local government include, *inter alia,* the provision of basic services and involving the communities in the affairs of the municipalities. In the end, the plans of municipalities as adopted in terms of legislation, must reflect the objectives that are compliant with the constitutional requirements.

As it should be for most countries, South Africa has legislation in place for the management, administration and planning of finances in municipalities with the Constitution being the main legislative framework. Within this framework the MFMA is the main piece of legislation and takes priority where any contradictions exist between itself and other pieces of legislation (SA, 2003:Sec3(2)). Whether the MFMA caters for all the financial planning needs of municipalities was determined through comparison with how other countries regulated financial planning.

In 1993 the Local Government Transition Act (LGTA) was promulgated with the aim of providing for revised interim measures to promote the restructuring of local government at the time (SA, 1993:1). AFReC (2008:6) opined that the LGTA was the first piece of legislation promulgated specifically to address local government finances in South Africa, but argued that the Act was too vague and broad in its attempt. Fourie, Opperman and Scott (2011:2) argued that the LGTA never made the blue print despite the Act being hailed to be the first of its kind. In spite of all these, the LGTA was included in this study to provide a historic account of legislative developments. Retrospectively, due to the development and modernisation process that municipalities had to undertake after 1994, South Africa had to revise its legislation (Van der Westhuizen & Dollery, 2009). This included the promulgation of the MFMA in 2003 to modernise municipal financial management in South Africa.

South Africa had unique circumstances that hindered the successful implementation of IDPs. For instance, South Africa only became a democracy in 1994, prior to which the high number of citizens:

- were prohibited from participating in the development of government plans, including those at municipalities, and thus had limited knowledge on how municipalities function;
- could not access adequate education 2011 statistics showed 59.4% of the population had an educational level lower than grade 12 and 8.6% of the population had no formal schooling at all; (Stats SA, 2011**b**:35);
- did not have access to basic services, thus there was a great need for capital infrastructure, with an average of 22% of the population in metropolitan municipalities still without access to basic services in 2010 (Stats SA, 2011**a**:38-48); and
- were unemployed as the unemployment rate was 23.9% (Stats SA, 2011**b**:49).

These issues are likely to have created challenges in the prioritisation of objectives, and ultimately the development of viable strategic plans, which incorporate all the issues raised by the communities. Compared to South Africa, the same was found to be true in Australia, where socio-economic factors played a role in the decision-making of communities (Dollery & Wallis, 2001:4). On this basis, South Africa could learn from the development that arose in Australia to minimise this problem.

The shortage of resources presented a huge challenge in South Africa, particularly when considering the massive service delivery backlogs that were still waiting to be addressed (Managa, 2012:2). This means that communities had to recognise the need to also pay for services rendered and not rely on government grants, since such perceptions were identified by previous studies as contributing towards government failure (Dollery & Wallis, 2001:5&15; Klingelhöfer & Mathonsi, 2012). The following table illustrates the basic services backlogs for the whole of South Africa and for the selected metropolitan municipalities. The data was extracted from the census of 2011.

TABLE 4.1: Statistics of basic services in South Africa and per metropolitan municipality

	Flush toilet connected to sewerage %		**Weekly refuse removal %**		**Piped water inside dwelling %**		**Electricity for lighting %**	
	2001	**2011**	**2001**	**2011**	**2001**	**2011**	**2001**	**2011**
South Africa	50	57	55.4	62.1	32.5	46.3	70.2	84.7
Gauteng Metropolitan Municipalities								
City of Johannesburg	82.3	87.1	90.9	95.3	50.1	64.7	85.0	90.8
City of Tshwane	68.4	76.6	75.2	80.7	46.9	64.2	79.2	88.6
Ekurhuleni	81.5	85.0	87.9	88.4	43.1	57.2	75.2	82.2
average for metros	77.4	82.9	84.667	88.133	46.7	62.033	79.8	87.2

(Source: Stats SA, 2011a)

Major economic activities take place in metropolitan municipalities, making these municipalities key areas of economic development. For this reason metropolitan municipalities were listed individually to clearly depict the current status in Gauteng.

CoT was also amalgamated with the Metsweding District Municipalities that brought with it huge service delivery backlogs. If one considered that only the major municipalities with strong revenue bases were included in Table 4.1 (and this study), the situation at the smaller municipalities in terms of basic service delivery may be even worse. Improved financial planning in municipalities is therefore imperative for the continued development of South Africa and its citizens. Table 4.1 indicates that by the end of the 2011 census, CoJ was the best performing municipality of the three in terms of basic service delivery as compared to CoJ and Ekurhuleni. CoJ was followed by CoT and Ekurhuleni, both achieving the best two out of four against each other.

In terms of performance measurement, if the Service Delivery and Budget Implementation Plans (SDBIPs) possessed all of the aforementioned characteristics and were used to draft performance contracts for senior managers in municipalities (SA, 2000:Ch6), then they could provide a basis upon which the achievement of the implementation of the financial plan in that budget year can be monitored. Moreover, legislation requires municipalities to monitor, measure, and review performance annually and initiate steps to improve performance (SA, 2000:Sec41). While it is commendable that legislation required performance measures in municipalities, the fact that it was mandatory at least once per annum, is limiting, especially given the recurrent economic changes. The reason is that municipalities could review performance once just to comply with legislation. Instead, performance measurement needed to be continuous and not only performed to satisfy the legislative requirements, but to also optimise financial performance in municipalities.

Using content analysis, in section 4.3 of this chapter a descriptive comparison of the selected countries' planning requirements is provided. The legislative requirements in Australia and New Zealand are reviewed respectively and are discussed in sub-sections 4.3.2 and 4.3.3.

4.3.2 Australia

The main piece of legislation that regulates municipalities in Australia is the Local Government Act of 2009. This Act was introduced with the main purpose to provide an accountable, effective, efficient and sustainable system of local government (AU, 2009:Sec3). To achieve this purpose, the Local Government Act requires proper planning (which includes financial planning and effectiveness assessment), transparency, and community engagement when planning the affairs of municipalities (AU, 2009:Sec4). As highlighted in the previous section discussing South Africa, community involvement (who must be well-informed) is important (Dollery & Wallis, 2001:4).

Providing an illustration of the dimensions of this involvement, the results of a study by the OECD (2009) indicated the importance of long-term planning and financial sustainability in the Commonwealth municipalities, but insisted that municipalities' endeavours be characterised by performance measurement, regular review of projections, sensitivity analysis, and comparisons with historical values, and their progress assessed against these parameters. Australia forms part of the

Commonwealth, and both Australia and New Zealand were among the countries providing data for the study.

As part of planning in Australia, municipalities are compelled to have financial management and planning, and accountability documents that include among others (AU, 2009:Sec104):

- a long-term community plan which outlines local government's goals, strategies and policies for implementing its vision and covers a period of at least ten years; and
- a long-term financial plan that outlines local government's goals, strategies and policies for managing its finances, and also covers a period of at least ten years.

Clearly the ideal planning term in terms of Australian legislation is ten years and longer, but the feasibility thereof and the capacity requirements of such a planning period is a different issue. Moreover, if this planning was to succeed, there was a need for proper and detailed legislative guidelines in this regard. Ultimately, municipalities needed financial sustainability which could be achieved through proper planning. Therefore, a detailed description of what needed to be included in these plans was important in the implementation thereof.

In the case of Australia, legislation require the drafting and compliance of the financial management and planning, and accountability documents with any prescribed regulation (AU, 2009:Sec104(1)). Together with the relevant legislation, these documents are analysed in detail using content analysis, and the details thereof are discussed in section 4.3. Table 3.2 highlights the measures of financial sustainability in Australia for better understanding in the content analysis section 4.4. One could argue the achievement of measures highlighted in Table 4.2 as requiring proper financial planning. Whether the needs of the financial sustainability measures could be satisfied through the implementation of relevant legislation, was determined in the analysis.

TABLE 4.2: Measures of financial sustainability in Australia

Source of funding	An appropriate reliance on the use of debt and own-sources revenues.
Asset management and renewal	The long-term financial forecast incorporates the long-term asset management financial forecasts.
Infrastructure capital sustainability	There are no apparent financial difficulties in funding the required asset renewals over the long-term. The asset base is being renewed at a rate that is consistent with its consumption over the long-term.
Financial capital sustainability/viability	Consistent operating surpluses. Sufficient working capital. The commitments in respect of the interest expense on loans represent a minor proportion of revenues.

(Source: Department of Local Government, Community Recovery and Resilience, 2013:17)

4.3.3 New Zealand

Financial planning in New Zealand municipalities is mainly regulated by the New Zealand Local Government Act. The object of this Act, through recognising the diversity of communities in that country, is to promote municipalities' accountability to the communities as well as their social, economic, environmental, and cultural well-being (NZ, 2002:Part 2). This Act does not specifically provide the objectives of local government (by extension municipalities), but the object of this Act depicts the core needs of communities in New Zealand. Based on this, it is arguable that the objectives of municipalities are catered for in the object of the Act.

In New Zealand it is a statutory requirement for municipalities to adopt a long-term financial plan (LTFP) covering a period of ten years, and which would include a long-term financial strategy (LTFS) (NZ, 2002:Sec93). The purpose of the LTFP is to provide for integrated decision-making, to coordinate resources, and to provide a basis for accountability, whereas (NZ, 2002:Sec93) the purpose of the financial strategy was to facilitate prudent financial management that considers proposals for funding expenditure and promote transparency of the municipalities' services, rates debt and investments through consultations with stakeholders (NZ, 2002:Sec93; NZ, 2002:Sec101A). If these purposes were brought together, financial planning could potentially improve because *inter alia,* accountability and transparency combined have the potential to promote responsible conduct of the financial affairs of municipalities. If officials were held accountable for their actions when conducting official duties, and were further required to be transparent when conducting official duties, there would be limited room to hide underperformance and irresponsible behaviour. However, the detail requirements on the contents of both the LTFP and the LTFS were important for this study and were analysed using content analysis in sub-section 4.4.

4.4 CONTENT ANALYSIS ON THE LEGAL FRAMEWORKS OF SOUTH AFRICA WITH THOSE IN AUSTRALIA AND NEW ZEALAND

TABLE 4.3: Comparison of financial planning requirements

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
Planning conducted on a five year rolling basis ➢ Municipalities are compelled to adopt an IDP covering a period of five financial years (SA, 2000:Sec23 & 25). ➢ The IDP adopted by a	Planning conducted on a ten year rolling basis ➢ Inclusion of the following planning and accountability documents (AU, 2009:Sec 104 (3) – (6)): - annual report; - 5 year corporate plan; - annual operational plan;	Planning conducted on a ten year rolling basis ➢ Municipality must adopt a long-term plan through a special consultative procedure (NZ, 2002: Sec 93 (1) - (2)). ➢ The purpose of the long-term plan is to provide for integrated decision making, to coordinate resources, and to

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
➢ municipality must (SA, 2000:Sec25(1)): - link, integrate and co-ordinate plans and also consider the proposals for the development of the municipality.	- a ten year long-term community plan that outlines strategies and policies to enhance improved implementation of the municipality's vision; - a ten year long-term financial plan; - a ten year long-term asset management plan with policies and strategies to enhance sustainability in the management of assets and infrastructure.	provide a basis for accountability (NZ, 2002:Sec93(6)) ➢ A municipality must adopt a financial strategy covering a period similar to the long-term plan as part of its long-term plan (NZ, 2002:Sec101).
➢ Align the plan with the resources and capacity of the municipality	➢ The financial management documents include the following (AU,	➢ This financial strategy must (NZ, 2002:Sec101A):

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
- formulate a policy framework that provides for a basis on which the annual budget is prepared; - be compatible with national and provincial development plans and planning requirements. ➢ Additional to the specific legislative requirements for drafting an IDP are for a plan that reflects (SA, 2000:Sec 26):: - A long-term development vision of the municipality; - a financial plan which	➢ 2009:Sec104(2)) - - an annual budget; - a general purpose financial report; - a financial forecast; - a revenue statement. - an asset register that records - - capital expenditure; - depreciation charges; - revaluation increments and decrements; ➢ A set of criteria that guides municipalities on how to best achieve financial sustainability is set as follows (AU, 2009:Sec102(1)): - financial risks are to be managed prudently; - financial policies are to	- give an indication of possible factors expected to significantly affect the municipality during the planning term; - provide for any expected demographic changes and the subsequent capital costs necessary to accommodate these changes; and - indicate any expected capital expenditure on the acquisition and maintenance of infrastructure during the term;

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
- includes budget projections for a minimum of three years; and - key performance targets and performance indicators.	- be formulated - - to ensure a reasonable degree of equity, stability - and predictability; and - so that current services, facilities and activities are financed by current users of the services, facilities and activities; and having regard to the effects of the policies on the future users.	- indicate any limits on its rates, rate increases, and borrowing; - indicate an assessment of its ability to provide and maintain existing service delivery levels and capacity to meet additional service delivery needs; and - specify the municipality's policy on the giving of securities for its borrowing and the management of its financial investments and equity securities.

(Source: Own, based on AU, 2009; NZ, 2003; SA, 2003)

Municipalities in South Africa, Australia and New Zealand are all required by legislation to adopt strategic plans, including a financial plan, after completing a consultation process with their respective communities and other relevant stakeholders. While South African municipalities are only compelled to adopt five year IDPs, Australia and New Zealand requires ten years plans. Although the plans for these three countries need to be aligned with the respective municipalities' resources (which ultimately dictates the achievement of objectives), there are unique circumstances that each country has responded to by adopting specific regulations, and which is discussed in the next paragraph.

Developing a long-term vision supported by a long-term strategy that outlines how such a vision would be realised, is difficult in South Africa since legislation limits the IDP to five years. Instead, South Africa requires compatibility between the municipal IDPs and the plans and planning requirements of national and provincial spheres of government. This could ensure integrated planning throughout all government spheres and municipalities to ensure the achievement of national objectives. The requirement to integrate municipal planning with the plans of other spheres of government is not specifically required by legislation regulating municipalities in Australia and New Zealand. However, integrated planning within the individual municipalities is encouraged. New Zealand even demands that the long-term plan be compiled to be suitable for integrated decision making and include proper capital investment and maintenance.

Contrary to the requirements in Australia and New Zealand, capital investment and maintenance is not reflected in the South African IDP formulation requirements. Australia requires the adoption of a long-term asset management plan and formulation of asset management policies aimed at enhancing sustainable management of assets and infrastructure (AU, 2009:Sec104). Similarly, as part of the financial strategy New Zealand required an indication of the expected capital expenditure on the acquisition and maintenance of capital infrastructure for the period covered by the plan. Arguably, New Zealand's requirement is much clearer in terms of financial planning than Australia's or South Africa's, because it compels the disclosure of expected cost on the acquisition and maintenance of assets for planning purposes. Australia's legislation requests an asset register to be maintained, which means that only the historical costs are included in the financial management documents.

In terms of South African legislation, the requirement is for the adoption of a capital budget which takes into account all the costs until the completion of the capital projects, as well as the future operational costs emanating from such projects (SA, 2003:Sec19). If South Africa were to integrate this capital requirement into the IDP and encouraged the same for future projects as New Zealand did, financial planning could improve. In addition, an asset register as required by legislation in Australia provides a solid basis for keeping a record of the infrastructure development and maintenance needs of municipalities. If adopted in South Africa, this practice might well enhance decision-making, and improve service delivery through more effective financial planning.

Notwithstanding the unpredictable nature of the future (Zarnowitz, 1974:570; OECD, 2009:27), the literature reviewed in Chapter 2 indicates that forecasting is important for financial planning in municipalities. The inclusion of ten year financial forecasts, as required in Australia and New Zealand, could benefit South Africa as well (South African legislation only required two year projections). However, for successful implementation, the literature review conducted indicates that projections and forecasts are subject to regular reviews and consequent realignment (OCED, 2009; Worthington and Dollery (2002) as quoted by Van der Westhuizen & Dollery, 2009:165). For instance, in New Zealand, a financial strategy must indicate factors that were anticipated to affect the municipality during the planning term, including any effects that demographic changes could have on the capital financing requirements. In comparison, the financial forecast required by Australia covers the anticipated revenue to some extent, although the revenue is not earmarked for a specific type of expenditure.

In contrast, New Zealand places more emphasis on capital acquisition and maintenance. There is also a requirement to indicate any limits applicable to municipal rates, rate increases and borrowing as part of New Zealand' s financial strategy. As compared with Australia (which specifically requires financial forecasts), the requirements by New Zealand as highlighted, provide a good basis to estimate and evaluate future activities even though this fell short of financial forecasts. In comparison with South Africa, systems in both Australia and New Zealand are better. The reason is that Australia requires the adoption of financial forecasts, and New Zealand the inclusion of any expected demographic changes and the subsequent capital costs, while South Africa addresses neither of these issues. Therefore, if these requirements were adopted and integrated into a financial plan, it would have provided South Africa with the ability to quantify future financial expectations and to align these expectations with other anticipated changes and future scenarios.

The common problem with municipalities in South Africa, however, was the limited amount of money spent on asset renewals, repairs and maintenance. This was due in part to inadequate revenue collection from communities, coupled with the legal mandate of providing basic services, and the resultant expansion of basic service infrastructure to all communities. Neglecting asset renewal and maintenance could later result in high replacement costs. According to the South African National Treasury (2011**b**:7; 2012:18), municipalities have to spend an amount equivalent to at least 40% of the capital budget on assets renewal, and 8% of the equivalence of assets value of the municipality as reported at the end of the latest audited statement of financial position, on the repairs and maintenance of assets.

Therefore, adopting the financial sustainability measures from Australia could help South Africa ensure that capital spending and infrastructure maintenance are kept in accordance with South African National Treasury requirements. In addition, these measures could also help monitor the sources of financing municipal expenditure, thus ensuring that a balance was maintained between financing sources; thereby avoiding the burden of debt financing.

Nonetheless, the literature reviewed additionally indicates that the proper implementation of the plans is also dependent on the budgets and the policies adopted. In terms of municipalities, they ensure the provision of municipal services and regulate the daily operations of the municipalities. Unforeseeable circumstances, such as natural disasters and economic recessions, could derail the best financial plans. Proper budgeting processes are also important to ensure that the implementation of activities covered by the budget year's financial plan provided accurate feedback to allow for any necessary adjustments to the medium-term and long-term plan. Municipal budgets and policies are the next topics of discussion.

TABLE 4.4: Municipal budgets

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
➢ Municipalities must adopt a rolling Medium-term Revenue and Expenditure Framework (MTREF) covering three financial years (SA, 2003:Sec17).	➢ The mayor of a municipality has the responsibility to propose the adoption of a municipality budget to the municipal council (AU, 2009:Sec12(4)(b)).	
➢ A municipal budget, as required by legislation, must (SA, 2003:Sec17):	➢ The regulations adopted by the City of Brisbane (CoB) in 2013 elaborate	➢ Legislative requirements of a municipal budget are

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
➢ - Set out realistically anticipated revenue for the budget year from each revenue source; - Set out- + estimated revenue and expenditure by vote for the current year; and + actual revenue and expenditure by vote for the financial year preceding current year. ➢ A municipality may only approve a capital project if (SA, 2003:Sec19): - the projected cost	➢ further on the adoption of a municipal budget. In terms of the CoB Regulation (CoB, 2010:Sec160(1)) the budget for each financial year must - be prepared on an accrual basis; and - include statements of the following for the financial year for which it is prepared and the next 2 financial years - - financial position; - cash flow; - income and expenditure; and - changes in equity. ➢ The budget must further include (CoT,	➢ listed below (NZ, 2002:Sec100): - "projected operating revenues must be set at a level sufficient to meet that year's projected operating expenses. - the municipalities are allowed to act otherwise to the abovementioned requirement if the municipality resolves that it is financially prudent to do so, having regard to - + the estimated expenses of achieving and maintaining the predicted levels of

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
- covers all financial years until the project is operational; and - the future operational costs and revenue of the project, including municipal tax and tariff implications, are stated. ➢ Adjustment of the MTREF allowed after	➢ 2010:Sec160(2)) - a long-term financial forecast; and - a revenue statement; and - a revenue policy	+ service provision set out in the long-term plan, including the estimated expenses associated with + maintaining the service capacity and integrity of assets throughout their useful life; and + the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and + the equitable allocation of responsibility for

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
➢ the mid-year review (SA, 2003:Sec28). ➢ Monthly, quarterly and bi-annual reporting on deviations from the budget, and the remedial action taken to rectify the situation must be provided (SA, 2003:Sec71 & 72). ➢ The MFMA Provides for the treatment of unauthorised, irregular, and fruitless and wasteful expenditure (SA, 2003:Sec32). ➢ The use of long-term borrowing only for capital projects (SA,		+ funding the provision and maintenance of assets and facilities throughout their useful life; and + the funding and financial policies adopted under section 102."

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
2003:Sec18(1)). ➢ Statutory disclosure of capital costs even beyond the three year MTREF and five year IDP timeframe.		

(Source: Own based on CoB, 2010; CoT, 2010; AU, 2009; NZ, 2003; SA, 2003)

To achieve the requirements of the respective financial plans and the financial strategy adopted by municipalities, municipalities are compelled to adopt a municipal budget. Only South Africa requires a rolling three year budget (MTREF), while Australia and New Zealand are not specific on the number of years that a municipal budget must be adopted for. However, the City of Brisbane provided an example of regulations that had been adopted and required the preparation of a three year budget, similar to South Africa's requirement. Ultimately, South Africa's three year rolling budget is better than those of Australia and New Zealand since it provides a more comprehensive medium-term outlook. However, there are some pre-conditions to the successful implementation of the adopted medium-term budget. For instance, some authors (Schick, 2010:12) emphasised the importance of setting a limit for expenditure over the medium-term, in order to produce positive results, and introducing flexibility by allowing the shift of expenditure between the approved years. This could only be achieved if realistic expenditure targets and known future economic impacts (such as the impact of recession) were considered, and if there were no undue political influence (Schick, 2010:13). In the end, municipalities needed budget sustainability to deliver on their mandate, and thus needed a strategy to adopt credible budgets.

Sheehan (2005:65) as cited by Graves and Dollery (2009:338), sustains that a“...[f]iscal strategy must be sustainable in the sense that it can be continued for the foreseeable future without any substantial change, and in particular without any sharp changes in tax rates or spending to prevent a substantial deterioration in fiscal position”. This opinion supports the argument presented by Schick (2010:12-13), as it encourages the avoidance of substantial changes whilst requiring continuity in the foreseeable future. Ultimately, performance needs to be measured against the implementation of the strategy to determine the achievement of sustainability.

However, Worthington and Dollery (2002), as quoted by Van der Westhuizen and Dollery (2009:165), were of the opinion that the following issues and situations undermined performance measurement in municipalities: “(a) multiple inputs and outputs in service delivery; (b) problems in estimating the costs of service delivery; (c) the existence of different stakeholders with competing needs impedes efficiency improvement and (c) ‘non-discretionary’”. This means that accuracy was important in allocating the financial resources to the activities of municipalities; the costing/forecasting of the resources required for each activity, and financing only the priorities agreed upon. In the end, a municipal budget forms a basis for performance evaluation.

Although New Zealand requires alignment of the budget to the conditions of the long-term plan, it could be unwise to assume that municipal budgets in that country would also therefore be prepared for a ten year period. New Zealand also required financial prudence and adherence to the requirements set out in the municipalities' long-term plans that referred to capital infrastructure acquisition and maintenance when compiling a municipal budget. It is a disadvantage that only expenditure for the maintenance of assets was included in the budget compilation requirements. In comparison, South Africa clearly indicates that both capital and operational expenses needed to be disclosed in the budget. In contrast, Australia requires the adoption of a budget, but does not specify the required contents thereof. Moreover, not even the financial sustainability measures are reflected in the budget requirements of the Australian legislation.

In terms of South African legislative requirements, setting revenue realistically and clearly indicating its sources, and similarly projecting expenditure per vote, provide a good basis for comparison and evaluation, especially with the inclusion of prior year's actual expenditures. Ultimately, determining whether the revenue had been set realistically cannot be achieved by comparing historical data with the budget, although the comparative figures provided a basis for doing so. For example, if in the past a municipality did not bill all the debtors, but collected on most of the billings, and such history was used as a basis for projections, then the revenue projections would be perceived as realistic even though there was an under-collection of revenue. If projections provide a basis for assessing financial sustainability based on current activities when calculated accurately (OECD, 2009:27), then having forecasting as a requirement in South Africa would minimise this challenge, and the requirement for a credible budget could also be satisfied.

Only South Africa mandates the adjustment of the MTREF, the monitoring of the current year’s budget through reporting, and the treatment of irregular, unauthorised and fruitless and wasteful expenditure. As had been discovered, successful performance monitoring was dependent on the accuracy of a budget (Worthington and Dollery (2002) as quoted by Van der Westhuizen & Dollery, 2009:165). On this premise, although adjusting the budget (as allowed in South Africa) provided municipalities with an opportunity to rectify mistakes and accommodate the impact of unforeseen circumstances, there was a risk of this process being used to hide operational inefficiencies and poor budgeting. On the positive side, South Africa requires more details on capital expenditure in the budgeting requirements than either Australia or New Zealand. As discussed under the strategic plans section of this study, integrating the capital budget requirements into the IDP could improve planning. Moreover, South Africa requires the inclusion of future operational costs and revenue emanating from capital expenditure. In these regards, financial planning (specifically budgeting) in South Africa is better regulated than in Australia and New Zealand.

South Africa has more effective regulations in place than either Australia or New Zealand in terms of municipal budgets, although these countries have more effective financial sustainability regulations (Australia), and oversight of the financial strategy (New Zealand). However, there is no requirement to limit the total budget over the medium-term, and thus municipalities could unrealistically increase the budget during the period, which could negatively impact the budget sustainability (Schick, 2010:12-13; Graves & Dollery, 2009:338). The fact that Australia requires and regulates financial sustainability, but does not indicate how these requirements should be translated into an action plan, is discouraging. According to Fölscher (2006:4), to be effective, a budget should not only reflect priorities but also possess an effective link with policies in order to improve its credibility. This link is not evident in the legislative requirements of South Africa and Australia, but in some cases it can be demonstrated that minimal effort would be required to link the budget and the policies. Even though policies are adopted to ensure that daily operations of a municipality are properly monitored through regulations, the budget still needs to indicate a basis upon which such regulations are based. The next section discusses legislation on policies that were required to be adopted together with municipal budgets.

Policies and procedure applied by organisations, in this case municipalities, should direct, regulate and coordinate all business activities in order to achieve organisational objectives (Otley & Berry cited by Zahirul, 2003:44; Du Plessis, 2005:16). The literature reviewed indicates that the contents of policies determine the extent to which the implementation thereof can succeed in conveying their message and setting out conditions for their implementation (Du Plessis, 2005:16).

TABLE 4.5: Municipal financial policies

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
➢ Municipalities are compelled to adopt tariff policies for levying fees on municipal services provided, which must reflect the following principles (SA, 2000: Sec74): - Equal treatment of all users of municipal services, including payments that are in proportion with the use of such services; ensuring access to basic services by poor household, and special tariffs and subsidization	The following policies are statutory requirements of a financial plan (AU, 2009:Sec104(5)): ➢ revenue policy.	➢ Revenue and financing policy - to effect regulations on the use of a municipality's available resources to fund operating and capital expenditure (NZ, 2002:Sec103). Financial resources referred to are particularly derived from general rates, targeted rates, lump sum contributions, interest and dividends from investments, borrowing, proceeds from asset sales, development

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
of services to such households; - tariffs must be set at a reasonable level, but at the same time facilitate financial sustainability of the service; and - encourage economical, efficient and effective use of resources, and environment friendly objectives including recycling.		contributions, grants and subsidies and other sources.
➢ The promulgation of the Municipal Property Rates Act (MPRA) gave effect to the adoption of a rates policy and regulates matters that are closely related to the levying of property rates taxes in		➢ A rates remission policy, if adopted, must support the objectives sought to be achieved by the remission of rates, and the conditions and criteria to be met in order for rates to be remitted (NZ,

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
municipalities and encourages a fair treatment of all people liable for rates (SA, 2004:Sec3).		2002:Sec108).
		➢ A rates postponement policy, if adopted, must state the objectives sought to be achieved by a postponement of the requirement to pay rates, and also the conditions and criteria to be met in order for the requirement to pay rates to be postponed (NZ, 2002: Sec109).
➢ To reduce irrecoverable debt, municipalities are encouraged to develop and implement indigent policies (SA, 2000:Sec104).	➢ debt policy;	
➢ In terms of legislation municipalities are authorised to adopt a debt		

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
collection policy for all the revenue receivable and which provides for collection mechanisms, and to introduce a relief mechanism such as indigent policy, for residents who cannot afford to pay for municipal services (SA, 2000: Sec97).		➢ Liability management policy - to effect regulations on the management of both borrowing and other liabilities, including interest rate exposure, liquidity, credit exposure and debt repayment (NZ, 2002:Sec104)
➢ investment policy;	➢ investment policy;	➢ Investment policy; ➢ municipalities must adopt a policy on development contributions or financial contributions that must

SOUTH AFRICA	AUSTRALIA	NEW ZEALAND
		inter alia (NZ, 2002:Sec106): - Summarise and explain the expected capital expenditure identified in the long-term plan of the local authority; - State the proportion of that capital expenditure that will be funded by each source; and - Explain why the local authority has determined to use these funding sources to meet the expected capital expenditure.

(Source: Own based on AU, 2009; NZ, 2003; SA, 2000, 2003 & 2004)

In comparison to the previous statements, legislation that regulates Australian municipalities does not provide details on the contents of the policies that must form part of a financial plan, and this is arguably a shortcoming. The absence of a detailed statement of required policy contents subjects the formulation of policies to a larger degree of uncertainty, making them reliant on diverse judgements by policy-makers. This is even worse since the development of policies in Australia is one of the criteria required to ensure the achievement of financial sustainability. The need for detailed guidance is also important for ensuring the successful implementation of the financial strategy required in New Zealand's legislation, and to further support the budgeting requirements in South Africa, as discussed in the next paragraph.

The financial strategy in New Zealand requires the inclusion of expenditure for capital acquisition and maintenance. In addition, the policy on development contributions or financial contributions should explain the capital expenditure and the related funding sources included in the long-term plan. That way, the financial strategy and the policy on development contributions or financial contributions, would complement each other and, if in harmony, they could enhance the successful implementation of expenditure included in the financial plan. Municipalities do not only have to finance infrastructure acquisition and maintenance expenditure as regulated by this policy and required by the long-term plan. There are other costs involved in the daily running of municipalities which are not catered for either by the financial strategy, or consequently, by the development of financial contribution policy. This lack of regulation increases the possibility of inaccurate financial projections being reflected in the financial strategy document, and undermines the mandatory disclosure requirements of the development of financial contribution policy. Furthermore, there is a need to determine whether the revenue from the sources included in the long-term plan is based on realistic rates and tariffs.

Only New Zealand requires the adoption of a revenue and financing policy. However, their revenue and financing policy does not specify how the setting of rates and tariffs would be achieved. The setting of tariffs and rates play a big role in ensuring a sustainable revenue stream which would ultimately be used to defray expenditure, including that of the acquisition and maintenance of capital infrastructure. Therefore, it is important for municipalities to adopt a policy that addresses the setting of rates and tariffs. In this regard South Africa's tariff policy is better. The tariff policy as required in South Africa is built on the principles of equal treatment of the users of municipal services (while still catering for the poor), facilitation of financial sustainability in municipalities, and prudent use of resources in municipalities. While the highlighted principles provides more guidance in planning for revenue (and were unique to South Africa) than the Australian and New Zealand policies do, the successful implementation thereof is also dependent on the municipalities' will to make them succeed. At the same time, municipalities need to ensure that catering for the poor does not result in the unfair treatment of other residents, nor that it is to the detriment of overall revenue collection.

In South Africa, municipalities are required to adopt an indigent policy (an indigent was defined as a person who could not afford to pay for services that are constitutionally considered as necessary for survival (Department of Provincial and Local Government, S.a:13)). Australia and New Zealand do not have this requirement, thus an indication of the difference in the economic circumstances between these two countries and South Africa. This indigent policy in South African municipalities is also required to be reflected in the property rates policy (which is discussed next), and in the debt collection policy, so that by exempting indigents from paying property rates tax, the effects on the finances of the municipalities would not be negative. Furthermore, it regulates the provision of limited free basic services to registered indigents.

However, the administration of property rates revenue in municipalities proves to be just as important as other sources of municipal revenue. To this effect, there are three key steps to improve the administration of property taxes which can also be applied to other municipal services: clear identification of taxable properties; up-to-date property valuation roll and correct billing; collecting revenue, and following-up on arrear accounts (Slack, 2010:10). Interestingly, not just the revenue on property rates, but also the collection of payment for other municipal services, can benefit from these principles, but the author (Slack) only related these steps to property rates revenue. Therefore, if municipalities kept complete and accurate records of all their billable services, billed all consumers in full and on time, sent the bills to the correct consumers, and followed up on arrear accounts, financial management (and planning) performance could improve.

Nonetheless, the inelasticity of property tax revenue, due to the slow pace at which property values are reported in comparison with changes in daily economic activities, and the property market valuations that lagged current inflationary trends, presented yet another budgeting challenge (Slack, 2010:9). This inelasticity could negatively affect the maximisation of collectable revenue for a municipality. In terms of South African legislation (SA, 2004:Sec32,78-79) municipalities are compelled to update the supplementary valuation roll as and when there are changes (property improvements or otherwise) in the rateable value of properties, and to perform a general valuation at least once in a period not exceeding four years. If municipalities in South Africa opted for one general valuation every four years, then the concerns raised above could have even more serious implications (Slack, 2010:9).

To be able to determine the anticipated revenue receipts and the revenue forgone from property rates in New Zealand, municipalities are required to adopt a rates postponement policy and a rates remission policy. If a municipality is thus able to determine anticipated revenue and revenue foregone during the planning stages, deviations would be minimised once the plan was executed. In contrast, South African municipalities are required to adopt a property rates policy for the levying of rates applicable to all rateable properties within the respective municipalities jurisdiction. The difference between the two policies required in New Zealand and that of South Africa, is that South African property rates policy (only one policy as compared to the two required in New Zealand) must cater for the levying of property rates and the remission and exemption of properties at the same time. In addition, the indigent policy must complement the contents of the property rates policy in catering for residents who cannot afford to pay. Presenting a third option, Australian legislation does not require a specific policy for the levying of rates. Ultimately, it should be noted that, as with other policies, the success of the above-mentioned rates policies depends on the implementation thereof.

Legislation for Australia, New Zealand and South Africa require municipalities to adopt an investment policy, but as in Australia, South Africa is not specific on the contents of this policy. In New Zealand the investment policy regulates the municipality’s mix of investments, and the undertaking of new investments. Legislation further provides a framework for municipalities to report on the management of investments, the associated risks and the assessment of such risks. Although one could argue that investing money is not advisable in a country like South Africa due to the high need for infrastructure investment, high poverty levels and unemployment (Stats SA, 2011**a**:15-27,39-49), it could benefit municipalities’ accumulated redemption funds to repay long-term loans. Providing detailed legislative requirements on the contents of the investment policy could provide criteria for selecting the best option for investing municipal funds. At the same time, borrowing funds and pursuing redemption funds requires accuracy in financial planning, prudent financial management practices and improved financial performance on the part of the municipality in order to maximise long-term positive revenue streams.

Although, of the three countries only South Africa had legislation that requires the adoption of a debt collection policy, its municipalities were experiencing growing debtors’ books. The main contributor to these growing debtors’ books in South African municipalities is poor management of revenue collection by municipalities, compounded by the increase in indigents (especially those who lost their jobs as a consequence of the 2009 economic recession), and the reluctance of communities to pay municipal accounts or even be billed for such services (culture of non-payment; National Treasury, 2011**a**:71; Klingelhöfer & Mathonsi, 2012). In addition, services are reportedly under-priced, with additional and unnecessary incentive discounts being offered by municipalities to incentivise payment; causing them to no longer achieve breakeven points for such services, and by so-doing, compounding their losses (National Treasury, 2011**a**:61&72).

Borrowing does however remain an option to consider for financing infrastructure development, but only if it was not to the detriment of the residents of the municipality (Bahl and Linn (1992) as quoted by Nallathiga, 2008:21). Therefore, strict regulation of borrowing is necessary to prevent unnecessary borrowing by municipalities, as this could place an otherwise avoidable burden of debt financing costs on the residents. Unlike New Zealand, South Africa does not have a specific policy on municipal borrowings or liability management. Nonetheless, both short-term and long-term municipal borrowings are regulated directly by legislation in South Africa (SA, 2003:Ch6).

Conclusions drawn from, and recommendations on all aspects of financial planning discussed in this study, are presented in Chapter 6. The next section discusses the financial planning practices in CoT at the time this study was conducted.

4.5 FINANCIAL PLANNING PRACTICES IN CoT

4.5.1 Background

Because financial performance in CoT was assessed, it was necessary to provide a background on the financial planning practices of that municipality at the time of the study. This was done to provide easy reference for the data analysis chapter, for assessing compliance with legislation, and for establishing if these practices conform to the literature reviewed. To achieve this, the financial planning practices of CoT were compared with the financial planning steps as discussed in Chapter 2, and the legislation reviewed in the current chapter. All the financial planning steps are discussed in a logical sequence hereafter.

4.5.2 Development of objectives

At the time that this study was conducted, the vision of CoT was to become the “African Capital City of Excellence” and its mission was “to sustainably enhance the quality of life of all people in Tshwane through a developmental system of local government and by rendering efficient, effective and affordable services” (CoT, 2011**a**:3). The literature review indicated that the development of vision and mission statements is the initial step of the financial planning process; therefore CoT complied (Kaplan *et al.*, 2008:3). However, because municipalities further need to comply with legislation in this regard, CoT was also assessed in terms of legislative compliance (the IDP process).

In line with legislative requirement, CoT adopted a rolling IDP which was reviewed annually in conjunction with relevant stakeholders. Apart from the IDP, CoT had also adopted LTFS which was not a legislative requirement in South Africa. However, the IDP was the only document that clearly depicted the strategic objectives of the municipality (CoT, 2012**a**:74-80). The IDP in CoT aimed to assist the municipality in improving the living standards of its residents by alleviating inequality and rendering quality services (CoT, 2012**a**:74). Therefore, taking this statement and the mission statement into account should translate into achievable municipal objectives that are in compliance with the objectives of local government set in the Constitution (1996**a**:Sec152). To determine this, Table 4.6 compares the objectives of local government and CoT's strategic objectives.

TABLE 4.6: Comparison of the statutory objectives of Local Government and CoT strategic objectives

OBJECTIVES OF LOCAL GOVERNMENT	COT STRATEGIC OBJECTIVES
Ensure the provision of services to communities in a sustainable manner	Provide sustainable infrastructure and human settlements management
Promote social and economic development	Promote shared economic growth and job creation
To promote safe and healthy environment	Ensure sustainable, safer cities and integrated social development
Encourage the involvement of	Promote good governance and active

OBJECTIVES OF LOCAL GOVERNMENT	COT STRATEGIC OBJECTIVES
communities and community organisation	citizenry
Provide democratic and accountable government for local communities	Improved financial sustainability
Provide democratic and accountable government for local communities	Continued organisational development, transformation and innovation

(Source: SA, 1996a:Sec152; CoT, 2013:9)

Although CoT promises sustainable infrastructure and human settlements, this strategic objective is not specific on the delivery of basic services. As a result the strategic objective is limited in explaining the needs it intends to satisfy as compared to the Constitution. This strategic objective was amended from "Provide basic services, roads and storm water" to its latter form during the 2012/13 financial year (CoT, 2012**a**:66). Therefore, in terms of linkage to the objectives of local government set in the Constitution, the initial strategic objective is the most suitable.

One could contend that the provision of basic municipal services is necessary for economic growth since some economic growth activities require sustainable delivery of municipal services. The strategic objective also does not provide clarity on the activities the city would embark on to ensure its achievement. Furthermore, neither of CoT's strategic objectives is specific on the health and social wellbeing of the city's citizens and the democratic and accountability principles. For example, CoT's strategic objective: to promote good governance and active citizenry. This is covered by the local government strategic objectives, which is to encourage the involvement of communities and community organisation, and to provide a democratic and accountable government for local communities.

Kaplan *et al.*, (2008:3) opined that a mission statement should be clear to employees to ensure their optimum contribution to the achievement of the objectives. This was not clearly addressed in CoT upon the formulation of the strategic objectives. Based on this comparison, there was no direct link between the aim of the IDP, the mission statement and the strategic objectives, even though the implementation process had the potential to produce corresponding results. What is more, basic service delivery, which is the core of municipal functions, is not addressed in detail by the strategic objectives. Therefore, measures such as policies, could minimise the impact of the concerns raised in the current and previous paragraphs if properly implemented.

In terms of the conducted literature review, financial policies aim to, *inter alia*, ensure prompt achievement of organisational objectives and the vision and mission statements, and could improve the situation in CoT if executed as required. As a result, the next sub-section analyses the financial policies of CoT in terms of legislative requirements.

4.5.3 Formulation of policies

Although CoT has adopted many financial policies, only those policies required by South African legislation were considered in this study. Accordingly, the following table indicates the policies adopted by CoT and is followed by the discussions about these policies.

TABLE 4.7: Financial policies adopted by CoT in terms of legislation

NAME OF THE POLICY	YEAR ADOPTED BY COUNCIL
Budget Policy	Reviewed and adopted annually
Collection Policy	No official date of adoption
Funds transfer policy	27 November 2003 but, reviewed annually with the budget policy
Investment policy	23 November 2005
Indigent policy	Approved 29 May 2008 Last review 2010
Supply Chain Management policy	27 September 2007
Tariff policy	Is part of the budget policy
Property Rates policy	May 2009

(Source: CoT, 2003;2005;2007;2008;2009&2010)

The credit control and debt collection policy was adopted by CoT, and the latest review at the time of this study was approved on 30 August 2012 to combine the policies of

CoT and the former Metsweding District Municipalities (CoT, 2012**c**:1). In accordance with legislative requirements and in line with the then strategic objective, "…to fight poverty, build clean, healthy, safe and sustainable communities" CoT also adopted an Indigent Policy (SA, 2000:Sec104; SA, 2000:Sec97; CoT, 2010:1). These two policies complement each other and are discussed together for this reason.

The review of the credit control and debt collection policy was met with public outcry, requesting CoT to clearly indicate the relief measures for indigents in this policy (CoT, 2012**c**:1). If the indigent policy was approved in 2008 and reviewed in subsequent years, but the review of the credit control and debt collection policy was met with dissatisfaction in 2012, then there was no harmony between these policies. It is also possible that the dissatisfaction was caused by a lack of understanding and knowledge on the indigent registration and administration process which gave the residents an impression that the municipality neglected the poor. This is based on the fact that South Africa has a high level of illiteracy, since the processes and procedures to follow were in a written format (Stats SA, 2011**b**:35).

Nonetheless, in 2001 just after the formation of CoT, a sanitation tariff policy was approved to alleviate the different tariffs that were levied under Greater Pretoria Metropolitan Council (Previous name for CoT) (CoT, 2001:1-2). Besides this policy, the tariff policy in CoT is approved annually as part of the budget report (CoT, 2013:643-845). Therefore, CoT complied with legislative requirements in terms of adopting these policies. It is worth noting that the tariff policy only regulates tariffs on municipal services, and not taxes. On this basis, legislation in South Africa requires municipalities to adopt property rates policies to regulate property taxes.

In CoT a property rates policy is in place, which is continuously reviewed to ensure compliance with legislation and to improve the levying of property taxes (CoT, 2010:1; CoT, 2013:890). At the time of this study, the latest review of the property rates policy was approved in 2013 (CoT, 2013:3-12). All the policies discussed in sub-section 4.3.3 relate to the collection of revenue and revenue forgone (indigents). Legislation requires municipalities to also adopt a supply chain management policy to cater for expenditure. The supply chain management policy in CoT was approved and adopted in 2007 but continuously reviewed thereafter whenever necessary (CoT, 2011:1). CoT also complied with the legislative requirements in this regards.

The literature review conducted in this study indicates that the success of any of the policies adopted by an organisation is dependent on the implementation thereof and that continuous measurement of actual performance against these policies is necessary to identify possible areas of improvement. In line with this, sub-section 4.5.4 discusses performance measurement in CoT to ensure compliance with legislation and compare against the literature review.

4.5.4 Performance measurement

CoT adopts the SDBIPs each year, and the last one during this study was adopted on 27 June 2013, in line with legislative requirements (SA, 2003:Sec1 & Sec53(1)(c)(ii); CoT, 2013). The 2013/14 SDBIP reflect each of the strategic objectives with columns for key performance area, output objective, indicator, annual target, baseline as of end of mid-year 2012/13, and each of the four quarters (CoT, 2013:168-178). In this context, performance was proposed to be measured against the actual expenditure on the approved budget for the applicable year. In addition, there are other stakeholders, such as the South African National Treasury, that continuously hold budget session with municipalities (including CoT) to interrogate the past performance and to assess if the financial targets set by municipalities for themselves are realistic.

This includes the monthly, quarterly and bi-annual reports of municipalities' financial performance. In addition, CoT formed a Budget Steering Committee (BSC) to ensure that the budget requests of municipal departments are realistic and in line with the city's strategic objectives and its long-term vision. This committee sits in meetings with individual departments to discuss their budget requests prior to the approval of the budget by council. This study found that CoT complied with legislative requirements in terms of performance measurement specific to budgeting. However, in terms of actual performance on service delivery, the statistics as portrayed in Table 4.1 indicate that CoT had more service delivery backlogs than CoJ and almost equal to Ekurhuleni. It should be noted that these table did not take the population growth into account.

In the end, the processes put in place to monitor performance could only benefit any organisation if there were no undue interferences and influences. Municipalities need to ensure that value for money is achieved, even where legislative requirements could not guarantee optimal performance.

4.6 CHAPTER SUMMARY

In conclusion, South Africa, Australia and New Zealand aspire for long-term sustainability through planning. This was noticed in the legislative requirements for deploying long-term plans for at least ten years, except for South Africa's five year IDP, although capital projects with a life span longer than five years needed to be disclosed in full. Australia's legislation is more detailed in terms of the requirements of a financial plan, as it requires financial management documents and planning and accountability documents as opposed to South Africa, which only demands the inclusion of a financial plan but does not elaborate on the contents thereof, and New Zealand, which clearly states the purpose of the long-term financial plan, but does not specify the contents thereof to achieve the purpose at hand. More details are provided in Chapter 5, such as data analysis.

Although the information gathered in this section suggests that CoT complied with legislation in terms of the financial planning process, legislative compliance could not be evaluated in isolation without actual financial planning results to substantiate the findings. Therefore, in Chapters 5 of this study a detailed analysis and findings of the actual statistical analysis of financial management in CoT is provided, to assess whether the legislative compliance, if any, of CoT improved its financial performance.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

In Chapter 2 of this study a literature review on the financial planning process was provided and in Chapter 4 the relevant financial planning legislation in South Africa, Australia and New Zealand is reviewed and compared. Current financial planning practices in CoT are also provided in Chapter 4. Therefore, in the current chapter the research design and methods employed in this study to collect and analyse the data in support of the research objectives is discussed, based on the insight gained through the review of the literature and the applicable legislation. Each of the chosen research methods (for analysing both the legislation and the financial ratios) is discussed in detail and the choice thereof motivated.

3.2 RESEARCH DESIGN

Research design requires the researcher to clearly specify what the research intends to find out, as well as determining the best way to achieve this (Babbie, 2010:91). The research approach to reach the objectives of this study was to assess the financial performance of CoT in relation to other metropolitan municipalities in the Gauteng province of South Africa, to establish whether adopting a ten year financial plan enhances better financial performance. This study applied a two pillar approach in order to satisfy the research objective using the research methods discussed in Section 3.3.

To achieve this, it was important to first understand how the private sector practices as per the literature reviewed, compared to the legislative requirement regulating financial planning. This assisted the research in establishing whether it was rational to assess the adequacy of the legislation regulating financial planning in local government, based on the steps in the financial planning process as learned in the literature review chapter. Therefore, the aim was to determine the extent to which, if any, the financial planning legislation conforms to the steps in the financial planning process. As a result, possible weaknesses in the legislation regulating financial planning, which could lead to poor financial planning execution and consequently poor financial performance in South African municipalities, were identified.

From this, it was necessary to establish whether the South African legislation was conducive to improved financial planning by comparing its legislation with that of other countries selected based on the local government reforms that they underwent, as discussed in Sub-section 3.3.2.1. These two processes were necessary to provide the research findings on whether local government legislation was compatible with the private sector financial planning practices and if the South African legislation was comparable to that of Australia and New Zealand, who served as a basis for the LTFS and an example of implementing local government reforms, thus completed the first pillar applied in this study. The comparison and analysis of legal frameworks is conducted in Chapter 4 of this study (after the research design and methodology chapter) to allow for a better understanding of the research methods used to analyse and compare the legal frameworks beforehand. As a result, literature was reviewed in Chapter 2 and the legal frameworks and the financial planning practices in CoT is analysed in Chapter 4.

In terms of the second pillar, it was necessary to determine whether CoT, which had adopted a long-term financial plan, performed better than other metropolitan municipalities in Gauteng province without long-term plans as discussed in sub-section 3.3.2.2, to ultimately determine if the adoption of a long-term financial plan was conducive to improved financial performance in CoT. Financial ratios were calculated to achieve this and the results thereof are analysed and interpreted both individually and inter-relationally in Chapter 5. Henceforth, the research design and methods employed to gather and analyse the data, are explained.

A content analysis on legislation and other policy documents, together with the financial management analysis through ratios, were employed in this study. Thereafter the Mann-Kendall Statistic and Pearson Correlation Coefficient were applied to quantify the results of the ratio analysis to enhance better interpretation through graphs. The financial ratio analysis sought, amongst others, to determine the municipalities' dependency on grant funding and borrowing, and if the municipalities neglected the collection of own revenue. If a municipality managed its current assets and liabilities better and collected maximum revenue, thus did not rely heavily on grants and borrowing, then such municipality was deemed to have a better financial performance in this study.

3.3 METHODS OF RESEARCH

3.3.1 Overview of research methods

Research methods refer to the approach to the research process, from the theoretical support to the collection and analysis of data (Hussey & Hussey, as cited by Watkins, 2006:37). This study employed a combination of qualitative and quantitative research methods in the quest to satisfy the research objectives. The primary sources of information in this study included legislation, annual financial statements and the related policy documents. In order to derive conclusions at the end of the study (how legislation affects the financial planning process and how CoT performed compared to other metropolitan municipalities in Gauteng province), a thorough analysis of legislation, annual financial statements and the policy documents was necessary. Therefore, content analysis on primarily legislation and other policy documents was employed, which culminated in a comparative theoretical (desktop) study. On this premise, a qualitative research (content analysis) method aimed to provide a thorough understanding of a situation (how legislation affects the financial planning process) (Cooper & Schindler, 2011:160; Bless *et al.*, 2006:43).

Comparative analysis tables were presented in Chapter 4 to enhance better analysis of data upon which conclusions and recommendations were later derived. The application of content analysis assisted this study to satisfy the research needs for the first pillar as discussed earlier, by providing a platform to compare and analyse the legislation in relation to the financial planning steps discussed in the literature review and amongst the selected countries.

Financial management analysis was conducted to determine consistency in the actual financial performance trends of CoT, in the quest to fulfill the requirement of the second pillar of this study. It should be noted that financial performance is based on the implementation of the LTFS and the municipal budget. This performance was then compared to other metropolitan municipalities in Gauteng province, without long-term financial plans. Graphs were used to analyse the performance trends of the financial management ratios.

Quantitative research methods rely on measurement to compare and analyse different variables (Bless *et al.*, 2006:43). In this study, quantitative methods (Mann-Kendall Statistic and Pearson Correlation Coefficient) interpreted the findings of the ratio analysis for the purpose of analysing the trends during the period under review to arrive at a conclusion. This analysis ultimately indicated whether or not the selected municipalities neglected revenue collection to consequently rely on grant funding and borrowings to bridge the funding gap. Therefore, if the purpose of quantitative research is to explain and predict, confirm and validate, and test theory (in this case, quantifying the results of financial ratios) (Leedy & Ormond, 2001:102 quoted by Watkins, 2006:7), and qualitative methodology provides an understanding of legislative requirement and policies through a desktop study, then both methods were necessary to provide sufficient findings to satisfy the research objective at hand. The quantitative methods employed in this study are discussed in detail later in this chapter.

In the end, it was important that the conclusions of this study be supported by the findings of the analysis on legislation and policies (since they were the basis for financial planning in municipalities) and the statistical analysis of the ratios to eliminate deficiencies among the ratios and enhance better comparison of different municipalities. This was achieved by weighing the impact each ratio has on CoT's financial stance, and by comparing the results with the same calculations on other metropolitan municipalities in Gauteng without long-term financial plans. In relation to legislation, it was expected that compliance or non-compliance with legislative and policy requirements would filter through to actual performance, which was determined by statistical analysis. Therefore, the expectation was for quantitative methods to bring evidence that supports stability to those factors within the ratio analysis, that would have provided biased findings otherwise. This required the numerical representation and manipulation of financial management ratios for the purpose of describing and explaining financial performance in relation to other metropolitan municipalities without long-term financial plans (Babbie, 2010:422).

However, it needs to be noted that quantitative research methods are also susceptible to subjective bias and it is the researcher's responsibility to manage variables and report any lack of correlation upon completion of the study (Babbie, 2010:445). The success of the methods is also dependent on the extent to which the selected sample possesses the typical characteristics of the population being studied. In the next section of this study, the sampling techniques are firstly explained and thereafter the methods used to analyse data from the selected samples, are clarified.

3.3.2 Sampling

Sampling entails selecting some of the elements of a population which are representative of the characteristics of the entire population, based on which a conclusion is drawn about the whole population (Cooper & Schindler, 2011:88,364). Good sampling requires a population which is well defined and represents the characteristics of the whole population (Bless *et al.*, 2006:99). Therefore, based on the aforementioned statements, proper sampling was absolutely necessary to deliver accurate research findings on the financial performance and planning in CoT. Judgmental sampling was selected because of its relevance for the purpose of this study since judgmental sampling relies on the researcher's judgment to choose a sample that represents the characteristics of the population (Bless *et al.*, 2006:108):

3.3.2.1 Law comparison – first pillar

Since South Africa needed to improve its performance and this country also embarked on the amalgamation of municipalities to achieve this, selecting Australia and New Zealand provided the opportunity to present comparative regulations. This selection was also based on the assumption that the impact of the amalgamation of municipalities was taken into consideration during development and amendment of legislation and policies in Australia and New Zealand. The fact that the introduction of the MFMA in South Africa during the year 2003 brought about reforms in local government also influenced this selection. Since the amalgamation of municipalities was aimed at curbing inefficiencies to improve performance in municipalities as opined by some authors (Dollery, Burns & Johnson, 2005:1), this comparison should provide sufficient findings on whether the reviewed legislation is conducive to improved financial performance.

Other countries such as Great Britain, Germany, Sweden and France also underwent major reforms in local government, but in addition to undergoing amalgamations Australia and New Zealand operated in a better environment than these other countries (Wollmann, 2004; Dollery, Burns & Johnson, 2005; Dollery & Johnson, 2005). From around the year 1989 New Zealand's local government sector underwent local government reforms that resulted in the reduction of municipalities from eight hundred to eighty seven (McKinlay, 1998:5). This author also mentioned that the reform was also characterised by changes in the legislative framework which could be related to the promulgation of the Municipal Finance Management Act (MFMA) in South Africa.

In the end, the comparison between the two provided for insight into what Australia lacked in longer-term financial planning, which could potentially help to improve the South African legislation. However, to fully satisfy the research objective, it was also necessary for this study to determine whether the private sector financial planning practices were applied in municipalities and if the legislation catered for the private sector financial planning process. In line with the literature reviewed in Chapter 2, the review of legislation in Chapter 4 is structured around the financial planning steps discussed in the literature review chapter. The current practices of CoT were also compared with these steps to determine if this municipality followed the reviewed financial planning practices upon which the assessment of financial performance was based. This performance was assessed by analysing the financial ratios for selected municipalities for the financial years beginning 2004/05 and ending 2011/12. The sampling process and reasons for this exercise is discussed in sub-section 3.3.2.2. Content analysis was used to compare the legislation regulating financial planning in municipalities, and is discussed thereafter in sub-section 3.3.3.

Thus, in addition to the local government reforms underwent by Australia and New Zealand, the basis for assessing the financial performance in CoT was the LTFS, which was developed based on the Australian model with the help of Nigel Graves, an Australian who was an international advisor to CoT. It is on this basis that the legislation of Australia was compared to that of South Africa, to establish whether the LTFS is compatible for CoT and SA and also to identify the current gaps between the Australian and South African legislation, since an Australian model is the basis. The legislation of New Zealand was included as a basis for assessing if the Australian legislation caters for all the needs of the long-term financial planning process, since these two countries closely compare in terms of their economic and governance status.

Apart from these discussions, it was also noted that both Australia and New Zealand were more developed than South Africa and had a different environment, both economically and demographically.

3.3.2.2 Financial performance comparison – second pillar

To objectively assess the financial performance resulting from the financial planning process in CoT (and subsequently the LTFS), it was necessary to compare CoT with other metropolitan municipalities in the Gauteng Province, South Africa that only adopted good five year financial plans (IDP). The reason for selecting the metropolitan municipalities in Gauteng is that, by virtue of geographical proximity to CoT, these municipalities were assumed to operate within the same environment, and share the same demographic and economic challenges with CoT, better than other big metropolitan municipalities in South Africa. Therefore, the City of Johannesburg (CoJ) and Ekurhuleni metropolitan municipalities were selected. The sampled municipalities also had good IDPs but no specific long-term strategy (South African Cities Network, 2013:177).

This comparison aimed to establish whether the long-term planning approach is better than a good short to medium term approach, or whether it was the implementation of the plans that made a difference, and not the timeframe of planning. To achieve this, content analysis was selected and is discussed in sub-section 3.3.3, and the analysis of financial management using ratios is discussed in sub-section 3.3.4.

3.3.3 Content analysis

Content analysis can be defined as “a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes, or biases” (Leedy & Ormrod, 2001:155 as cited by Williams, 2007:69). Nachmias and Nachmias, (1976) as cited by Prasad (S.a:1), defined content analysis as “a method where the content of the message forms the basis for drawing inferences and conclusions about the content.” Legislation regulating financial planning in the three selected countries was analysed together with other applicable policy documents and regulations. Such review of documents would provide an unbiased source of information if properly conducted and interpreted by the researcher. Other methods, such as interviews and questionnaires, have the potential to provide practical insight of the application of legislation but are subject to some degree of bias where the participants have personal interest. Therefore, these methods were less reliable for this study.

A background on the legislative frameworks of the countries under comparison is provided in Chapter 4 of this study. Comparative tables are also drawn in Chapter 4 to enhance better analysis of the similarities and differences in legal frameworks (Williams, 2007:69). The tables in question are drawn for strategic plans (formulation of objectives), formulation of policies and performance measurement, clearly depicting the financial planning steps. Therefore, the legal situation in the different countries was confronted using tables, and conclusions and recommendations for South Africa were derived by analysing the differences between them in front of literature opinions. The following table illustrates the application of content analysis in this study:

TABLE 3.1: The application of content analysis in this study

PURPOSE	QUESTION	RESEARCH PROBLEM
To describe the characteristics of content	What?	To relate known characteristics of legislation regulating financial planning in municipalities.
	How?	Analyse the similarities and differences in the legislative requirement of the three countries.
	To whom?	To relate the known characteristics of legislation to policy-makers for possible improvement.

PURPOSE	QUESTION	RESEARCH PROBLEM
To make conclusions about the causes of content	Why?	To establish whether legislation in South Africa supports long-term financial planning practices – to support the case study of CoT assessing whether financial performance had improved.
	Who?	To answer the concerns raised by other authors and the South African National Treasury about poor financial performance being a result of poor financial planning in municipalities.
To make conclusions about the effect of content	With what effect?	To measure the extent of long-term financial planning in municipalities (CoT).

(Source: own, based on the idea of Berelson, 1952 cited by Prasad, S.a:4)

In Table 3.1 the application of content analysis for the purpose of this study is described in detail. The table further cascade the main purpose of the study into different components for better understanding. It also answers the questions on how the details of each purpose (sub-component) were catered for in acquiring the necessary data to satisfy the topic at hand. Pursuing the research objectives as per research problem for each of the purposes listed in the table, provided a more goal orientated focus in confronting the overall research objective at hand. From this analysis conclusions and recommendations were derived. These are discussed in Chapter 6.

3.3.3.1 Application of content analysis findings

The findings of the review of legislation were compared with the actual financial planning practices of CoT as in the literature review, in line with the first of the two pillar approach applied in this study. This comparison provided an opportunity for this study to establish whether legislation catered for the steps in the financial planning process, and if CoT implemented financial planning as required by legislation and as per the literature reviewed, and the municipality’s financial planning was conducive to improved financial performance. Chapter 4 of this study covers this and the assessment of financial performance in CoT, CoJ and Ekurhuleni using the outcomes of the financial ratios analysis. The approach taken is discussed in the current chapter after the discussion of the research methods used in the financial management analysis.

3.3.4 Analysis of financial management

This study applied financial ratios in the evaluation and interpretation of the financial statements of CoT, CoJ and Ekurhuleni to gather sufficient data to assess which financial planning approach improved the financial performance in municipalities. The analysis of financial ratios constitutes the second and final pillar applied in this study. These ratios were calculated for the financial years starting 2004/05 to 2011/12 and are listed hereafter together with motivations for their application in this study. The actual calculations thereof are included at the end of the dissertation as Annexure B.

As indicated in the literature review chapter, a financial plan can be flexible if conducted with a bottom-up approach, top-down approach, or both. When it comes to the actual execution of the plan, the three year municipal budget (Medium Term Revenue and Expenditure Framework (MTREF)), is utilised to pursue the objectives of a municipality (SA, 2003:Ch4). This budget is executed at a transactional level and on a daily basis, thus assessing the financial performance of the selected municipalities using financial ratios gave an indication of how these municipalities executed their short-term plans (since municipal budgets are executed daily), which rolled-up to medium and long-term plans. In terms of the literature reviewed in this study, municipalities have to review performance continuously and take remedial action where necessary. If correctly executed, the municipalities' financial performance trends could improve over time. This improvement is subject to the absence of any adverse and uncontrollable conditions that would result in a major disruption of the economy, such as war, natural disasters, hyperinflation etcetera.

To counter the effects of the economic and demographic changes on the ratios, the real percentage change in the variables (mainly the total operating revenue, operational grant receipts and own revenue), was taken into consideration upon the analysis of financial ratios in Chapter 5. This was achieved using the calculation that follows:

$$\Delta X\% = [(\frac{X2}{X1} - 1) \text{ x } 100] - [Average\ CPI\% + Average\ population\ growth]$$

Where:

ΔX% = the real percentage change

X2 = the closing balance as at 30 June 2012

X1 = the closing balance as at 31 June 2005

Average CPI% = the average CPI for the eight financial years under review

Explanation of the variables

- The closing balance as at 30 June 2005 and 2012 refers to the year-end balance of any variable, especially relating to revenue, which is influenced by the economic and demographic changes and based on which the real growth or decline can be determined.
- The average annual CPI refers to the average of monthly CPI for the months from July to June added together and divided by twelve to match the municipal financial year.
- The average population growth of the period 2001 to 2011 was used since this was the available latest census from Stats SA at the time of this study.

This calculation was used to determine the extent to which the growth in the variables of the municipalities, mainly revenue, was influenced by the economic and demographic changes. The financial ratios used in this study are explained in the next sub-section.

Financial vulnerability ratios and liquidity ratios were employed to gather information on the liquidity, solvency and financial viability of CoT over the given period. The assumption is that the municipalities' annual financial statements submitted to National Treasury are accurate and when analysed would reflect the municipality's actual financial performance. The following financial ratios were calculated:

3.3.4.1 Financial vulnerability ratios

Debt coverage

$$A = \frac{b - c}{d}$$

Where:

A = debt coverage

b = the total operating revenue received

c = operational grants

d = the debt service payments (interest + redemption due within the financial year)

Explanation of the variables

- The total operating revenue received comprises of the sum of service charges (sale of water and electricity, waste removal and sanitation charges), property rates taxes, other revenue, and fines.
- Operating grants refers to grants received by CoT from other spheres of government to cater for the operational needs of the municipality.
- Debt service payment refers to the sum of interest and redemption due within the financial year.

The debt coverage ratio was applied in this study to determine how much it cost the municipalities to finance borrowing (the finance cost in the statement of financial position and the redemption under the current liabilities in the statement of financial position) as expressed against the total revenue of a municipality excluding operational grants. When analysed, a high debt coverage ratio was interpreted as suggesting that a municipality uses more internally generated revenue to finance its debt rather than service delivery. This scenario has multiple possible explanations, including that the municipality: (i) over-relied on borrowings; (ii) paid extremely high interest rates; or (iii) both. A low ratio was interpreted as suggesting otherwise. The ratio was used in this study to test the municipalities' reliance on borrowing and the findings were compared between the debt coverage ratio of CoT and the other selected municipalities to establish CoT's performance in relation to other municipalities. Furthermore, the debt coverage ratio was analysed in relation with the outstanding service debtors to revenue ratio to limit the bias when testing "neglecting the collection of own revenue" as a cause of over-reliance on borrowing. This comparison provided an insight as to whether a municipality collected sufficient revenue from its service debtors to ensure that municipal services are self-sustainable.

Outstanding service debtors to revenue

$$A = \frac{b}{c}$$

Where:

A = the outstanding service debtors as a percentage of debtors

b = the total outstanding service debtors

c = the annual actual revenue received for the service

Explanation of the variables

- The total outstanding service debtors' amount variable refers to the total service debtors' amount under the current assets in the statement of financial position.
- The actual revenue received for the service variable refers to the total service charges in the statement of financial performance.

For the purpose of this study, service debtors are those consumers whose debt to the municipality was the result of the consumption of basic municipal services and other services delivered by that municipality. The outstanding service debtors' to revenue ratio was employed to determine the effectiveness of CoT in relation to other selected municipalities in recovering service debt. When used in conjunction with the debt coverage ratio, it gave an indication of whether or not CoT relied more on borrowings as a result of poor collection rate (neglecting revenue collection). However, other factors, such as the affordability of services, boycotts, etcetera, could contribute to low collection rates. As for the unaffordability, an effective indigent policy (as adopted by CoT) should ease the burden of affordability and consequently reduce non-payment of municipal accounts.

3.3.4.2 Liquidity ratios

Liquidity refers to the ability of the municipality to cover such municipality's operational expenses through the revenue generated by that municipality (National Treasury, 2008**b**:150).

Current ratio

$$A = \frac{b}{c}$$

A = current ratio

b = current assets

c = current liabilities

Adjusted current ratio

$$A = \frac{b - c}{d}$$

A = adjusted current ratio

b = current assets

c = debtors

d = current liabilities

Current ratio compares cash and the assets that can quickly be converted into cash with working capital such as payables or creditors due within a financial year (Gibson, 2011:224; National Treasury, 2008**b**:150). When calculated, a ratio of one or more would indicate that CoT has sufficient current assets to cover the current liabilities once. In contrast to the application of the current ratio, there was a concern that South African municipalities have large debtors' books with the majority being long outstanding debt (National Treasury, 2011**a**:62). This suggests that, if the debtors' amount was included when calculating the current ratio, there would be a risk that the results thereof could misrepresent the actual financial position of the municipality. Therefore, adjusting the current ratio to exclude debtors minimised this risk. On the contrary, the exclusion of current debtors posed the same risk if the municipality being analysed had a high collection rate and a collection period of less than thirty days. Thus, the interpretation of the average debtors' payment period ratio and the current ratio minimised the aforementioned risk by providing different dimensions of assessment in this regard.

Average debtors payment period

$$A = \frac{b}{c} \times 365$$

A = average debtors' payment period

b = total debtors

c = total debtors revenue

Although calculated differently in the private sector than in municipalities, the purpose of the average debtors' collection period is to determine the average number of days it takes an organisation of collect its revenue after invoice date, and also helps to determine the ability to pay creditors from these receivables (Gibson, 2011:210). The ratio is calculated differently in this study, based on the formula provided by National Treasury in the unit standard that forms part of the minimum competency requirements for municipal officials, which also states that the norm is thirty days or less (National Treasury, 2008**b**:152-154). Because of the unavailability of the billed revenue amounts for the municipalities in the annual financial statements, this study used the total debtors' revenue as indicated, with the assumption that all the municipalities had a collection rate of at least 80% and that the bad debts written off amounts reduced the gap between the billed revenue and the revenue collected. Based on this it was assumed that there was no material difference between the billed revenue and the collected revenue. The question of whether consumers were billed for all the services they used and the property taxes was not addressed in this study.

This ratio was applied in this study to determine the average number of days it took municipalities to collect revenue billed on basic services from consumers. Since the current ratio compares cash and the assets that can quickly be converted into cash, the average debtors' payment ratio provided an answer on how long it takes for municipalities under review to convert debtors (current asset) into cash from the invoice date. It should be noted that, writing off the debt owed to a municipality by consumers can influence the outcome of this ratio positively since it would show such a municipality as have less debtors. A table of the bad debts written off by the three selected municipalities is provided in Chapter 5.

Quick ratio

$$A = \frac{b - c}{d}$$

A = quick ratio

b = current assets

c = inventory

d = current liabilities

The quick ratio serves the same purpose as the current ratio but it is calculated on the most liquid current assets by excluding inventory since this current asset may be slow moving or obsolete (Gibson, 2011:225). The quick ratio was applied to determine CoT's ability to settle short-term debt by taking only the assets that can be converted into cash into account. Inventory is excluded from the current assets since it refers to items used by the municipality to render services, and therefore not for sale. The quick ratio supports the findings of the current ratio to some extent since both ratios consider those assets that can be turned into cash quickly except that the quick ratio excludes inventory. In the end, the interpretation of the results of the current and quick ratios, together with the average debtors' collection period ratio, provided an indication on the anticipated future financial state of CoT. This means that if a municipality did not collect sufficient revenue on time from service debtors, the municipality would not survive without selling available inventory, regardless of a current ratio of more than one.

<u>Debt to equity/gearing ratio</u>

$$A = \frac{b + c}{d}$$

A = debt to equity ratio

b = long-term borrowing

c = finance lease liability

d = funds and reserves

In the private sector the debt to equity ratio is used to determine the extent to which the creditors are covered by the equity in case of insolvency (Gibson, 2011:263). For the purpose of this study the gearing/debt to equity ratio was a measure of financial leverage, demonstrating the degree to which a municipality's activities are funded by internally generated funds as compared with borrowings. A municipality with high gearing was deemed more vulnerable, especially if less effort is put towards collecting own revenue, because once in debt, the municipality must continue to service its debt regardless of how the collection rate is. Furthermore, an aggressive increase in long-term loans would suggest overreliance on borrowing, especially if there is not sufficient reserves to ultimately redeem the borrowings, and if backed by the previous ratios. To establish overreliance on grants, the government grants, as a percentage of revenue ratio, needed to be considered and is discussed next.

<u>Government grants as a percentage of total revenue</u>

$$A = \frac{b}{c}$$

A = government grants as a percentage of total revenue

b = total operating grants

c = operating revenue

If the percentage of grants to total revenue increases, it means that more of the municipality's expenses are paid from grants and not own revenue. In this case possible overreliance on grants due to neglecting collection was considered subject to evaluation in conjunction with the outstanding debt to revenue ratio, the average debtors' payment period ratio, and the debt to equity ratio (to establish if borrowing is used to bridge the funding gap). This study then calculated the increase or decrease in own revenue trends throughout the years under review (2004/05-2011/12) to match against the grant funding dependency. The aim was to test whether own revenue increased, decreased, or remained constant as grants increased.

3.3.4.3 Application of financial ratios to assess financial performance

The contents of this sub-section elaborate on how the outcomes of the calculated ratios were analysed and interpreted to satisfy the requirements of the second pillar. This was achieved by testing three different scenarios, namely: the municipalities neglected the collection of own revenue and relied on government grants; municipalities used borrowings to bridge the financing gap caused by under collection of own revenue; and municipalities did not manage their current assets and liabilities optimally.

To test if CoT neglected the collection of own revenue and its possible consequent dependency on grant funding, it was necessary to establish whether the operational grant transfers increased or decreased year-on-year as a percentage of total operating revenue to show overreliance. This was achieved by applying the ratio of total operating grants as a percentage of total operating revenue. Where the percentage of grants to total revenue increased, it meant that more of the municipality's operational expenses were paid from grants and not own revenue. This indicated possible overreliance on grants due to neglecting collection, but other factors such as debt collection, need to be considered as well. To support this operating grants were subtracted from the total operating revenue to determine the increase or decrease in own revenue throughout the years under review to compare with the same in the grant funding.

To further support the ratio discussed in the previous paragraph, it was necessary to calculate the outstanding service debtors against actual revenue received from basic municipal services. This expressed the total outstanding debtors as a percentage of revenue collected for each year. An increase in the percentage suggested that more debtors did not pay their accounts, which could be a result of the municipality neglecting collection of own revenue due to reliance on grant funding, hence the need to consider the total operating grants as a percentage of total operating revenue.

Furthermore, the average debtors' payment period ratio was applied since it determined the period (in days) it took the municipality to recoup money from debtors from the date of the invoice. A period more than thirty days, and an increase in days over the period under review, meant that it took a municipality longer than acceptable to collect revenue. Therefore, the aim was to analyse it together with the results of the outstanding debtors to revenue ratio to determine if collection was achieved (such as longer average collection period and increases in the outstanding debtors' ratio would suggest that debt collection is neglected). Since overreliance on government grants could result in unnecessary borrowing to bridge the funding gap, it was necessary to also test if CoT and the two other municipalities selected for this study collected maximum revenue from their debtors for services delivered. The debt coverage ratio and gearing ratio ratios (discussed next) were aimed at indicating the extent to which municipalities used their own revenue to satisfy the requirements of borrowing and if they were successful in their administration of borrowings.

The debt coverage ratio is expressed as interest and redemption as a percentage of own revenue received. (Own revenue refers to total operating revenue minus operating grants received in this calculation.) This ratio aimed to determine the extent to which own revenue was used to finance debt. An increase in the debt coverage ratio over the years under review would suggest increased borrowing, whereas a decrease would suggest a decline in borrowing. Therefore, if the previously discussed ratios indicate a lack of own revenue collection efforts and dependence on grants, then an increase in the debt coverage ratio would substantiate that borrowing is used to fund the shortfall caused by under-collection. In the end, where there are long-term borrowings, cash-backed redemption funds for such loans need to be created and maintained.

The gearing ratio (debt to equity) is expressed as long-term loans as a percentage of funds and reserves. Gearing is a measure of financial leverage, demonstrating the degree to which an organisation’s activities are funded by owner's funds versus creditor's funds. A municipality with high gearing (high leverage) is more vulnerable especially if less effort is put to collect own revenue because the municipality must continue to service its debt regardless of how the collection rate is. Therefore, the gearing ratio assesses whether reserves increase proportionally with long-term borrowings to ensure the ultimate redemption thereof, without putting unnecessary pressure on resources. An aggressive increase in long-term loans would suggest an overreliance on borrowing, especially if there is not sufficient reserves to ultimately redeem the borrowings, and if backed by the previous ratios.

If CoT or any municipality managed their finances well, such a municipality should be in a position to settle its short-term obligations (current liabilities) using current assets. A current ratio (expressed as current assets divided by current liabilities) was used to analyse the abovementioned scenario. It tested if a municipality has sufficient short-term assets that could be converted quickly to settle short-term liabilities and a minimum ratio of 1:1 is acceptable. Otherwise, the current ratio was adjusted to exclude debtors since municipalities were not able to collect their revenue for services rendered on time and sometimes not at all (National Treasury, 2011:62). Thus the ratio was expressed as current assets minus current debtors, the sum thereof divided by current liabilities. If the ratios calculated earlier (for example average debtors' payment period) indicated lack of collection of revenue and overreliance on grants, this ratio would justify the reality of the financial stance in the municipality.

The quick ratio was applied to determine the municipality's ability to settle short-term debt by taking into account only the assets that can be converted into cash. It was expressed as current assets minus inventory and the sum thereof divided by current liabilities. Municipalities keep inventory, such as components used for repairs and maintenance, which cannot be easily converted into cash. If municipalities kept more stock than necessary (stockpiling) it would tie-up funds unnecessarily. Thus the quick ratio of such a municipality would be significantly lower as compared to the current ratio. Moreover, failure of the ratio to reach 1:1 was interpreted as indicative of poor planning since it implied that a municipality would not be able to settle its short-term commitments on time had it been necessary, and stockpiling only contributes negatively to the quick ratio. A detailed analysis of all the ratios discussed in this study is discussed in Chapter 5 and the actual calculations of these ratios are attached at the end of this dissertation as Annexure B.

3.3.5 Statistical data analysis

Data analysis is "the process of bringing order, structure and meaning to the mass of collected data" (De Vos, 2002:339). The aim of this study (in particular ratio analysis) required the verification of trends in the financial performance of municipalities by assessing the financial vulnerability and liquidity of the selected municipalities. To best satisfy the objectives, the scenarios as highlighted under sub-section 3.3.4.3 were tested. This section of the study discusses the methods used to analyse the data of the financial ratios that were measured over eight years for four municipalities. The analysis in this study followed three major steps in the following order:

- Cleaning and organising the information that was collected; this is called the data preparation step;
- describing the information that was collected and
- testing the assumptions.

3.3.5.1 Method of statistical data analysis

a) Validation of survey results

Data analysis ensured that a program used to analyse data in this study operated on clean, correct and useful data. This process was executed before the analysis of the financial ratios to ensure that the data being analysed met the aforementioned requirements. In this study, construct validation was addressed in the planning phases (research design) and thus measured financial indicators in three municipalities in order to determine trends. The data was initially prepared in Excel format and then imported into SAS-format after performing the data manipulations on the original data in order to work with variables (see Annexure A).

b) The statistics that were used in this study

The Chi-square (two-sample) tests are probably the most widely used nonparametric test of significance that is useful for tests involving nominal data. However, the Chi-square tests can be used for higher scales as well, for instance where persons, events or objects are grouped in two or more nominal categories, such as ‘yes-no’ or cases A, B, C or D. The technique was used to test for significant differences between the observed distribution of data among categories (in this case the financial ratios and the variables thereof between the selected municipalities).

The Mann-Kendall Statistic method was used to determine the trends in the variables under review, both per municipality and per group.

Pearson Correlation Coefficient is argued by some (Wegener, 1993:311) to be the most frequently used method to determine the strength of a linear relationship between two variables. (The correlation coefficient is between −1 and 1; if there is a positive relationship, the coefficient is 1 and if there is a negative relationship the coefficient is -

1.) Pearson Correlation Coefficient was used in this study to test whether CoT's financial performance correlated with those of the other three selected municipalities.

3.4 CHAPTER SUMMARY

In the end, content analysis assisted this study in establishing the whether legislation catered for the private sector financial planning process, and extent to which the South African legislation enhanced better planning compared to the financial planning legislation in Australia and New Zealand. The findings of content analysis, together with the calculation of the financial ratios and subsequent statistical analysis, provided information on the financial planning performance in CoT and the two other municipalities selected in this study. To aid better comparison and analysis of both the legislation and financial ratios for the three municipalities, tables were separately drawn for each. The content analysis tables are reflected in Chapter 4, followed by interpretive graphs on the financial performance trends in Chapter 5. The research methods employed in this study were selected due to their independence from human influences (objective data used) and the conclusions and recommendations in Chapter 6 are based on objective results with minimal bias. Using content analysis, in the next chapter a review and comparison of financial planning legislation in South Africa, Australia and New Zealand is provided.

CHAPTER FIVE

FINANCIAL, STATISTICAL AND INTER-RELATIONAL ANALYSIS AND INTEPRETATION OF MUNICIPAL DATA

5.1 INTRODUCTION

The research design and methods applied to collect data was described in Chapter 3. Additionally, the data collected to enhance the interpretation of the findings, is analysed and interpreted in this chapter. Data analysis entails "the process of bringing order, structure and meaning to the mass of collected data" (De Vos, 2002:339). Therefore, the purpose of data analysis in this study was to reduce the collected data (financial management ratios) to an interpretable form that could be related to the assessing of financial performance to draw conclusions. The sample selected in approaching this analysis as outlined in Chapter 3 is described in section 5.2. First, a short description of the focus of this analysis and interpretation is provided in the next paragraph.

By the time of this study, long-term planning was executed through a LTFS in CoT. This was made-up of short-term plans (the first financial year of the MTREF), medium-term plans (all the financial years of an MTREF), and the long-term plan (the forecast on the seven future financial years following the MTREF). The actual financial performance measured is the outcome of the day-to-day budget implementation, thus a short-term plan. Because of this flexibility in the implementation of the plan, it was important to also consider other external factors, such as the tax base of CoT and the economic activities (including the social wellbeing of the residents) upon drawing conclusions. This was done to assess whether the necessary adjustments were effected as part of the performance measurement process during the budget implementation and the consequent implementation of the LTFS. A table depicting the demographic indicators together with the unemployment rate of the municipalities under review for the period 2001 to 2011, is provided in section 5.3 in order to place the concept of a tax base into context.

5.2 DESCRIPTION OF THE SAMPLE

Due to the fact that the objective of the study was to assess the financial performance based on the financial planning practices of CoT, the two other Gauteng metropolitan municipalities for which data was collected were for comparison purposes.

5.3 MAIN RESULTS

5.3.1 Statistical quantification

Table 5.1 indicates the naming convention of the financial indicators used in this analysis for referral purposes.

TABLE 5.1: Naming conventions of data (variables)

VARIABLE NR.	VARIABLE DESCRIPTION	FORMULA FOR CALCULATED VARIABLES
V1	ID	
V2	Municipality	
V3	Year	
V4	Operating revenue	
V5	Operating grants	
CALC1	**Own revenue**	V4-V5
V6	Interest paid	
V7	Redemption due in the current financial year	
CALC2	**Debt coverage**	CALC1/CALC3
CALC3	**Debt service payment**	V6+V7
V8	Long-term borrowing (Loans and finance lease liability)	
V9	Funds and reserves	
CALC4	**Gearing ratio/Debt to equity ratio**	V8/V9
V10	Total outstanding service debtors amount	
V11	Actual revenue received for services	
CALC5	**Outstanding service debtors to revenue**	V10/V11
V12	Current assets	
V13	Current liabilities	
CALC6	**Current ratio**	V12/V13
V17	Other debtors amount	

VARIABLE NR.	VARIABLE DESCRIPTION	FORMULA FOR CALCULATED VARIABLES
V18	Current portion of long-term receivables	
CALC7	**Current ratio / Adjusted**	(V12-CALC8)/V13
CALC8	**Debtors**	V10+V17+V18
V20	Inventory	
CALC9	**Quick ratio**	(V12-V20)/V13
CALC10	**Average Debtors' Payment Period**	(V10/V11)*365
CALC11	**Government Grants as % of total revenue**	V5/V4

(Source: own)

5.3.2 Inferential statistics

Before commencing with the analysis of the trends, the information discussed hereafter should be noted for better understanding of the discussion of the findings and conclusions of the analysis later in this study. The SAS software computes a p-value (probability value) that measures statistical significance when comparing variables with each other, determining relationship between variables or association between variables. Results are regarded as significant if the p-values are smaller than 0.05, because this value presents an acceptable level on a 95% confidence interval ($p \leq 0.05$).

A difference has statistical significance if there is good reason to believe the difference does not represent random sampling fluctuations only. Results will be regarded as significant if the p-values are smaller than 0.05, because this value is used as the cut-off point in most behavioural science research. The inferential statistics and outcomes are discussed in relation with the financial analysis performed in order to explain the different financial indicators and their relation to the objectives of this study, as discussed hereafter.

Firstly, it was necessary to determine how the CoT has performed against CoJ and Ekurhuleni. This is achieved by calculating the percentage increase for each of the calculated indicators (financial ratios and their variables) from 2004/2005 to 2011/2012 and doing a comparison thereof to determine whether the proportion increase or decrease differed between the municipalities.

Secondly, it was essential to determine whether there is a linear relationship between the municipalities with respect to these calculated financial indicators. The outcomes for each of the calculated financial indicators are discussed in the following paragraph. Since the aim of this study was to assess the financial performance based on the long-term financial planning in CoT, the analysis seeks to establish whether or not the CoT or any of the two other municipalities under review neglected the collection of own revenue, thus depending heavily on government grants funding and borrowing to bridge the funding gap (De Lange, 2010:22; National Treasury, 2008:17). This analysis takes the demographic and economic changes per municipality into consideration and further acknowledges the positive role that grant funding plays in municipalities. However, a detailed findings and conclusion account is provided after the discussion of all the variables and ratios which are depicted in the form of graphs analysed in the next section. The main findings are discussed in detail in Chapter 6 (Research Conclusion and Recommendation) of this study.

TABLE 5.2: Demographic statistics

Municipality	Population		Growth (% p.a.)	Households		Growth (% p.a.)	Unemployment %	
	2001	2011		2001	2011		2001	2011
City of Johannesburg	3 226 055	4 434 827	3.2%	1 006 910	1 434 856	3.6%	31.6	24.2
City of Tshwane	2 142 322	2 921 488	3.1%	606 025	911 536	4.2%	37.4	25.0
Ekurhuleni	2 481 762	3 178 470	2.5%	745 576	1 015 465	3.1%	40.4	28.8

(Source: Stats SA, 2011a: 5&31)

Table 5.2 depicts the demographic statistics of the selected municipalities reflecting the changes from 2001 to 2011. The reason for using this period is that the information was obtained from the latest census by the end of the period, and that The Department of Statistics South Africa was deemed as a more reliable source of this information, by this study. These statistics are used in the analysis and interpretations later in this chapter, with this table given as reference.

5.3.3 Graphs on variables and ratios

The following graphs show the trends for measured financial indicators for analysis purposes. Each of the graphs are analysed in detail, also in relation to Tables 5.2 where applicable. These analysis and interpretations, which are also inter-relational interpretations, are presented under different sub-headings to assess whether; the municipalities under review showed any signs of negligence in terms of collecting revenue and consequently relied on grant funding; these municipalities relied heavily on borrowing, and there was a good management of current assets and liabilities. A full conclusion and the consequent recommendations on the findings of this analysis and interpretation are presented in Chapter 6.

5.3.3.1 Neglecting the collection of own revenue resulting in dependency on operational grant funding

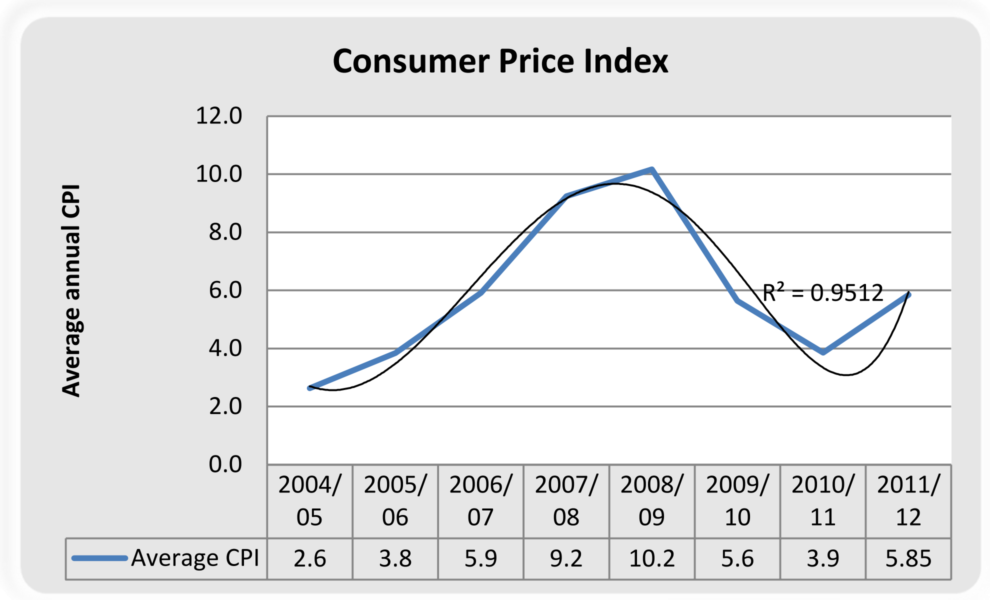

FIGURE 5.1: Average CPI for the eight years under review

Figure 5.1 depicts the average annual CPI for the financial years under review. For the purpose of this study, the annual average CPI is the monthly CPI added from June to July and divided by twelve to match the municipal financial year. In terms of Figure 5.1 the fifth order polynomial fits the trend perfectly. This substantiates that the CPI was substantially higher in the 2007/08 and 2008/09 financial years as compared to the rest of the financial years under review. Since the CPI was included to assess whether there was a real increase in revenue, Tables 5.2 to 5.4, which follow together with their respective supporting graphs, depict the average annual change in the revenue received. This was achieved by adjusting the increase or decrease in each variable with the average CPI for the period and the average population growth from census 2011.

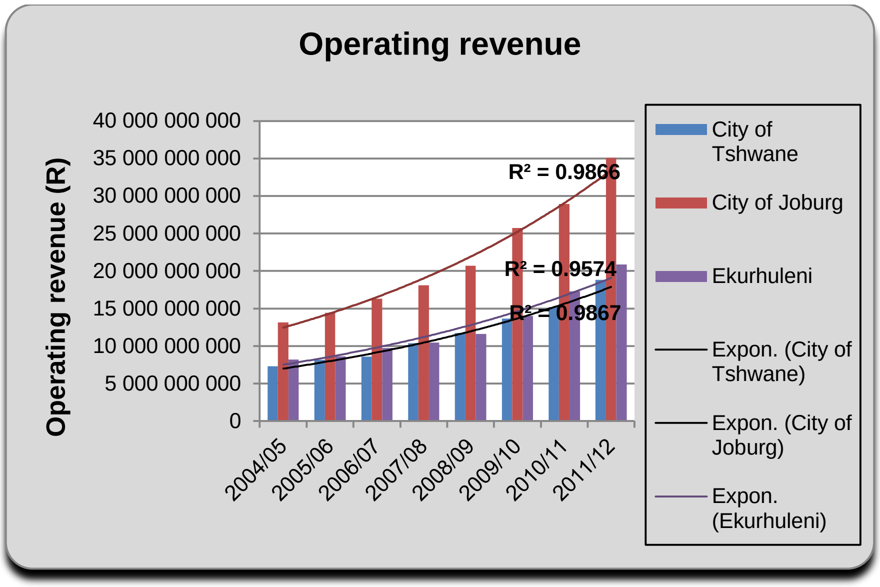

FIGURE 5.2: Operating revenue for the eight years under review per municipality

Figure 5.2 indicates that the operating revenue of each of the municipalities increased exponentially over the period under review. These municipalities seem to have respectively increased proportionally during this period, with the CoJ being the highest earning municipality. CoTs' performance trend did not differ from those of CoJ and Ekurhuleni, though it was the only one with a long-term financial plan. To continue with the analysis and interpretation, the following table shows the real average percentage change in the operating revenue of the municipalities under review.

TABLE 5.3: Real percentage increase in the operating revenue

Operating Revenue	2004/05	2011/12	Real average growth
City of Tshwane	7 297 548 219	18 846 452 897	3.5%
City of Johannesburg	13 149 411 000	35 059 590 000	4.0%
Ekurhuleni	8 209 742 103	20 856 136 015	4.0%

(Source: CoT, 2005 & 2012; CoJ, 2005:2012; Ekurhuleni, 2005 & 2012)

In terms of Table 5.3, CoJ and Ekurhuleni had a real average growth of 4.0% whereas CoT had a lower 3.5% during the period under review. CoT was also the municipality with the lowest unemployment rate of 24% against 25% for CoJ and 29% for Ekurhuleni. One may argue that CoT should have had higher real increases based on the decreased and also lowest unemployment rate. At the same time, there are other factors such as the collection of debt, tariff setting and the accuracy of billing, which can also affect the real growth in the operating revenue. Billing and tariff setting are not analysed in this study, but debt collection is discussed as this study unfolds. It should be noted that the operational revenue as analysed using Figure 5.2 and Table 5.3 consists mainly of own revenue and operational grants and is thus not reflective of the collection efforts of the municipalities. For this reason, the operating grants and own revenue are subsequently analysed and interpreted separately to establish the extent of their contribution in the real average growth in the operating revenue.

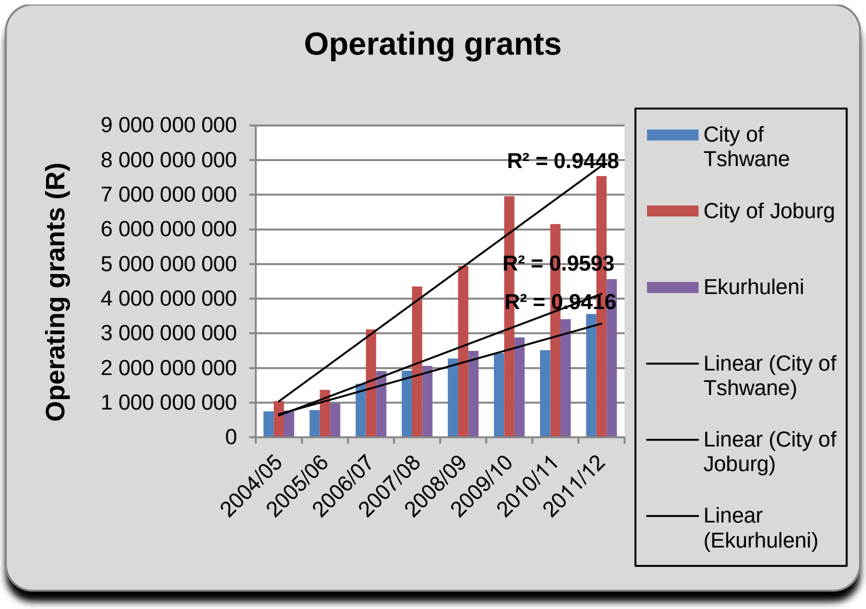

FIGURE 5.3: Operating grants for the eight years under review per municipality

The operating grants for the period under review for CoT, CoJ and Ekurhuleni, is demonstrated in Figure 5.3. Based on the graph, CoJ had a constant increase in the given years except for 2010/2011, when there was a decrease in operating grants from the previous year (2009/10). Ekurhuleni and CoT had almost the same increase and it presents that Ekurhuleni increased more over the latter years than the CoT. Table 5.4 presents the real percentage change in the operating grants revenue received by the selected municipalities to enhance better understanding.

TABLE 5.4: Real percentage increase in the operating grants revenue

Operating Grants	2004/05	2011/12	Real average growth
City of Tshwane	749 606 069	3 561 339 848	12.4%
City of Johannesburg	1 045 638 000	7 540 386 000	19.0%
Ekurhuleni	765 329 274	4 568 533 803	16.6%

(Source: CoT, 2005 & 2012; CoJ, 2005:2012; Ekurhuleni, 2005&2012)

CoJ had the highest real increase against Ekurhuleni and CoT respectively during the period under review, as portrayed in Table 5.4 and supported by Figure 5.3. Compared to the real average growth in operating revenue, the real average growth in the operational grants revenue is at least three times more for each of the selected municipalities. The operational grants revenue consists of mainly, the Equitable Share and Fuel Levy grants, which are municipalities' equitable share from the revenue collected at national level (SA, 2013: Sec 2&3). These grants are directed to addressing the basic service delivery needs, including the maintenance of basic service infrastructure. Without these grants, municipalities would struggle to deliver on the basic services, which are a constitutional right, and a responsibility of central government. It should be noted that this study applied the results of census 2011 and may be less accurate for the period under review. This is because the population growth may have been much higher in 2012, due to the general increase in population and the number of unregistered refugees, who may have not participated in the census. After taking the aforementioned statements into account, the real average growth in the operational grants revenue could still be much higher than it should have been upon the allocation of the grants.

There is also a possibility that the number of registered indigents increased during this period and that more funds were needed to deliver the resultant free basic services, thus the high real average growth in the grant allocations. Even though the unemployment rate declined and the population growth was less than 5.0% for the municipalities under review, a high increase in the registered indigents can warrant an increase in the equitable share allocation. This is based on the assumption that the municipalities did not have all the indigents already registered at the beginning on the period. Nonetheless, these municipalities still needed to collect optimum revenue, regardless of the high real average growth in the operational grants allocation. To continue with the revenue analysis, the real average growth in the own revenue of the selected municipalities is analysed in the next section.

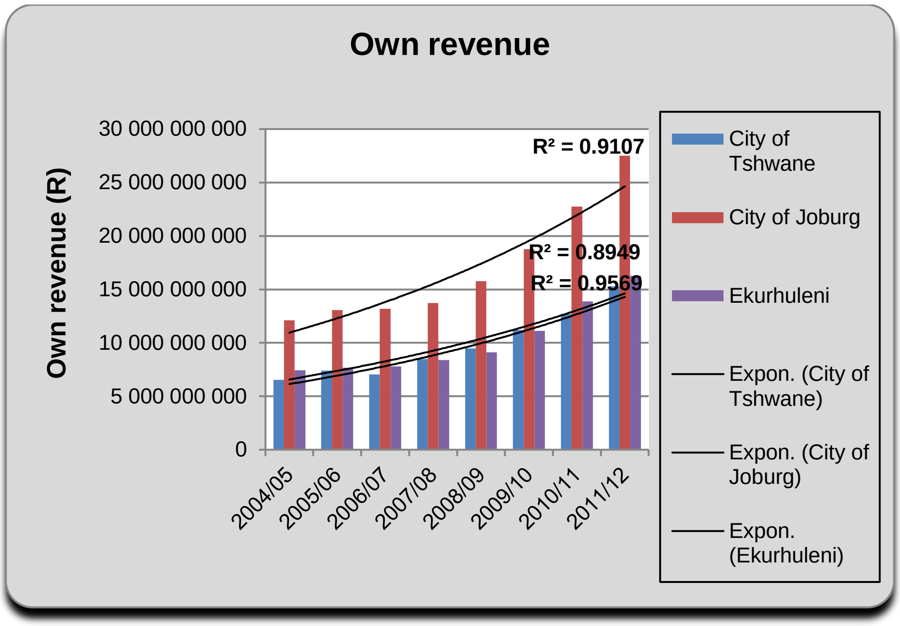

FIGURE 5.4: Own revenue for the eight years under review per municipality

Figure 5.4 depicts that the own revenue for all the selected municipalities individually increased exponentially over the eight years under review. Ekurhuleni and CoT had more-or-less the same increase. There were statistically significant positive trends for all the municipalities. (See Annexure A for Mann-Kendall statistic’s results).

TABLE 5.5: Real percentage increase in the own revenue

Own Revenue	2004/05	2011/12	Real average growth
City of Tshwane	3 812 837 209	10 679 046 818	4.6%
City of Johannesburg	6 333 986 000	18 601 300 000	5.4%
Ekurhuleni	4 199 087 054	12 598 243 381	6.3%

(Source: CoT, 2005 & 2012; CoJ, 2005&2012; Ekurhuleni, 2005&2012)

Ekurhuleni had the highest real average growth, followed by CoJ and CoT respectively during the period under review, based on Table 5.5. Each of these municipalities had a higher real average growth in own revenue compared to that in the operational grants allocation. This is an indication that the revenue derived from operational grants is a smaller contribution compared to own revenue, since the huge average growth in operational grants revenue that the municipalities had, did not have an impact on the total revenue growth. What is more, if there was no real average growth in own revenue, there would be reason to suggest that the municipalities under review neglected the collection of revenue and supplanted with grants.

It was further important to assess whether the collection period of these municipalities improved, and if the outstanding debtors' amount increased at a rate higher than the average CPI and population growth for the period, in the quest to substantiate whether overreliance on operational grant allocations occurred. Even though it was established that there was a real average growth in own revenue, it was important to determine what contributed to this increase. That was achieved by analysing the trends in the total outstanding debtors' amount and those of the bad debt written off and the average debtors' payment period as depicted in Figures 5.6, 5.7 and 5.9 respectively. First, the government grants as a percentage of total operational revenue is analysed and interpreted to assess the rate at which the government grants increased against total revenue.

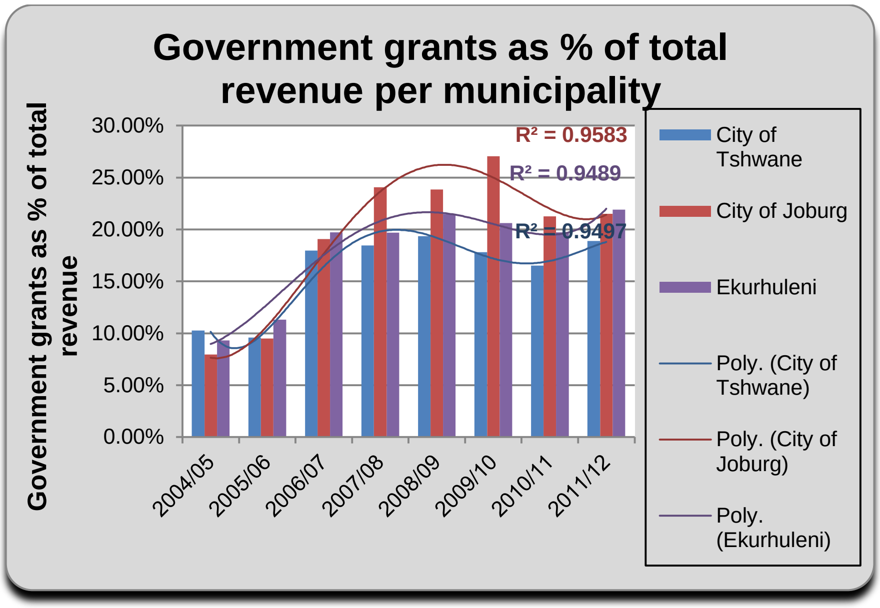

FIGURE 5.5: Government grants as a percentage of total revenue for the eight years under review per municipality

Figure 5.5 indicates that the government grants, as a percentage of the total revenue, increased for the municipalities, with the increase between 2004/2005 and 2011/2012 for CoT registering the least increase of all the municipalities reviewed. This is because CoT was the only municipality whose positive trend was not statistically significant, meaning that CoT had the least increase. CoJ had the most increase in this ratio as compared to Cot and Ekurhuleni, especially between the 2007/08 and 2010/11 financial years. CoJ is followed by Ekurhuleni in terms of the increase in the government grants as a percentage of total revenue, making CoT the best performing municipality of the three. To continue with the analysis and interpretation, the next graph shows the total outstanding service debtors.

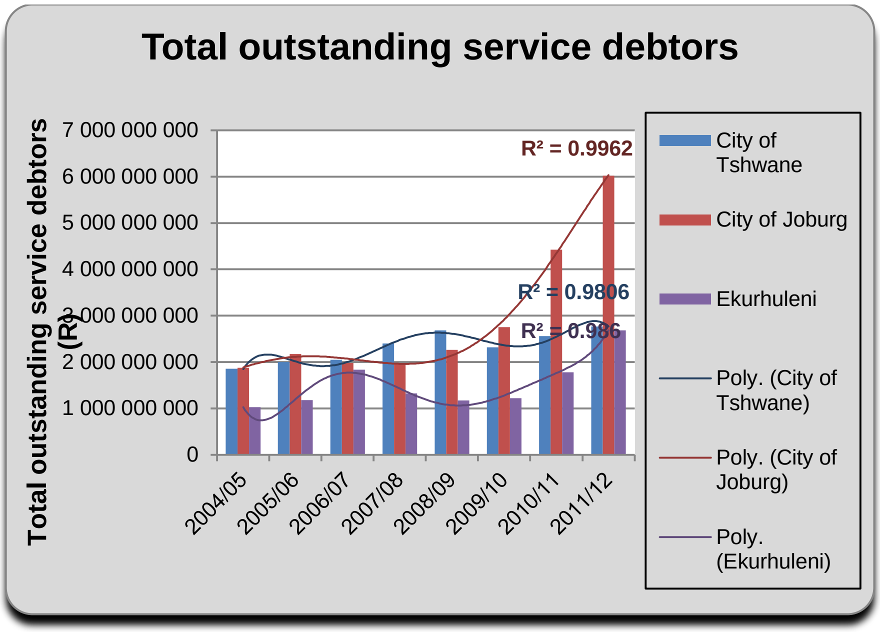

FIGURE 5.6: Total outstanding service debtors for the eight years under review per municipality

In terms of Figure 5.6 CoJ had an exponential increase and CoT had a slight but gradual increase over the eight years under review. Therefore, this suggests that CoT is superior compared to the sharp increase of CoJ and also the fluctuations of Ekurhuleni. It should be noted that the bad debts written off contributed to the improvement in a form of the reduction in the outstanding service debtors' trend for these municipalities. With that in mind, it was assumed that the trend in the outstanding debtors' amount would increase rapidly in the years after the bad debt is written off, if the concerned municipality did not optimise own revenue collection, provided that the municipality did not write off debt frequently. The following table shows the extent to which debt written off contributed to the trends in the outstanding debtors' amount.

TABLE 5.6: Bad debts written off

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
City of Tshwane	86 737	100 733	165 228	259 108	231 249	126 777	969 833
City of Johannesburg	623 266	833 513	433 383	377 191	2 470	182 884	2 452 707
Ekurhuleni	381 408	3 215 980	854 547	562 667	512 761	3 045 723	8 573 086

(Source: CoT, 2007 & 2012; CoJ, 2007:2012; Ekurhuleni, 2007&2012)

Because of the limitation of data, the bad debt written off is only displayed for the financial years 2006/07 to 2011/12. In terms of Table 5.6 Ekurhuleni had the highest bad debt write offs, followed by CoT and CoJ respectively. The impact is evident in the trend of Ekurhuleni as it remained lower for most years during the period, and CoJ with the highest in 2011/12. This means that the bad debts written off had a higher positive impact on the outstanding debtors' balance for Ekurhuleni than for CoT and CoJ. More details are provided using Figure 5.7 to graphically present the trends followed by a detailed analysis thereof.

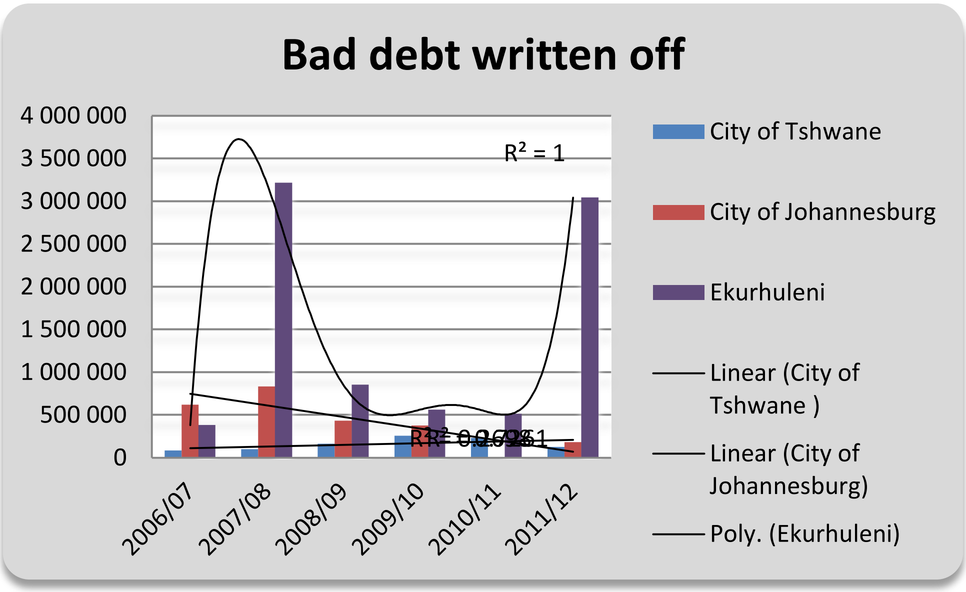

FIGURE 5.7: Actual bad debt written off for the period 2006/07 to 2011/12

Figure 5.7 indicates that there was no consistancy in writing off bad debt when comparing these municipalities and also the trends within them. Ekurhuleni wrote off more bad debt than the other municipalities, especially in 2007/08 and 2011/12 and consequently over the six year period. In comparison, although CoJ had a fluctuating trend, it showed a decrease in bad debt write offs, which is possitive if this municipality timeously collected the rest of the debt. CoT had the lowest bad debts written off throughout the period compared to CoJ and Ekurhuleni. This is despite the fact that CoT experienced increases between the 2006/07 and 2009/10 financial years and only decreased in the years thereafter, which indicates an improvement in the management of outstanding debt by this muncicpality. Because of the differences in the tends and the magnitutes of the amounts written off, there was a higher risk that the comparison of the debtors analysis and the debt collection may not be a fair representation as, for instance, Ekurhuleni had an advantage of having less outstanding debtors' amount as a result of having the highest bad debt written off.

Nonetheless, the amounts taken from the statements of financial posistion represent what the reality of each municipality was at that period, thus the municiplalities were evaluated based on that. This means that even though the writing off of bad debt might have unfairly benefited Ekurhuleni for example, the future success of each of the selected municipalities depended upon the proper exectution of financial management duties based on the contents of the financial statements. In either case, if municipalities collected optimum revenue, it would be evident in their management of current assets and liabitities and bad debts would be minimal. Therefore, even though this study might not have been able to clearly indicate the relativity of debtors and debt collection trends in these municipilities, it had a better chance of reflecting optimum revenue collection based on the assumption of minimal or no bad debts written off in such scenarios. To further the discussion, the next graphs depicts the actual revenue receipts per municipality.

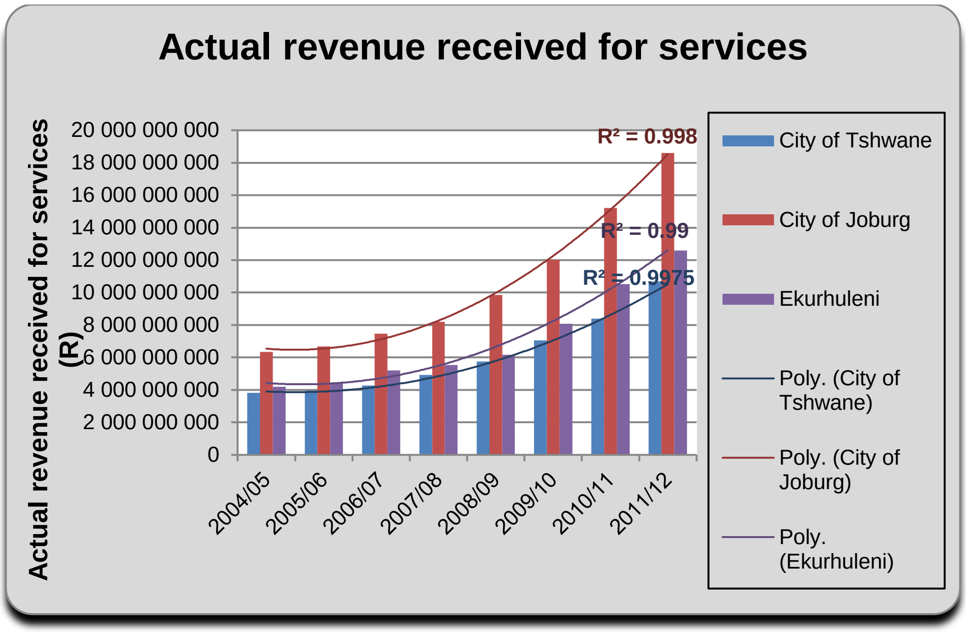

FIGURE 5.8: Actual revenue received for services for the eight years under review per municipality

Based on Figure 5.8, the data indicates that CoJ had an exponential increase in these eight years. Ekurhuleni and CoT also increased exponentially, however not as much as CoJ. Therefore, this graph supports the findings of the analysis and interpretation on the operating revenue the CoJ received the highest real average percentage growth than CoT and Ekurhuleni. In continuance of this exercise, the next graph (Figure 5.9) shows the trend in the average debtors' collection period to determine if the municipalities under review had improved their collection period, and if their collection period was within the acceptable norm to enable them to settle their short-term obligations on time.

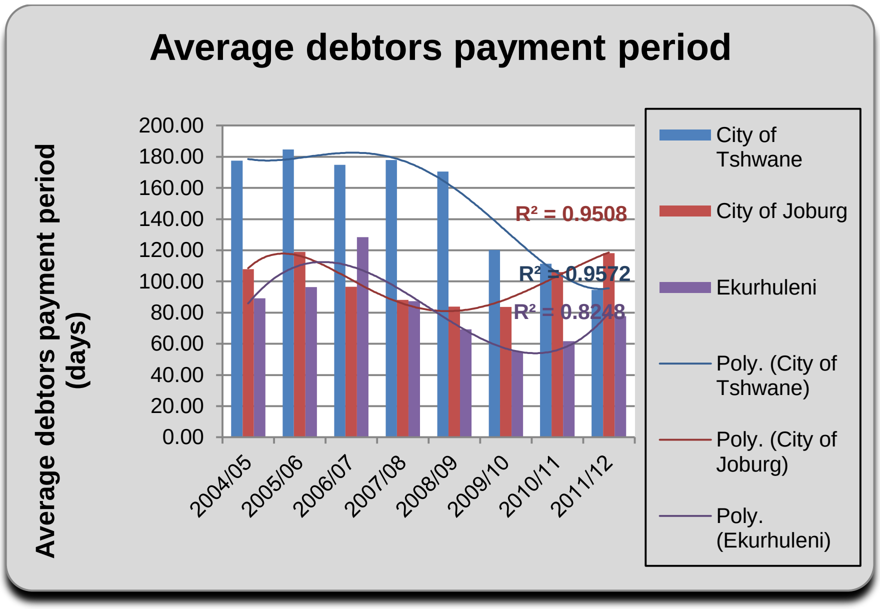

FIGURE 5.9: Average debtors payment period for the eight years under review per municipality

In terms of Figure 5.9 the average debtors' payment period, especially for the CoT, decreased significantly since 2004/2005 to the 2011/2012 financial years, compared to CoJ and Ekurhuleni. The Mann-Kendall statistic S = -22 for CoT is indicative of this decrease. The average debtors' payment period for CoT improved from over 120 days in the 2004/05 financial year to just 98 days in the 2011/12 financial year. This means that of all the selected municipalities, only CoT had improved its debt collection period over this period. However, the average debtors' payment period of the three municipalities was still higher than the 30 days acceptable norm at the end of the 2011/12 financial year. To substantiate this analysis, the next graph (Figure 5.10) analysed the outstanding debtors' amount against revenue ratio, to further support the analysis on the collection of debt.

Inter-relational analysis and interpretation

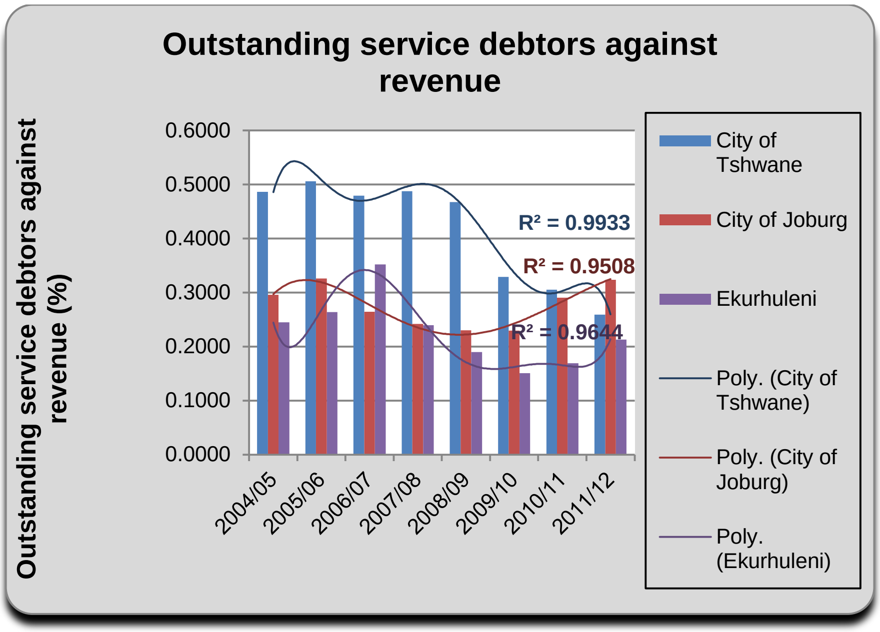

FIGURE 5.10: Outstanding service debtors to revenue for the eight years under review per municipality

In terms of Figure 5.10, the outstanding service debtors' amount against the revenue received for each of the selected municipalities decreased over the past eight years. This was an improvement for these municipalities, especially when taking into account the fact that there was a real increase in own revenue receipts over the period reviewed, suggesting that as this revenue increased in real terms, the outstanding service debtors' amount decreased. CoT's ratio began much higher than the other municipalities as could be seen with the Mann-Kendall statistic S= -22. This positive change was attributed to the decrease in the unemployment rate within CoT, which reduced from 31.6% in 2001 to 24.3% in 2011 (Stats SA, 2011**a**:18) and possibly improved debt collection. What is more, the positive change demonstrated by CoT was regardless of the proportional increase in the population and the number of households (Stats SA, 2011**a**:4-31). From this, it could be deducted that the debt collection process in CoT had improved. The next paragraph provides the analysis of the same ratios for Ekurhuleni.

The outstanding service debtors' amount of Ekurhuleni increased over the period under review. Based on this and the average debtors' payment period of this municipality, the increase in the operating revenue was attributed to the increase in the operational grants revenue, since the analysis suggests that Ekurhuleni struggled to collect revenue owed to the municipality by debtors since it worsened during the last three financial years. The reason is that even though the average debtors' payment period of Ekurhuleni was better than CoT's, the amount owed by debtors had increased to the same level as CoT by the end of the period. The outstanding debtors' amount was R1 billion and R1.8 billion for Ekurhuleni and CoT respectively in 2004/05, and increased respectively to R2.7 billion and R2.8 billion in 2011/12. Therefore, CoT performed better since this municipality managed to drastically reduce the trend in the outstanding debtors against revenue from 50% (twice that of Ekurhuleni in 2004/05) to 25% in 2011/12, as compared to the 21% of Ekurhuleni, regardless of the significant amount of bad debts written off by Ekurhuleni.

CoJ's outstanding debtors to revenue ratio deteriorated, regardless of CoJ having had the highest real increase in own revenue and a decrease higher than that of CoT and Ekurhuleni, in the unemployment rate (Stats SA, 2011**a**:4-31). However, contrary to the situation in CoT, the outstanding debtors in CoJ peaked at the end of the eight year period and the average debtors' payment period of CoJ worsened in the last two financial years. Therefore, although there was a higher real average growth in the own revenue in CoJ than CoT and Ekurhuleni, the worsened debtors payments period from 105 days in 2004/05 to 120 days in 2011/12 indicated that bad debt collection practices persisted and that this municipality could have potentially collected more revenue. Moreover, CoJ experienced a higher reduction in the unemployment rate as compared to CoT and Ekurhuleni (Stats SA, 2011**a**:4-31), thus CoT performed better than CoJ with regards to the collection of own revenue.

Nonetheless, since municipalities sometimes need to supplement their finances through borrowing (especially to finance capital expenditure), some of the revenue collected by the municipalities selected for this study was used towards defraying the interest on, and the redemption of the funds borrowed from the financial institutions. This could potentially put undue strain on the operating revenue of the municipality. For this reason, municipalities need to be financially sustainable and viable in both the short-term and long-term to avoid unnecessary borrowing. In the next section, the long-term borrowing trends of the selected municipalities are analysed and interpreted. Thereafter, an analysis and interpretation of the short-term financial position of the selected municipalities is also presented.

5.3.3.2 Dependency on borrowing

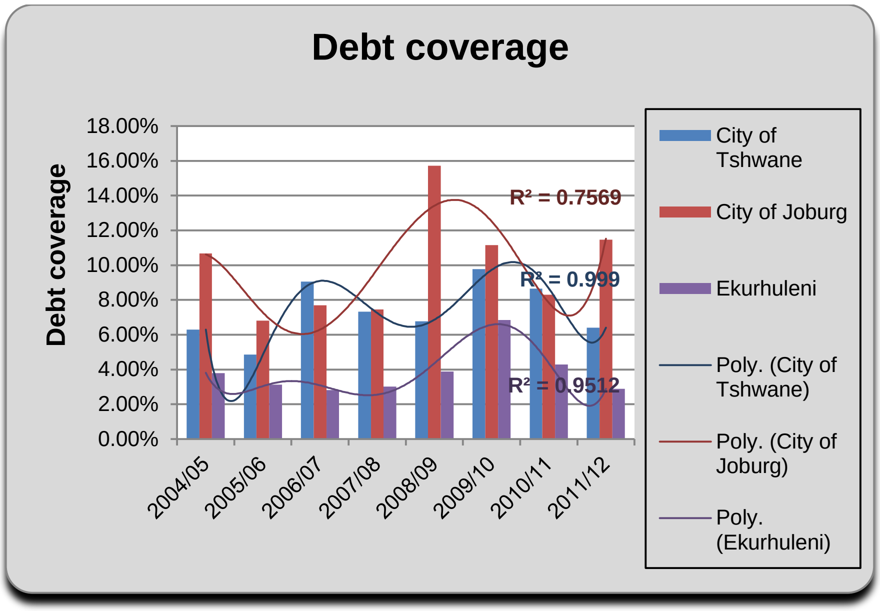

FIGURE 5.11: Debt coverage for the eight years under review per municipality

The debt coverage ratio of each of the selected municipalities for the eight years under review is illustrated in Figure 5.11. Each of these municipalities had a fluctuating trend during the period, with CoJ having the highest debt coverage ratio and Ekurhuleni having the lowest. Only CoT and CoJ had statistically significant results in terms of the Mann-Kendall statistical test results. This means that there were similarities in the movements of the trends of these municipalities. A detailed analysis of this ratio is conducted under the inter-relational analysis together with the borrowing related ratios and variables.

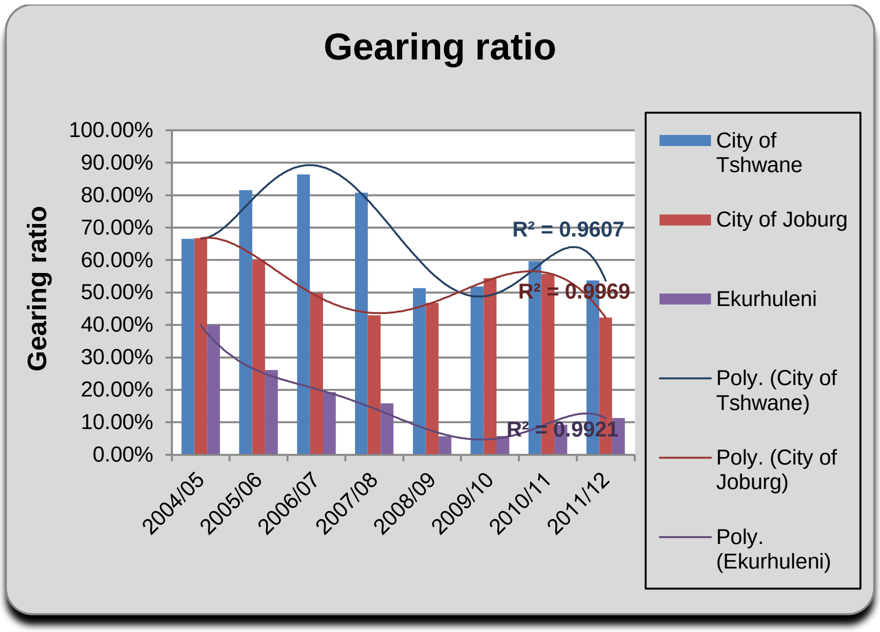

FIGURE 5.12: Gearing ratio (Debt to equity) for the eight years under review per municipality

The gearing ratio for each of the selected municipalities for the eight years under review is illustrated in Figure 5.12. Ekurhuleni had a statistically significant negative trend. CoT and CoJ both had a negative trend, but it was not statistically significant. Ultimately, the Mann-Kendall statistic results show that there was no monotony in the movements of the trends during the reviewed period. In terms of relative performance amongst the three municipalities, CoJ outperformed CoT, and Ekurhuleni outperformed both CoT and CoJ.

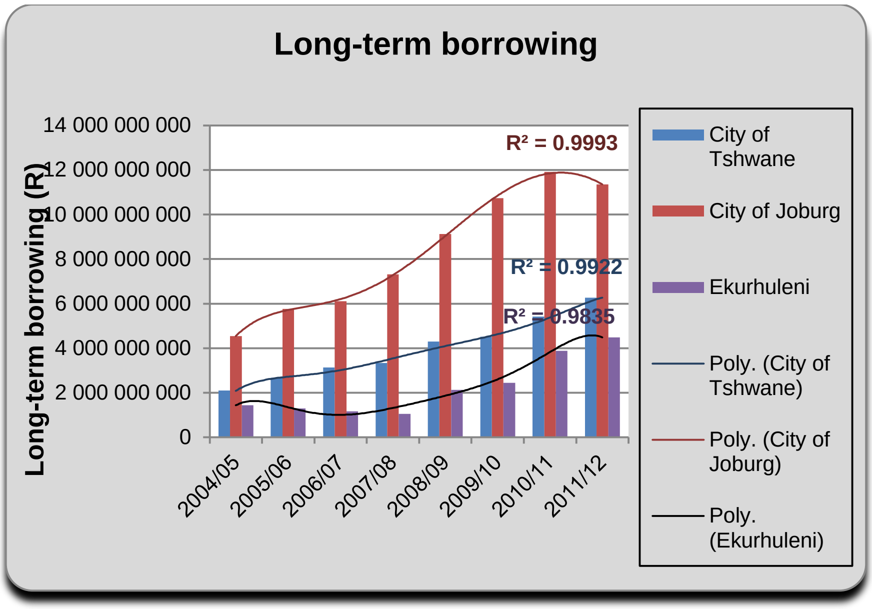

FIGURE 5.13: Long-term borrowing for the eight years under review per municipality

Figure 5.13 graphically portrays the long-term borrowing for each of the selected municipalities over the period under review. The data indicates that CoJ had the most increase in this period compared to CoT and Ekurhuleni. A detailed analysis is provided under inter-relational analysis and interpretation in this chapter.

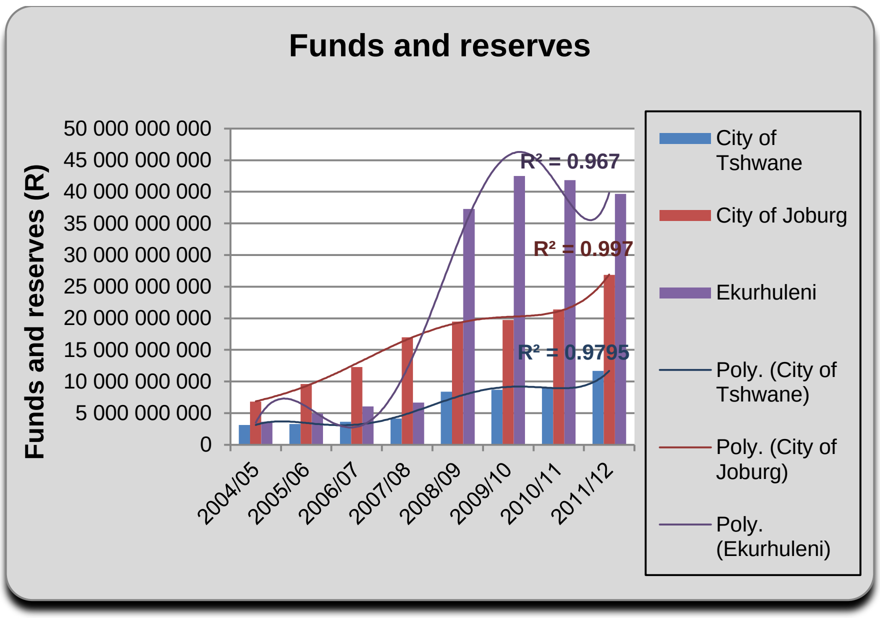

FIGURE 5.14: Funds and reserves for the eight years under review per municipality

It can be seen from Figure 5.14 that CoT increased funds and reserves gradually, but less compared to Ekurhuleni and CoJ. As compared to the CoT's own performance on borrowing (Figure 5.13), the increase trend in funds and reserves of CoT was on par whereas the same was not observed in CoJ and Ekurhuleni. Ekurhuleni had more reserves and CoJ had a larger increase in borrowings.

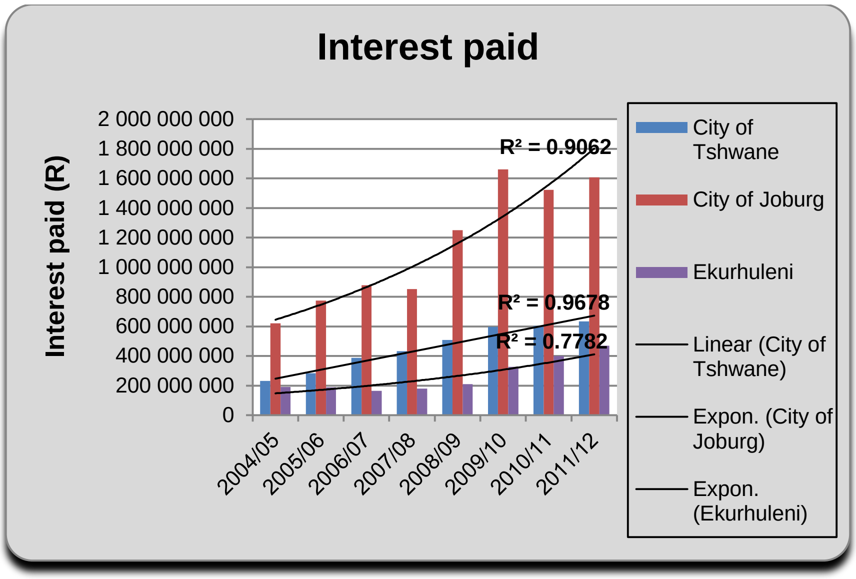

FIGURE 5.15: Interest paid for the eight years under review per municipality

To enhance analysis, Figure 5.15 shows the interest paid for the eight years under review by each of the selected municipalities. It can be seen from the graph that CoJ increased exponentially. However, a linear fit of the increase for CoT is a better fit. An exponential line fitted the data marginally better than a linear line for Ekurhuleni. Interest paid is one of the variables used in the calculation of the debt service payment amounts (interpreted and analysed later) and is added together with redemption due. These variables are discussed inter-relationally as the study unfolds to establish the extent to which operational revenue was used to finance borrowing.

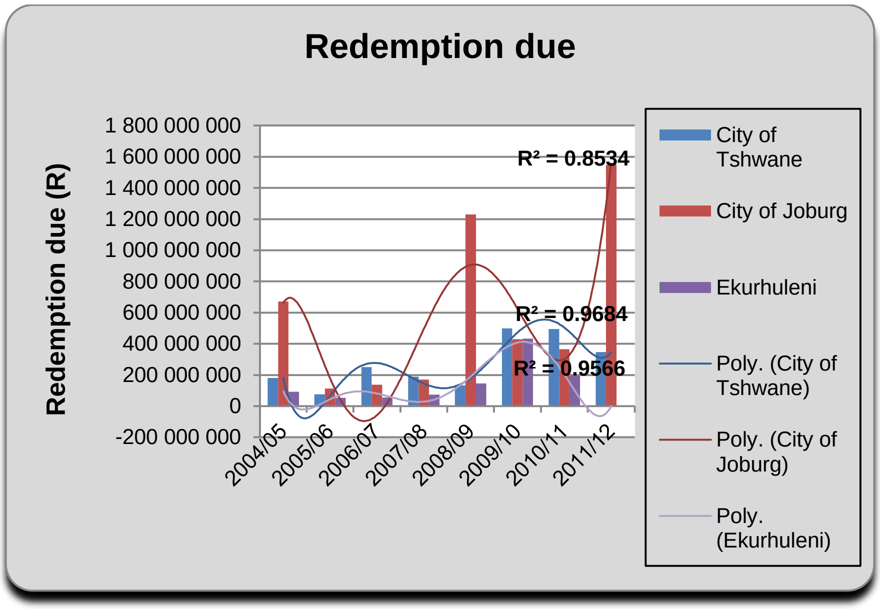

FIGURE 5.16: Redemption due for the eight years under review per municipality

Figure 5.16 indicates the redemption due for the eight years under review for each of the selected municipalities. For each of the municipalities the best fit was a sixth order polynomial fit, indicating the instability in the trends of these municipalities. The details on the impact of the economic recession on municipalities are incorporated upon the interpretation of the trends under the inter-relational analysis and interpretation section.

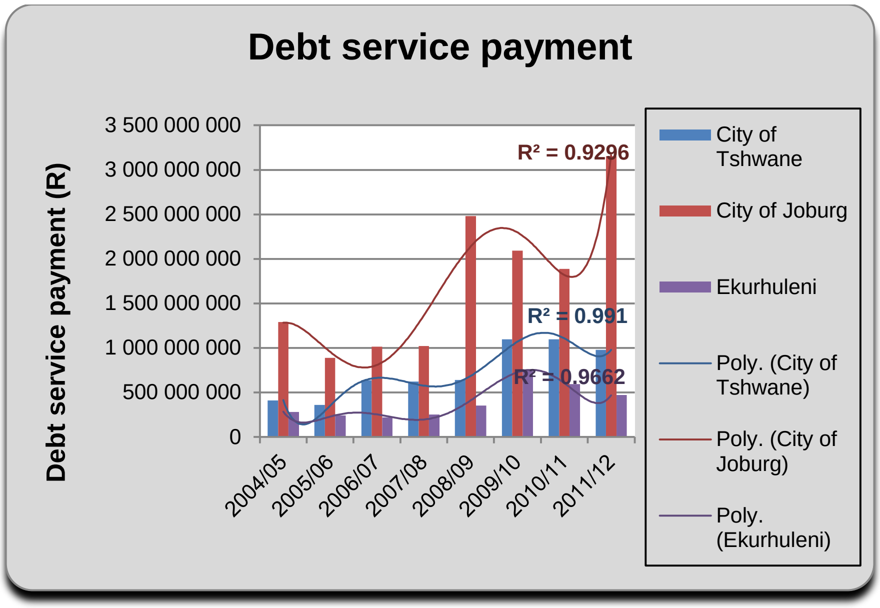

FIGURE 5.17: Debt service payment for the eight years under review per municipality

Figure 5.17 illustrates that the debt service payment for the past eight years increased for the different municipalities. CoJ had increased more than the other municipalities. There were statistically significant positive trends for all the municipalities.

Inter-relational analysis and interpretation

Although the debt coverage ratio of CoT fluctuated throughout the period, before it ultimately increased in 2011/12 as compared to 2004/05, it remained under 10% throughout. The trend in the debt coverage ratio of CoT was consistent with the trends in the interest paid and the redemption due, but different from the trend in the long-term borrowing. That was caused by a persistent increase in the interest paid characterised by proportional increases during the years that redemption was payable. In addition, the fact that the long-term borrowing trend did not show a decrease during the years that redemption was payable, and the trend in the interest paid showed a persistent increase throughout the period under review, suggests an increased pattern of borrowing by CoT throughout the period. This was also supported by the gearing ratio as discussed in the next paragraph.

Borrowing in CoT raised a threat during the period under review, especially with a gearing ratio of over 80% for the financial years 2005/06 to 2007/08. This means that the future redemption of borrowings was a concern if the borrowing pattern observed in this study was to persist. The threat could have been minimised had CoT established cash backed redemption reserves for future and improved debt collection practices to ensure that borrowing was minimised and sufficient cash was available to finance existing borrowings. What is more, the trend in the gearing ratio of CoT showed a fluctuation throughout the period under review although the ratio fell to 52% in 2011/12 as compared to 67% in 2004/05. Based on this study, borrowing in CoT increased on average, at a higher rate than the reserves during the period under review. This is a concern that put the affordability of borrowing of CoT at risk since the municipality would not have had sufficient reserves to settle long-term liabilities from its reserves. The next paragraph provides the analysis of the same ration for CoJ.

CoJ showed the same trend of the debt coverage ratio as CoT but more extreme since it reached a maximum of 16% as compared to the 10% of CoT. Just as with CoT, the trend in the debt coverage ratio of CoJ was consistent with the trends in the interest paid and redemption (loans payable) except that long-term borrowing reduced in 2011/12. Upon comparison, the interest paid by CoJ in 2009/10 was significantly higher than CoT’s since CoT showed a steady increase in the trend throughout the years, but that of CoJ was higher in 2009/10 than all the other financial years under review. This was besides the steady increase in the long-term borrowing for both these municipalities throughout the financial years. Consequently, the spike in the interest paid of CoJ suggested the use of other financial instruments, such as short-term borrowing by CoJ during 2009/10 since the increase was only isolated to this financial year.

Although the long-term borrowing trend of CoJ showed a reduction in 2011/12, the decrease in the long-term borrowing was less than that in the redemption payable. This indicated aggressive borrowing behaviour by CoJ between 2004/05 and 2008/09. Similar behaviour was also observed in CoT, thus suggesting that these municipalities increased long-term borrowing during the period under review. In addition, a similar trend (increases) in the funds and reserves of CoJ and CoT was observed during the period, and is discussed in the next paragraph.

The funds and reserves in 2011/12 indicated a higher increase in CoJ as opposed to the decrease in the long-term borrowing trend of this municipality. Ultimately, the behaviour showed by CoJ in terms of borrowing during the period under review, was not different from that of CoT except that the figures in CoJ were much higher than CoT. However, the gearing ratio of CoJ showed an improvement compared to CoT, aside from showing a similar trend in this regard. The gearing ratios for both these municipalities were 67% in 2004/05 and that of CoJ reduced each year until 2007/08 (42%) as opposed to the increase in that of CoT, and both municipalities showed an increase in the subsequent years leading to a decrease in both in 2011/12, however

CoJ had a lower ratio in 2012/13 (42% compared to 53% of CoT). Therefore, CoJ out-performed CoT in this regard since the municipality had more equity than debt, thus the future redemption of long-term loans was catered for. To continue this comparison the interpretation of similar financial ratios of Ekurhuleni commences in the next paragraph.

Similar to CoT and CoJ, Ekurhuleni showed a fluctuation in the trend of the debt coverage ratio and the redemption payable, but the interest paid showed a decrease between 2004/05 and 2006/07 and an increase therefrom leading to 2011/12 as opposed to the increasing trend of the other two municipalities (CoT and CoJ). Furthermore, the long-term borrowing of Ekurhuleni also increased even where redemption was paid by this municipality from 2008/09 to 2011/12. This suggests increased borrowing behaviour similar to that observed in CoT and CoJ. In terms of the relationship between long-term borrowing and reserves, Ekurhuleni was different from CoT and CoJ.

The increase in long-term borrowing was always accompanied by at least a corresponding increase in the funds and reserves in Ekurhuleni. Furthermore, the funds and reserves of Ekurhuleni showed an inverse relationship with the long-term borrowing between 2004/05 and 2007/08. This suggested that the funds and reserves of Ekurhuleni increased even when the long-term borrowings decreased and that there were other liabilities for which the funds and reserves were earmarked. Nonetheless, the funds and reserves available in the financial statements of Ekurhuleni were sufficient to cover the long-term borrowings of this municipality, and therefore the purpose of this study.

A detailed conclusion on these ratios is provided in Chapter 6. In furtherance of the analysis and interpretation, the current assets and liabilities of the selected municipalities are analysed and interpreted in the next section.

5.3.3.3 Management of current assets and current liabilities

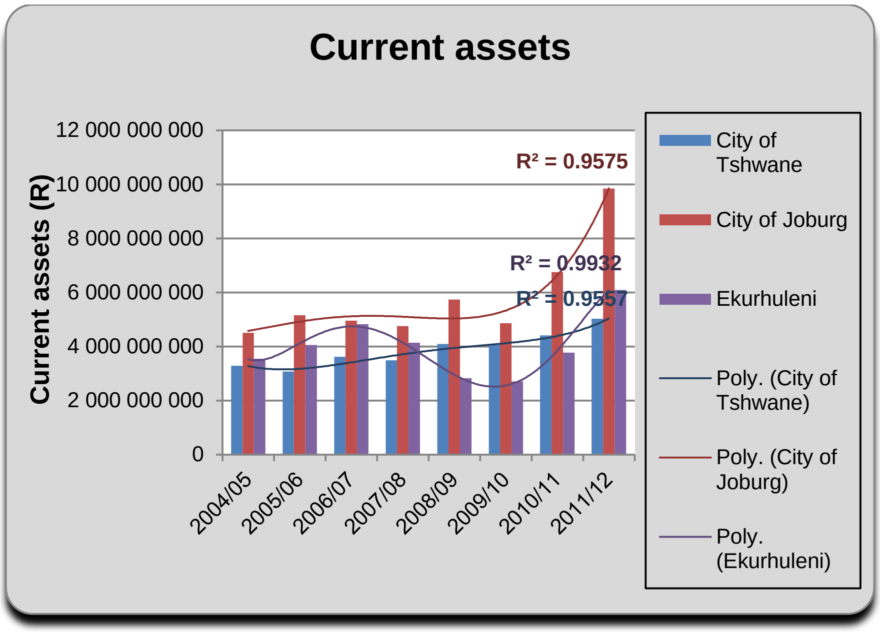

FIGURE 5.18: Current assets for the eight years under review per municipality

Figure 5.18 depicts the current assets for the period under review for the different municipalities. The data indicates that of the three municipalities, CoJ had the largest growth in the current assets and CoT had the most gradual growth over the eight years. More details on the impact that this variable and other applicable variables had on the financial performance of the selected municipalities are provided under the inter-relational analysis and interpretation. The current liabilities of the selected municipalities are analysed and interpreted next.

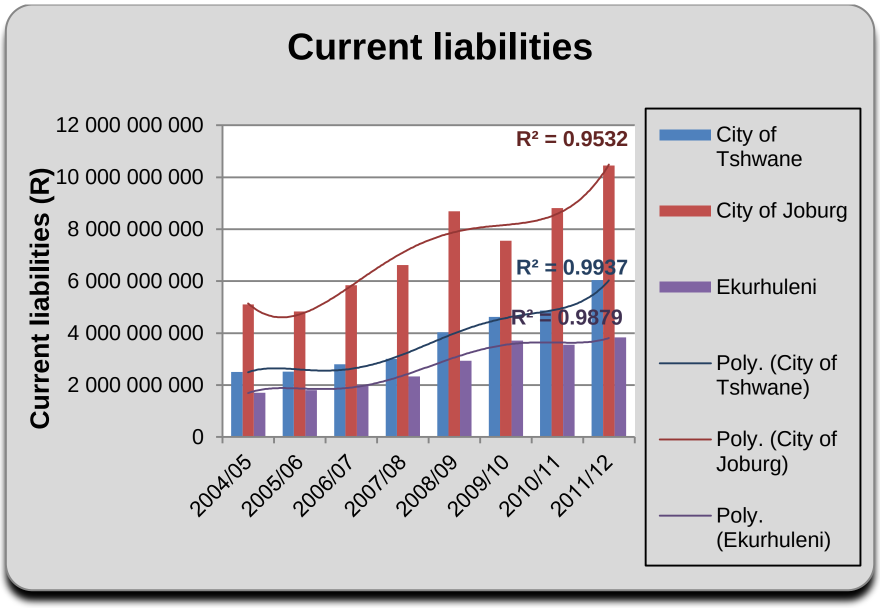

FIGURE 5.19: Current liabilities for the eight years under review per municipality

Figure 5.19 presents the current liabilities of the selected municipalities over the eight years under review. Of these three municipalities, CoJ had the largest growth in current liabilities compared to Ekurhuleni and CoT whom had more gradual growth over the period.

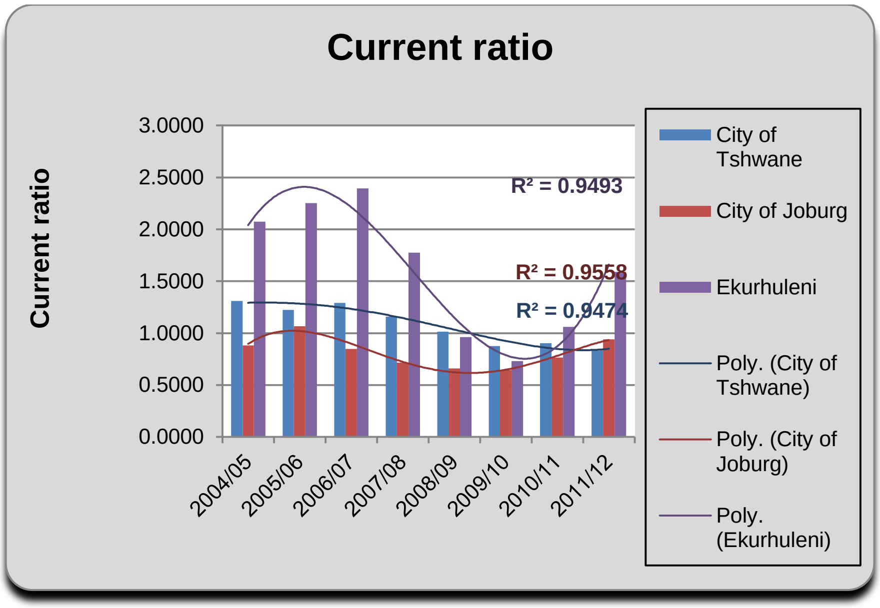

FIGURE 5.20: Current ratio (assets/liabilities) for the eight years under review per municipality

Figure 5.20 illustrates the current ratio for the selected municipalities over the period under review. Ekurhuleni was the main contributor to the overall trend of increasing the first few years, decreasing the following few years, before increasing in the last few years again, but in total each of the municipalities had a decrease from 2004/2005 to 2011/2012. However, only CoT had a statistically significant decrease. The inter-relational analysis and interpretation for the current ratio and its variables is presented starting from the next paragraph.

Inter-relational analysis and interpretation

CoT showed a fluctuation in the trend of the current ratio during the period under review which worsened at the end of this period compared with the base year 2004/05. This was besides the stability shown by CoT's current ratio between the 2004/05 and the 2008/09 financial years (both above the ratio of 1:1). The financial years thereafter, until 2011/12, showed a decline in the current ratio each year until the end of the period under review to a ratio of less than 1:1. Contrary to the trend of the current ratio (especially 2008/09 to 2011/12) the trend of the current assets of CoT showed a slow and stable improvement. If the improvement in the debt collection period in CoT inspired improvement in the outstanding debtors as a percentage of revenue ratio, then the current assets in CoT, specifically the bank or cash balance, was a consequent of this.

Contrary to the current assets, the current liabilities trend of CoT deteriorated during the period under review, increasing each year from 2004/05 until 2011/12. The trend in the current portion of the long-term liabilities fluctuated during the period, thus the outstanding creditors amount (Trade and other payables) was attributed to the bad performance. CoT needed to have sufficient current assets to cover current liabilities at any time of the financial year. Therefore, the fact that the average debtors' payment period had improved to 98 days in 2012/13, could not help CoT improve its performance, even though this ratio improved during the period under review. The same analysis and interpretations for CoJ are presented beginning in the next paragraph.

The trend in the current ratio of CoJ showed a fluctuation during the period under review and only reached a maximum ratio of 1:1 in 2005/06, thus the rest of the financial years had a ratio of less than 1:1. Current assets and liabilities showed an increase for the period. However, the increase in the current liabilities trend was more rapid than in the current assets, which resulted in a current ratio of less than 1:1. Part of current debtors comprised of hugely increased outstanding debtors as discussed previously (although the outstanding service debtors against revenue trend did not show a significant shift throughout the period under review) and the unstable trend in the average debtors' payment period (although it showed an improvement in the last three financial years). These movements justified the improvement in the current assets of CoJ and thus prompted a detailed interpretation of the variables comprising the current liabilities of the municipality to explain the current ratio trend.

The current portion of long-term liabilities of CoT were payable throughout the period under review but considerable amounts were payable in 2004/05 (R 600 million), 2008/09 (R1.21 billion) and 2011/12 (R1.5 billion). These amounts were much higher as compared to the current portion of long-term receivables (R120 million in 2009/10) and therefore in addition to the financial years being misaligned, only covered a small portion of the liabilities. Furthermore, the trend in the current liabilities indicated that similar to the situation in CoT, other current liabilities of CoJ, such as trade creditors, played a major role in the ailing current ratio by further increasing current liabilities as compared to current assets, but to a lesser extent in CoJ. To continue with the analysis and interpretation, similar analysis and interpretations for Ekurhuleni are presented beginning in the next paragraph.

Ekurhuleni showed a healthy current ratio of more than 2:1, which increased from the 2004/05 financial year to the 2006/07 financial year, although it decreased to a ratio of less than 1:1 between the 2007/08 financial year and the 2010/11 financial year, and back to more than 1:1 in the 2011/12 financial year. The trend was similar to that of the total current assets of this municipality, whereas the trend in the current liabilities showed a steady and stable increase throughout the period under review, thus suggesting that current assets had more influence on the current ratio of Ekurhuleni. The current ratio could be attributed to the variables highlighted and discussed next to enhance better understanding. The outstanding service debtors as a percentage of revenue and the outstanding debtors' trends fluctuated in the same pattern as that of the current ratio during the eight year period (in other words an increase between 2004/05 and 2006/07 then a decrease leading to 2009/10 and an increase therefrom until 2011/12). Based on this observation, it could be deduced that the outstanding debtors' amount had this impact on the current assets and consequently the current ratio itself. In addition, the trend in the outstanding service debtors as a percentage of revenue of Ekurhuleni suggests that the bank and, or, cash balance did not have a significant influence on the outcome of the current ratio.

The current portion of the long-term receivables trend for Ekurhuleni only showed a significant increase (although fluctuating) in the 2007/08, 2008/09 and 2009/10 financial years. This trend displayed similarities with the redemption due trend, except for the 2010/11 financial year, thus suggesting minimum impact of these variables on the current ratio of Ekurhuleni. As a result, it was concluded that the current portion of the long-term receivables of Ekurhuleni did not significantly influence the current liabilities of this municipality and thus the current ratio was not influenced.

A detailed conclusion on the analysis and interpretation on the current ratio is provided in Chapter 6. The inter-relational analysis and interpretation of the adjusted current ratio and the related variables is provided in the next section to determine the extent to which the current debtors' amount affected the respective municipalities' ability to settle their short-term obligations timeously. Therefore, this begins with the analysis and interpretations of debtors since the current assets and liabilities have already been discussed when the current ratio was analysed.

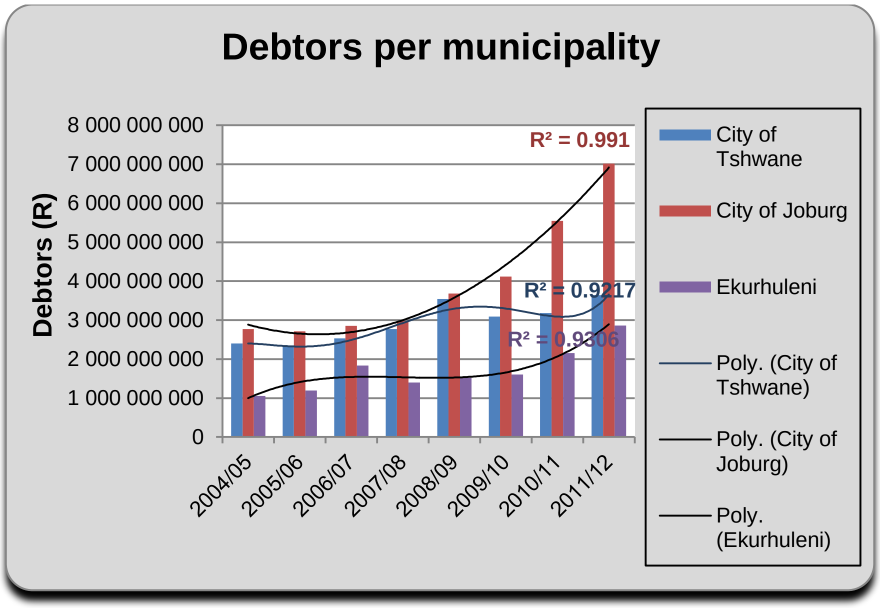

FIGURE 5.21: Debtors for the past eight years under review per municipality

In terms of Figure 5.21, the outstanding debtors' amount for CoJ had an exponential increase over the eight years under review, whereas CoT and Ekurhuleni had a gradual increase over this period. All the municipalities had a statistically significant positive trend.

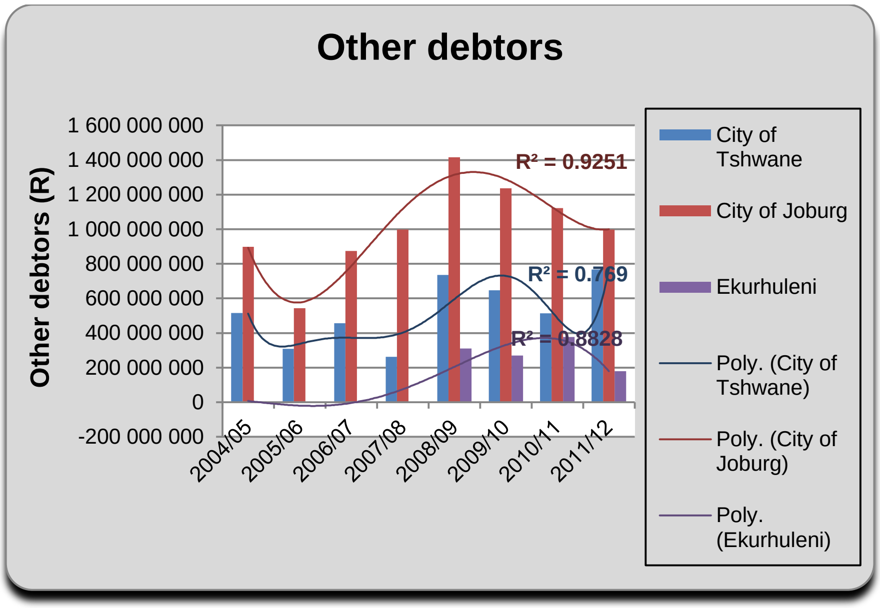

FIGURE 5.22: Other debtors for the eight years under review per municipality

Figure 5.22 illustrates the other debtors' outstanding amount of the selected municipalities for the eight years under review. CoJ had the most increase during the period. In comparison, the CoT experienced a fluctuation during this period which reached a peak during the 2009/10 and 2011/12 financial years, whereas Ekurhuleni experienced a steady increase, leading to a decrease in the 2011/12 financial year. Based on this graph, the CoT's trend was worse than those of the other municipalities under review.

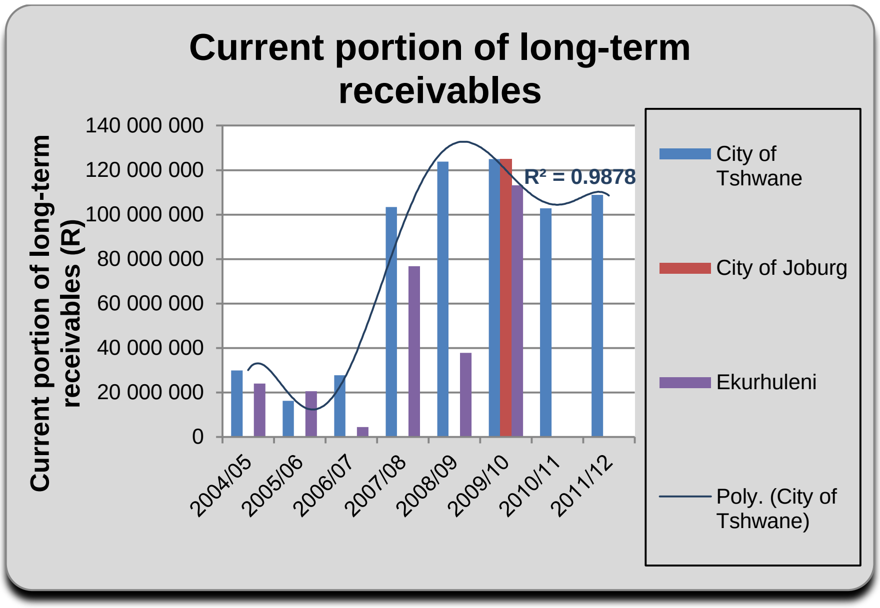

FIGURE 5.23: Current portion of long-term receivables for the eight years under review per municipality

Figure 5.23 graphically represents the current portion of long-term receivables for the eight years under review for each of the selected municipalities. CoJ had only one measurement and Ekurhuleni did not have measurements for the last three years; thus, a trend could not be fitted to this data. CoT had a major increase over the eight years under review.

As the current ratio was discussed previously, the next graph (Figure 5.24) depicts the adjusted current ratio, which is the current ratio minus current debtors, to show the municipalities' capacity to settle short-term obligations without converting debtors into cash since these (selected) municipalities proved to have longer average debtors' payment periods.

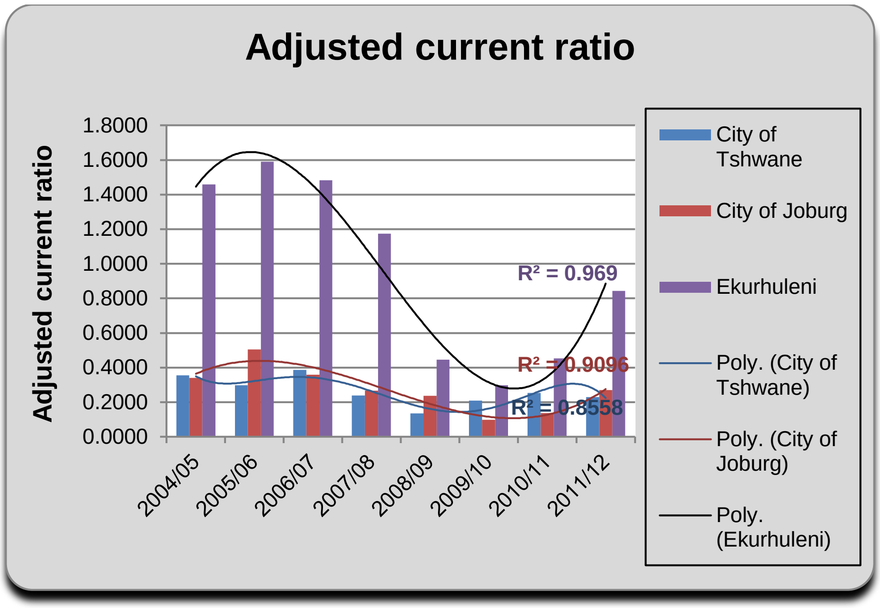

FIGURE 5.24: Adjusted current ratio for the eight years under review per municipality

The adjusted current ratio of the selected municipalities for the eight years under review is depicted in Figure 5.24. CoT and CoJ did not have as large fluctuations as Ekurhuleni. However, CoT, CoJ and Ekurhuleni all have a statistically significant positive trend in terms of the Mann-Kendall statistic, meaning that there was monotony in the trends of these municipalities.

Inter-relational analysis and interpretation

The adjusted current ratio of CoT clearly indicated that most of the current assets of this municipality were in a form of current debtors. Regardless of CoT's improvement in the average debtors' payment period and outstanding service debtors as a percentage of revenue (as discussed previously), the adjusted current ratio remained below 0.4:1 throughout the period under review and worsens by the end of the period. This indicates that CoT was unable to settle its short-term obligations and that other current assets, especially cash, were always minimal at the end of each financial year.

This was evident in the adjusted current ratio as this ratio for CoJ, although still less than 1:1, was more than CoT's adjusted current ratio, although the current ratio trend of CoT was more than CoJ's. Therefore, since CoT had a decreasing trend in outstanding debtors' amount as opposed to the increasing trend of the same in CoJ over the period under review, the assumption was that the difference in CoJ was a result of more current liabilities (the outstanding creditors' amount).

The fact that the average debtors' payment period and the outstanding debtors for Ekurhuleni had worsened over the period, was reflected by its adjusted current ratio. This resulted in the ratio declining from just under 1.2:1 in 2007/08 to the lowest of under 0.4:1 in 2009/10, although the ratio improved to 0.8:1 in 2011/12. Consequently, without any payment from the debtors during the aforementioned period, the municipality would not have been able to settle its short-term obligations on time. Although the adjusted ratio of 0.8:1 in the last financial year (as discussed earlier) was unfavourable and needed improvement, it was twice that of CoT. Furthermore, even though the average debtors' payment period of Ekurhuleni deteriorated from 60 days in 2004/05 to 80 days in the 2011/12 financial year, it was still better than an improved 98 days displayed by CoT and the worsened 120 days showed by CoJ in 2011/12. This meant that the improved performance by CoT as compared to Ekurhuleni in this regard was not sufficient, even though CoT showed an improvement as opposed to the regress in the average collection period of Ekurhuleni.

CoJ also showed a decreasing trend in the adjusted current ratio for the period, but performed better when compared to CoT and Ekurhuleni. This is because even though the ratio of CoJ was lower than that of CoT in 2004/05, its ratio was higher in 2011/12. Compared to Ekurhuleni, CoJ showed an improvement when comparing the 2004/05 and 2011/12 financial years against Ekurhuleni's worsened ratio, which fell from above the acceptable norm (1.2:1) to below the norm (0.89:1) and had the lowest ratio of 0.4:1 during this period.

The quick ratio of the three municipalities is discussed in the next paragraph to establish the extent to which municipal funds were committed in inventory. These are the funds that a municipality must have within 30 days should circumstances warrant that such a municipality settle all is current liabilities within that time frame.

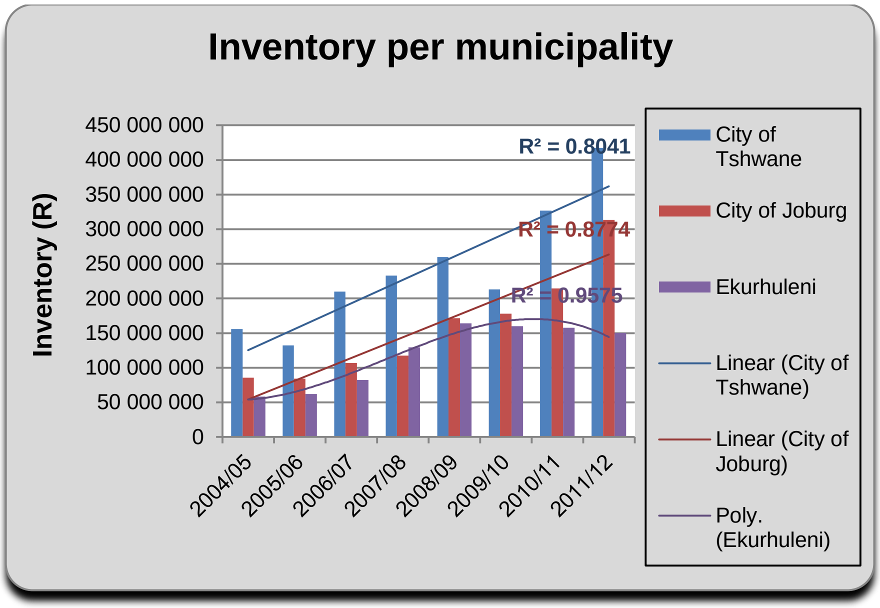

FIGURE 5.25: Inventory for the eight years under review per municipality

Figure 5.25 presents the inventory for the eight years under review for the selected municipalities. The data indicates that only CoT and CoJ experienced an increase during these eight years. Ekurhuleni also increased, but during the last four years they experienced a slight decrease in inventory.

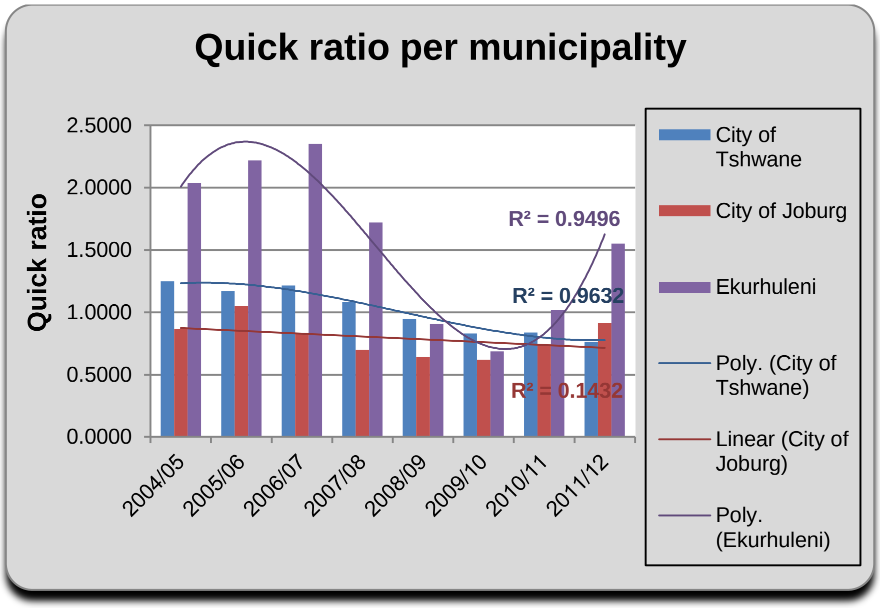

FIGURE 5.26: Quick ratio for the eight years under review per municipality

The quick ratio of the selected municipalities for the eight years under review is illustrated in Figure 5.26. CoT had a gradual decrease over the eight years. This gradual negative trend was statistically significant (S= -24).

Inter-relational analysis and interpretation

Another variable that influenced the current assets is the inventory; the extent of which was interpreted using the quick ratio. The quick ratio of CoT deteriorated over the period under review, beginning at 1.2:1 in 2004/05 and decreasing to about 0.8:1 in 2011/12. Inventory of CoT increased significantly during this period (to more than double the inventory kept in the beginning of the period). Please note that the population and the number of households in CoT increased by 36.3% and 50.4% respectively for the period 2001 to 2011 (Stats SA, 2011**a**:4-31). If the inventory kept by CoT was attributed to service delivery, then the growth in inventory had surpassed both the population and the household growth by a great margin over the period, thus compromising the quick ratio. This assumption was based on the absence of an aggressive backlog eradication approach by CoT or overly increased repairs and maintenance demands. In the end, if it took CoT 98 days on average to collect debt from consumers and more funds were held-up unnecessarily in inventory, the municipality could find it harder to settle short-term obligations.

Similarly to CoT, but to a greater extent, the inventory of CoJ had more than doubled during the period under review, from just under R100 million in 2004/05 to R300 million in 2011/12. However, CoJ showed a similar trend of the quick ratio as that of the current ratio of this municipality. This suggests that despite huge increases the inventory amount did not have a significant impact on the current assets and liabilities. Similar behaviour was observed between the current ratio and the quick ratio trends of CoT for the same period. However, since CoJ had a higher average debtors' payment period than CoT (120 days and 98 days respectively in 2011/12 as discussed earlier in this study), the quick ratio would benefit CoT more in this regard since CoT could collect outstanding revenue quicker to settle short-term obligations. Therefore, CoT performed better than CoJ in terms of managing its current assets.

The trend in inventory of this municipality showed a decrease from 2008/09 to 2011/12, the same as the current ratio. This inverse relationship between the inventory and the total current assets of Ekurhuleni suggests that the inventory did not have a major influence on the current ratio (it forms a small portion thereof). What is more, the trend of quick ratio of Ekurhuleni showed the same pattern as the current ratio. This was a result of an almost similar trend pattern to the current ratio displayed by the inventory of Ekurhuleni during the period under review, an increase in the first four years but a decrease in the last four financial years, as opposed to the increase of the last two years in the current ratio trend. Ekurhuleni showed a quick ratio of 1:1 and 1.5:1 in the last two financial years under review. When compared to CoT and CoJ, Ekurhuleni performed better in terms of managing current assets and liabilities, especially inventory.

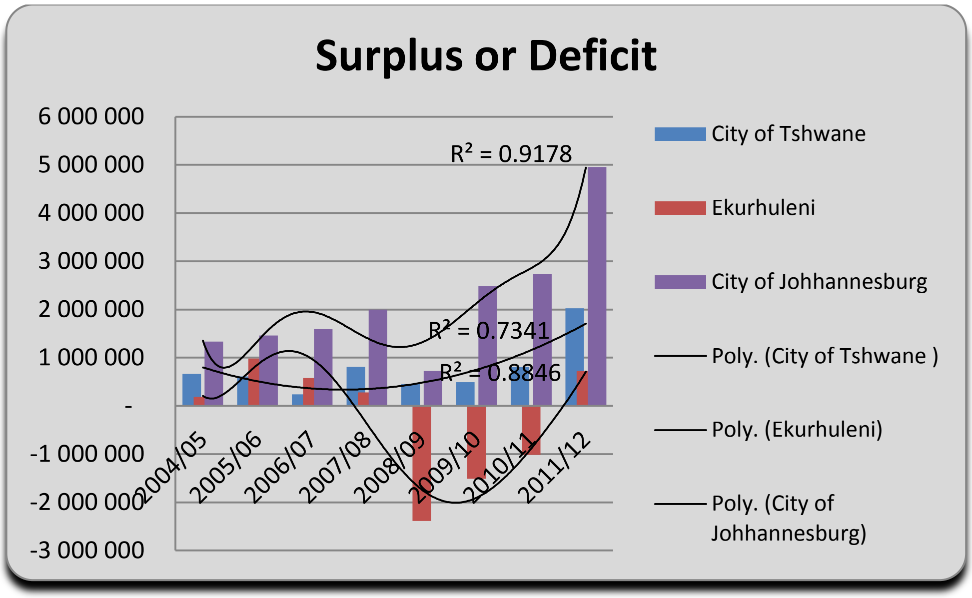

FIGURE 5.27: Surplus or deficit for the eight years under review per municipality

In terms of Figure 5.27, only CoT and CoJ had surpluses throughout the eight year period, whilst Ekurhuleni had deficits in three consecutive years out of the eight years reviewed. Taking into account that Ekurhuleni had the least number of days that money was received from consumers and that this municipality had the highest real increase in own revenue and also highest reserves, the outcomes of this graph are an indication that proper planning is necessary when budgeting. It also suggests that CoJ and CoT's yearly executing of the high level budget (revenue less expenditure) was better, despite borrowing more and having the highest average debtors' payment period and gearing ratio. This could also mean that surpluses are not the best way to judge financial performance in municipalities, without also taking into account, borrowing, the management of assets and liabilities, and revenue management, amongst others.

5.4 CHAPTER SUMMARY

In this chapter an analysis on the performance trends of the variables used in the calculation of ratios and the ratios separately was delivered. The inter-relational analysis and interpretation of municipal ratios and variables thereof was also provided.

The findings indicate that each of the municipalities used in this chapter had a revenue base and was able to increase revenue throughout the period. Furthermore, the average debtors' payment period and the resultant outstanding debtors at the end of the financial year showed an improvement for the municipalities under review, but by the end of the period still more needed to be done to bring these ratios to an acceptable level. It is also evident that these municipalities relied increasingly on borrowed funds to deliver on their capital budget. This is supported by the increasing trend in borrowing, especially during 2009/10, 2010/11 and 2011/12 and the corresponding interest paid during the same period. The short-term financial position in terms of the current assets and liabilities also deteriorated. The analysis and interpretation was dealt with in this chapter; this study assessed the financial performance in CoT and other metropolitan municipalities in Gauteng, and the detailed summary on these findings are presented in Chapter 6.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The conclusions and recommendations on this study are presented in this chapter. Since this study applied a two pillar approach, the conclusions on the findings of the legislation analysed in Chapter 4 is presented first, thereafter the financial ratios that were analysed and interpreted in Chapter 5, and finally the compliance in CoT serves as conclusion.

6.2 CONCLUSIONS AND RECOMMENDATIONS ON THE ANALYSIS OF LEGISLATION

6.2.1 Conclusions on the analysis of legislation

6.2.1.1 General overview

The analysis of legislation conducted in Chapter 4 indicated that it was possible to apply the steps of the financial planning process as reviewed in Chapter 2 to the implementation of financial planning in municipalities, taking the legislative requirements into consideration. In fact, these steps helped to better guide the implementation of legislative requirements by aiding better analysis, the findings and outcomes of which could consequently improve financial performance in municipalities. Sub-section 6.2.1.1 serves as a conclusion for the first pillar of this study. In light of these statements, the rest of this sub-section focuses on the comparison of the legislative requirement of the selected countries.

The analysis of legislation also indicated that South Africa, Australia and New Zealand aspired for long-term sustainability through planning. This could be substantiated from the legislative requirements for deploying long-term plans of at least ten years, except for South Africa’s five year IDP, although expected expenditure for capital projects with a life span longer than five years had to be disclosed in full. CoT employed an adopted IDP, reviewable annually, before the beginning of each financial year, together with the MTREF (of which a financial plan had to be part). The IDP was always tabled in the council after inputs from the community and other relevant stakeholders were considered, as prescribed by legislation and discussed in Chapter 4 of this study. However, although the extent to which CoT’s IDP complied with legislative requirements was not investigated in this study, legislative requirements were the foundation of the process and as a result a comparison with similar international legislation was conducted.

Australia‘s legislation was more detailed in terms of the requirements of a financial plan as it required financial management documents and planning and accountability documents, as opposed to South Africa, which only demanded the inclusion of a financial plan but did not elaborate on the contents thereof, and New Zealand, which clearly stated the purpose of the long-term financial plan, but did not specify the contents thereof to achieve the purpose at hand. In addition, South Africa fell short in the number of years legislation required in a financial plan. (However, even though unlegislated in South Africa, CoT adopted a ten year financial plan (LTFS).)

The literature reviewed also demonstrated the importance of having short-term plans which build up to medium-term and then long-term plans, as did the legislation through the implementation of municipal budgets. A budget is a short-term plan of a municipality, which provides the lowest level of implementing a municipal financial plan. This is the level at which financial performance is measured and remedial action effected. A conclusion on budgeting and the development of objectives is provided in Sub-section 6.2.1.2.

6.2.1.2 Development of objectives and budgeting

If the clear purposes of the LTFP and the LTFS were combined to form the purpose of a financial plan as written by New Zealand, and if this was supported by detailed requirements of the documents necessary for financial planning as demanded by Australia and also linked to budgeting and the related policies as already done in South Africa, a potential for improved planning could be realised. A municipal budget is important when implementing medium and long-term plans, since its implementation accounts for whether the set objectives are being met, and also provides a basis upon which the future outlook can be estimated.

In terms of linking a budget with a financial plan, New Zealand was regulated better than South Africa and Australia. This was because New Zealand required the linking of the budget to the maintenance of assets and facilities throughout their useful life which neither the legislation in South Africa nor New Zealand addressed in detail. This way, a clear link was demonstrated as to how a municipal budget could contribute to achieving a municipal long-term financial plan and consequently its vision. Financial policies also contribute by regulating the financial activities.

6.2.1.3 Policy formulation and the capacity to generate and collect revenue

Municipalities in the countries reviewed were susceptible to failure which could partially have emanated from outside the scope of financial planning of municipalities, such as the transfer of grants by spheres of government to municipalities in these countries. This was not included in the scope for this study and needs further research on its own. In terms of what was included in the scope of this research, it was found that tariff increase limitations (limited the scope for the tariff policy) and fiscal imbalances that emanated from inter-governmental transfers, restricted municipalities in all three countries to maximise their revenue capacity. In addition to legislation, the reality of economic factors and political pressures placed a limit on the tariff increases in municipalities. For example, South African legislation gives the minister authority to place a ceiling on tariff increases (SA, 2003:Sec43). (The conclusions on the collection of internally generated revenue by CoT as interpreted and analysed in Chapters 5 and 6 are presented in Section 6.3.)

This study also found that the absence of the details on the required contents of an investment policy in South African legislation was a shortcoming. (A table on the policies adopted by CoT was presented in Chapter 4 (Table 4.4).) Other than the findings highlighted above, this study found that the South African legislation was better than that of Australia and New Zealand in terms of regulating financial policies.

In terms of performance measurement, the conclusions indicated in the next sub-section were drawn.

6.2.1.4 Performance measurement

It was discovered in this research that the legislation of both countries analysed does not regulate financial planning performance evaluation in detail, except the requirement for the adoption of policies. In the case of South Africa, it was found that legislation required the adoption of a service delivery and budget implementation plan (SDBIP) by municipalities and also subjected municipalities to regular reporting to, and supervision by, other spheres of government in the country. The literature reviewed indicated that financial performance needed to be monitored throughout the financial planning process to enhance success in the financial planning process.

This study drew recommendations for further developments to improve the financial planning process in South African Municipalities as discussed hereafter.

6.2.2 Recommendations on the analysis of legislation

Taking the above conclusions and the aspects discussed in Chapter 4 into account, this study derived the following recommendations.

It would benefit municipalities in South Africa to shift from the five year IDP to a ten year planning period to provide for more alignment with the long-term visions of municipalities. This could work on the condition that the implementation of the budget throughout the medium-term is incorporated into the long-term plan. Consequently, the interpretation of CoT financial ratios in the next section could be regulated and guided by legislation. These plans had to cater for all the developmental objectives of municipalities similar to the IDP but provide a long-term growth path for municipalities with an indication of the financial resources required to achieve the municipal objectives. This could force municipalities, such as CoT, to link the LTFS to the resources of the municipalities and report on the execution thereof.

It was imperative to have a financial plan and strategy outlining how the municipality intended to achieve the short, medium and long-term financial needs that arose from the long-term plan in place. This would have ensured that, for example, the LTFS of CoT was a legal document and enforced clear guidelines to follow when compiling, updating and assessing it, which was not the case at the time of this study. In doing so, it would also benefit South Africa to adopt financial sustainability measures and ensure that they were in harmony with aspects of the financial planning process.

The purposes of a financial strategy referred to in the previous paragraph should address financial planning needs, in other words a prudent financial management that considers funding expenditure, and the promotion of transparency of the municipalities' services, rates, debts and investments. In addition, this financial strategy should encourage the harmonising of a financial plan with financial policies, the budget, and the needs of communities together with the requirements of any service level agreements that existed to ensure financial sustainability in the financial planning process. In terms of resource allocation, the financial strategy should also set out the types of borrowing a municipality could embark on, the criteria used to prevent unnecessary borrowing and a requirement for municipalities to invest funds and the adoption of an investment policy for this purpose.

Municipal budgets should, as part of the financial strategy, address the short-term objectives of the long-term plan (including financial forecasting) and provide for realignment of the longer-term objectives through monitoring and mitigating any future risks identified. This has to include the requirement of the inclusion of the total cost of capital expenditure together with the resultant operational expenditure and expected revenue in terms of capital budgeting.

To find the best way to incorporate changes relating to financial planning into South African legislation, this study found that more research needs to be conducted specifically focussing on this aspect. For example, if forecasts were to be included in the financial plan as discussed in this study, then the best elements used in the forecasting process needs to be investigated and tested for compatibility with the environment within which South African municipalities operate. Moreover, the whole process of shifting from medium-term planning to long-term planning needs further research to establish the most suitable way of regulating long-term planning in South Africa, the timeframe needed to implement it (whether to phase-in or implement at once), and also the minimum resource requirement of municipalities for the implementation.

Implementing the proposed changes would not only provide guidance to municipalities on how to conduct financial planning, but would also provide a framework within which all municipalities in South Africa could conduct planning in a uniform manner. This would in turn support comparison and benchmarking between and among municipalities. For example, since there were no uniform long-term planning regulations for municipalities in South Africa, this study only compared the annual financial statement of the selected municipalities based on a literature review (practices) of the private sector.

6.3 CONCLUSIONS AND RECOMMENDATIONS ON THE ANALYSIS OF FINANCIAL MANAGEMENT

6.3.1 Conclusions on the financial ratios management analysis

A tabular approach was selected to support the discussion to conclude on the analysis of financial ratios used in this study for CoT, which is also the second pillar of this study. Because section 6.2 concluded that the available legislation needs to be amended, the current section concludes on whether CoT, which had adopted a long-term plan during the period, performed better that CoJ and Ekurhuleni who had only adopted medium-term plans. A numeric rating was used on the calculated financial ratios to evaluate relative performance amongst the selected municipalities. One municipality's results are used as a benchmark against which the performance in the trends is measured relative to other municipalities. A numerical rating was applied to the financial ratio results in order to conclude on the performance of the municipalities in relation to each other. These ratings are explained in Table 6.1: the single column refers to a rating where only positive or negative ratings are used per ratio or variable, whereas the combined column refers to the use of both negative and positive ratings per ratio.

TABLE 6.1: Explanation of the ratings

RATING	SINGLE RATING	COMBINED RATING
-3	The worst declined performance of the three selected municipalities.	
-2	Performance declined, but performed better than one of the other municipalities.	Such municipality performed worse than the other one with a negative rating.
-1	Performance declined, but still performed better than the two other selected municipalities.	***If one negative rating is used:*** • the municipality is the only one to decline. ***If two negative ratings are used:*** • performed better than the other one with a negative rating.
1	The best performance of the three selected municipalities.	***If one positive rating is used:*** • the municipality is the only one to improve. ***If two positive ratings are used:*** • performed better than the other one with a positive rating.
2	That municipality improved and performed better than only one of the other selected municipalities.	Such municipality improvement is less than that of the other one with a positive rating.

RATING	SINGLE RATING	COMBINED RATING
3	That municipality improved, but was outperformed of the two other selected municipalities.	

(Source: Own)

The aim of this comparison was to determine the performance of each of the selected municipalities in relation to each other. This was achieved by allocating a rating system representing the positions of the selected municipalities; with 3 being the highest and -3 the lowest since only three municipalities were compared. As a result, this study did not investigate other elements of municipal financial performance which could be used to set a benchmark for rating financial performance other than by relative comparison amongst the selected municipalities which limited the rating to 3 and -3. Table 6.2 on the next page, presents a summary of the outcomes of the analysis of the financial ratios.

TABLE 6.2: Analysis of financial ratios

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Own Revenue	Rating: 3. CoT had the least real average growth of the three reviewed municipalities regardless of having the most improved unemployment rate and average debt payment period of the three.	Rating: 2. CoJ had the second highest real average growth of the three municipalities.	Rating: 1. Ekurhuleni had the highest growth of the three municipalities regardless of this municipality having a higher unemployed rate than CoT and CoT in terms of the 2011 census.	There was a relative real average growth indicating that these municipalities were able to collect additional revenue over and above the average CPI and population growth for the period, combined. Mann-Kendall statistic showed a monotonic upward trend in the municipalities (CoT S=26 and others S=26.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Grants as a percentage of total revenue	Rating: 1. Although CoT had the lowest increase in the operational grant receipts, the increase in the own revenue receipts of this municipality was at a higher rate than operational grant receipts. This indicates that in addition to CoT not receiving more grants, this municipality collected more own revenue, thus did not rely on grant receipts.	Rating: 3. Although CoJ had the highest real average growth in operating grant receipts and an increase higher than CoT and same as Ekurhuleni in own revenue, the decrease in this ratio for CoJ in the last two financial years suggest no over reliance on operational government grants by this municipality.	Rating: 2. Ekurhuleni had the highest ratio of the three at the end of the period, but this municipality had a lower ratio than CoJ for each of the financial years from 2007/08 and 2010/11. The highest ratio compared to CoT and CoJ in 2011/12 suggest that the increase in the operational grant receipts of Ekurhuleni was higher than that in the own revenue compared then.	Overall, there was a relative increase in this ratio of all the three metropolitan municipalities. Mann-Kendall statistic indicates that CoT did not have a statistically significant trend but CoJ and Ekurhuleni did.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Outstanding service debtors to revenue	Rating: 1. This ratio decreased from 48% in 2004/05 to 25% in 2011/12. Although the trend fluctuated, it only increased in 2005/06 and 2007/08 and decreased for the rest of the period. This fluctuation, sometimes characterised by drastic increase can be attributed to bad debts written off and the improved debt collection practices by CoT.	Rating: 3. The trend for CoJ shows a fluctuation, which ends with an increase in 2011/12 compared to 2004/05. CoJ had the second highest amount of bad debts written off, suggesting that bad debt collection practices contributed to this performance. Of the three selected municipalities, CoJ performed the worst.	Rating: 2. Ekurhuleni showed an improvement during this period although as with other municipalities, there was a fluctuation in the trend. Bad debt written off also contributed to the improvement in this ratio more than CoT and CoJ since Ekurhuleni had the highest bad debts written off amount.	In terms of the Mann-Kendal statistics there was no monotonic trends in the municipalities since the CoJ and Ekurhuleni did not show statistically significant results. Please note that Ekurhuleni benefitted from the high amounts of bad debt written off, which was not the case in CoT and CoJ, and this could change the ratings otherwise.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Current	Rating: -3. CoT had the highest decrease in the current ratio trend and differed statistically significantly from CoJ and Ekurhuleni. The current ratio of CoT declined from 1.3:1 in 2004/05 to 0.8:1 in 2011/12, the worst performance as compared to CoJ and Ekurhuleni.	Rating: -2. Although the current ratio of CoJ improved when comparing the 2004/05 and 2011/12 financial years, the financial years in between were characterised by instability, most of them, a decrease in the trend. Furthermore, this ratio was less than 1:1 throughout the period.	Rating: -1. Even though the performance of Ekurhuleni declined during the period, as indicated by a minus rating, this municipality performed best in relation to CoT and CoJ. This municipality had a ratio of more than 1:1 for five out of the eight financial years reviewed and a growth in six financial years compared to no growth in the trends of CoT and CoJ.	The Mann-Kendall statistic showed no monotony in the trends of the three municipalities during this period. Additionally, CoJ and Ekurhuleni did not have statistically significant trends, meaning that the performance trends of the current ratio of these municipalities could not be statistically compared.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Adjusted current	Rating: -2. The movements in the trend of the adjusted current ratio for the eight years under review did not differ from before the adjustment. However, the difference caused by adjusting the ratio with current debtors reduced over the period under review as the outstanding debtors' amount of CoT decreased.	Rating: -1. CoJ performed better than CoT and Ekurhuleni because even though the ratio of CoJ was lower than that of CoT in 2004/05, its ratio was higher in 2011/12. The reasons for why CoJ performed better than Ekurhuleni are given in the next column.	Rating: -3. Ekurhuleni's worsened ratio than fell from above the acceptable norm (1.2:1) to below the norm (0.89:1) and had the lowest ratio of 0.4:1 during this period.	There was monotony in the trends of these municipalities In terms of the Mann-Kendall statistical test results. This means that the movements (changes) in the trends of the adjusted current ratio were similar in the three selected municipalities.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Average debtors payment period	Rating: 1. The average debt payment period for CoT decreased from 180 days in 2004/05 to 98 days in 2011/12. Compared to CoJ and Ekurhuleni, CoT had the best performance. However, the 98 days average was still significantly higher than the norm and needed to be drastically reduced.	Rating: -1. The average debtors' payment period for CoJ worsened when comparing the 2004/05 and 2011/12 financial years, although the trend was characterised by decreases. CoJ was the only municipality with this increase as compared to CoT and Ekurhuleni, thus performed the worst.	Rating: 2. Ekurhuleni showed an improvement when comparing the 2004/05 and 2011/12 financial years. This increase was less than that of CoT and there was an increase in the last three financial years of Ekurhuleni as compared to a decrease in CoT. Therefore Ekurhuleni only outperformed CoJ as a result of this increase.	In terms of the Mann-Kendall there was no monotony in the trends of these municipalities. Only CoT had a statistically significant trend of S= -22 as compared to S= -8 and S = - 12 for CoJ and Ekurhuleni respectively. As a result, the trends of these municipalities could not be reliably compared statistically, as there were no similarities.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Quick	Rating: -3. Due to possible stockpiling, as the inventory of CoT increased significantly higher than the population and household growth, the quick ratio of CoT decreased from 1.2:1 in 2004/05 to 0.8:1 in 2011/12. From this view point, CoT was outperformed by CoJ and Ekurhuleni for reasons discussed hereafter.	Rating: -2. Although CoJ had a similar experience regarding stockpiling as CoT, its quick ratio improved when comparing the 2004/05 and 2011/12 financial years. However a negative rating (-2) was allocated to CoJ because the ratio, although improve, was still below 1:1. CoJ was further outperformed by Ekurhuleni as discussed in the next column.	Rating: -1. Although Ekurhuleni outperformed both CoT and CoJ by ending with a ratio of 1.5:1, this municipality was allocated a negative rating (-1) because its performance declined during the period under review. What is more, the ratio was below 1:1 at the end of the 2008/09 and 2009/10 financial years.	Overall, the Mann-Kendall statistic shows that there was no monotony in the trends of these municipalities during the period under review. This means that there were no similarities in the movements of quick ratio trends for these three municipalities.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Gearing \ Debt to equity	Rating: 3. CoT only increased its reserves towards the end of period under review and even then, its gearing ratio remained high and thus CoT did not improve overall since the long-term borrowings also increased at a higher rate. This municipality was outperformed by both CoJ and Ekurhuleni as discussed hereafter.	Rating: 2. CoJ's ratio in the beginning compared relatively to CoT's. However, that of CoJ decreased significantly during the 2005/06, 2006/07 and 2007/08 financial years when CoT experienced its highest peak. CoJ also had a ratio lower than that of CoT at the end on the period under review, but was outperformed by Ekurhuleni.	Rating: 1. Ekurhuleni had the lowest ratio as compared to CoT and CoJ throughout the period. Although it is possible that these reserves may have been earmarked for other activities such as the replacement of capital assets, their value was sufficient to settle the long-term obligations of the municipality and thus for the purposes of this study.	Overall, the Mann-Kendall statistics result show that there was no monotony in the movements of the trends in this ratio during this period. This means that the movements in the trends of the municipalities differed throughout the period.

RATIO	CoT	CoJ	Ekurhuleni	Comparison
Debt Coverage	Rating: 2. The ratio's trend for CoT indicated a fluctuation over the eight years under review suggesting that the municipality's finances were unstable and that more borrowing was incurred. This municipality performed better that CoJ and worse than Ekurhuleni, for the reasons provided hereafter.	Rating: 3. CoJ's debt coverage ratio increased when comparing the 2004/05 and 2011/12 financial years, which were also the highest ratios of the three selected municipalities in addition to the 2005/06, 2007/08, 2008/09 and 2009/10 financial years having even higher ratios for CoJ.	Rating: 1. Ekurhuleni had the lowest ratio of the three municipalities throughout the period. In addition, its debt coverage ratio decreased when comparing the 2004/05 and 2011/12 financial years.	Overall, only CoT and CoJ had statistically significant results in terms of the Mann-Kendall statistical test results. As a result, the results of the three municipalities could not reliably measures statistically since the trends did not possess similar characteristics.

(Source: Own)

6.3.1.1 Neglecting the collection of own revenue resulting in dependency on operational grant funding

The analysis and interpretations in this study indicated that although CoT performed the worst in relation to CoJ and Ekurhuleni, this municipality became less reliant on grant funding as it improved its debt collection practices over the years under review. This could be seen in the decrease of the average debt collection period of CoT, the improved trends in the revenue received from service debtors, and the operating grants as a percentage of total revenue and the own revenue trends. This municipality further outperformed CoJ and Ekurhuleni, who also improved, in the grants as a percentage of total revenue ratios. However, CoT's average debt collection period still remained drastically high compared to the acceptable norm at the end of the period. This made CoT susceptible to excessive borrowing in order to fund its budget in the future, as discussed hereunder.

In comparison, CoJ had the worst reliance on grants in terms of the grants as a percentage of the total revenue ratio, even compared to Ekurhuleni, since CoJ had the highest increase in operating grants. The cause of this setback is that the own revenue of CoJ increased at a lower rate than that of the increase in the operating grants, which is also supported by the worst outstanding service debtors to revenue, and the average debtors payment ratios over the period. Based on this observation, it is evident that CoJ's debt collection practices were poor, especially given that this municipality had the lowest unemployment rate amongst its citizens in 2011, compared to CoT and Ekurhuleni. To continue with the conclusion, the performance of Ekurhuleni is discussed in the next paragraph.

Ekurhuleni had the best growth in own revenue in relation to CoT and CoJ. This municipality also had the lowest debt payment period, although it was outperformed by CoT in terms of the rate at which this trend decreased. Regarding the operating grants as a percentage of revenue ratio, Ekurhuleni performed better than CoJ. It should be noted that between the three reviewed municipalities, Ekurhuleni had the highest unemployment rate in 2011and also the highest amount of bad debts written off. Ultimately, Ekurhuleni showed no signs of dependency on grant funding or negligence on the part of revenue collection.

Based on the discussions in the previous paragraph, CoT performed the best, followed by Ekurhuleni, and CoJ performed the worst since it also showed signs of negligence in terms of own revenue collection. The fact that Ekurhuleni had the highest bad debt write offs is also concerning. It is possible that this municipality wrote off bad debt because of bad debt collection practices, which in addition hides under-performance. Conversely, none of the selected municipalities, especially Ekurhuleni, had improved their revenue collection significantly at the end of the period, even after writing off bad debts.

This study further found that surplus gained, or deficits incurred by a municipality cannot alone be considered as a true reflection of that municipality's financial performance. The reason is that the municipalities such as CoT and CoJ continued to borrow more funds even when they gained surpluses, whilst Ekurhuleni created more reserves despite the deficits incurred.

6.3.1.2 Dependency on borrowing

It was deducted from the interpretations that even though CoT showed no over-reliance on long-term borrowing and continued to improve the collection of own revenue, the municipality needed to reduce its borrowing trends to enhance financial sustainability. The increase in both the interest paid and long-term borrowing during that period, posed a threat to the long-term financial sustainability of CoT. This could result in the interest and redemption payable becoming too high and consequently unaffordable for the municipality. Overall, CoT had the worst performance in the gearing ratio in relation to CoJ and Ekurhuleni. To curb this, CoT needs to have a current ratio of more than 1:1 to ensure short-term stability, and improve its debt collection practices. In line with this, the next section of this study discusses ratios relating to the management of current assets and liabilities of CoT during the period under review.

Related to the inter-relational analysis interpretation of this study, CoJ had the worst debt coverage ratio in relation to CoT and Ekurhuleni. This municipality continued to borrow more funds on a long-term basis as supported by the fact that its long-term borrowings amount did not reduce over the period as debt repayments were made. In terms of the gearing ratio CoJ performed better than CoT, also taking into account the fact that both borrowed more funds during the period. Both these municipalities were outperformed by Ekurhuleni, as discussed in the next paragraph.

Ekurhuleni has the best debt coverage and gearing ratios of the three selected municipalities, in terms of the analysis and interpretations in this study. This municipality borrowed more during the period under review, just as CoJ and CoT, but its funds and reserves also increased, meaning that the future redemption of long-term borrowing in Ekurhuleni was not at risk. As a result, Ekurhuleni performed best, in relation to CoT followed by CoJ since it had a better performance in terms of the gearing ratio than CoT, and therefore CoT performed worst.

In the end, both CoT and CoJ needed to increase their revenue collection and reduce their average debt collection period to ensure that more funds are available for reserves and less funds are borrowed. Although Ekurhuleni had the lowest gearing ratio of the three, there was a risk that this municipality compromised on service delivery to put more funds into the reserves. In the next sub-section, conclusions on the short-term financial position of these municipalities are drawn.

6.3.1.3 Management of current assets and current liabilities

The analysis and interpretations indicated that the trend in the current ratio of CoT deteriorated over the period under review. This was despite the fact that CoT decreased its average debt collection period and collected more in own revenue since it remained higher than the acceptable norm of 30 days. CoT also kept more inventory at hand in 2011/12 compared to 2004/05. The increase in inventory was much higher than both the population growth and the household growth; thus a case of stockpiling. Based on these findings CoT was the worst performing municipality out of the three selected since it had the worst current and quick ratios, thus did not improve in terms of managing its current assets and liabilities. Details on the performance of CoJ and Ekurhuleni in this regards are presented in the next paragraphs.

CoJ performed better than CoT and worse than Ekurhuleni. Just as CoT, this municipality also had a significant increase in inventory during the period, making the quick ratio decline considerable and the municipality more vulnerable to the inability to settle its short-term obligations if the need arose. CoJ also had the best adjusted current ratio of the three municipalities, although it had a negative trend just as the other two municipalities. In the case of CoJ, this ratio indicated that the current debtors' amount continuously formed a smaller part of the current assets as the financial years progressed. To continue with the conclusion, Ekurhuleni is discussed next.

Although the current and quick ratios of Ekurhuleni also reduced during the period, this municipality performed the best when compared to CoT and CoJ. Its current ratio was above 1:1 at the end of the period under review, which indicates that Ekurhuleni was in a much better position to settle its short-term obligations than CoT and CoJ, at that time. This municipality also had the worst adjusted current ratio of the three, showing the impact of the deteriorated average debtors' payment period.

In the end, none of these municipalities performed satisfactorily during the period. This is supported by the declining trends in all the ratios discussed under this sub-section. It is evident that the mismanagement of debtors and inventory persisted during the period and that these municipalities needed to convert their debtors into cash and spend only on the inventory needed at that time. This would have ensured that these municipalities did not attract other costs such as storage cost, debt collection fees, and that no funds were tied-up unnecessarily in unused inventory.

Nonetheless, the next section of this study presents overall conclusions on all the ratios interpreted for CoT, after which recommendations are presented.

6.3.2 Financial management analysis in relation to long-term financial planning

The review of the literature and legislation indicated the importance of short, medium and long-term financial plans in improving financial performance. Since this study also sought to establish whether long-term financial planning should be incorporated into the South African legislation, a conclusion on this is provided next in relation to the findings of the financial management analysis.

Through the review of the legislation and the literature on the financial planning process, it was found that flexibility in the financial planning process (bottom up and top down approaches) is important for the success of a financial plan. This review also indicated that, although South Africa regulates financial planning better (compared to Australia and New Zealand) in terms of financial policies and budgeting, it would benefit South Africa to adopt a long-term approach to financial planning. This would help minimise the impact of the unpredictability of the future on municipal budgets by determining future trends and assessing their impact in the long-term. The question of whether long-term planning is better than short and medium-term planning was answered by comparing the financial performance of the municipalities with medium-term plans (CoJ and Ekurhuleni) and CoT, which had a long-term financial plan.

The actual performance of these municipalities revealed that both municipalities with medium-term plans (CoJ and Ekurhuleni) and CoT with a long-term plan faced similar challenges, an indication that it is the implementation of the financial plan that influences the financial performance and not the term of planning. However, as indicated earlier, long-term plans provide the advantage of assessing future trends well in advance.

6.4 CONCLUSIONS AND RECOMMENDATION ON FINANCIAL PLANNING IN CoT

6.4.1 Conclusions on financial planning in CoT

Sub-section 6.4.1 provides conclusions on how CoT performed and is based on the two pillars applied in this study. Firstly, conclusions are dawn as to whether CoT complied with the applicable legislation based on the financial planning process as reviewed in the literature review chapter. Thereafter, conclusions are drawn as to whether the adoption of the LTFS improved the financial performance of CoT based on the outcomes of the financial ratios. The recommendations on the findings and the resultant conclusions on the financial planning process in CoT are then presented in sub-section 6.4.2.

6.4.1.1 Legislative compliance

It was found that CoT complied with the legislation and also followed the correct financial planning procedure as per the literature reviewed. This is because the municipality formulated its objectives during the IDP process and allocated the resources to achieve the set objectives by adopting the MTREF. Furthermore, the municipality formulated and adopted polices as required by legislation and as the correct financial planning procedure, and continuously measured performance through the statutory performance reports and the adjustment of the municipal budget to eliminate and minimise problem areas. This was discussed in detail in Chapter 4, thus in the current chapter conclusions are only summarised.

6.4.1.2 Financial performance

In terms of assessing actual financial planning performance, CoT was compared with CoJ and Ekurhuleni, since these municipalities had adopted good medium-term plans and are in the Gauteng province. Regarding the collection of own revenue, CoT showed an improvement since this municipality managed to increase own revenue as the operational grants increased. As the only municipality to increase higher than CoT, Ekurhuleni had a much lower average debt payment period, thus the highest average real increase in own revenue collected. However, a good practice in this regards would have been if CoT drastically reduced the average debt collection period to an acceptable 30 days to further reduce the outstanding service debtors to revenue.

At the time of this study the restriction of services in CoT was used as a deterrent to motivate consumers to pay their municipal accounts on time. In cases where the municipality did not render other services and only levied property taxes, it was difficult to force residents to pay their municipal accounts. Hypothetically, if CoT sent more reminders to the consumers of municipal services, educated the communities on the importance of paying municipal accounts, and the indigent registration process and criteria for those unable to pay their accounts, and if CoT further ensured the timeliness of issuing municipal accounts and the validity of the postal addresses, debt collection could improve. In addition the municipality could introduce a website that consumers could access anywhere to view and pay their municipal accounts online.

In terms of managing the current assets and liabilities, CoT was ineffective. The findings of this study revealed that the current ratio of CoT deteriorated during the period reviewed and this municipality was outperformed by all the other municipalities selected. However, since all the municipalities assessed in this study had a deteriorated current ratio, none of the other two could be used as a best practice example to improve CoT. Hypothetically, if CoT collected more revenue on time and paid all its creditors timeously this would ensure that the current liabilities are reduced and the additional revenue collected offsets the difference between the current assets and liabilities. In addition, if less inventory was kept by CoT, the municipality would not need to buy inventory on credit (less current liabilities) and the revenue used to pay for the inventory could be used to defray necessary operational expenditure.

In terms of borrowing, CoT was not as effective as it could have been had it collected more revenue and managed its current assets and liabilities. This would have ensured that the municipality only embarked on borrowing when necessary, after collecting maximum possible revenue timeously and using it only on necessary expenditure (see the discussion about inventory in the previous paragraph) and creating cash-backed reserves for the redemption of borrowings.

6.4.1.3 The performance of the LTFS

Based on the analysis and interpretation of this study, the conclusions in terms of responding to the research objective - to assess financial performance based on the financial planning process of CoT - are now discussed.

It is evident that the success of the LTFS is also dependent on the successful implementation of the municipal budget (short to medium-term plans), since performance is measured at that level, the results of which are used for medium to long-term projections and other functions of financial planning. The LTFS may have helped to improve financial performance in CoT but not to the optimum level, because CoT continued to improve in some aspects of financial planning (such as the management of debtors) but did not yield noticeable benefit for CoT, both during the period under review and presumably immediately thereafter. What is more, the municipality was unable to reduce current liabilities to below current assets, and the increased borrowings without the corresponding increase in reserves. CoT was also unable to collect revenue on time, in order to reduce the impact of long-term borrowing by increasing cash backed reserves (equity) to an acceptable level. If sustained, this practice would have improved the gearing ratio of CoT in the long-term.

The phrase “The LTFS may have helped” is used because this study did not find evidence that could positively link the LTFS to the financial performance in CoT, but found that legislation fostered discipline and good financial planning practice for the short to medium-term plans (MTREF and IDP). Instead, the finding is that adopting long-term financial plans could assist municipalities to put a better perspective on long-term projections, the success of which is dependent on the successful implementation of the short and medium-term plans, which are currently legislated in South Africa.

In the end, the trends analysed in this study indicated that although CoT’s performance still needed to be improved, there was already a steady improvement towards the end of the period. This showed that if the budget implementation was continuously monitored, and its findings used to realign future forecast and projections (both medium and long-term), the municipality would have yielded more positive results. This is even supported by the performance of Ekurhuleni, which did not have a long-term financial plan at the time, but managed to outperform CoT in the management of the current financial position, the collection of own revenue and borrowing. Since South Africa had the best legislative requirements in terms of budgeting, CoT should have still improved its performance year-on-year based on these requirements only. It can also be assumed that because of the inadequate legislative requirements for long-term financial planning, officials responsible for financial planning were not motivated to perform their duties. However, this is a mere assumption and more research is needed to determine if the human resource behavior contributed to CoT's performance and if so, to what extent.

Ultimately, this study proves that it is not the adoption of a long-term financial plan which dictates the long-term success of a municipality, but the implementation of the current years' budget, the culture of fiscal discipline and continued realignment of the budget with the long-term financial plan, where variances arise. The long-term financial plan should be properly legislated to ensure the provision of a basis for its application and evaluation.

6.4.2 Recommendations on financial planning in CoT

Taking the conclusions in sub-section 6.4.1 and the analysis and interpretation in Chapters 5 into account, this study derived the recommendations discussed hereafter.

Revenue collection efforts must be intensified by implementing a strict credit control policy and also by ensuring that an electronic platform for viewing and paying municipal accounts is introduced and maintained. This would in turn improve the average debt collection ratio. CoT also needs to embark on a thorough analysis of long outstanding debt to determine which debt would be collectable and put measures in place to ensure prompt collection thereof. In addition, CoT needs to ensure that quality meters are installed for municipal services and accounted for, all the municipal accounts are sent to the correct consumers, and on time. If CoT manages to improve its debt collection from these recommendations, then it should use the revenue to timeously pay creditors, fund redemption reserves for long-term borrowings, and ensure that unnecessary borrowing, both short and long-term, is eliminated. On the contrary, where borrowing is necessary, CoT must ensure that such borrowing would be affordable and that there would be sufficient funds to finance and ultimately redeem such borrowing.

In terms of improving the current and quick ratios, the recommendations in the previous two paragraphs would ensure that current liabilities are reduced in time by paying creditors, but CoT also needs to avoid stockpiling since this would ensure a reduction in the less liquid current assets (inventory) and the corresponding current liability (creditors). Ultimately, the recommendations are aimed to improve the financial performance of CoT and also to ensure that the municipality does not become reliant on grant funding.

6.5 CHAPTER SUMMARY

The end results is that financial performance in CoT improved but could benefit greatly if the implementation of the current years' budget was regularly evaluated against, and properly aligned to the LTFS, and the legislative requirements in South Africa specifically encouraged and regulated long-term financial planning in municipalities. Furthermore, such legislative requirements have to be very specific on how each of the financial planning steps is to be achieved, and aligning budgeting to medium and long-term plans. Based on the analysis of legislation and the interpretation of CoT's financial ratios, it was evident that to improve financial performance, the municipalities were dependent on an effective financial plan which included regular review of the budget, a favorable environment which should be supported by legislation (which was not the case for long-term planning), and the implementation of the financial plan by a willing and able workforce. Therefore, the failure of CoT to achieve optimum financial performance during the period under review could be attributed to three factors.

The first is the lack of improvement in the budget implementation as it was evident in the deteriorated current assets and liabilities, increased borrowing and the longest average debt payment period. The second is the failure of the current legislation to regulate long-term financial planning in detail. The third factor is the possible reluctance of CoT officials to support the implementation of the LTFS since long-term financial planning was not a statutory requirement in South African municipalities. Since the human resource assessment was not part of the scope of this research, this conclusion is merely an assumption. Additional research is necessary to determine if human resources indeed contributed negatively to the performance of CoT, and if so, the extent to which human resources contributed to CoT’s performance during the period under review.

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Annexure A :

Inferential Statistics: Mann-Kendall statistic – Trends

MUNICIPALITY	CALC1_C	CALC2_C	CALC3_C	CALC4_C	CALC5_C	CALC6_C	CALC7_C	CALC8_C	CALC9_C	CALC10_C	CALC11_C
City of Tshwane	26	20	6	-10	-22	-24	22	-12	-24	-22	10
City of Johannesburg	28	16	10	-12	-6	-8	26	-14	-8	-6	14
Ekurhuleni	28	14	4	-16	-14	-12	22	-14	-12	-14	20

S ≥ ±14 is statistically significant at the 95% level of significance.

Positive trend	
Negative trend	

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3
ID	Municipality	Year
1	City of Tshwane	2004/0
2	City of Tshwane	2005/0
3	City of Tshwane	2006/0
4	City of Tshwane	2007/0
5	City of Tshwane	2008/0
6	City of Tshwane	2009/1
7	City of Tshwane	2010/1
8	City of Tshwane	2011/1
9	City of Johannesburg	2004/0
###	City of Johannesburg	2005/0
###	City of Johannesburg	2006/0
###	City of Johannesburg	2007/0
###	City of Johannesburg	2008/0
###	City of Johannesburg	2009/1
###	City of Johannesburg	2010/1
###	City of Johannesburg	2011/1
###	Ekurhuleni	2004/0
###	Ekurhuleni	2005/0
###	Ekurhuleni	2006/0
###	Ekurhuleni	2007/0
###	Ekurhuleni	2008/0
###	Ekurhuleni	2009/1
###	Ekurhuleni	2010/1
###	Ekurhuleni	2011/1

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V4
ID	Municipality	Year	Operating revenue
1	City of Tshwane	2004/0	7 297 548 219
2	City of Tshwane	2005/0	8 181 262 528
3	City of Tshwane	2006/0	8 587 558 859
4	City of Tshwane	2007/0	10 402 042 841
5	City of Tshwane	2008/0	11 751 330 833
6	City of Tshwane	2009/1	13 659 396 969
7	City of Tshwane	2010/1	15 211 517 336
8	City of Tshwane	2011/1	18 846 452 897
9	City of Johannesburg	2004/0	13 149 411 000
##	City of Johannesburg	2005/0	14 427 248 000
##	City of Johannesburg	2006/0	16 307 934 000
##	City of Johannesburg	2007/0	18 086 336 000
##	City of Johannesburg	2008/0	20 724 266 000
##	City of Johannesburg	2009/1	25 718 099 000
##	City of Johannesburg	2010/1	28 916 590 000
##	City of Johannesburg	2011/1	35 059 590 000
##	Ekurhuleni	2004/0	8 209 742 103
##	Ekurhuleni	2005/0	8 650 131 151
##	Ekurhuleni	2006/0	9 725 294 600
##	Ekurhuleni	2007/0	10 468 818 564
##	Ekurhuleni	2008/0	11 606 926 007
##	Ekurhuleni	2009/1	13 995 782 819
##	Ekurhuleni	2010/1	17 282 226 857
##	Ekurhuleni	2011/1	20 856 136 015

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V5
ID	Municipality	Year	Operating grants
1	City of Tshwane	2004/0	749 606 069
2	City of Tshwane	2005/0	785 427 554
3	City of Tshwane	2006/0	1 541 794 233
4	City of Tshwane	2007/0	1 919 501 081
5	City of Tshwane	2008/0	2 274 418 557
6	City of Tshwane	2009/1	2 435 154 843
7	City of Tshwane	2010/1	2 513 030 783
8	City of Tshwane	2011/1	3 561 339 848
9	City of Johannesburg	2004/0	1 045 638 000
##	City of Johannesburg	2005/0	1 370 869 000
##	City of Johannesburg	2006/0	3 112 437 000
##	City of Johannesburg	2007/0	4 353 910 000
##	City of Johannesburg	2008/0	4 943 421 000
##	City of Johannesburg	2009/1	6 955 116 000
##	City of Johannesburg	2010/1	6 153 211 000
##	City of Johannesburg	2011/1	7 540 386 000
##	Ekurhuleni	2004/0	765 329 274
##	Ekurhuleni	2005/0	978 374 388
##	Ekurhuleni	2006/0	1 917 313 369
##	Ekurhuleni	2007/0	2 062 157 751
##	Ekurhuleni	2008/0	2 494 966 818
##	Ekurhuleni	2009/1	2 885 992 560
##	Ekurhuleni	2010/1	3 407 484 103
##	Ekurhuleni	2011/1	4 568 533 803

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC1
ID	Municipality	Year	Own revenue
			V4-V5
1	City of Tshwane	2004/0	6 547 942 150
2	City of Tshwane	2005/0	7 395 834 974
3	City of Tshwane	2006/0	7 045 764 626
4	City of Tshwane	2007/0	8 482 541 760
5	City of Tshwane	2008/0	9 476 912 276
6	City of Tshwane	2009/1	############
7	City of Tshwane	2010/1	############
8	City of Tshwane	2011/1	############
9	City of Johannesburg	2004/0	############
###	City of Johannesburg	2005/0	############
###	City of Johannesburg	2006/0	############
###	City of Johannesburg	2007/0	############
###	City of Johannesburg	2008/0	############
###	City of Johannesburg	2009/1	############
###	City of Johannesburg	2010/1	############
###	City of Johannesburg	2011/1	############
###	Ekurhuleni	2004/0	7 444 412 829
###	Ekurhuleni	2005/0	7 671 756 762
###	Ekurhuleni	2006/0	7 807 981 231
###	Ekurhuleni	2007/0	8 406 660 813
###	Ekurhuleni	2008/0	9 111 959 189
###	Ekurhuleni	2009/1	############
###	Ekurhuleni	2010/1	############
###	Ekurhuleni	2011/1	############

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC2
ID	Municipality	Year	Debt coverage
			CALC1/CALC3
1	City of Tshwane	2004/0	15.90875305
2	City of Tshwane	2005/0	20.57973229
3	City of Tshwane	2006/0	11.05572405
4	City of Tshwane	2007/0	13.65042368
5	City of Tshwane	2008/0	14.75416443
6	City of Tshwane	2009/1	10.23427808
7	City of Tshwane	2010/1	11.55654546
8	City of Tshwane	2011/1	15.59796013
9	City of Johannesburg	2004/0	9.36274511
##	City of Johannesburg	2005/0	14.68769750
##	City of Johannesburg	2006/0	13.00739703
##	City of Johannesburg	2007/0	13.43171673
##	City of Johannesburg	2008/0	6.36142017
##	City of Johannesburg	2009/1	8.96854815
##	City of Johannesburg	2010/1	12.05081077
##	City of Johannesburg	2011/1	8.72340552
##	Ekurhuleni	2004/0	26.34015341
##	Ekurhuleni	2005/0	31.90080998
##	Ekurhuleni	2006/0	35.63218702
##	Ekurhuleni	2007/0	33.13492938
##	Ekurhuleni	2008/0	25.72298203
##	Ekurhuleni	2009/1	14.59556806
##	Ekurhuleni	2010/1	23.35246504
##	Ekurhuleni	2011/1	34.57392203

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC3
ID	Municipality	Year	Debt service payment
			V6+V7
1	City of Tshwane	2004/0	411 593 676
2	City of Tshwane	2005/0	359 374 693
3	City of Tshwane	2006/0	637 295 630
4	City of Tshwane	2007/0	621 412 343
5	City of Tshwane	2008/0	642 321 178
6	City of Tshwane	2009/1	###########
7	City of Tshwane	2010/1	###########
8	City of Tshwane	2011/1	979 943 077
9	City of Johannesburg	2004/0	###########
###	City of Johannesburg	2005/0	888 933 000
###	City of Johannesburg	2006/0	###########
###	City of Johannesburg	2007/0	###########
###	City of Johannesburg	2008/0	###########
###	City of Johannesburg	2009/1	###########
###	City of Johannesburg	2010/1	###########
###	City of Johannesburg	2011/1	###########
###	Ekurhuleni	2004/0	282 626 024
###	Ekurhuleni	2005/0	240 487 836
###	Ekurhuleni	2006/0	219 127 196
###	Ekurhuleni	2007/0	253 709 936
###	Ekurhuleni	2008/0	354 234 170
###	Ekurhuleni	2009/1	761 175 599
###	Ekurhuleni	2010/1	594 144 675
###	Ekurhuleni	2011/1	471 095 012

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V6
ID	Municipality	Year	Interest paid
1	City of Tshwane	2004/0	231 334 444
2	City of Tshwane	2005/0	284 046 441
3	City of Tshwane	2006/0	387 774 358
4	City of Tshwane	2007/0	431 881 950
5	City of Tshwane	2008/0	508 312 549
6	City of Tshwane	2009/1	597 117 797
7	City of Tshwane	2010/1	603 863 842
8	City of Tshwane	2011/1	633 924 801
9	City of Johannesburg	2004/0	620 911 000
###	City of Johannesburg	2005/0	775 344 000
###	City of Johannesburg	2006/0	877 487 000
###	City of Johannesburg	2007/0	852 125 000
###	City of Johannesburg	2008/0	###########
###	City of Johannesburg	2009/1	###########
###	City of Johannesburg	2010/1	###########
###	City of Johannesburg	2011/1	###########
###	Ekurhuleni	2004/0	190 441 500
###	Ekurhuleni	2005/0	187 679 793
###	Ekurhuleni	2006/0	164 522 303
###	Ekurhuleni	2007/0	180 080 453
###	Ekurhuleni	2008/0	209 220 680
###	Ekurhuleni	2009/1	326 998 725
###	Ekurhuleni	2010/1	400 036 901
###	Ekurhuleni	2011/1	469 695 012

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V7
ID	Municipality	Year	Redemption due in the current financial year
1	City of Tshwane	2004/0	180 259 232
2	City of Tshwane	2005/0	75 328 252
3	City of Tshwane	2006/0	249 521 272
4	City of Tshwane	2007/0	189 530 393
5	City of Tshwane	2008/0	134 008 629
6	City of Tshwane	2009/1	499 612 430
7	City of Tshwane	2010/1	494 949 519
8	City of Tshwane	2011/1	346 018 276
9	City of Johannesburg	2004/0	671 848 000
##	City of Johannesburg	2005/0	113 589 000
##	City of Johannesburg	2006/0	136 974 000
##	City of Johannesburg	2007/0	170 263 000
##	City of Johannesburg	2008/0	###########
##	City of Johannesburg	2009/1	429 904 000
##	City of Johannesburg	2010/1	366 309 000
##	City of Johannesburg	2011/1	###########
##	Ekurhuleni	2004/0	92 184 524
##	Ekurhuleni	2005/0	52 808 043
##	Ekurhuleni	2006/0	54 604 893
##	Ekurhuleni	2007/0	73 629 483
##	Ekurhuleni	2008/0	145 013 490
##	Ekurhuleni	2009/1	434 176 874
##	Ekurhuleni	2010/1	194 107 774
##	Ekurhuleni	2011/1	1 400 000

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC4
ID	Municipality	Year	Gearing ratio/Debt to equity ratio
			V8/V9
1	City of Tshwane	2004/0	0.66539858
2	City of Tshwane	2005/0	0.81514983
3	City of Tshwane	2006/0	0.86371812
4	City of Tshwane	2007/0	0.80792303
5	City of Tshwane	2008/0	0.51354816
6	City of Tshwane	2009/1	0.5188112
7	City of Tshwane	2010/1	0.59635236
8	City of Tshwane	2011/1	0.53725367
9	City of Johannesburg	2004/0	0.6677007
###	City of Johannesburg	2005/0	0.60083592
###	City of Johannesburg	2006/0	0.49795965
###	City of Johannesburg	2007/0	0.42980143
###	City of Johannesburg	2008/0	0.46840878
###	City of Johannesburg	2009/1	0.54377515
###	City of Johannesburg	2010/1	0.55738053
###	City of Johannesburg	2011/1	0.42237439
###	Ekurhuleni	2004/0	0.39882778
###	Ekurhuleni	2005/0	0.26136921
###	Ekurhuleni	2006/0	0.19259846
###	Ekurhuleni	2007/0	0.15865699
###	Ekurhuleni	2008/0	0.05717464
###	Ekurhuleni	2009/1	0.0575687
###	Ekurhuleni	2010/1	0.09272665
###	Ekurhuleni	2011/1	0.11294431

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V8
ID	Municipality	Year	Long-term borrowing (Loans and finance lease liability)
1	City of Tshwane	2004/0	2 093 447 121
2	City of Tshwane	2005/0	2 680 338 857
3	City of Tshwane	2006/0	3 137 492 194
4	City of Tshwane	2007/0	3 343 072 097
5	City of Tshwane	2008/0	4 294 439 733
6	City of Tshwane	2009/1	4 511 047 625
7	City of Tshwane	2010/1	5 416 516 715
8	City of Tshwane	2011/1	6 266 094 688
9	City of Johannesburg	2004/0	4 536 874 000
###	City of Johannesburg	2005/0	5 770 475 000
###	City of Johannesburg	2006/0	6 113 719 000
###	City of Johannesburg	2007/0	7 313 352 000
###	City of Johannesburg	2008/0	9 124 178 257
###	City of Johannesburg	2009/1	10 728 831 000
###	City of Johannesburg	2010/1	11 912 743 000
###	City of Johannesburg	2011/1	11 345 848 000
###	Ekurhuleni	2004/0	1 441 481 099
###	Ekurhuleni	2005/0	1 295 539 841
###	Ekurhuleni	2006/0	1 167 059 529
###	Ekurhuleni	2007/0	1 054 195 546
###	Ekurhuleni	2008/0	2 131 247 700
###	Ekurhuleni	2009/1	2 446 907 756
###	Ekurhuleni	2010/1	3 882 194 502
###	Ekurhuleni	2011/1	4 480 496 019

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V9
ID	Municipality	Year	Funds and reserves
1	City of Tshwane	2004/0	3 146 155 060
2	City of Tshwane	2005/0	3 288 154 856
3	City of Tshwane	2006/0	3 632 541 841
4	City of Tshwane	2007/0	4 137 859 632
5	City of Tshwane	2008/0	8 362 292 097
6	City of Tshwane	2009/1	8 694 969 638
7	City of Tshwane	2010/1	9 082 745 477
8	City of Tshwane	2011/1	11 663 195 614
9	City of Johannesburg	2004/0	6 794 772 000
##	City of Johannesburg	2005/0	9 604 078 000
##	City of Johannesburg	2006/0	12 277 539 000
##	City of Johannesburg	2007/0	17 015 653 000
##	City of Johannesburg	2008/0	19 479 093 000
##	City of Johannesburg	2009/1	19 730 271 000
##	City of Johannesburg	2010/1	21 372 729 000
##	City of Johannesburg	2011/1	26 862 064 000
##	Ekurhuleni	2004/0	3 614 294 663
##	Ekurhuleni	2005/0	4 956 742 331
##	Ekurhuleni	2006/0	6 059 547 525
##	Ekurhuleni	2007/0	6 644 494 706
##	Ekurhuleni	2008/0	37 276 101 144
##	Ekurhuleni	2009/1	42 504 133 427
##	Ekurhuleni	2010/1	41 867 086 554
##	Ekurhuleni	2011/1	39 669 957 360

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC5
ID	Municipality	Year	Outstanding service debtors to revenue
			V10/V11
1	City of Tshwane	2004/0	0.48613213
2	City of Tshwane	2005/0	0.50580120
3	City of Tshwane	2006/0	0.47914541
4	City of Tshwane	2007/0	0.48757514
5	City of Tshwane	2008/0	0.46719600
6	City of Tshwane	2009/1	0.32911844
7	City of Tshwane	2010/1	0.30530570
8	City of Tshwane	2011/1	0.25918240
9	City of Johannesburg	2004/0	0.29566706
###	City of Johannesburg	2005/0	0.32596808
###	City of Johannesburg	2006/0	0.26444766
###	City of Johannesburg	2007/0	0.24170855
###	City of Johannesburg	2008/0	0.22978558
###	City of Johannesburg	2009/1	0.22932764
###	City of Johannesburg	2010/1	0.29069054
###	City of Johannesburg	2011/1	0.32355292
###	Ekurhuleni	2004/0	0.24458002
###	Ekurhuleni	2005/0	0.26403835
###	Ekurhuleni	2006/0	0.35202484
###	Ekurhuleni	2007/0	0.23948232
###	Ekurhuleni	2008/0	0.18987520
###	Ekurhuleni	2009/1	0.15083746
###	Ekurhuleni	2010/1	0.16917090
###	Ekurhuleni	2011/1	0.21304288

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V10
ID	Municipality	Year	Total outstanding service debtors BS
1	City of Tshwane	2004/0	1 853 542 661
2	City of Tshwane	2005/0	1 999 566 163
3	City of Tshwane	2006/0	2 047 011 821
4	City of Tshwane	2007/0	2 401 319 812
5	City of Tshwane	2008/0	2 686 009 151
6	City of Tshwane	2009/1	2 318 677 172
7	City of Tshwane	2010/1	2 560 730 236
8	City of Tshwane	2011/1	2 767 820 966
9	City of Johannesburg	2004/0	1 872 751 000
###	City of Johannesburg	2005/0	2 173 046 000
###	City of Johannesburg	2006/0	1 976 280 000
###	City of Johannesburg	2007/0	1 979 498 000
###	City of Johannesburg	2008/0	2 263 950 000
###	City of Johannesburg	2009/1	2 755 764 000
###	City of Johannesburg	2010/1	4 423 238 000
###	City of Johannesburg	2011/1	6 018 505 000
###	Ekurhuleni	2004/0	1 027 012 816
###	Ekurhuleni	2005/0	1 175 778 527
###	Ekurhuleni	2006/0	1 832 956 756
###	Ekurhuleni	2007/0	1 325 348 848
###	Ekurhuleni	2008/0	1 171 446 935
###	Ekurhuleni	2009/1	1 217 263 683
###	Ekurhuleni	2010/1	1 780 586 993
###	Ekurhuleni	2011/1	2 683 966 083

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V11
ID	Municipality	Year	Actual revenue received for services
1	City of Tshwane	2004/0	3 812 837 209
2	City of Tshwane	2005/0	3 953 264 956
3	City of Tshwane	2006/0	4 272 214 160
4	City of Tshwane	2007/0	4 925 025 127
5	City of Tshwane	2008/0	5 749 212 670
6	City of Tshwane	2009/1	7 045 114 837
7	City of Tshwane	2010/1	8 387 430 103
8	City of Tshwane	2011/1	############
9	City of Johannesburg	2004/0	6 333 986 000
##	City of Johannesburg	2005/0	6 666 438 000
##	City of Johannesburg	2006/0	7 473 237 000
##	City of Johannesburg	2007/0	8 189 607 000
##	City of Johannesburg	2008/0	9 852 446 000
##	City of Johannesburg	2009/1	############
##	City of Johannesburg	2010/1	############
##	City of Johannesburg	2011/1	############
##	Ekurhuleni	2004/0	4 199 087 054
##	Ekurhuleni	2005/0	4 453 059 653
##	Ekurhuleni	2006/0	5 206 896 145
##	Ekurhuleni	2007/0	5 534 224 279
##	Ekurhuleni	2008/0	6 169 562 635
##	Ekurhuleni	2009/1	8 070 035 692
##	Ekurhuleni	2010/1	############
##	Ekurhuleni	2011/1	############

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC6
ID	Municipality	Year	Current ratio
1	City of Tshwane	2004/0	1.31116378
2	City of Tshwane	2005/0	1.22252879
3	City of Tshwane	2006/0	1.29018021
4	City of Tshwane	2007/0	1.16038313
5	City of Tshwane	2008/0	1.01375727
6	City of Tshwane	2009/1	0.87671644
7	City of Tshwane	2010/1	0.90506141
8	City of Tshwane	2011/1	0.83292765
9	City of Johannesburg	2004/0	0.88318247
###	City of Johannesburg	2005/0	1.06735239
###	City of Johannesburg	2006/0	0.84786412
###	City of Johannesburg	2007/0	0.71666459
###	City of Johannesburg	2008/0	0.66073834
###	City of Johannesburg	2009/1	0.64330131
###	City of Johannesburg	2010/1	0.76625793
###	City of Johannesburg	2011/1	0.94193100
###	Ekurhuleni	2004/0	2.07323301
###	Ekurhuleni	2005/0	2.25436042
###	Ekurhuleni	2006/0	2.39416339
###	Ekurhuleni	2007/0	1.77552801
###	Ekurhuleni	2008/0	0.96304682
###	Ekurhuleni	2009/1	0.72966457
###	Ekurhuleni	2010/1	1.06127245
###	Ekurhuleni	2011/1	1.59146417

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V12
ID	Municipality	Year	Current assets
1	City of Tshwane	2004/0	###########
2	City of Tshwane	2005/0	###########
3	City of Tshwane	2006/0	###########
4	City of Tshwane	2007/0	###########
5	City of Tshwane	2008/0	###########
6	City of Tshwane	2009/1	###########
7	City of Tshwane	2010/1	###########
8	City of Tshwane	2011/1	###########
9	City of Johannesburg	2004/0	###########
##	City of Johannesburg	2005/0	###########
##	City of Johannesburg	2006/0	###########
##	City of Johannesburg	2007/0	###########
##	City of Johannesburg	2008/0	###########
##	City of Johannesburg	2009/1	###########
##	City of Johannesburg	2010/1	###########
##	City of Johannesburg	2011/1	###########
##	Ekurhuleni	2004/0	###########
##	Ekurhuleni	2005/0	###########
##	Ekurhuleni	2006/0	###########
##	Ekurhuleni	2007/0	###########
##	Ekurhuleni	2008/0	###########
##	Ekurhuleni	2009/1	###########
##	Ekurhuleni	2010/1	###########
##	Ekurhuleni	2011/1	###########

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V13
ID	Municipality	Year	Current liabilities
1	City of Tshwane	2004/0	2 510 962 475
2	City of Tshwane	2005/0	2 514 360 843
3	City of Tshwane	2006/0	2 803 577 822
4	City of Tshwane	2007/0	3 005 392 920
5	City of Tshwane	2008/0	4 033 860 826
6	City of Tshwane	2009/1	4 629 289 430
7	City of Tshwane	2010/1	4 873 946 988
8	City of Tshwane	2011/1	6 037 825 774
9	City of Johannesburg	2004/0	5 108 771 000
##	City of Johannesburg	2005/0	4 829 138 000
##	City of Johannesburg	2006/0	5 841 048 000
##	City of Johannesburg	2007/0	6 626 549 000
##	City of Johannesburg	2008/0	8 688 173 000
##	City of Johannesburg	2009/1	7 562 279 000
##	City of Johannesburg	2010/1	8 814 083 000
##	City of Johannesburg	2011/1	10 455 509 000
##	Ekurhuleni	2004/0	1 710 222 604
##	Ekurhuleni	2005/0	1 801 058 258
##	Ekurhuleni	2006/0	2 016 837 393
##	Ekurhuleni	2007/0	2 330 700 208
##	Ekurhuleni	2008/0	2 938 153 081
##	Ekurhuleni	2009/1	3 715 256 139
##	Ekurhuleni	2010/1	3 553 044 610
##	Ekurhuleni	2011/1	3 830 113 070

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC7
ID	Municipality	Year	Current ratio / Adjusted
			(V12-CALC8)/V1
1	City of Tshwane	2004/0	0.35575232
2	City of Tshwane	2005/0	0.29758564
3	City of Tshwane	2006/0	0.38728427
4	City of Tshwane	2007/0	0.23954107
5	City of Tshwane	2008/0	0.13484780
6	City of Tshwane	2009/1	0.20916522
7	City of Tshwane	2010/1	0.25304039
8	City of Tshwane	2011/1	0.22938790
9	City of Johannesburg	2004/0	0.34084499
##	City of Johannesburg	2005/0	0.50493504
##	City of Johannesburg	2006/0	0.35988576
##	City of Johannesburg	2007/0	0.26733825
##	City of Johannesburg	2008/0	0.23727796
##	City of Johannesburg	2009/1	0.09878601
##	City of Johannesburg	2010/1	0.13710059
##	City of Johannesburg	2011/1	0.27084497
##	Ekurhuleni	2004/0	1.45865633
##	Ekurhuleni	2005/0	1.59010016
##	Ekurhuleni	2006/0	1.48309502
##	Ekurhuleni	2007/0	1.17394495
##	Ekurhuleni	2008/0	0.44556348
##	Ekurhuleni	2009/1	0.29888403
##	Ekurhuleni	2010/1	0.45413562
##	Ekurhuleni	2011/1	0.84392502

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC8
ID	Municipality	Year	Debtors
			V10+V17+V18
1	City of Tshwane	2004/0	2 399 002 319
2	City of Tshwane	2005/0	2 325 640 835
3	City of Tshwane	2006/0	2 531 339 028
4	City of Tshwane	2007/0	2 767 492 234
5	City of Tshwane	2008/0	3 545 398 463
6	City of Tshwane	2009/1	3 090 287 772
7	City of Tshwane	2010/1	3 177 915 894
8	City of Tshwane	2011/1	3 644 067 866
9	City of Johannesburg	2004/0	2 770 678 000
###	City of Johannesburg	2005/0	2 715 991 000
###	City of Johannesburg	2006/0	2 850 305 000
###	City of Johannesburg	2007/0	2 977 483 000
###	City of Johannesburg	2008/0	3 679 097 000
###	City of Johannesburg	2009/1	4 117 776 630
###	City of Johannesburg	2010/1	5 545 445 000
###	City of Johannesburg	2011/1	7 016 546 000
###	Ekurhuleni	2004/0	1 051 062 915
###	Ekurhuleni	2005/0	1 196 371 422
###	Ekurhuleni	2006/0	1 837 476 768
###	Ekurhuleni	2007/0	1 402 109 755
###	Ekurhuleni	2008/0	1 520 445 285
###	Ekurhuleni	2009/1	1 600 460 056
###	Ekurhuleni	2010/1	2 157 184 237
###	Ekurhuleni	2011/1	2 863 159 452

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V17
ID	Municipality	Year	Other debtors amount
1	City of Tshwane	2004/0	515 561 244
2	City of Tshwane	2005/0	309 753 708
3	City of Tshwane	2006/0	456 486 840
4	City of Tshwane	2007/0	262 795 274
5	City of Tshwane	2008/0	735 556 504
6	City of Tshwane	2009/1	646 626 970
7	City of Tshwane	2010/1	514 350 383
8	City of Tshwane	2011/1	767 444 290
9	City of Johannesburg	2004/0	897 927 000
##	City of Johannesburg	2005/0	542 945 000
##	City of Johannesburg	2006/0	874 025 000
##	City of Johannesburg	2007/0	997 985 000
##	City of Johannesburg	2008/0	###########
##	City of Johannesburg	2009/1	###########
##	City of Johannesburg	2010/1	###########
##	City of Johannesburg	2011/1	998 041 000
##	Ekurhuleni	2004/0	-
##	Ekurhuleni	2005/0	-
##	Ekurhuleni	2006/0	-
##	Ekurhuleni	2007/0	-
##	Ekurhuleni	2008/0	311 092 414
##	Ekurhuleni	2009/1	269 976 995
##	Ekurhuleni	2010/1	376 597 244
##	Ekurhuleni	2011/1	179 193 369

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V18
ID	Municipality	Year	Current portion of long-term receivables
1	City of Tshwane	2004/0	29 898 414
2	City of Tshwane	2005/0	16 320 964
3	City of Tshwane	2006/0	27 840 367
4	City of Tshwane	2007/0	103 377 148
5	City of Tshwane	2008/0	123 832 808
6	City of Tshwane	2009/1	124 983 630
7	City of Tshwane	2010/1	102 835 275
8	City of Tshwane	2011/1	108 802 610
9	City of Johannesburg	2004/0	-
###	City of Johannesburg	2005/0	-
###	City of Johannesburg	2006/0	-
###	City of Johannesburg	2007/0	-
###	City of Johannesburg	2008/0	-
###	City of Johannesburg	2009/1	124 983 630
###	City of Johannesburg	2010/1	-
###	City of Johannesburg	2011/1	-
###	Ekurhuleni	2004/0	24 050 099
###	Ekurhuleni	2005/0	20 592 895
###	Ekurhuleni	2006/0	4 520 011
###	Ekurhuleni	2007/0	76 760 907
###	Ekurhuleni	2008/0	37 905 936
###	Ekurhuleni	2009/1	113 219 378
###	Ekurhuleni	2010/1	-
###	Ekurhuleni	2011/1	-

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC9
ID	Municipality	Year	Quick ratio
			(V12-V20)/V13
1	City of Tshwane	2004/0	1.24900300
2	City of Tshwane	2005/0	1.16990848
3	City of Tshwane	2006/0	1.21536945
4	City of Tshwane	2007/0	1.08288288
5	City of Tshwane	2008/0	0.94932788
6	City of Tshwane	2009/1	0.83070258
7	City of Tshwane	2010/1	0.83799610
8	City of Tshwane	2011/1	0.76377675
9	City of Johannesburg	2004/0	0.86642326
##	City of Johannesburg	2005/0	1.04992858
##	City of Johannesburg	2006/0	0.82956398
##	City of Johannesburg	2007/0	0.69892262
##	City of Johannesburg	2008/0	0.64101072
##	City of Johannesburg	2009/1	0.61976608
##	City of Johannesburg	2010/1	0.74192687
##	City of Johannesburg	2011/1	0.91196105
##	Ekurhuleni	2004/0	2.03900522
##	Ekurhuleni	2005/0	2.21998828
##	Ekurhuleni	2006/0	2.35330437
##	Ekurhuleni	2007/0	1.71986799
##	Ekurhuleni	2008/0	0.90712204
##	Ekurhuleni	2009/1	0.68660345
##	Ekurhuleni	2010/1	1.01694217
##	Ekurhuleni	2011/1	1.55216266

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	V20
ID	Municipality	Year	Inventory
1	City of Tshwane	2004/0	##########
2	City of Tshwane	2005/0	##########
3	City of Tshwane	2006/0	##########
4	City of Tshwane	2007/0	##########
5	City of Tshwane	2008/0	##########
6	City of Tshwane	2009/1	##########
7	City of Tshwane	2010/1	##########
8	City of Tshwane	2011/1	##########
9	City of Johannesburg	2004/0	85 619 000
##	City of Johannesburg	2005/0	84 142 000
##	City of Johannesburg	2006/0	##########
##	City of Johannesburg	2007/0	##########
##	City of Johannesburg	2008/0	##########
##	City of Johannesburg	2009/1	##########
##	City of Johannesburg	2010/1	##########
##	City of Johannesburg	2011/1	##########
##	Ekurhuleni	2004/0	58 537 125
##	Ekurhuleni	2005/0	61 906 220
##	Ekurhuleni	2006/0	82 406 014
##	Ekurhuleni	2007/0	##########
##	Ekurhuleni	2008/0	##########
##	Ekurhuleni	2009/1	##########
##	Ekurhuleni	2010/1	##########
##	Ekurhuleni	2011/1	##########

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC10
ID	Municipality	Year	Average Debtors Payment Period
1	City of Tshwane	2004/0	177.44
2	City of Tshwane	2005/0	184.62
3	City of Tshwane	2006/0	174.89
4	City of Tshwane	2007/0	177.96
5	City of Tshwane	2008/0	170.53
6	City of Tshwane	2009/1	120.13
7	City of Tshwane	2010/1	111.44
8	City of Tshwane	2011/1	94.60
9	City of Johannesburg	2004/0	107.92
##	City of Johannesburg	2005/0	118.98
##	City of Johannesburg	2006/0	96.52
##	City of Johannesburg	2007/0	88.22
##	City of Johannesburg	2008/0	83.87
##	City of Johannesburg	2009/1	83.70
##	City of Johannesburg	2010/1	106.10
##	City of Johannesburg	2011/1	118.10
##	Ekurhuleni	2004/0	89.27
##	Ekurhuleni	2005/0	96.37
##	Ekurhuleni	2006/0	128.49
##	Ekurhuleni	2007/0	87.41
##	Ekurhuleni	2008/0	69.30
##	Ekurhuleni	2009/1	55.06
##	Ekurhuleni	2010/1	61.75
##	Ekurhuleni	2011/1	77.76

ANNEXURE B
Actual calculations of financial management ratios

V	V2	V3	CALC11
ID	Municipality	Year	Government Grant as % of total revenue
			V5/V4
1	City of Tshwane	2004/0	0.10272026
2	City of Tshwane	2005/0	0.09600322
3	City of Tshwane	2006/0	0.17953813
4	City of Tshwane	2007/0	0.18453116
5	City of Tshwane	2008/0	0.19354562
6	City of Tshwane	2009/1	0.17827689
7	City of Tshwane	2010/1	0.16520579
8	City of Tshwane	2011/1	0.18896605
9	City of Johannesburg	2004/0	0.07951976
####	City of Johannesburg	2005/0	0.09501944
####	City of Johannesburg	2006/0	0.19085416
####	City of Johannesburg	2007/0	0.24072924
####	City of Johannesburg	2008/0	0.23853298
####	City of Johannesburg	2009/1	0.27043663
####	City of Johannesburg	2010/1	0.21279172
####	City of Johannesburg	2011/1	0.21507342
####	Ekurhuleni	2004/0	0.09322208
####	Ekurhuleni	2005/0	0.11310515
####	Ekurhuleni	2006/0	0.19714707
####	Ekurhuleni	2007/0	0.19698094
####	Ekurhuleni	2008/0	0.21495500
####	Ekurhuleni	2009/1	0.20620444
####	Ekurhuleni	2010/1	0.19716696
####	Ekurhuleni	2011/1	0.21904987

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10 June 2015

TO WHOM IT MAY CONCERN

PERMISSION TO USE THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY (CoT) AS A CASE STUDY FOR A MASTERS DEGREE

This serves to confirm that Solomon Kungaera Mayo, ID number 830301 5719 081 had requested permission to use CoT as a case study for his M Tech – Cost Management and Accounting before commence of his study in 2010, and permission was granted. He specifically asked to assess the effectiveness of long-term financial planning, since CoT has adopted a long-term financial strategy (LTFS). This study was therefore titled: ***Assessing the effectiveness of financial planning in municipalities – the case study of City of Tshwane metropolitan municipality.***

The study was later broadened to further include a comprehensive financial performance analysis, benchmarking the CoT's financial performance against that of other metropolitan municipalities in Gauteng. Therefore it was recommended by the supervisors and assessors that the title of the study be amended to: ***An assessment of financial planning and financial performance in municipalities – the case of the City of Tshwane metropolitan municipality (CoT)***.

This letter therefore, serves as acknowledgement of the new title and the extended scope of the study.

Larry van Zyl
DIRECTOR: BUDGET OFFICE

CITY OF
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Group Financial Services Department

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02 September 2014

TO WHOM IT MAY CONCERN

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