



Cape Peninsula
University of Technology

**CRITICAL EVALUATION OF SERVICE DELIVERY IN SELECTED SOUTH
AFRICAN MUNICIPALITIES: THE ROLE OF BUDGET MANAGEMENT**

by

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Thesis submitted in fulfilment of the requirements for the degree

Doctorate: Public Administration

In the Faculty of Business and Management Science

At the Cape Peninsula University of Technology

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ABSTRACT

Over past decades, the local government sphere has been the most important sphere of government for delivering crucial services to citizens to advance their quality of life. However, in many cases, South African municipalities have failed to render these services efficiently due to lack of effective budget management. As a result, funds are returned to the fiscus each year, having a detrimental influence on residents' quality of life. The quality of service delivery is enhanced by proper and effective management of budgets and optimal utilization of resources which involves spending all appropriated funds to provide services as required by the constitution of South Africa. The aim of this study was to understand the difficulties experienced by municipal officials and to develop a framework to guide management and employees of municipalities in budget management.

The study adopted a mixed methods research approach. A research survey was conducted in three South African municipalities in the Free State, Western Cape and Eastern Cape. A statistical package (SPSS AMOS 26) was used for data analysis for the quantitative approach. An exploratory factor analysis was conducted to identify the key factors that impact budget management. In addition, Structural Equation Modelling (SEM) was used to determine the model fit indices and test the significance of relationship among the key variables. The qualitative data from the interviews was analysed using content analyses.

The results revealed that risk management, cash flow management, revenue and expenditure management, legislative consideration and budget planning have significant impact on effective budget management. It is argued that the proposed framework, developed in response to these results, enables new insights into the challenges of public management. It also contributes a useful and practical guide for use by the municipalities in which the research was conducted and for local government throughout South Africa regarding effective budget management. Ultimately, the application of this framework has the prospective to significantly improve citizens' quality of life.

ACKNOWLEDGEMENTS

I wish to thank:

- God the almighty for His blessings.
- My supervisor Professor Bingwen Yan for his guidance and support, you became more than a supervisor to me, my friend. I really appreciate the support you have given me. Thank you, Prof, for encouraging me even when I doubted my own abilities. I hope our friendship will carry on beyond this project.
- My co-supervisor Dr Corry Uys for coming on board and assisting with statistical analyses. Thank you for your patience. Thank you for taking my calls after hours. I hope we will work together beyond this project.
- Dr Stan Cronje for accepting me into the programme.
- My family for the support, both financial and emotional support.
- I would also like to thank my colleagues at Sol Plaatje University for the support, Enkosi kakhulu.
- Lastly, I would like to thank all the municipal employees who participated in this study, without you this project would not have been a success.

Enkosi

DEDICATION

I would like to dedicate this thesis to my Mother Nomaphelo Zweni, to my siblings, to my kids, to my Family and friends

GLOSSARY OF TERMS

A

AFS	Annual Financial Statements.
AG	Auditor General
AO	Accounting Officer

C

CFI	Comparative Fit Index
CFM	Cash Flow Management

D

DORA	Division of Revenue Act
-------------	-------------------------

E

EBM	Effective Budget Management
EU	European Union

G

GFI	Goodness of fit
------------	-----------------

I

IDP	Integrated Development Plan
IFI	Incremental Fit Index

L

LC	Legislative Consideration
LED	Local Economic Development

M

MFMA	Municipal Finance Management Act
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MIG	Municipal Infrastructure Grant
MSA	Municipal Systems Act
MM	Municipal Manager
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTREF	Medium-Term Revenue and Expenditure Framework
N	
NDP	National Development Plan
NFI	Normed Fit Index
NNFI	Non-Normed Fit Index
NTR	National Treasury regulations
O	
OBB	Outcome Based budgeting
P	
PB	Participatory budgeting
PPBS	Program and Performance Budgeting System
PFMA	Public Finance Management Act
Q	
QPR	Quarterly Performance Reports
R	
REM	Revenue and Expenditure Management
RFI	Relative Fit Index (RFI)
RM	Revenue Management

RM	Risk Management
RMSEA	Root Mean Square Error of Approximation
RSA	Republic of South Africa
S	
SDBIP	Service Delivery and Budget Implementation Plan
SEM	Structural Equation Modeling
SPSS	Statistical Package for the Social Sciences

PUBLICATIONS

Based on this study, the following articles were submitted to accredited, and peer viewed journals and conferences:

Journals Articles

1. **Zweni, AG.**, Yan,B., Juta.L 2022. The malady of perpetual municipal-finance mismanagement: designing a leadership framework as a panacea. *African Journal of Development Studies*. Vol 12(1): 169-189
2. **Zweni, AG.**, Yan,B. UYS, C. 2022. A model for the management of budgets in South African Municipalities: An upshot from selected municipalities. *Journal of Local Government Research and Innovation*. ISSN: (Online) 2788-919X, (Print) 2709-7412 **(Accepted- Forthcoming)**
3. **Zweni, AG.**, Yan,B., UYS, C. 2022. Effects of budget management training on public administration: a case of non-financial managers in selected municipalities in South Africa. *Asian Journal of Technology Innovation* **(Under review)**

Conference Papers

- 1 **Zweni, A.G** and Yan, B. (2021). A Conceptual Framework for Managing Municipal Finances in South Africa. *International Conference on Governance and Innovation in the Public Administration (ICGIPA 2021)*. Date: February 25-26, 2021, Tokyo, Japan **(Abstract)**
- 2 **Zweni, AG.** Municipal special budget adjustments caused by Covid-19: An analysis special adjustment budget guidelines by National Treasury. Inaugural International Afrocentric Think Tank. May 25-27, 2022. Zanzibar, Tanzania

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CHAPTER ONE: SCOPE OF THE STUDY

1.1 INTRODUCTION

From 1994, part of the mandate of the first democratic government was to enhance the living conditions for all South Africans, particularly the most disadvantaged. Chapter 7, section 152 (b) of the South African constitution outlines the objectives of local government, which are to provide services to the citizens in an appropriate way; uphold social and economic growth; stimulate health and ensure that communities live in a safe environment (RSA, 1996). All of these services depend on efficient and effective budgeting.

Since the early 1990s the World Bank has imposed several budget models on developing countries. However, these models are more useful in developed countries than they are in developing countries, where there is often a clash between the neo-liberal policies underpinning them and the policies and practices in developing countries (Molobela, 2016:263). One of the World Bank's models is the "Medium-Term Expenditure Framework (MTEF)" which was implemented by developing countries, particularly in Africa from 2001 (Gollwitzer, 2010:5). It is this model that has been used in post-apartheid South Africa with limited success. Many municipalities have found it very difficult to initiate and manage their budgets, thus affecting service delivery negatively, leading to numerous service delivery unrests across South Africa. Most of these protests have been due to insufficient or poor service provisions to the constituents. People require access to services, and one of the most important basic principles of effective service is accessibility (Hasan, Agustang, Kahar & Tahir, 2019:189).

These difficulties in budget management resulted in certain municipalities being placed under administration by provincial governments as stipulated in Section 139 of the supreme law of South Africa. This statute states that the provincial government should intervene when municipalities are unable to fulfil their constitutional obligations. Such difficulties warrant an investigation of their causes in a particular local municipality and the development of an alternative budget management framework for this municipality and possibly for wider application.

1.2 PROBLEM STATEMENT

As is evident in the literature reviewed below, there is a serious disjuncture between the policy that the government promulgates and the implementation of effective service delivery in some municipalities in South Africa (Mathebula, Nkuna & Sebola, 2016:70). The national government, through the allocation of a budget, provides opportunities and capital for municipalities to deliver on the constitutional obligation to provide services to residents of municipalities. Mello (2018:2), state that, South Africa municipalities are not functioning at the required level by law and by residents. This is due to poor budget management in municipalities (Maluleke, 2020). The author indicates that poor budget management such as poor organised financial resources, lack of good understanding of budget management among public servants, lack of budget management skills, financial management knowledge, and performance management leads to ineffective financial management (Maluleke, 2020). These claims are also supported by Mpaata *et al.* (2019:2), and Scott *et al.* (2018:23).

Many municipalities lack well-qualified employees, particularly managers who are skilled and competent to manage budgets (Makwetu, 2017:2). According to Schick (2007:116), one of the most significant challenges confronting local government when implementing budgeting is determining who should take responsibility when it comes to utilisation of public funds. Steyn's research (2014:67) suggests that there should be increased leadership involvement in the budgeting process to ensure that this process effectively addresses the challenges of public institutions. Fongar *et al.* (2019) studied that lack of understanding of administration and political leadership is one of the major concerns in municipal services. Furthermore, municipal leaders need to instil a leadership culture that will ensure that budgets are managed with diligence (Maluleke, 2020; Enwereji, 2019).

Based on the abovementioned, the research problem statement is summarised as follows: ***due to lack budget management skills and poor financial resources implementation resulted in poor service delivery in selected south African municipalities.*** Thus, it is imperative to develop a budget management framework to improve municipal service delivery.

1.3 OBJECTIVES OF THE STUDY

The main aim of this research is to develop a framework for budget management for municipalities in South Africa. As such, to achieve the primary research objective, this study seeks to achieve the following secondary research objectives:

- To identify budgeting challenges encountered by managers in the delivery of services in selected municipalities.
- To explore approaches to budget management improvement in municipalities
- To determine the role of legislation in budget management in municipalities.
- To develop an effective framework for budget management improvement in the selected municipalities.

1.4 RESEARCH QUESTIONS

In order to accomplish its objectives, the study seeks to answer the following questions:

- What are the challenges of municipal service delivery encountered by managers in selected municipalities?
- What approaches for budget management improvement are used municipalities?
- What is the role of legislation in budget management in municipalities?
- What is the current budgeting framework used by municipalities?

1.5 HYPOTHESES DEVELOPMENT

According to Jowah (2015:63), a hypothesis is a claim which can be tested statistically or indirectly by the research so as to disprove or confirm it. It consists of statements of future events which are known or unknown and which can be rejected or accepted if tested appropriately. A hypothesis is put forward as a starting point for research. The hypothesis statement is a prediction of what will happen if you take a particular action to solve a problem. Lee, Betts and Anderson (2015:1037) confirm that the hypothesis statement is a prediction of what you believe will happen if you take a specific type of action to solve a problem. As a result, the current study will present five hypotheses in the projected model, which was constructed using variables from the literature. As such, the following hypotheses are advanced:

H₁ There is a correlation between budget planning and effective budget management

H₂ There is a connection between revenue and expenditure management and effective budget management.

H₃ There is a correlation between legislative considerations and effective budget management.

H₄ A relationship exists between risk management and effective budget management.

H₅ A correlation exists between cash flow management and effective budget management.

Figure 1.1 below illustrates the hypotheses developed for this study.

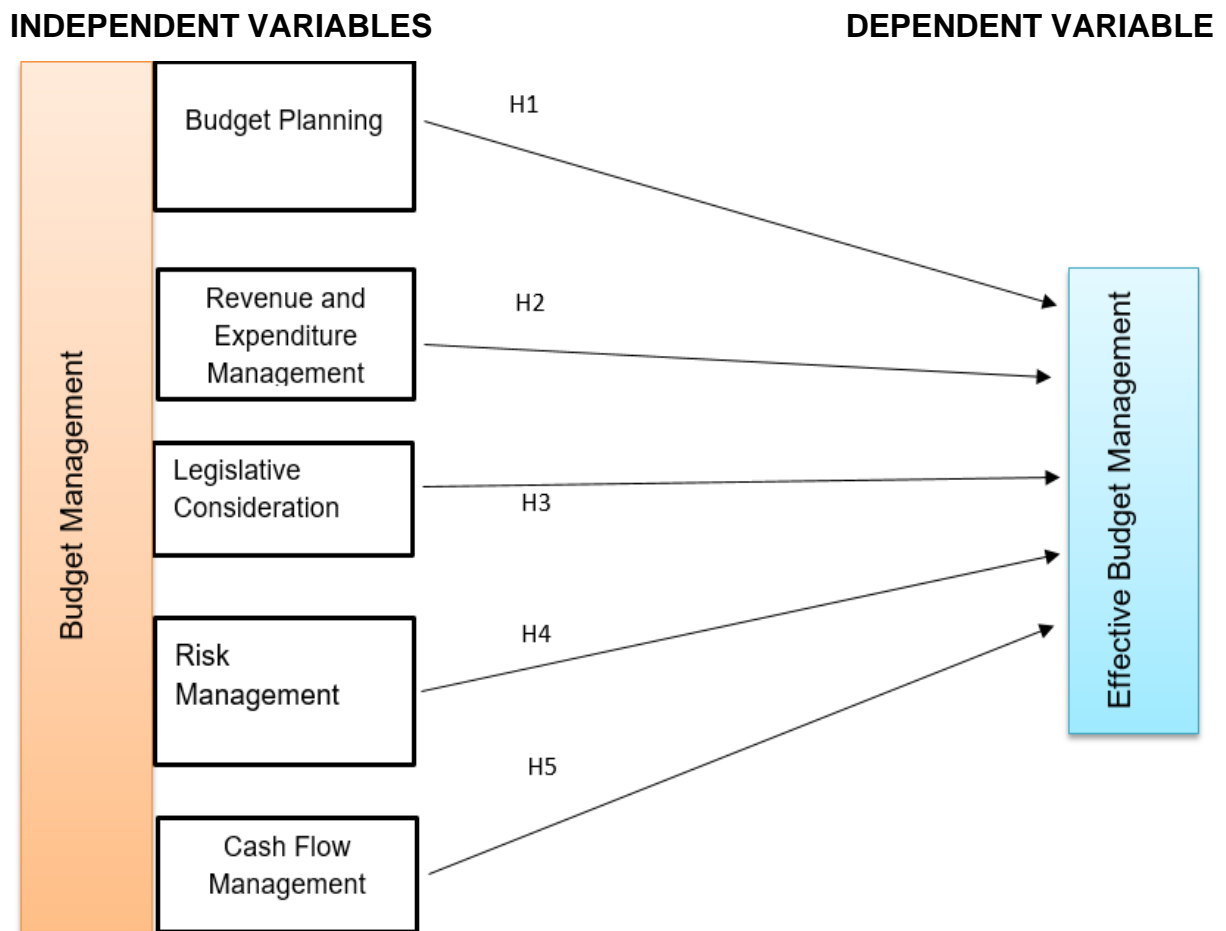


Figure 1. 1: Hypotheses development model

(Source: Author)

1.6 BACKGROUND OF THE STUDY

Since the inception of the democratically elected administration in 1994, its mandate and commitment have been to enhance the quality of life and provision of services as required by the Constitution of the Republic of South Africa (108 of 1996). Chapter 7, section 152 (b) of the constitution outlines the objectives of local government, which are to provide services to the citizens in an appropriate way; uphold social and economic growth; stimulate health and to further ensure that communities live in a safe environment (RSA, 1996). In the new democracy in South Africa, access to adequate public services is no longer limited to the minority; public services are intended to be accessible to all who live in the republic, particularly the disadvantaged (Pretorius & Schurink, 2007:19). The Constitution (108 of 1996) defined local government as the governmental entity responsible for providing services to the people and contributing to the abolition of poverty (Koma, 2010:111). All residents in a municipality are entitled to services in terms of acts and policies (Draai, 2018:145). The Constitution, requires municipalities to render the following basic services:

- **Health care:** According to Hjertsrom, Obstfelder & Norbye (2018:1) many countries worldwide and in Africa in particular, face challenges in providing health care due to limited resources. However, the government has an obligation to provide health care services for all who live in the republic, particularly those who are vulnerable and are from poor backgrounds.

- **Housing:** According to the constitution of the Republic, “everyone has a right to adequate housing”. Thus, the government should build safe, decent and economical housing for the poor (Vale, Shamsuddin, Gray, and Bertumen, 2014:22). Housing is the most needed service in democratic South Africa because many people still live in poverty with no decent roof over their heads. Post-1994 the provision of housing was identified as one of the difficulties confronting the new democratic administration, and to date South Africa is still experiencing the challenge of a huge housing backlog which needs to be addressed by government in general and municipalities in particular (Sipungu & Nleya, 2016:2).

• **Safety:** The constitution requires that municipalities offer protection or safety services to residents. These services include amongst others, traffic law enforcement, safety measures, and building inspections. Apart from what is required by the constitution, municipalities are required to also establish and maintain municipal police services, however municipalities must meet specific requirements before establishing municipal policing structures (Draai, 2018:140).

• **Sanitation and water:** According to the constitution all residents, particularly the poor have the right to safe drinking water. Sufficient and safe drinking water is the most important element of ensuring health and well-being of the people (Stats SA, 2016:12). According to the constitution, water services is the sole responsibility of municipalities and is a universal right of people. Municipalities should provide basic sanitation facilities that are:

- safe
- reliable
- private
- protected
- ventilated
- easy to keep clean (Stats SA, 2016:34)

In conjunction with what has been outlined above, adequate sanitation improves quality of life by providing a healthy environment. According to Mathebula, Nkuna and Sebola (2016: 68), municipalities are faced with major challenges when it comes to providing adequate sanitation; some of those challenges are population growth, unplanned informal settlements and inadequate infrastructure.

• **Electricity Services:** The republic's constitution grants municipalities the ability to distribute energy in regions under their jurisdiction. According to Stats SA (2016:12), the Municipal Systems Act (MSA) (Act No.32 of 200) further gives a municipality the authority to formulate policies, by-laws, set tariffs, and regulate electricity in terms of the by-laws. Many municipalities buy electricity from Eskom though they often fail to make payments to Eskom (Jamal, 2015:np). When a municipality fails to pay, Eskom cuts off electricity to the municipality, thus affecting households in the jurisdiction of that municipality. Not providing electricity has far-reaching

consequences for residents in terms of quality of life and has financial implications for businesses (Jamal, 2015:np).

- **Roads and Infrastructure services:** Municipalities should ensure that there are adequate roads and infrastructure such as tarred roads, roofed buildings, and maintained storm-water systems. However, municipalities are struggling to provide and maintain roads, particularly for rural municipalities (Lavhelani, 2017:340). In most instances South African municipalities are finding it difficult to maintain infrastructure in an efficient and effective manner, and there is a serious infrastructure deficit (Hasan *et al*, 2019:189; Sipungu, 2016:5).

- **Local Economic Development (LED):** The constitution requires municipalities to develop a LED strategy in order to address local socio-economic development (Maloka *et al*, 2014:219). Malefane (2009:156) posits that LED is one of the municipal interventions that most municipalities fail to effectively and efficiently implement. Implementation of LED is not optional, municipalities have to implement LED in terms of their legal obligations (Malefane, 2009:158). According to Maloka *et al* (2014:218), LED can assist in addressing poverty, unemployment and inequality, challenges that are affecting municipalities and residents throughout South Africa.

The constitution does not go into detail on how the above mentioned services should be provided by municipalities but it mentions that services ought to be provided and performed in a justifiable manner. Details on how services should be provided are outlined and legislated in the MSA (No.32 of 2000 as amended). According to Ndebele and Lavhelani (2017:341), municipalities have to meet the needs of residents by focusing on domains such as the physical, environmental, economic, spiritual and emotional, and social to advance the quality of life of the citizens.

Benkink, (2010:np) affirms that to deliver services to the residents as mandated by the constitution, each municipality depending on which category it belongs to, should have service delivery systems that are best suited for it. For these systems to function optimally municipalities ought to be guided by the principles set out in Table 1.1 below.

Table 1. 1: Basic principles of service delivery

Accessibility	Because every South African has a constitutional right to basic services, every municipality is required by law to provide such services.
Simplicity	Municipalities should provide services that are easy and convenient to use for all, including those living with disabilities or those who are illiterate.
Affordability	A municipality should provide services which are accessible to the citizens, particularly the poor, in order to improve quality of life.
Quality	A municipality should meet certain standards such as: suitability, timeousness, safety and accessibility to the constituencies.
Accountability	A municipality under the democratic government should be accountable and responsible for all its activities.
Integration	To ensure proper planning and service provision, each municipality should have a unified approach.
Sustainability	As stipulated by the constitution, all municipalities must provide services in a sustainable way.
Value for money	A municipality should provide quality services to all the citizens.
Competitiveness	Each municipality should promote local economic development by lowering rates and service charges to industries or business that are operating in their jurisdictions.
Constitutional values	Municipalities should comply with the supreme law by adhering to the values and requirements of the constitution.

(Source: Adopted from Ndebele et al. 2019)

The basic principles listed in Table 1.1 are clearly articulated in the constitution to assist state institutions and state organs and local government (municipalities) in particular, to better execute their responsibilities. Notwithstanding this clear articulation, some municipalities fail to fulfil their responsibilities, even though the supreme law (the constitution) requires them to do so diligently.

According to Koma (2010:113) a municipality is the structure of the state which is situated within a community to deal with the needs of the residents in that jurisdiction. Koma *et al.* (2014:96) posits that local government is a vital, unique, and inter-reliant sphere of government that manages its activities autonomously but in conjunction with national government strategic plans, policies and strategic objectives. The needs of local constituencies are addressed by municipalities. Therefore, for services to be

delivered effectively and efficiently a municipality needs competent, knowledgeable leaders and administrative capacity. Capacity refers to availability and access to tangible and intangible resources and knowledge of how to implement government policies (Koma, 2010:114). Municipalities have to ensure that service delivery takes priority so that the strategic goals of the municipality are achieved. According to Mathebula *et al.* (2016:70), service delivery should focus on ensuring that the standard of living particularly the poor is improved.

One of the tools used by municipalities to deliver services is the Integrated Development Plan (IDP). The IDP is a municipal council instrument that is used by management of a municipality, a framework for setting a budget for the municipality and also for running a municipality (Koma *et al.*, 2014:101). The IDP as a service delivery implementation tool guides municipal officials on how to prioritize and deliver services to communities (Sebola, Tsheola, Phago and Balkaran, 2013:7).

When the IDP is inadequately implemented by municipalities, services cannot be delivered effectively to communities, thus leading to service delivery protests when these communities are not receiving services as mandated by the constitution. Service delivery backlogs continue to be one of the issues confronting emerging countries such as South Africa (Mathebula *et al.*, 2016:70).

Communities who are recipients of municipal services remain unsatisfied with insufficient service delivery (Mathebula, 2014:133). In RSA lack of policy implementation results in service delivery protests which cause civil disturbances and destruction of government property (Sebola, 2014:30). As such, at the local level, there has been a serious dysfunction, and there does appear to be some political engagement. Thus, Figure 1.2 below shows the number of service delivery protests year to year from 2004 to 2021.

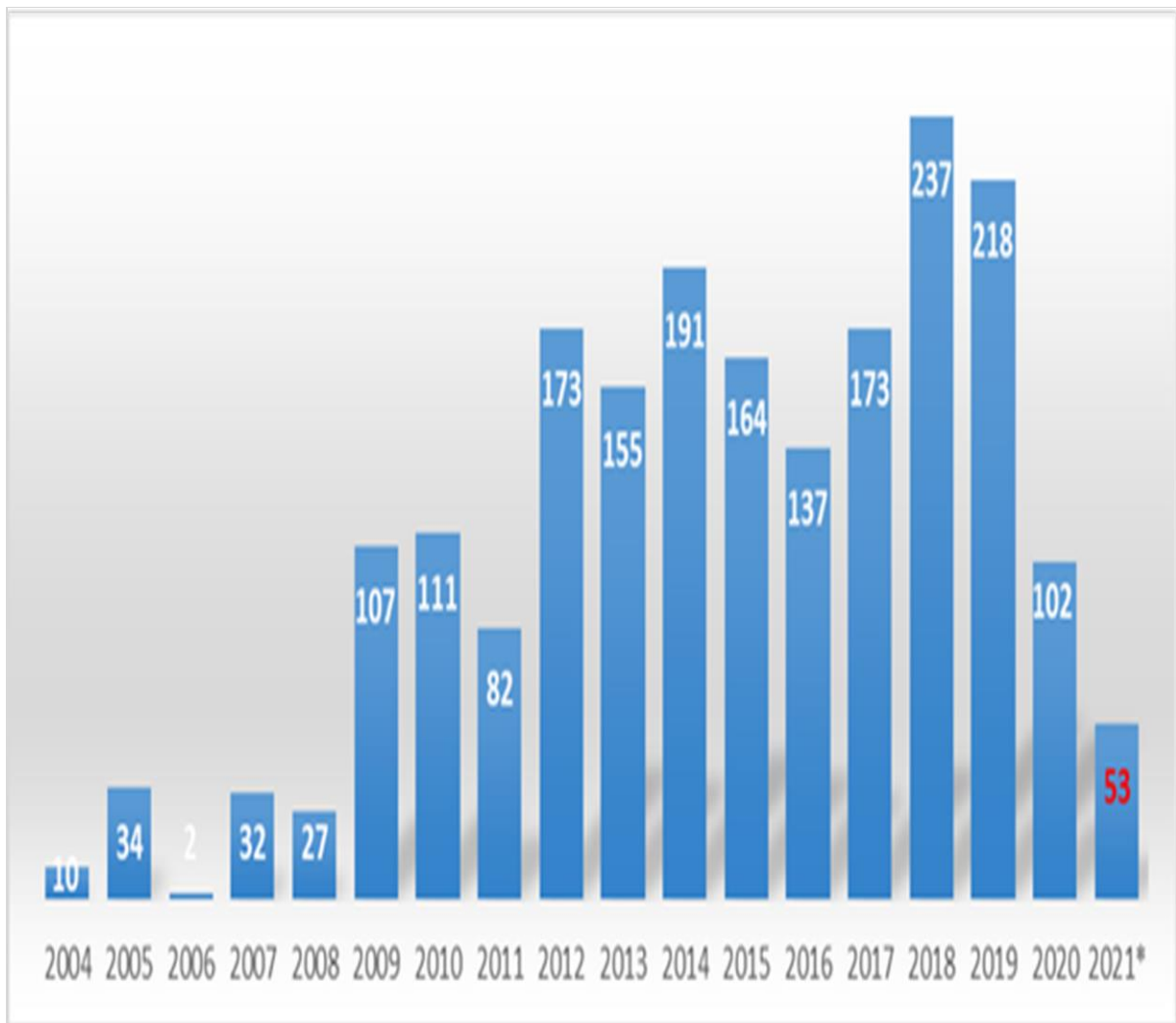


Figure 1. 2: Service delivery protests in South Africa (2004 to 2021)

(Source: Municipal IQ Municipal Hotspots, 2021)

Figure 1.2 indicates that numerous South African communities are not pleased with the services that are delivered by municipalities. When citizens are not getting what they are entitled to from the government, particularly from the municipalities as outlined in the constitution, they in most cases express their concerns through protest actions. When a municipality underperforms, the standard of living of the citizens deteriorates. Services such as water and sanitation, health service, and housing amongst others are important services that people need. Figure 1.3 below illustrates services delivery protests as presented above in Figure 1.2, per province.

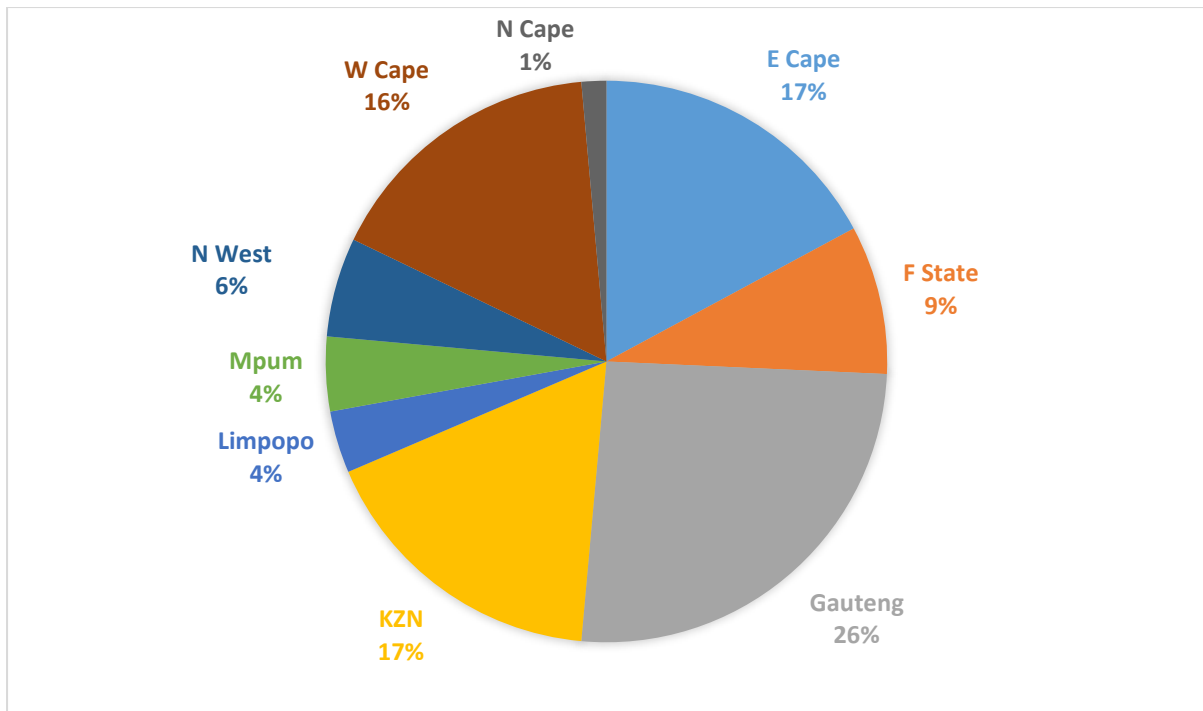


Figure 1. 3: Service delivery demonstrations per province in 2019

(Source: Municipal IQ Municipal Hotspots, 2019)

With reference to the pie chart in Figure 1.3 above, Gauteng Province had the highest percentage (26%) of service delivery protests between the years 2004 and 2019, with the Eastern Cape Province next at 17%, followed by Western Cape at 16% and the Free State Province at 9%. These protests took place in areas that are mostly poor and underdeveloped within the above-mentioned provinces. One of the reasons people protest in these provinces is that they are seeking improved and better-living conditions. In RSA it has become the norm for violence between protesters and police to be part of service delivery demonstrations. Issues of service delivery and improvement in human lives depend on how municipalities allocate and manage their resources. Resources are allocated, managed and quantified in the form of budgets (Zweni & Jowah, 2018: 118).

According to Schick (2007:110), budgeting is a process that converts financial and non-financial information into effective decisions. Thus, for the purpose of this research, budgeting is defined as a financial plan embodying estimates of proposals for both income and expenditure for a particular financial year (Chukwuemeka, Nnedum & Ugochukwu, 2013:43). A budget is an aspect of management that is

designed to promote efficiency in the way resources are managed in an organisation (Raghunandan, Ramgulam & Raghunanda-Mohammed, 2012:110).

Isaac *et al.* (2015:1) further add that a budget is a comprehensive co-ordinated plan which is put together by management, and conveyed in financial terms for some specific period. Abogun and Fagbemi (2012:177) outline major roles of budgeting in an organisation as follows:

- Budgeting is a planning tool,
- Budgeting is a control and monitoring tool,
- Budgeting is a coordinating tool for activities,
- Budgeting is an evaluating and performance improvement tool,
- Budgeting is a strategic formulation and execution tool,
- Budgeting is a communication and decision making tool,

Budgeting is one of the tools that assists employees within an organisation to establish organisational activities.

Considering what is articulated above, planning, coordinating, communication, control and evaluating are crucial pillars of how budgets should be prepared by organisations, particularly municipalities. There are certain challenges facing employees in municipalities such as financial and budget management knowledge and skills (Cox, 2016:158). Employees in any municipality must demonstrate financial and budget management knowledge and skills and in addition, employees and managers ought to have interpersonal skills, flexibility, and the skill to mentor others and build trust (Shekari *et al.*, 2012:55). Beinecke (2009:7) argues that different positions or levels in an organisation require different skills: those who are in the higher levels require transformative skills, and while those in the lower levels require transactional skills.

Budgeting in South African municipalities is directed by the Constitution and the Municipal Finance Management Act (MFMA) (Schick, 2007, 111). Section 16 of the MFMA, states that a municipality's council must adopt a budget plan for the municipality prior to the beginning of the fiscal year. To comply with clause (1), the mayor of the municipality shall present the budget plan at a council at least 90 days before the beginning of the fiscal year. The legislation requires employees of a

municipality to manage budgets efficiently and effectively within the bounds of legislation. However, an important finding from Makwethu’s audit report is that in many instances, employees choose not to do what is required of them by the legislation and the Constitution (Makwethu, 2019:np).

Risk is one of the challenges that faces municipalities, impacting negatively on the activities and operations of the municipality in regard to achieving their objectives (Ridha & Alnaji, 2015:9). Ridha *et al.*, (2015:15) define risk as “an unanticipated and unknown incident that may occur in the future and is detrimental to the organisation's aims”. According to Fadun (2013:225), economic volatility requires managers to focus and manage risk effectively at all levels of management. Benefits of risk management are tabled in Table 1.2 below. For municipalities to perform optimally, risk should be managed effectively, and risk management should form part of the planning process (Fadun, 2013:226).

Table 1. 2: Benefits of Risk Management

Risk Management	Saves time, financial and non-financial assets.
	Guards the reputation and status of an organisation.
	Helps an organisation to prevent legal liabilities.
	Increases stability of operations and promotes continuous improvement.

(Source: Ridha *et al.*, 2015)

Planning is a crucial process in any organisation, particularly the budget planning process, thus effectiveness of budgeting depends on how a municipality plans its activities (Cox, 2016:160). The Constitution (section 153) requires a municipality to budget and plan its process so as to give priority to rendering basic services to the citizens (Makwethu, 2019:np). According to Isaac *et al.* (2015, 35), the budgeting process, particularly the planning process, assists management to think long-term. Effective planning leads to realization of the objectives of an organisation, therefore leading to the overall performance of an organisation (Daft *et al.*, 2010:7). No matter how tedious planning is, budgeting enables organisations to manage cash flows and spending patterns with diligence (Zweni *et al.*, 2018:30).

According to Reutener (2015:109), the movement of money into and out of the municipality's bank account is referred to as cash flow; money inflow consists of money which is received from ratepayers (property rates and tariffs), whereas cash outflows

consist of the money paid to staff and service providers”. For a municipality to achieve a surplus, more money should be deposited into the municipal bank account than is taken out of it. If a municipality does not generate cash (cash inflow) the result may be bankruptcy, with devastating consequences for service delivery. Cash flow management is an important function that tells management when and how to avoid a deficit by managing revenue and expenditure effectively and efficiently in order to avoid underperformance.

Revenue management is the process of classifying, collecting, reconciling and recording income which is generated by the municipality from businesses and citizens for services rendered (Rakabe, 2010:137). Municipalities around the world, particularly in emerging countries such as RSA, are confronted by massive challenges when it comes to raising their own revenue for sustainable service delivery (Malobela, 2016:13), thus affecting how municipalities budget for revenue and expenditure. According to Kanyane (2014:97), municipalities depend on a strong revenue base to effectively provide services to residents. Thus, how revenue and expenditure (operating expenditure and capital expenditure) are managed has a considerable influence on the municipality's performance.

According to Visser (2002: 67), the role of the municipal manager in a municipality to ensure that each department or program controls its expenditure at the departmental level. Section 62 (1) of the MFMA, 56 of 2003 requires the accounting section to manage resources and create systems to manage revenue and expenditure with diligence so that the municipality can reach its goals and objective. Botlhoko (2017:39) further adds that municipal expenditure can be controlled and analysed through the budget.

1.7 RESEARCH DESIGN

According to Mukherejee (2017:56), a research design is a theoretical structure which frames how an investigation is performed. Patton (2015:102) defines research design as a strategy or a plan of action presenting the procedure to be followed by the investigator in order to answer research questions. With that being said the plan of action was to apply a mixed-method approach to answer the question of “what and why”, thus data was triangulated. The reason for adopting a triangulation approach

was to overcome the flaws that come with applying a single method (Patton, 2015). Furthermore, the triangulation approach was used to validate the budget management model developed using SEM.

1.8 RESEARCH PARADIGM

The research took a positivist approach as it relied on experimentation (Rehman & Alharthi, 2016:54). The hypotheses were put forward in proportional or question form about relations between the phenomena, where the effect of an independent variable on a dependent variable is explained (Rehman *et al.*, 2016:54). A positivist research paradigm is appropriate when a researcher is using quantitative methods to answer research questions, particularly when using large scale surveys based on closed-ended questionnaire. The numerical data generated using this method can be subjected to descriptive statistical analysis (Rehman *et al.*, 2016:54). Even though the research used a mixed method, interpretative method could not be used due to the fact that it employs methods that generate qualitative data and it cannot be relied upon. According to Grix (2004), interpretative paradigm is “soft and incapable of yielding theories that could be generalized to larger population.

1.9 RESEARCH METHOD

The nature of the problem to be investigated relates directly to the primary research aim aimed to establishing the role of budgets in enhancing service delivery and the extent to which managers can manage budgets in the selected municipalities. As such, this study primarily used a quantitative research approach in a form of Structural Equation Modeling to answer the research questions, however, qualitative research approach was also used to validate the model. According to Williams (2007:67), quantitative research encompasses a numeric or statistical method to research design and qualitative research comprises of purposeful use for recitation, illuminating, and interpreting collected data. Flick (2011:252) defines qualitative research as a method that provides a detailed depiction of procedures and opinions that are used with a small number of cases in data collection.

1.9.1 Population

Wanjohi (2014:7) explains that the target population for an investigation is the set of people, group of things, services, households that are being investigated. Etikan, Musa and Alkassim (2016:1) add that a population is the total quantity of objects or cases to be researched. The population of this study comprised of the employees and managers of the selected municipalities. The selected municipalities were from the Western Cape Province, the Free State Province, and from the Eastern Cape Province. The categories of the respondents from the municipalities were; executive directors, middle managers, lower level managers, and staff members directly involved in managing and executing budgets. Municipal A has 203 employees, Municipal B has 660 employees, and Municipal C has 363 employees. Thus, based on the human resource databases of these municipalities, they have a combined total (1226) of staff members and managers.

1.9.2 Sample technique and sample size

Etikan, *et al.* (2016:1) explain a sample as a quota of a target population or universe. The sample size specifies the size of objects chosen from the universe to structure a sample (Mukherjee, 2017:58). The sample included the populations/employees that directly deal with the management of budgets. The human resource database of those municipalities was used to draw sample. Similar studies conducted by Mafini (2014), and by Katou and Budhwar (2007) on budgeting and organisational performance, proposed that 300 respondents are sufficiently representative for a survey and interviews. Thus, the sample size was set at $n=300$ respondents. The respondents that completed the survey fully were $n=261$, and the staff members that participated in the interviews were $n=4$.

The study used two non-random techniques: convenience sampling and purposive sampling. These sampling techniques are applicable in this research as they assist the researcher to select respondents based on suitability, accessibility and availability (Etikan *et al.*, 2015:2).

1.9.3 Data collection instruments

An online instrument was used to accumulate data from the designated target participants at the selected municipalities. A questionnaire comprises of a set of questions to be used to accumulate data from the target participants (Fick, 2011:106). Fick (2011:106) adds that a questionnaire assists a researcher to get comparable answers from the respondents. A 5-point Likert scale questionnaire was utilized in this research to gather data from the respondents within each municipality. The questionnaire was validated and focused on issues related to budgeting and organisational performance. For the qualitative part of the study, semi-structured interviews were conducted with the management of the municipalities. In an interview, the researcher asks questions verbally to the respondents and in return the respondents respond verbally to the questions (Murgan, 2015:269). Since the researcher worked as a Senior State Accountant at a provincial government department in the Western Cape and he has relevant knowledge and experiences in budget management. Thus, the researcher conducted all the interview sessions during the entire research process.

1.9.4 Data collection/fieldwork

With the consent of the Municipal Managers an online questionnaire (survey) was sent to the employees of the municipalities. Prior to the administration of the questionnaire, the aim of the research was explained to the respondents and a written request for their consent was presented to them. According to Iwu (2012:95), a questionnaire ought to be tested for validity before it is given to the respondents. Thus, the questionnaire was tested by the researcher by pilot testing of 30 questionnaires from residents to ensure instrument dependability.

The instrument was administered by the researcher.

1.9.5 Data coding and analysis

To enhance the quality of this study, information was collected and evaluated to ensure that it is as complete, reliable, precise and applicable as possible to the research objectives. Statistical Package for the Social Sciences (SPSS) Amos programme was used to capture and analyse quantitative data. Structural Equation Modeling was used to establish and validate the proposed model. Good-Fit-Index, RMSEA, Chi-square and Cronbach's alpha were used to test the reliability of the data.

Different descriptive statistics are used to offer summary information about the sample and collected data. Descriptive analyses are in a form of median mode, mean, standard deviations, and frequency tables and graphs. Qualitative data will be coded and analysed using text-based documents (transcripts).

1.10 RATIONALE AND SIGNIFICANCE OF THE STUDY

The study's goal is to look at the budgetary problems that managers face in a municipality. It aims to explain why the current situation has developed and to make positive suggestions for the future that, if implemented properly, may have a substantial impact on how managers utilize budgets as an effective managerial instrument. Thus, the study is important because there is lack of structured budgeted management frameworks in South African municipalities. The researcher aims to make sound recommendations to assist in facilitating/contributing to the improvement of budgeting practices, within municipalities and subsequently to improved service delivery.

This study develops a framework for budget management that can be implemented in municipalities. The framework provides new solutions to guide municipalities on how to manage their budgets effectively in order to deliver services such as safety services, health services, housing provision, water, sanitation and refuse, electrical services roads and infrastructure services and local economic development (LED) to improve the standard of living of the residents. The study offers a guide to senior management in all South African municipalities for improving their budget management practices.

1.11 DEMARCATION/DELIMITATION OF STUDY

Data gathering was limited to three selected municipalities.

1.12 ETHICAL CONSIDERATIONS

Permission was obtained from each municipality before the research was conducted. Participants' names and identities were withheld by the researcher and were not revealed to anybody or to any institution. The respondents were instructed on the cover letter of the instrument not to disclose their names or identity. The researcher ensured that the participants remained anonymous. The study did not bring harm to

the participants, they were not forced or manipulated to participate. The participants were told that their partaking in the study was entirely voluntary, and that their right to withdraw at any moment was honored.

The data which was collected was only used for the purposes of this study not for any other purpose. As a researcher it is critical for one to be an ethical researcher and one has a duty for protect the participants and to present correct and accurate results. The researcher first obtained permission letters from the three municipalities for conducting the research. Furthermore, the researcher asked for consent from the participants who took part in the survey and the interviews. However, before the researcher sent the link for the survey and appointments for the interview sessions, ethical approval was acquired from the Faculty Ethics Research Committee, Faculty of Business and Management Sciences, Cape Peninsula University of Technology.

1.14 SUMMARY

This chapter discussed the problem to be investigated in this study, the rational of the study, the methodology to be followed in order the answer the research questions. Literature in budget management and service delivery was discussed. Budgeting is an efficient management mechanism that can be used to implement operational plans and objectives of a government department or a municipality. A budgeting tool can be used as a driving instrument for service delivery in municipalities. A municipality is the only sphere of government that is closer to residents. Challenges of maladministration, mismanagement of funds, lack of service delivery and corruption impacts negatively on the sustainability of municipalities

If budgeting is correctly applied and controlled and thus takes into account all the factors influencing proper budget control, a municipality should be able to make effective use of resources to achieve its mandate. The following chapter will discuss the nature of service delivery in South Africa.

CHAPTER TWO: AN OVERVIEW OF SERVICE DELIVERY IN SOUTH AFRICA

2.1 INTRODUCTION

Post 1994 the residents of the Republic expected their lives to improve as a result of receiving quality services from municipalities. Every democratic government has an obligation to deliver quality and affordable services to its citizens, and that obligation is often fulfilled by the local government sector, particularly municipalities. There are a number of elements and key stakeholders that play some critical roles in service delivery in South African (RSA) municipalities such as the constitution, particular statutes and local government employees. (Molinyane, 2012:2). The concept local government will be defined and deliberated in this chapter, the role of local government in service delivery will be unpacked and the role of the constitution in local government will be outlined. Political and socio- economic issues impacting on local government will be examined to offer information on the environments in which municipalities operate. In addition, the nature of service delivery and the difficulties encountered by municipalities in responding to these will be discussed.

Koma (2010:113) defines local government sphere as the organ of the state that is situated within a community to address the needs of the people in that jurisdiction. Koma *et al.* (2014:96) explain that the local government sphere is a vital, unique and inter-reliant sphere of government that manages its activities autonomously, but in conjunction with national government policies and strategic objectives. Those policies and strategic goals should be aligned to the supreme law to deliver quality services to citizens in order to improve their quality of life. This chapter will discuss the role of the constitution, the role of Local Government, the Integrated development plan, service delivery, the role of governance in service delivery, and the role of budget management in service delivery.

2.2 THE ROLE OF THE CONSTITUTION (RSA)

With the introduction and signing of the Constitution (RSA 108 of 1996) after the first democratic elections in April 1994, this constitution became the supreme law (legal framework) of the republic. This legal framework guides government in the delivery of services and in their efforts to eradicate poverty (Koma, 2010:111).

Section 151 of the constitution defines the goals of municipal government, which are to provide services to the citizens in an appropriate way, uphold social and economic growth, stimulate health and ensure that communities live in a safe environment (RSA, 1996). The constitution was formulated with the intention of democratizing the republic and eradicating the inequalities attributed to the previous apartheid regime in order to raise the standard of living for all South Africans and allow them to enjoy equal rights. Figure 2.1 below illustrates the role of the constitution of the republic in framing these rights.

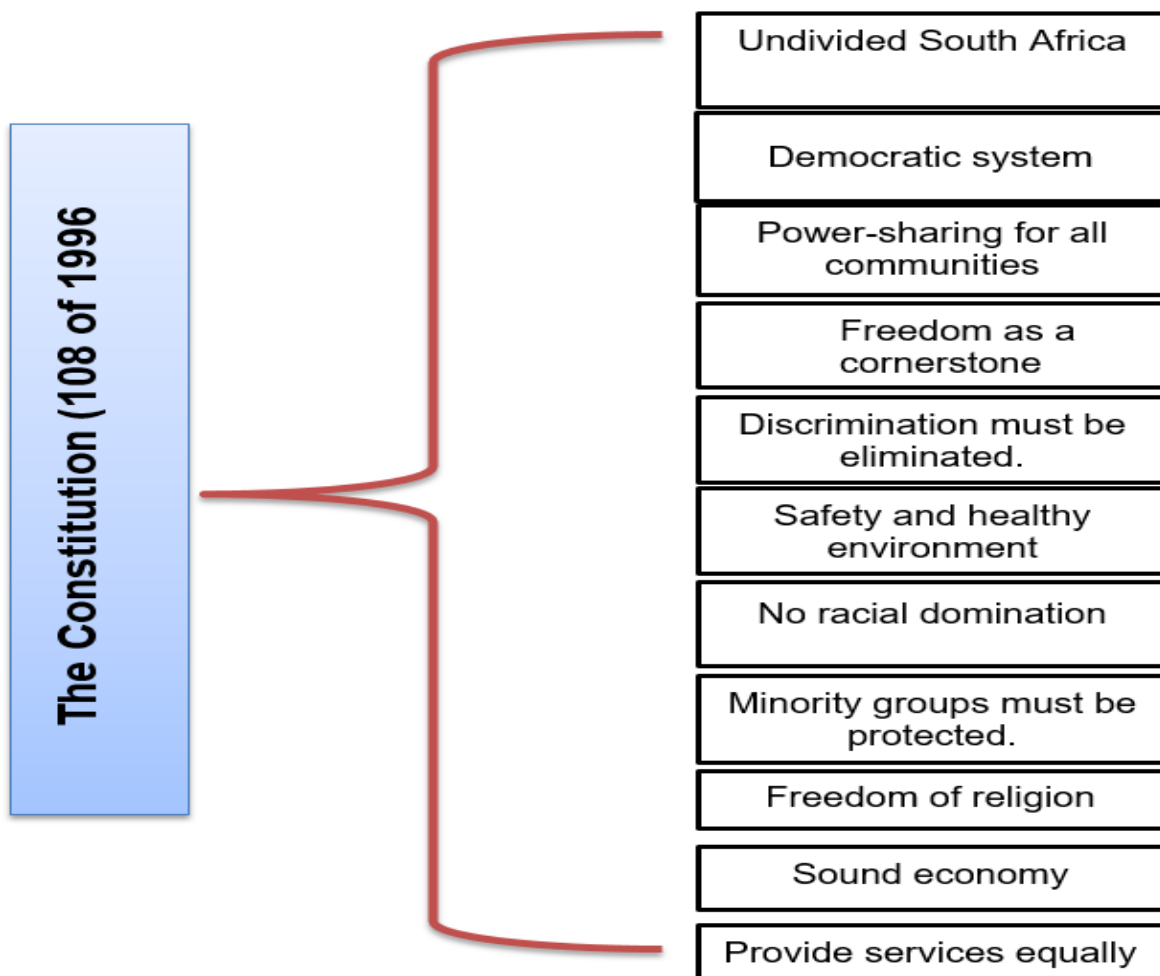


Figure 2. 1: The constitution in South Africa

(Source: Adopted from the RSA Constitution)

It is evident from the roles included in Figure 2.1 above, the constitution's goal is to create a legislative structure for residents to receive services. The constitution further requires the government to utilize public resources efficiently and effectively and moreover hold different organs of government accountable to the people particularly,

local government. Despite the objectives and provisions outlined in Figure 2.1, national, provincial and local government have not yet adequately fulfilled functions such as the following:

- **Health care:** According to Hjertsrom, Obstfelder and Norbye (2018:1), many countries worldwide, and in Africa in particular, face challenges in providing health care due to limited resources. However, the government has an obligation to provide health care services for all who live in the republic, particularly those who are vulnerable and are from a poor background.
- **Housing:** According to the constitution of the republic, “everyone has got a right to safe and appropriate housing”. Thus the government should build safe, decent and economical housing for the poor (Vale, Shamsuddin, Gray, & Bertumen, 2014:22).
- **Education:** Everyone has a right to receive free basic education in their own language (RSA, 1995:12)
- **Sanitation, water and electricity:** According to the constitution everybody has the right to adequate electrification and water.

The functions mentioned above are clearly articulated in the constitution to assist state institutions and state organs, including municipalities, to execute their responsibilities. Notwithstanding, some municipalities fail to address the functions for which they are responsible, even though the constitution of democratic South Africa (post-1994) requires them to do so. How municipalities were run pre-1994, is different from the way they are run post-1994 as is presented in Figures 2.2 and 2.3.

According to Figure 2.2, local and provincial governments are spheres of government in their own right, however, Figure 2.3 illustrates that all the spheres of government in South Africa are interrelated and in most instances cannot function without each other. This interconnected relationship is mandated by the Constitution of the Republic to ensure that these different spheres account to each other.

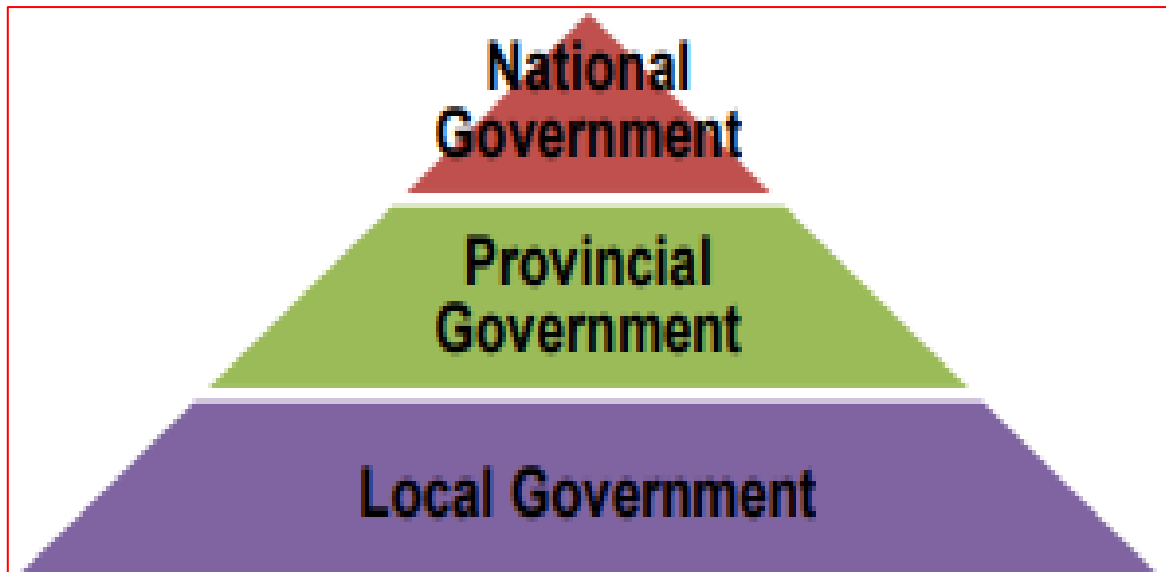


Figure 2. 2: System of Government Pre-1994

(Source: National Treasury, nd)

Before the adoption of the current constitution, important decisions were taken by the national government alone. The system of government was characterized by a top-down approach (Malefane, 2008:708) in which local government was subservient to provincial and national government (de Visser, 2009:8). In the apartheid era, local government functions were divided along racial lines with services at local level being unequally provided. Figure 2.3 below depicts a government system post-1994.

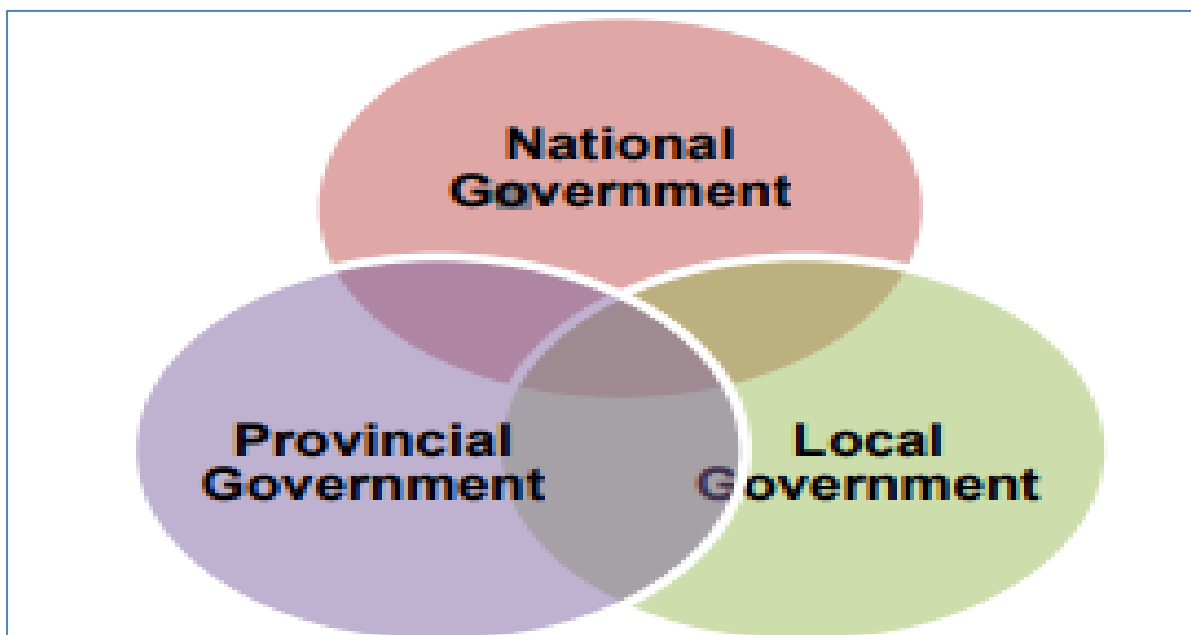


Figure 2. 3: System of Government Post -1994,

(Source: National Treasury, nd)

As illustrated in Figure 2.3, post-1994 the system of government was transformed, with the three tiers of government becoming interrelated and none of them functioning in isolation. The National Government drafted and adopted a National Development Plan which must be effected and carried out by all the spheres of government.

2.3 THE ROLE OF LOCAL GOVERNMENT

The sphere of local government is crucial in what the national government aims to achieve. According to Sithole & Mathonsi (2013:10), local government was created for the first time in the 17th and 18th centuries after the Dutch and British settlers arrived in South Africa. The current constitution puts the onus on local government to ensure that social and economic development is promoted for the benefit of the community (RSA, 1996). As defined by scholars referred to in previous sections of this chapter, the local government powers are clearly articulated in section 151 of the constitution (Roux & Nyamukachi, 2005:693). Internationally, literature on governance considers local government to be a distinct sphere of government, particularly in developing countries (Sithole *et al.*, 2013:10).

According to Thornhill (2008: 492) and de Visser (2009:9), the Constitution position local government as an important development agency by clearly outlining its constitutional objectives, mandate and developmental obligations. Hence, it is important for resources to be made available to municipalities so that the desires of local residents can be addressed.

According to Koma (2012:53), the roles of local administration include the alleviation of poverty, advancement of local economic development and job creation on behalf of the provincial and national governments. The responsibilities of local government, framed by the constitution, have been detailed in a series of Acts of Parliament as illustrated in Figure 2.4. based on what is depicted in Figure 2.4, all the statutes that are governing municipalities emanates from the Constitution of the Republic.

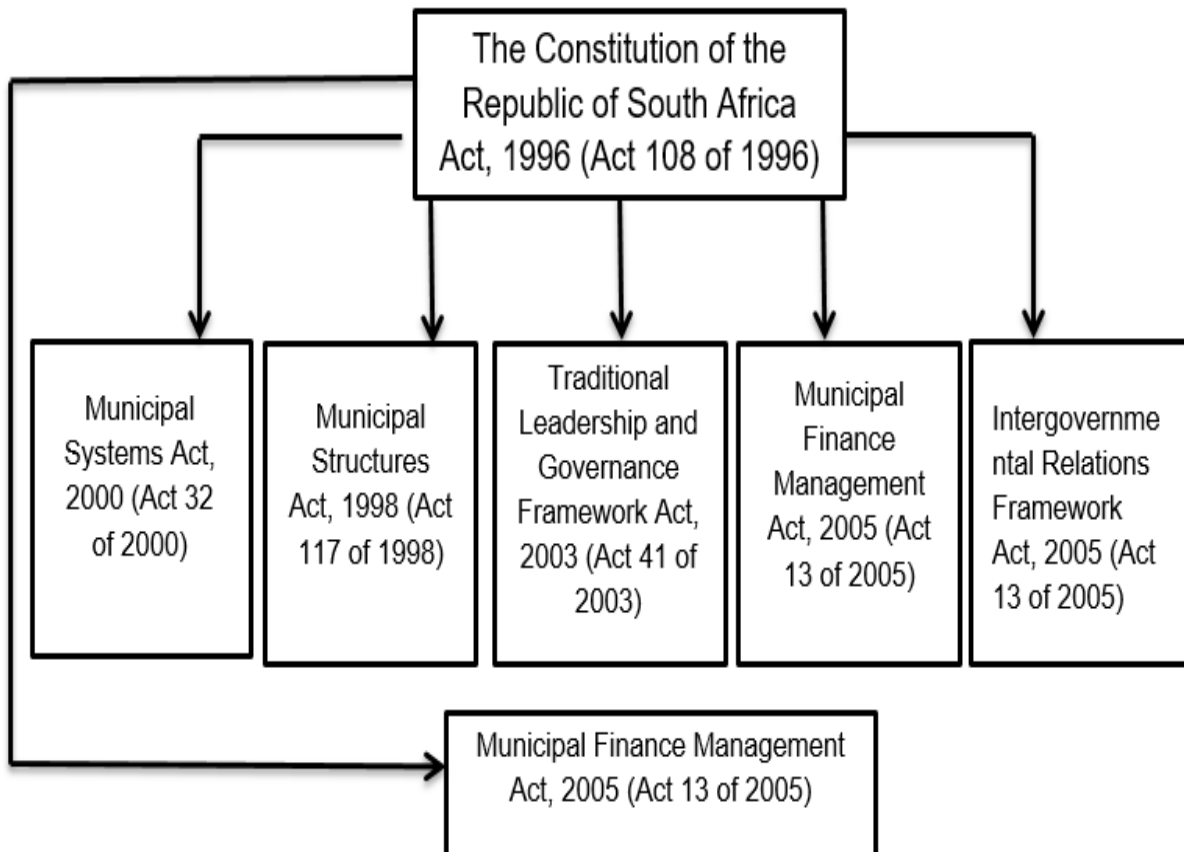


Figure 2. 4: Acts of Parliament related to the work of local government

(Source: Author)

As illustrated in Figure 2.4, the ultimate law is the constitution and it provides the framework within which all the acts in the diagram have been drawn up, voted for and passed in parliament. It is thus the obligation of parliament to ensure that these statutes are implemented effectively by municipalities. The national and provincial governments should support municipalities so that its obligations can be met and its mandate can be achieved to the benefit of local communities. In most instances local government implements national policies on behalf of the national government, thus, collaboration between national, provincial and local government is of paramount importance.

Local government sphere refers to municipalities (Scheepers,2015:24). According to Roux (2005:694) municipalities are categorised based on section 155(1) of the Constitution, read with chapter 1 of the MSA, 117 of 1998 which sets out the classification and categorisation of municipalities in South Africa. Figure 2.5 below depicts different classes of municipalities in the Republic.

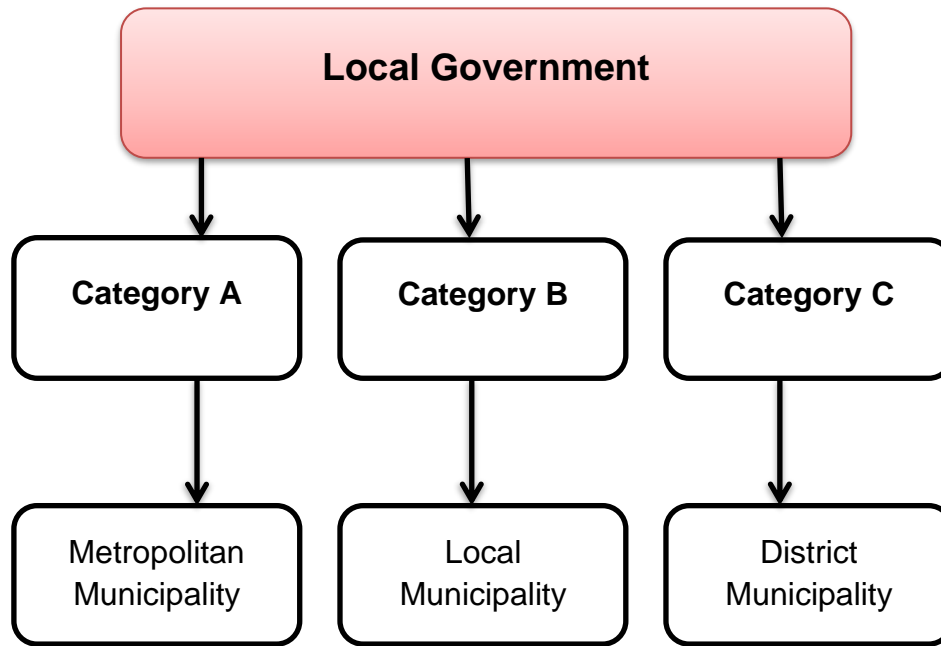


Figure 2. 5: Types of Municipalities

(Source: Author)

- **Category A:** Is a municipality that has powers, legislative authority and jurisdiction over a metropolitan municipality. Currently there are eight Metropolitan Municipalities (Buffalo City; City of Cape Town; City of Johannesburg; City of eThekweni; Nelson Mandela Metropolitan Municipality; City of Tshwane; Ekurhuleni Municipality; Mangaung Municipality).
- **Category B:** These are municipalities that render services to geographical areas which are outside metropolitan areas, they share legislative authority with the district municipalities (Category C) that they fall under. (Thornhill, 2008:497). Currently there are 226 Local Municipalities.
- **Category C:** Is a district municipality that shares legislative authority with local municipalities under its jurisdiction or geographical area. Currently there are 44 District Municipalities.

For all the above mentioned categories of municipalities to function properly, they have to be systems in place, and National Treasury proposed a framework that municipalities need to follow. Figure 2.6 below depicts the key elements of a functional and well-performing municipality.

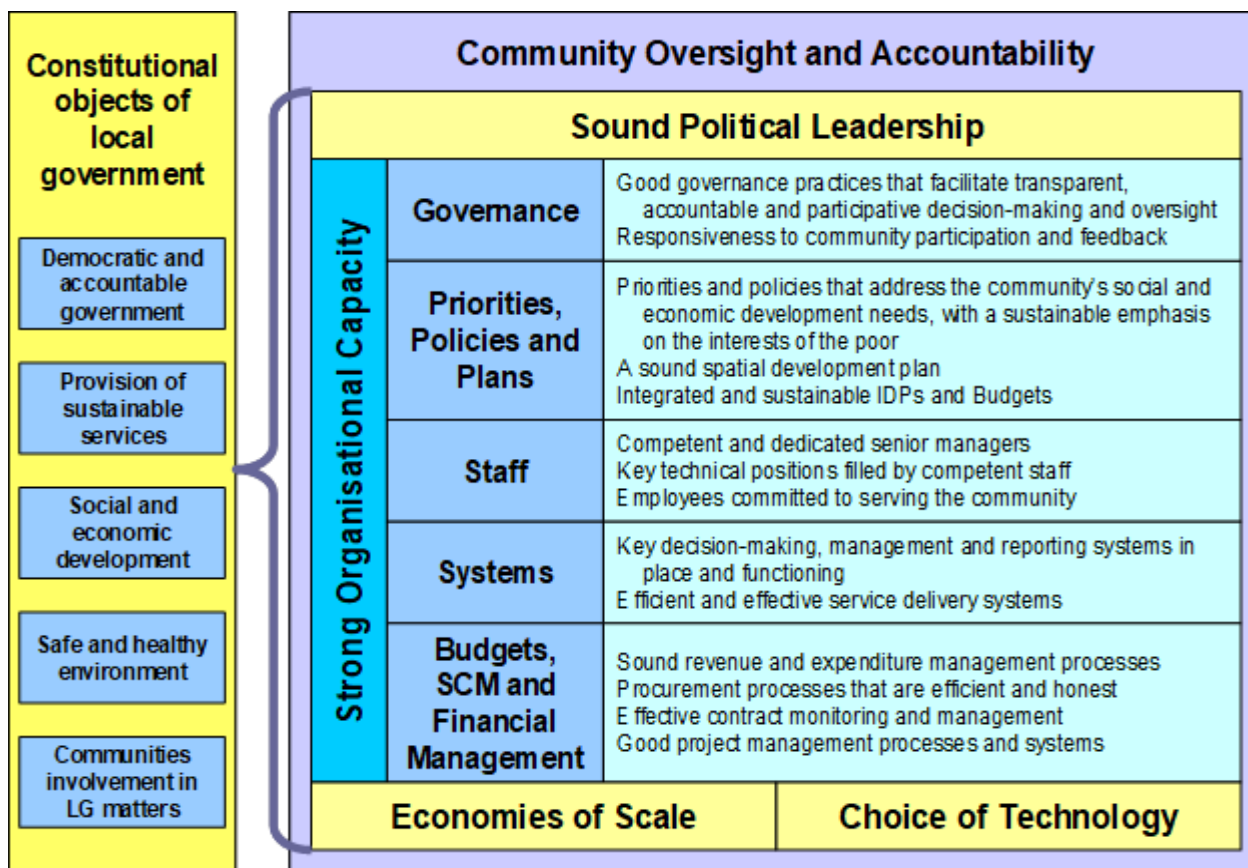


Figure 2. 6: Key elements of a functional and well-performing municipality

(Source: National Treasury)

2.4 INTEGRATED DEVELOPMENT PLAN (IDP)

According to Mathebula *et al.* (2016:70) one of the tools used by municipalities to deliver services is the IDP. The IDP is a strategic document that is used as a management tool, framework for setting a budget for the municipality and as a method for running a municipality (Koma *et al.*, 2014:101). IDP and its implementation is supported by statutes such as the Municipal Systems Act of 2000 (Malefane & Mashakoe, 2008:475). The IDP is a service delivery implementation tool that guides municipal officials on how to prioritize and deliver services to communities (Sebola *et al.*, 2013:7). When the IDP is inadequately implemented by municipalities, services cannot be delivered effectively to the communities, thus leading to services delivery protests when the communities are not getting services as mandated by the constitution.

White Paper that was drafted by the national government in 1998 encourages municipalities to encourage communities to participate in planning and implementing the IDP (Malefane *et al*, 2008:475) so that by working together, community members and local government officials devise long term strategies for achieving municipal goals. Therefore, the IDP is a disposition that is meant to integrate developments of a municipality in a certain jurisdiction (Mathebula *et al.*, 2016:72).

Each department within a municipality has an obligation to contribute towards the planning and execution of the IDP. However, when it comes to implementing the IDP, municipalities face multifaceted problems such as a lack of skills and ability (Malefane, 2008:710). Some of these limitations have their origins in South Africa's long history of demographic inequality.

2.4.1 Planning Pre-1994:

After the formation of municipalities in South Africa in 1903, planning was done in an unfair and unfavourable manner (Sebei, 2013:20). Planning was done top-down, from the national government, and it was done in demographically segregated ways which favoured the 'white' minority. There was little interest from national government in addressing problems such as local economic conditions, social development, poverty alleviation, health and safety and security for the whole population and as a result disadvantaged communities had limited or no access to facilities or economic development in their local municipalities (Madumo, 2015:154).

2.4.2 Planning Post-1994

Under the post-apartheid democratic state with its new constitution, local government is anticipated to play a vital part in planning and developing municipalities and thus in improving the lives of communities in their jurisdictions. In 1998 the IDP was introduced as a local planning tool for municipalities through the proclamation of the Development Facilitation Act of 1995 (Sebei, 2013:21). Figure 2.7 below depicts the IDP cycle and how and when a municipality should engage with the community. The residents play a critical role in the development and drafting of the IDP of a municipality, as such, Figure 2.7 illustrates this conception.

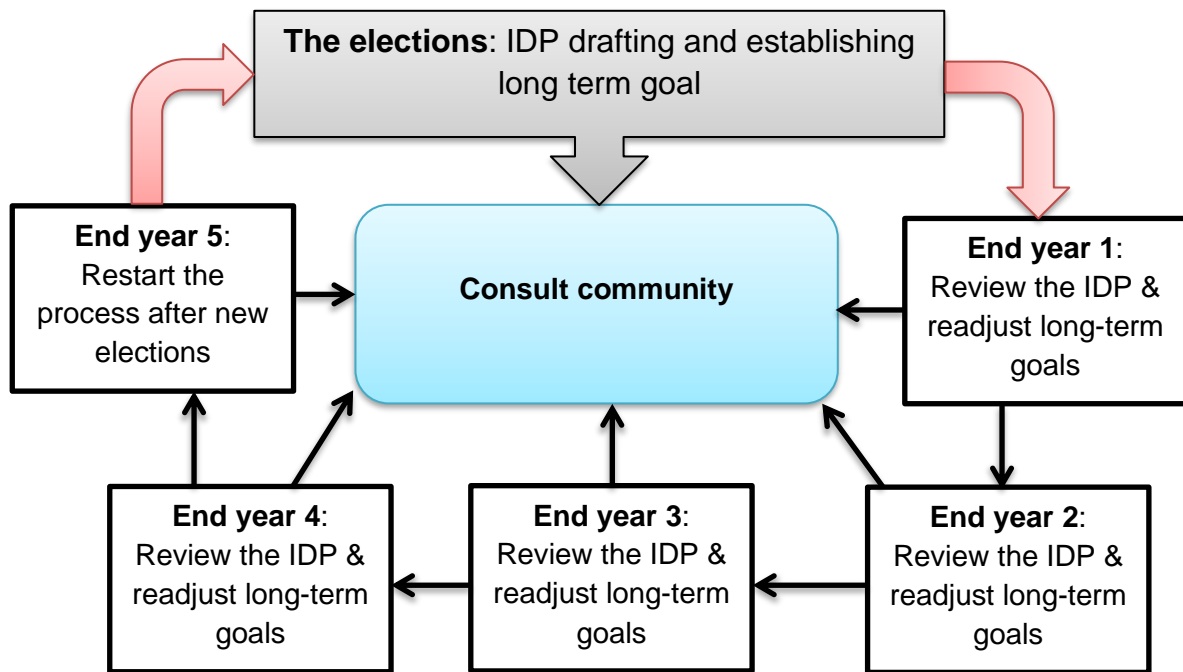


Figure 2. 7: IDP cycle

(Source: Malefane, 2018:717)

As shown in Figure 2.7, the IDP cycle places the community in the centre of the process, because residents have the right to be involved in municipal decision-making (Ndebele et al, 2017:345). According to the White paper of 1998, municipalities must consult with residents throughout the planning phase of the IDP and continuously to give feedback to the community. Daft *et al.*, (2010:7), state that, municipal planning's mission is to define priorities and goals for future municipal success, as well as to guide management in determining the actions and resources needed to attain the strategic goals.

Planning is referred to by municipal management as a thoughtful method to enhance methods for effective and efficient use of resources (Rao, 2009:618). This fast-tracks the degree at which municipal resolutions and adjustments are made. On this topic, Nel *et al.* (2014:50) agree with most of the other scholars and recognizes significant benefits gained from municipal strategic planning. Therefore, these benefits are outlined below in Table 2.1.

Table 2. 1: Advantages of Organisational Planning

Benefit 1	Offers guidance to be followed by an organisation.
Benefit 2	Assists executives in knowing what to do to reach objectives.
Benefit 3	Allows a firm to assess its performance.
Benefit 4	Creates a participative environment for employees.
Benefit 5	Reduces the effect and potential risks of transition.
Benefit 6	Aids the organisation in planning for potential hazards.
Benefit 7	Establishes the criteria that the organisation must follow.

(Source: Adopted from Nel et al., 2014:50)

Planning should be practical and precise when the situation is unpredictable. Jordan, Ross, and Westerfield (2010:89), are of the opinion that an organisation's planning automatically requires the financial requirements to accomplish the purposes and goals of the organisation. The organisation needs to be able to project the costs from the planning stage and measure the plan's affordability. In a way, whoever participates in planning for an entity, the budget is entangled with any plans. There are various modes of planning in municipalities (Sado, 2014:61), these types of plans are defined in detail below.

- **Long- term plan:** This planning approach defines municipal priorities, strategies, and methods for accomplishing and allocating resources to meet its goals. For most municipalities, this kind of planning can extend to several years, three to five years. Top management is in charge of this type of planning.
- **Medium- term plan:** This plan is an alternate plan of action that may be implemented if the first plan fails to meet the municipal aims and objectives. These are often a shorter form of long-term plans, which may last up to 5 years, and are considerably highly foreseeable in the future than long-term plans.
- **Short- term plan:** Is a plan that specifies what must be done, by whom, and when. The short-term plan addresses the municipal's immediate plans, most of which lower-level managers execute. These are referred to as operational plans, and they are easy to describe in terms of budgeting.

Any municipality planning any activity or a project ought to have a planning framework or a model to follow in order to guarantee that the planning process runs well. As such, Figure 2.8 sketches a planning model within an organisation.

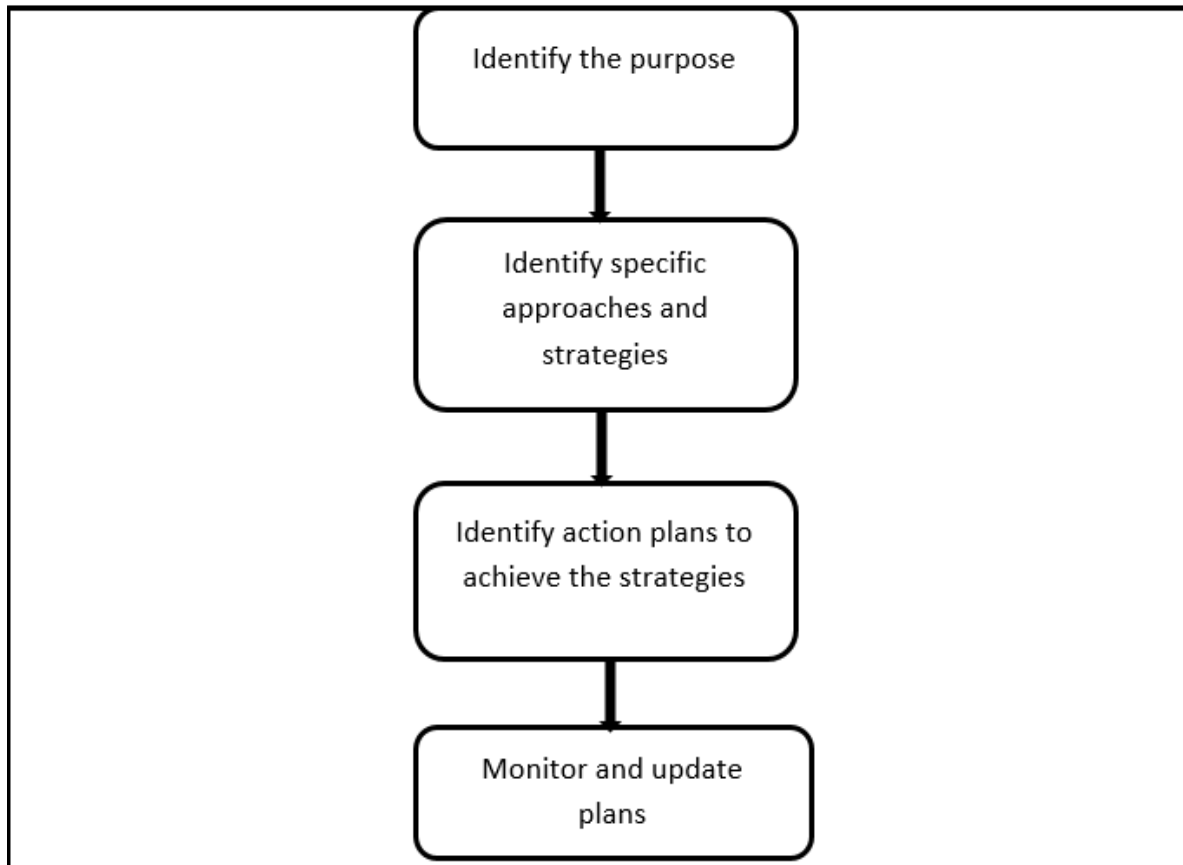


Figure 2. 8: Planning Model

(Source: Sado, 2014)

2.4.3 Regulatory Background for the Development of the IDP

The supreme law (The Constitution) requires municipalities to prepare an IDP in order to develop and carry out its responsibilities (Mabuza, 2016:18). To fulfil its constitutional duties, a municipality is required to manage its administration, finances, resources and strategic plans processes in order to prioritize residents' fundamental rights.

The Municipal Systems Act, 2000 (Act 32 of 2000) stipulates that each city council must implement a new, inclusive, and transparent strategy for the progress of the municipality within a specific timeframe following the commencement of its elected term. The plan should include the following:

- Link, incorporates and integrates plans of the municipality.
- The plan must take into consideration ideas for the advancement of the citizens and the municipality.
- Correlates the capital requirements and capability of the municipality with the execution of the plan.
- Shapes the policy structure and foundation upon which annual budgets must be founded.

In accordance with the MSA and the MFMA, the municipality should establish its IDP for a period of five-year, which is endorsed by the Medium-Term Revenue and Expenditure Framework (MTRF) for strategic, performance and inclusive municipal governance. Municipalities must also cooperate closely with provincial and national levels of government in implementing national and provincial planning projects at the local jurisdictions.

Thus, the are the statutes governing the IDP:

- The Constitution of the Republic of South Africa (Act 108 of 1996).
- Local Government Transition Act of 1993.
- White Paper on Local Government (1998).
- The Municipal Systems Act (Act 32 of 2000).
- Municipal Structures Act (2000).
- The Municipal Finance Management Act (Act 56 of 2003)

The legislation (MSA and the MFMA) makes provision for municipalities to review the IDP document continuously. This process is done with the aim to update of some chapters found in the IDP to make certain that the IDP and budget are met. The IDP review process should take place within the framework established by the municipality's leadership. Figure 2.9 below illustrates the IDP review process. It is imperative to note that in the IDP review process should include the review of the municipal five-year strategic plan with clear strategic pillars that are aligned to the departmental plans and intergovernmental plans, focusing on the economic growth, improving efficiency, and improving service delivery. Thus, that leads to consolidation of plans and the budgeting process, by clearly outlining capital and operational budget priorities that are linked to the strategic pillars of the municipalities.

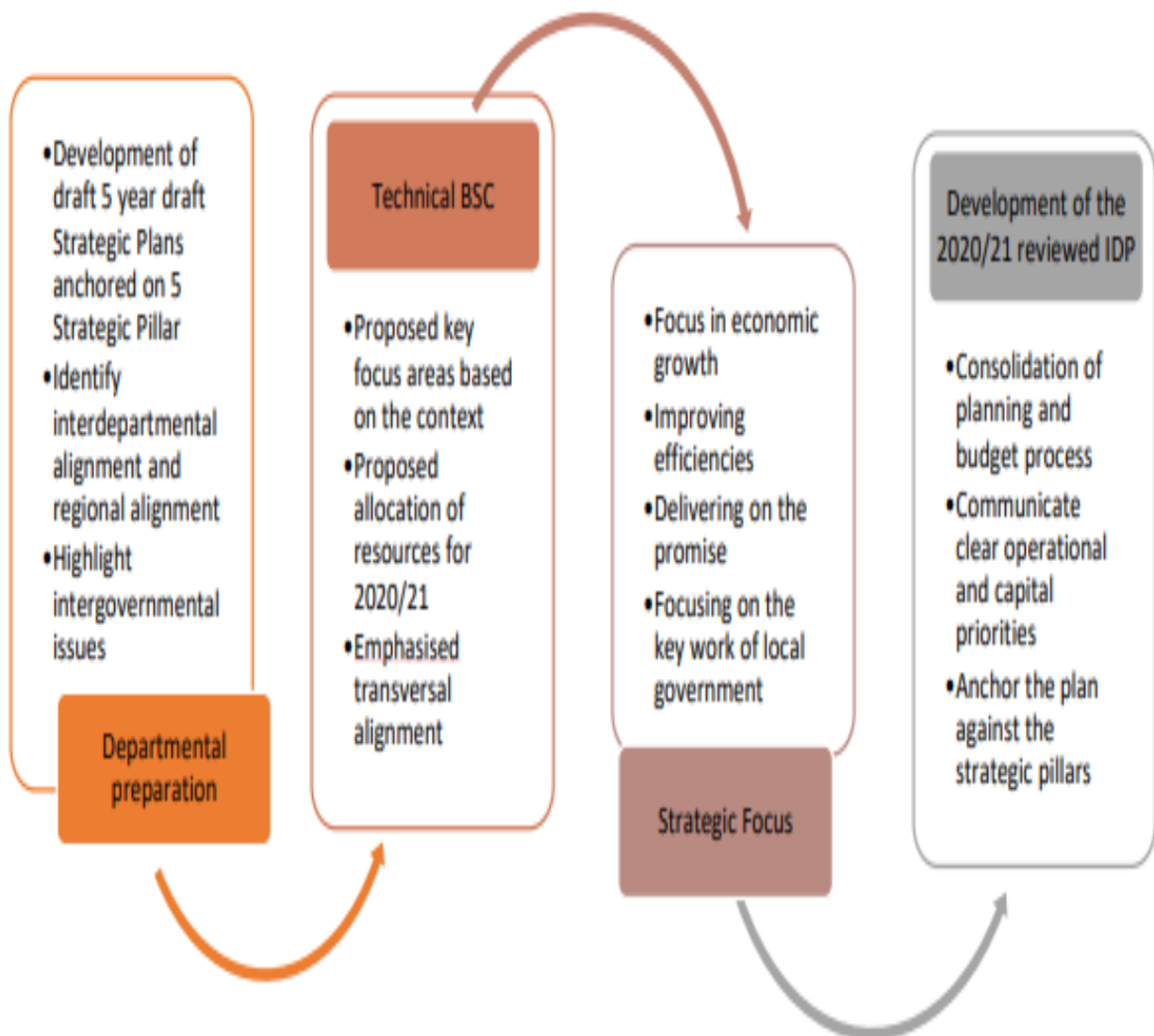


Figure 2. 9: IDP review process

(Source: National Treasury, nd)

To complete the steps mentioned in figure 2.9, municipalities should engage all stakeholders who should be involved to get their insights and inputs in order to determine which services are required.

2.5 SERVICE DELIVERY

In South Africa service delivery means the dissemination of basic services to the citizens within the jurisdiction of a particular municipality to advance their quality of life. Although the nation has achieved great progress since 1994 in enhancing South African residents' quality of life by delivering basic services to previously unserved and

underserved families. As stated in Chapter One, The constitution mandates municipalities to deliver services to residents, which thus far, in many parts of South Africa, they are failing to do. The Constitution, requires municipalities to render the following basic services:

- Health care
- Housing
- Safety
- Sanitation and water:
- Electricity Services:
- Roads and Infrastructure services
- Local Economic Development (LED)

Municipalities have an obligation to provide health care services for all who live in the republic through clinic services on behalf of provincial government. Section 27 of the Bills of Rights mandates that every person have access to safe and sufficient drinking water. Municipalities should offer basic sanitary facilities that are safe, keep smell to a minimum, and are simple to maintain. However, in some municipalities sanitation remains a major challenge.

Housing is the most needed service in democratic South Africa because many people still live in poverty with no roof over their heads. Some people still live in shacks without proper housing. Housing is considered as a "driver of economic growth" and has the potential to provide a significant boost to the economy. The Constitution recognizes the importance of housing as a basic human necessity in South Africa, however the South African government, particularly municipalities are failing to provide adequate housing to the constituents. Despite the introduction of a number of initiatives by the Government to deal with the demand of housing.

Sanitation has a huge impact on the environment of any municipal area. Whilst rate of improvement in sanitation remains modest, only few households have access either to flush toilets. It is the Constitutional mandate of municipalities to eradicate the bucket system in their jurisdictions to improve quality of life. Figure 2.10 below shows how some municipalities are neglecting the environment.



Figure 2. 10: Dirty site in a municipality

(Source: Author)

As illustrated in Figure 2.10, refuse is infrequently collected, thus, impacting the environment negatively. In some municipalities roads are not rehabilitated and maintained at all and are falling apart. Figure 2.11 depicts roads with “*potholes*”.



Figure 2. 11: Unmaintained municipal road

(Source: Author)

Figure 2.12 shows the state of housing provision in some areas of South Africa. In relation to electrification, these kind of housing layout hinders organisations such as ESKOM to provide adequate electrification.



Figure 2. 12: Shacks in South Africa

(Source: Author)

Citizens require adequate housing to access basic services from municipalities to improve quality of life. Figure 2.13 below depicts the state of clinics in South Africa. Some municipalities, particularly in rural areas lack financial resources to pay medical personnel and to maintain these clinics. The delivery of health care in South Africa has been harmed by a number of issues that have a negative effect on healthcare quality (Maphumulo and Bhengu, 2019:1). Municipalities should strive to improve their communities by providing access to basic services



Figure 2. 13: State of a Clinic in South Africa

(Source: Author)

The figures shown above (Figure 2.10; 2.11; 2.12 and 2.13) reflects a picture on what is currently happening in South Africa. According to Molinyane (2012:3), South Africa has a massive service delivery backlog. However, this problem is not unique to South Africa as many other African countries are experiencing similar problems (Molinyane, 2012:3). Before and during local government elections political parties make promises to residents in their manifestos, that they will deliver quality services, but when elected into power or office, they fail to implement these promises in relation to primary health, water and sanitation, housing amongst others (Ntliziywana, 2017:17). Ntliziywana (2017:17) has identified the following challenges that affect service delivery in municipalities;

- Poor accountability by municipal officials;
- Lack of communication with residents;

- Political interference in the administration;
- Political instability;
- Fraud and corruption;
- Poor budget and financial management;
- Lack of skilled employees

The above mentioned challenges are major reasons why South Africa has seen numerous violent protests against insufficient service delivery. Municipalities do not only have a duty to render services to the citizens, they also have duty to ensure that they improve the living standards of the citizens (Molefe, 2015:1). Efficiency, impartiality, fairness and equality are critical contributors to quality services. According to Mafunisa, Sebola and Tsheola (2012:221), service delivery challenges can be addressed if and when municipalities can strengthen community participation in the IDP process. Reddy (2016:4) identified other challenges that have affected service delivery provisions such as:

- Unfunded mandates
- Financial viability
- Legal compliance
- Fiscal discipline
- Clears Local economic development plan

The above-mentioned challenges requires commitment from politicians and all the stakeholders of the municipality, including the employees.

2.5.1 Service Delivery and Budget Implementation Plan

For municipalities to render services effectively, they have to formulate a Service Delivery and Budget Implementation Plan (SDBIP), which they need to monitor on a regular basis (monthly and quarterly). There has to be an alignment between an SDBIP, IDP and planned projects. The purpose of aligning a SDBIP and a IDP is to accelerate service delivery (Mathebula *et al.*, 2016:79).

A SDBIP is formulated and approved by the mayor of a municipality in terms of Section 53 of the MFMA, which states that the mayor should approve a SDBIP within 28 days after the budget has been approved. Table 2.2 below outlines components of a SDBIP.

Table 2. 2: Components of a SDBIP

Projections for each month	Revenue and Expenditure
Service Delivery	Quarterly targets and Performance indicators
Other matters	Revising the SDBIP
Capital Budget	Details of the budget per ward

(Source: Sibanda, 2017:316)

Despite tools such as the SDBIP, poor people, particularly in rural areas, still struggle to access basic services from municipalities. Lack of service provision and infrastructure affects the quality of life of the citizens (Helao, 2015:34). Municipalities are faced with issues of capacity, which can be addressed by managing and monitoring the annual municipal infrastructure grant in relation to operational plans and budgeting for effective service delivery (Mafunisa *et al.*, 2012:221).

SDBIP serves as a tool that gives a municipality an update on the progress. There are comprehensive statutes that regulates financial and budget management in municipalities, and the constitution further requires Treasury to guarantee adequate financial management and budget management control in all government spheres (Sibanda, 2017:316-317). Effective planning and budgeting can make a significant difference in improving the quality of service delivery in municipalities.

2.5.2 Legislative framework SDBIP

Section 53(1) of the MFMA mandates a Mayor to undertake all rational efforts to ensure that the SDBIP is authorized within 28 days after the municipality's council's adoption of the main budget. The SDBIP is a requirement of the MFMA that municipalities should implement. The SDBIP a tool which reflects quantifiable outcomes and performance indicators that will be implemented and achieved by the administrative layer of the municipality.

According to section 53(1)(c)(ii) of the MFMA, the SDBIP must show:

- a) Revenue projections by source.
- b) Operational and capital expenditure per department (Vote).
- c) Performance indicators (Service delivery targets) for each quarter.
- d) Any other matters.

Section 52(d) of the MFMA requires the Mayor to provide quarterly reports on the execution of the SDBIP. According to the MFMA Circular No.11 published by the National Treasury (2005:2), the IDP and SDBIP should be close and consistent to allow the linkage between plans and real results. SDBIP includes the combined service delivery targets and in-year targets, and ties those targets to Executive management, while the lower layer is a comprehensive departmental section, which is constructed on municipal efficiency and must be compiled for each municipal department.

2.5.3 Quality of Service delivery

The White Paper (Republic of South Africa, 1997) sets the standards on how South African government, particularly municipalities, can be evaluated when providing services to the citizens. The white paper indicates that when municipalities are delivering services, they should engage in collaboration, provide excellent service standards, openness, politeness, redress, and ensure that there is value for money.”.

An effective approach to the provision of services enables municipalities to deliver quality services as per the needs of the citizens. The municipality should have quality management systems in place to ensure that services rendered to the people meet quality standards. A quality management system may serve as a foundation for continual improvement, increasing the likelihood of customer and other stakeholder satisfaction (Moradi, Jafari, Maleki, Naghdi & Ghiasvand, 2015:174). As such, municipalities require new management tools and techniques to balance conventional evaluation methods with newer and more realistic management systems. Quality management systems encourage the organisations to adopt system needs in to enhance internal procedures.

Many attempts have been undertaken in recent years to enhance the quality of service delivery in South Africa, however municipalities are still providing inadequate services to the people in contravention of the Constitution. The quality management system integrates the organisation's many internal processes and aims to provide a process - oriented approach for project implementation, notably in municipalities. Figure 2.14 below shows a quality management system a municipality should use.

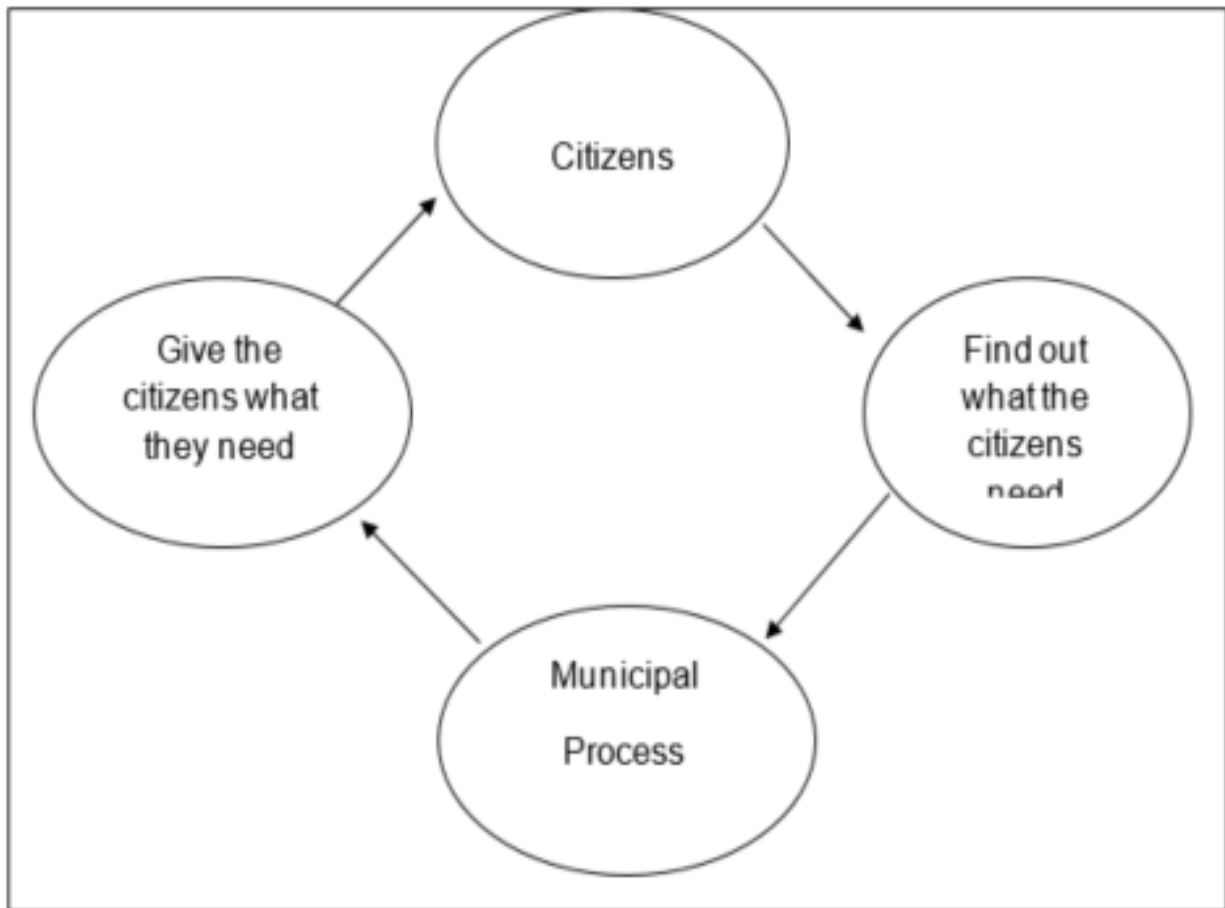


Figure 2. 14: Quality Management System

(Source: Adopted from Moradi et al., 2015)

Figure 2.14 illustrates the link between what is desired by citizens, and what the municipality can provide. Parasuraman *et al.* (1988:23) suggest five service quality dimensions that are vital in an organisation for it to provide an efficient service:

- Concrete: A municipality should provide physical facilities and equipment.
- Dependability: Should have Capabilities to provide the given service consistently and accurately.
- Openness: The should be willingness to assist customers and offer timely services.
- Reassurance: Employee knowledge and politeness, as well as their capacity to inspire trust and confidence.
- Compassion: The citizens should receive caring, personalized care.

Municipalities should implement the above mentioned dimensions to provide quality services to the citizens, particularly the poor. As previously stated, lack of quality

services has led to service delivery protests across South Africa. According to Ngcamu (2019:3), South Africa is one of the protest capitals of the world and these protests are triggered by the unhappiness of citizens with the poor standard and shortcomings of services delivery and re-demarcation of local and district municipalities. Shortcomings of services delivery are caused by poor municipal services in areas such as, housing, roads and infrastructure, electricity, health services and other services (Ngcamu, 2019:4).

According to Helao, (2015:79), good quality service delivery is related to good governance, accountability, transparency, ethics and a productive work environment. Ntliziywana (2017) found that some municipal officials work in unfavourable environments. Thus, it is crucial to understand and assess the micro and macro environments of a municipality when considering how it renders services to its constituency.

The micro- environment is the internal environment of the municipality and includes such features as financial and non-financial resources, the competencies of municipal officials and the policies of the municipality. The macro- environment deals with matters outside the parameters of the municipality, and in some instances the external environment is beyond the control of the municipality in relation to service delivery. Both the external and internal environment have an effect on the effectiveness of service delivery.

2.5.4 Unfunded Mandates of municipalities

Botlhoko (2017:68) defines an unfunded mandate as a function that belongs to a different sphere of government but executed by a municipality. Before 2014 some municipalities used to budget for unfunded mandates (National Treasury, 2014:11). In some instances, the provincial and national departments do legally give a mandate to municipalities in terms of the South African Constitution (Botlhoko, 2017: 68). Both funded and unfunded mandates should not affect the viability and sustainability of the municipality.

National Treasury posit that these unfunded mandates in some instances pose a financial and institutional risk for municipalities, because municipalities allocate money to activities that are not their core business, thus compromising service delivery. The

National government sets service standards for local government, as a result, that forces municipalities to devote limited financial resource to meet the expectations of the Central government. Basdeo (2012:51) posit that some municipalities are obligated by the National government to execute duties that are not assigned to them by the Constitution or legal statutes. These mandates have financial implications for the municipalities.

Thus, it is critical that municipalities sign service level agreements with the relevant spheres of government that the activity/project was undertaken to recover all the expenditure incurred. When transferring and delegating new duties or powers to other branches of government, essential legal processes must be followed (Basdeo, 2012:51). If a municipality delivers services beyond the service level agreement, then that will not be regarded as an unfunded mandate (Bothoko, 2017:69).

In America, unfunded mandates were eliminated in 1995 by the introducing Unfunded Mandates Reform Act of 1995. Unfunded mandates in most instances create higher costs and inefficiencies for municipalities (Dilger, 2020:1). Some of these mandates are too excessive for municipalities to deliver and they affect service delivery for municipalities.

2.6 THE ROLE OF GOVERNANCE IN SERVICE DELIVERY

One of the major challenges of service delivery in South African municipalities is the politicisation of the administrative layers, which affect governance in municipalities (Masuku and Jili, 2019:1). *Masuku et al.*, (2019:1) further state that over the years, a host of persistent service delivery difficulties, such as poor governance and service backlogs, have been found in South African municipalities. According to Shai (2017:55) define governance as the manner in which a nation is managed, particularly exercising influence over politics and power sharing. Governance reflects on policy development as well as the efficacy with which statutes and policies are applied.

Partisan infighting and disputes between political parties in council and clashes between the administrative components and politicians has negatively affected service delivery (Reddy, 2016:1). The structural legitimacy of a government level is jeopardized if strong political opinions are transferred to the administrative components of the municipalities without following any applicable prescripts and

statutes. In the modern day's governance has moved beyond traditional responses, mechanisms, and processes by allowing for citizen engagement and openness, as well as transparent disclosure in municipal procedures.

2.7 THE ROLE OF BUDGET MANAGEMENT IN SERVICE DELIVERY

As alluded in chapter 1, there is a relationship between effective budget management and service delivery in municipalities. As such, this section will discuss and engage with literature in relation to that relationship. Cheruiyot *et al.* (2017:216) discussed the relationship between budgeting and service delivery in municipalities and affirms that indeed a relationship exists between these two variables.

2.7.1 Budget management for service delivery

Through the budgeting process, the government allocates scarce resources to programs and services to provide community services. Many studies have highlighted the need for municipalities to effectively manage public funds with diligence and efficiency to render quality services particularly to the poor. There is a wealth of literature on the relationship between budget management and service delivery performance. Koma (2014) categorically state that effective budget management leads to effective service delivery in the public sector. In addition to the above, budgeting plays an important role in policy implementation, accountability, continuity and service delivery.

According to Mpaata, Kakumba and Lubogoyi (2019:2) Budget management for service delivery has continued to be a major barrier to local government. Budget management necessitates, along with many other things, goal congruence for improved service delivery (Mpaata *et al.*, 2019: 3). Budget management practices in the local government domain have been a source of concern because they have an impact on service delivery (Imuezera and Chinomona, 2015: 359). As such, correct application and management of budgets in municipalities can lead to efficiency, accountability.

As noted by Scott and Enu-Kwesi (2018:23), there is an urgent need to plan, budget and carry out actions that have the potential to significantly improve the reach, accessibility, and quality of public services. Scott *et al.*, 2018:25) proposed the

following conceptual framework for budgeting and service delivery which illustrates the links between budgeting and service delivery the public sector.

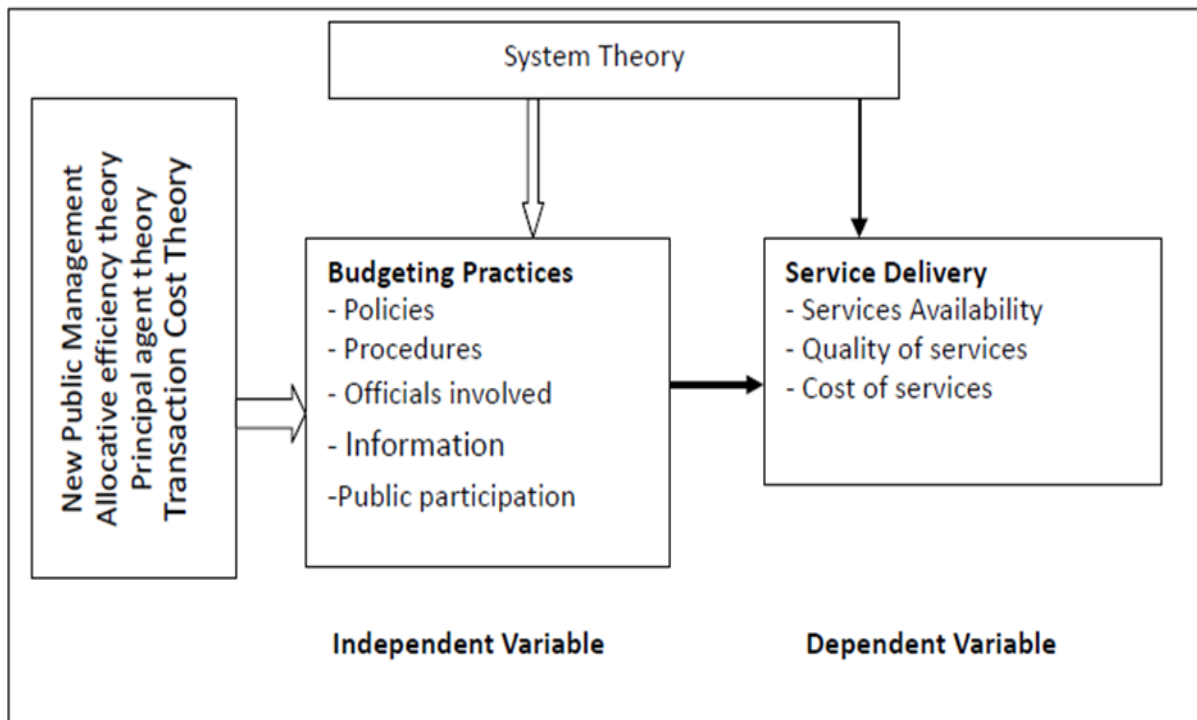


Figure 2. 15: Conceptual Framework for Budgeting and Service Delivery

(Source: Scott et al, 2018:25)

According to the framework in figure 2.15, budgeting practices, as indicated by policies, procedures, involvement of public officials, information, and public engagement, all play a role in the quality of service provided (Scott et al, 2018:25). Table 2.3 illustrates some development outcomes of municipalities.

Table 2. 3: Development outcomes

Infrastructure and Services	Municipalities must provide infrastructure and services to households.
Town planning	Municipalities must develop liveable integrated cities, towns, and rural areas
Local Economic Development	Municipalities should encourage local economic development.
Community empowerment	There should be empowerment and redistribution within the community

Source: Rabotapi (2013:2)

What is tabled in table 2.3 shows that municipalities are under immense pressure to address service delivery backlogs. For municipalities to achieve the outcomes in table 2.3 resources have to be managed well by continuously monitoring budgets. Imuezerua and Chinomona in their study conducted in 2015, proposed the following conceptual framework for budgeting and service in the public sector. Figure 2.16 below indicates that there is a link between budgeting and service delivery.

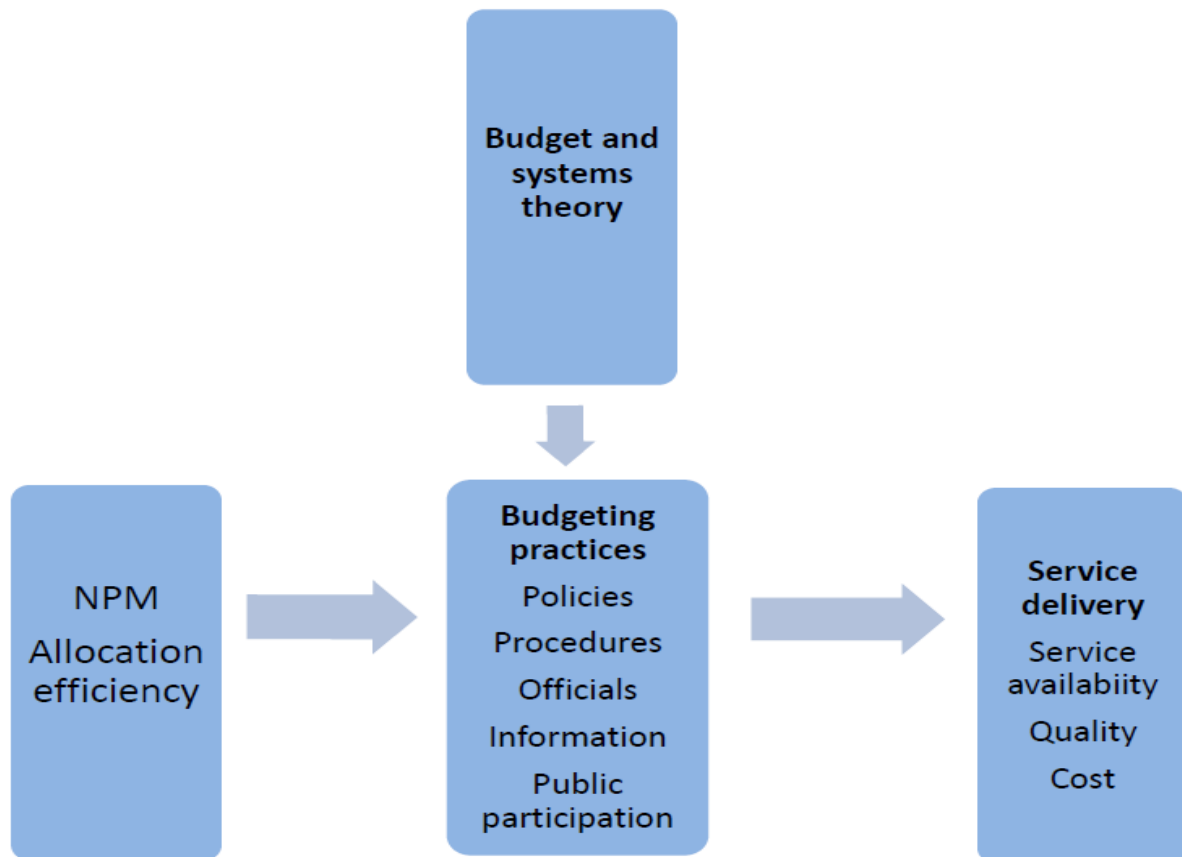


Figure 2. 16: Budgeting and service delivery conceptual framework

(Source: Imuezerua et al., 2015)

The New Public Management (NPM) is one of the variables in figure 2.16, the purpose of the NPM system focuses on the decentralization of resource control and the exploration of alternative service delivery models (Ndevu et al., 2017). Thus, policies, procedures, human resources and the involvement of the citizens has an impact on the nature of budget practices that will enhance service delivery in a country (Uwizeyimana, 2020). Uwizeyimana (2020) further indicate that, policies in government are documents that outlines what government intends do for the public in relation to quality service delivery. According to figure 2.16, the presence of

procedures and policies to deliver services is a critical requirement for effective budget management.

2.7.2 Effective budgetary management

According to Said-Salum *et al.* (2021:1) define effective budget management as an ability for an organisation to keep track of income and expenditure. Effective budget management offers frameworks to organisations to monitor a budget against actual expenditure in to order to evaluate performance (Matsotso *et al.*, 2021:1). In the context of municipalities, effective budget management leads to optimal financial resource utilisation which leads to provision of social services to the citizens Said- (Salum *et al.*, 2021:1).

Numerous studies that have be conducted around budget management continue to show that organisations, particularly municipalities cannot function properly with a budget. Thus, it can be concluded that benefits offered by budgeting, enhances financial performance and organisational performance of municipality and other government entities. Enwereji and Uwizeyimana (2019) affirms that, Effective management of budgets is measured through effective service delivery. As such, the manner in which budgets are managed by municipalities has a direct impact on how the municipality delivers services to the community, and the practice of effective budget management should be upheld at all times by municipalities. Appropriate financial management must be made possible in all municipalities, where it necessitates effective budgeting (Enwereji *et al.*, 2019).

2.8 FINANCIAL MANAGEMENT THEORIES

2.8.1 Theory of financial control

According to Wakiriba, Ngahu and Wagoki (2014:106), officials working in the public sector should always be concerned with improving financial management, budgeting, and changes in accounting reporting standards. Financial controls are policies that ensures management instructions and decisions are carried out with diligence (Wakiriba *et al.*, 2014:10). El-Nafabi (2009, np) asserted that in many government departments financial control systems and internal controls are weak and effective as a result public funds and assets of the departments cannot be safe guarded as required by the legislation.

The theory of financial control states that existing functions of financial management are essential for the survival of an organisation. This theory is relevant to this research given the fact that it will assist in better understanding the problems surrounding financial management matters in the selected municipality.

2.8.2 Agency theory

Agency theory is a theory that describes how people should behave in an organisation, as a result rules and regulations can be constructed around this expected behaviour in order to direct outcomes from all concern. According to Tshipa (2017:90), Jensen and Meckling (1976) develop the Agency theory to focus on the relationship between the agent and the principal. In the context of the municipality the agent is the management of the municipality, while the principal is the constituencies.

In most instances managers of the municipality (Agents) act in their own self-interest, they do not act in the best interest of the citizens, hence financial resources are not managed with diligence. Thus, Agency theory is mostly concerned about the configuration of interests of the citizens and managers (Tshipa,2017:90).

2.9 SUMMARY

It is evident from the literature reviewed in this chapter that both the constitution and several Acts of Parliament oblige municipalities to render effective and good quality services to residents, particularly to those who were previously marginalised by the apartheid regime. The democratic government, led by the African National Congress majority, has legislated statutes in order to correct and address inequalities within South African society and to shape municipal policies. However, to date, service delivery has been inadequate in many parts of the country, leading to violent services delivery protests and vandalism of public property.

Service delivery is a constitutional obligation of municipalities which are bound to formulate policies and strategies to deal with service delivery and to address social challenges to improve the standard of living their constituents. It is crucial that municipalities consult residents before any decisions are taken in terms of resource allocation. This process should be undertaken by using the Integrated Development

Plan outlined in this chapter. In this chapter it has been argued that the SDBIP plays a critical role in monitoring budgets in relation to service delivery.

Despite municipalities carrying-out unfunded mandates of other sphere of government, it is important that these mandates are carried-out with diligence to advance the quality of life citizens. However, municipalities seem to disagree with the National government on the financial implications of these mandates. Sometimes the public gets confused about what needs to be done by which sphere of government.

Where services are not delivered to the people as mandated by the Constitution, the people are likely to strike, and some instances they target the wrong sphere of government because they do not know who is accountable and responsible. In most instances those service delivery protests turn into violent protests.

Until now, challenges in local government have been due to financial constraints, a shortage of capacity, lack of experience, and other factors. Some restrictions that are imposed by National government through legislations, bureaucracy and red tape affects service delivery. Therefore, it is critical that the National government identify burdensome legislations that hinders effective service delivery. In order to reduce service delivery protests, expectations of the residents should be managed properly by municipalities so that they can remain satisfied.

Chapter Three focuses on the impact of budgeting and financial management on service delivery in South African municipalities.

CHAPTER THREE: LITERATURE REVIEW

3.1 INTRODUCTION

The focus of this chapter is on budget management and financial management in the local government sphere. The importance of financial management can never be overemphasized in an organisation and this is particularly the case for municipalities. Careful management of financial resources by municipalities is a priority for management and employees. The main aim of this chapter is to review and discuss literature in the areas of budget management and financial management under the following headings: the importance of budgeting in an organisation; budgeting in the international perspective; the budgeting process in municipalities in South Africa; types of budgets used in municipalities; responsiveness of the budget; credibility of the budget; sustainability of the budget; financial management

3.2 THE IMPORTANCE OF BUDGETING

In general, proper budgeting is required for organisations to be completely successful and productive. A budget must be utilized as both a planning and controlling tool in order to help to improve and grow production.

In the local government sphere, a budget is considered to be a policy document that shows how funds are allocated in order to achieve goals for a specific financial year and to ensure that directorates are working towards achieving goals that have been established by the municipality (Zweni *et al.*, 2018: 124). Cheruiyot *et al.* (2017:216) refer to budgeting as both a political and a technical process for allocating financial resources.

Employees who are qualified and skilled must be given the chance to create, execute, and evaluate budgets. According to CIMA (2004:2), a budget is built on a number of expectations that might change over time or as immediately as the budget is issued. Different organisations employ a variety of budgeting frameworks. Accordingly, Figure 3.1 depicts a budget model that an organisation may use to develop, implement, and evaluate budgets.

As presented in Figure 3.1 an organisation should initially concentrate on identifying and establishing organisational goals, as well as developing clear mission and vision

statements. After defining needs and goals, the budget must be matched with these priorities and goals. Resources must also be matched to fulfil the organisation's goals and objectives.

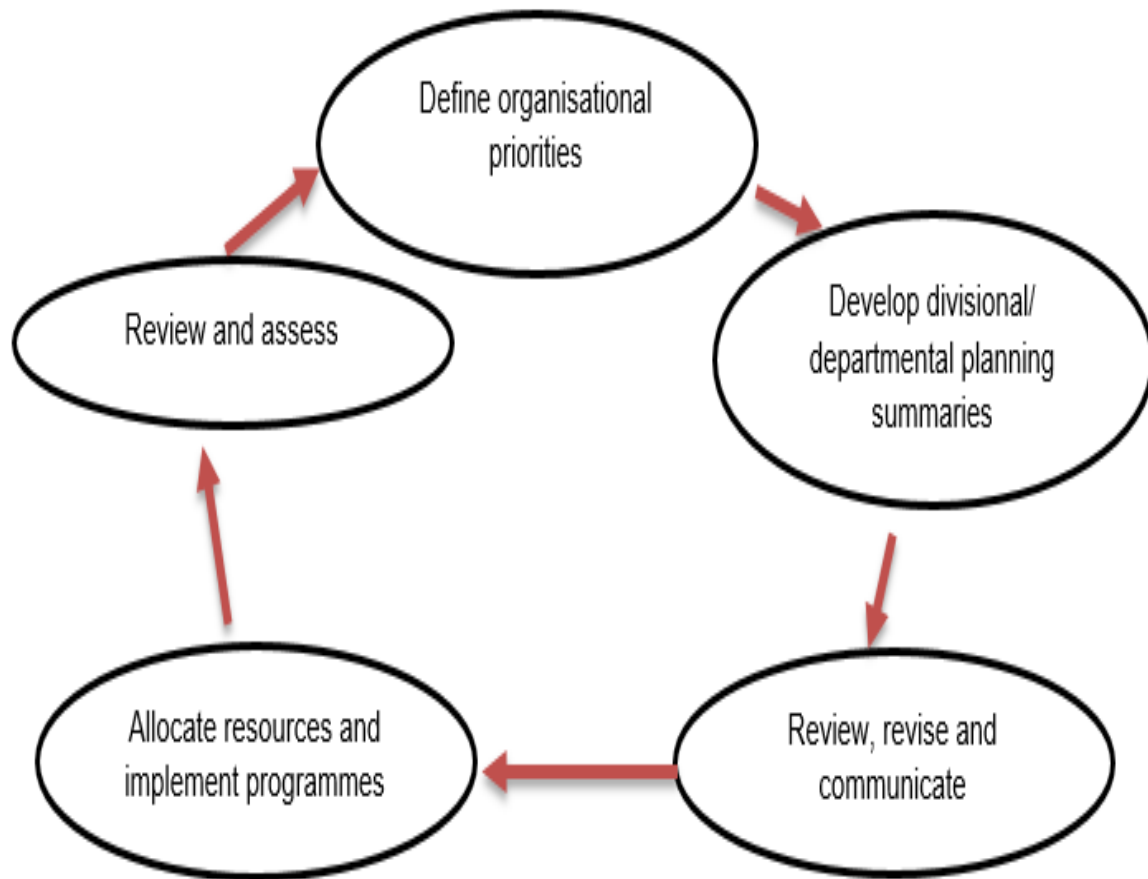


Figure 3. 1: Budget Model

(Source: Cheruiyot et al., 2017)

Once the planning phase is completed, it must be evaluated on a regular basis by an advisory committee inside the organisation. The advisory committee, consisting of senior management of the organisation, should look at the key priorities of the organisation. As such, throughout the execution phase, monetary and non-financial resources must be matched to meet the organisation's goals such that the plan of action may be carried out. The funds must be included in annual operational budgets. Following the implementation of the budget, it must be examined to address the following questions:

- How far have aims and objectives been attained?
- What are the reactions of consumers or citizens?

- How will the plans, aims, and targets for the coming year be executed and evaluated?

Budgeting was described in the preceding chapter as an instrument which serves as a comprehensive strategy for guiding the scope of an organisation's work. Ambe *et al.* (2008:231) suggest the essential criteria for budget preparation within an organisation:

Table 3. 1: Criteria for preparing budgets

Planning	To aid with yearly operations planning.
Coordinating	To organize the operations of the organisation's different departments.
Communication	To share strategies with the different department's supervisors.
Motivation	Motivating employees and managers to accomplish the organisation's goals.
Control	Controlling all the organisation's activities.
Evaluation	To analyse the effectiveness of management and employees.

(Source: Author, based on Ambe *et al.*, 2008:231)

Malgwi and Unegbu (2012:2) state that governments rely on budgets because these provide a framework for their activities. For a budget to be effective it must be reviewed continuously by employees at different levels, from lower to top management. According to Silva and Jayamaha (2012:354), in an organisation, there are four possible reasons for budgetary control:

- Planning for Operational activities.
- Evaluating organisational performance.
- As a communication tool.
- As a strategy development tool.

Budgeting allows senior management to shift their focus away from short-term objectives and the day-to-day operations of the organisation and toward the long-term. Budgeting serves several major functions, including planning perspective, allocating resources, and profitability review to ensure that the organisation accomplishes its objectives.

A budgeting process encourages all levels of management to consider why an organisation exists, where the organisation is headed, and how the organisation's

goals will be met. Budgeting, it can be concluded, is one of the instruments that encourages and leads employees to accomplish their goals, as well as holding them responsible for carrying out their tasks. Tanase (2013:2) asserts that a budget has an impact on employees' attitudes about budgets and the budget process. In his view, employees will be less engaged and satisfied at work when they are not given an opportunity to partake in the budgetary process (Tanase, 2013:5).

Every organisation creates budgets that are then executed by personnel. As a result, it is critical that employee involvement be a part of the process. Thus, management must recruit talented and knowledgeable individuals in order for an organisation to function properly. Budgeting has an impact on employees' attitudes about the whole budgeting process. (Tanase, 2013:2).

Municipalities must prepare budgets that are credible and realistic in terms of the Municipal Finance Management Act (Molobela, 2016:263). The budget should not be regarded as perfect or without flaws, that it does not place managers in financial jeopardy but rather holds them accountable for keeping the organisation on track to meet its strategic goals, and that the budget should not be regarded as an end in itself but rather as a means to an end (Carreras *et al.*, 2011:6).

Figure 3.2 below depicts in a step-by-step process how information from steps 1 to 4 is utilized to design, manage, and control budgets. It is evident from figure 3.2, that the budgeting process begins with the strategic phase, where strategic objectives and performance indicators are clearly delineated. The strategic phase is mostly done by management during the planning phase of the budget process. Budget formulation, execution, monitoring are stages to be followed to complete the budgeting system process.

The budget process demonstrates how various units are interconnected in their operations, allowing for the creation of bridges between organisational boundaries.

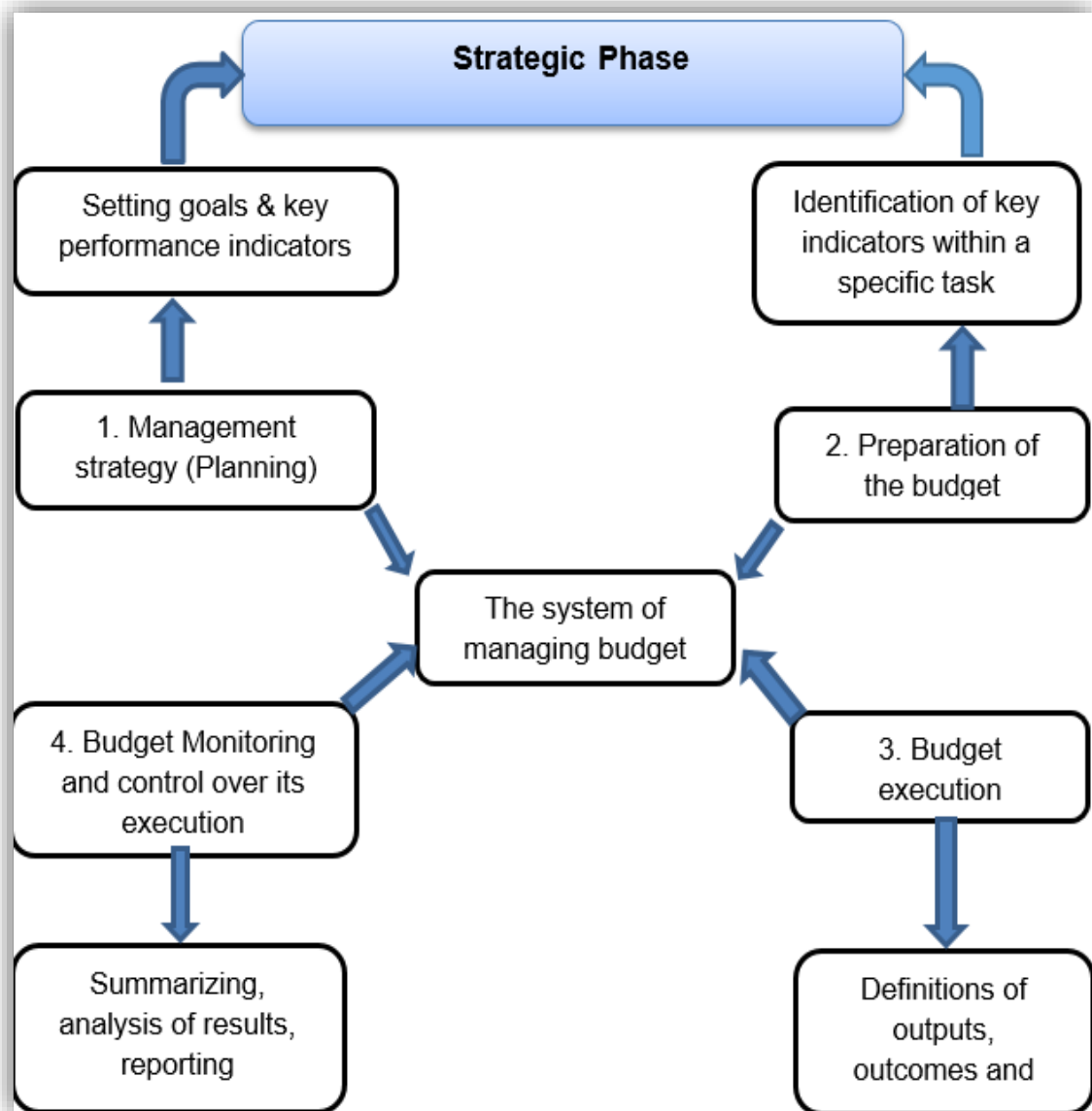


Figure 3. 2: Budget management system

(Source: Author)

Strategic (phase), most organisations use the term "planning". It involves tasks like as planning, performance monitoring, and programme planning, and it has been shown to be quite beneficial (Fairhilm, 2009:1). An organisation can have numerous strategies such as or including how to retain customers, how to improve operations, and employee retention strategy (Blumentritt, 2006:74).

It is important that a budget is reviewed by an organisation on both a quarterly and an annual basis. Figure 3.3 below summarises the budget review procedure in South African Public sector.

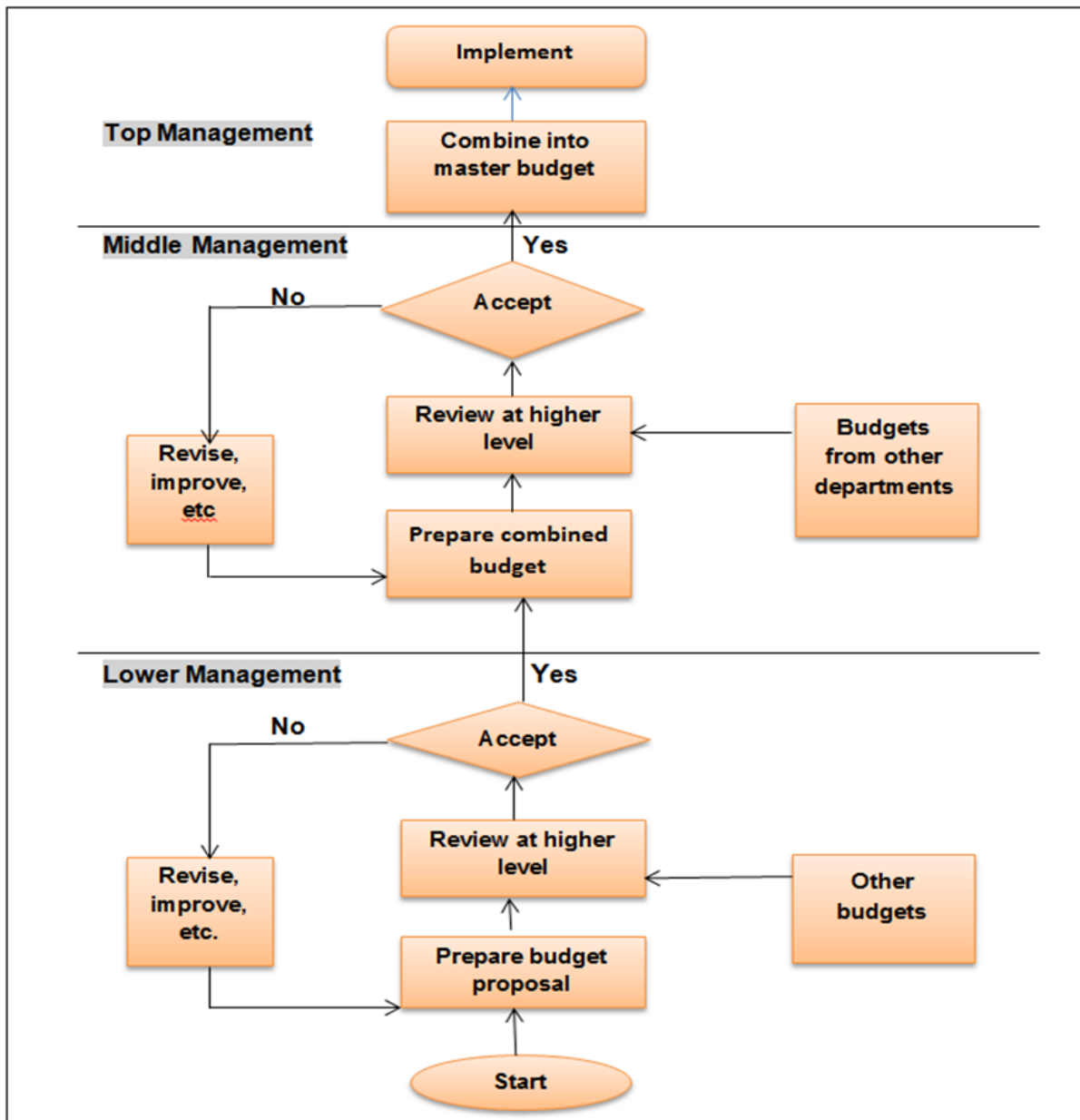


Figure 3. 3: Budget review process in South Africa

(Source: Zweni, 2017)

Figure 3.3 demonstrates that budget review procedure starts from the lowest level of management and progresses to the highest level of management, where budgets are merged into the main budget. Execution of public sector strategic plans frequently begins with determining management's expectations and goals. Thus, the role of each layer of management is clearly articulated in figure 3.3. The lower level of management is responsible for budgets at their lower cost centres, where they have some autonomy to plan, revise, adjust and approve their budgets. As such, middle management assumes the role of departmental heads, where they plan, revise and approve their

budgets on the departmental level. Thus, top management plan, revise, adjust and consolidate the master budgets of the organisation in line with the strategic goals of the organisation. The manner in which the different layers of management in figure 3.3 interact, indicates that it is imperative for all layers of management to communicate effectively and timeously, with the goal of combining a realistic master budget.

Consequently, examining the budget allows an organisation to make more informed decisions and plan for the future. When or if budgets are continually evaluated by executives, any poor performance may be identified in a timely manner and the appropriate steps can indeed be taken. There must be some connection between the plans, choices, and finances.

3.3 INVOLVMENT OF EMPLOYEES IN THE BUDGETING PROCESS

Budgeting allows senior management to shift their focus away from the day-to-day operations of the municipality and toward the long-term. As stated in the preceding section, the major aims of budgeting are to achieve organisational goals through planning direction, resource allocation, and profitability evaluation. The benefits of budgeting are discussed in Table 3.2.

Table 3. 2: Benefits of budgeting

Budgets	Improve communication channels between management and employees.
Budgets	Promote sharing of information
Budgets	Sustain allocation of resource
Budgets	Obtain information that is trustworthy, truthful, and practical
Budgets	Persuade staff to have a good attitude about the organisation and budgets.
Budgets	Motivate employees
Budgets	Direct the course of action.
Budgets	Increase job satisfaction of employees.
Budgets	Clarify tasks.
Budgets	Decrease ambiguity
Budgets	Increase work engagement.
Budgets	Intensify employee responsibility.
Budgets	Assist workers in achieving their goals.
Budgets	Assist in the development of realistic and achievable goals.
Budgets	Improve personal performance.
Budgets	Lead to improved performance.

(Source: Tanase, 2014)

The table shows that the budgeting process pushes executives to consider reasons about the existence of organisation, where the organisation is headed, as well as how the organisation's goals can and will be realized. Budgeting, it can be concluded, is one of the instruments that encourages and leads employees to accomplish their goals, as well as hold them responsible for carrying out their tasks. Tanase (2013:2) claims that budgeting has an impact on an employee's perspective regarding the budgeting process

Employees may be less engaged and satisfied at work if an organisation does not enable them to participate in the budgetary process. (Tanase, 2013:5). However, budgeting may be a time-wasting task and may include a number of difficulties, especially in poorly organised and managed municipalities. Table 3.3 outlines the potential drawbacks of budgeting in companies that do not enable its workforce to partake in the budgetary planning process.

Table 3. 3: Disadvantages of budgeting

	Disadvantages
Communication	Throughout the budgetary process, communication between management and staff may be challenging to accomplish.
Time	Budgeting may be time demanding, which necessitates determination.
Employees	It might be challenging to get staff to interact, participate, and share information throughout the budgeting process.
Bureaucracy	There is too much bureaucracy
Coercive	It has the potential to be coercive.
Mind-set	Management and staff may not be open to new ideas.
Executive management	Involvement must occur at the highest level of the organisation, which in some instances may be challenging to do.
Financial Resources	Workers may influence budgets and resource allocation throughout the budgetary process for their personal gain.
Motivation of employees	To minimize employee dissatisfaction, managers must explain why they have no control over the final budget.
Knowledge	In some situations, workers may lack the required and sufficient knowledge and information to legitimize their participation.
Participation	Employees may regard involvement in the budget process as a burdensome task.
Accountability	Subordinates may be stressed when their accountability grow.
Formulation	The formulation of a budget incurs huge expenses.
Reliance	Trust is essential for efficient budgeting.

(Source: Author)

Despite the possible disadvantages of involving employees at a range of levels in the budgeting process, the advantages, particularly in terms of employee motivation and 'buy-in', are likely to outweigh the disadvantages if the process is well facilitated.

3.4 BUDGETING: INTERNATIONAL PERSPECTIVE

The literature on budget management, particularly in local government, demonstrates that people expect their municipalities to perform necessary tasks and keep municipalities responsible for service delivery and achievement of articulated goals. To better understand how a country functions, it is necessary and important to understand its budget process, because this process reveals the country's policy choices.

3.4.1 America

The Government works in political, economic and operational environments, all of which have an impact on each aspect of budget management (Willoughby: 2008:432). In relation to governance the American government uses a system which is referred to as Federalism (Pagano and Hoene, 2018:4). Pagano *et al.*, (2018:4) define Federalism as an intergovernmental structure in which power and responsibility are legally divided between a federal or national government and sub-national or state governments. In this study the researcher will focus on the state government. Figure 3.4 illustrates a budget management framework that is used by some states in America.

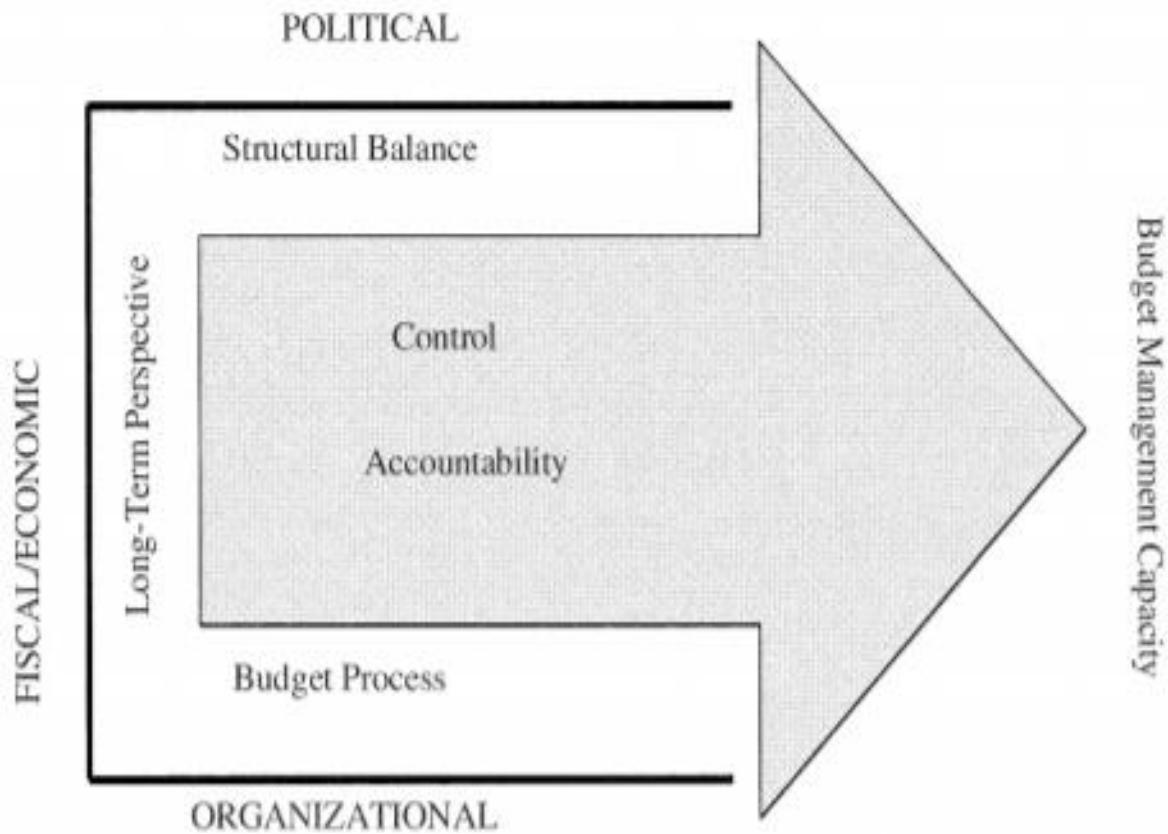


Figure 3. 4: Government budget management framework

(Source: Willoughby: 2008:433)

Figure 3.4 indicates that there is a link between politics, the state and fiscal or economic condition of the state government. The state and municipal administrative framework in which cities reside is an important dimension of their fiscal capability in the United States (Pagano *et al.*, 2018:10). Most Canadian municipalities have adopted a performance measurement initiative that is driven by Council (Tassonyi, 2002:195). In Canada the Municipal Act of 2002 requires municipalities to account for their budget process. As much as budgeting is governed by the constitution, cabinet ministers have a final say on how much each department will be allocated. Figure 3.5 depicts a list of legislations that govern the budget process in the United States of America.

- *The United States Constitution of 1789.*
- *The Anti-Deficiency Act 1905.*
- *The Budget and Accounting Act 1921.*
- *The Congressional Budget and Impoundment Control Act 1974.*
- *The Inspector General Act 1978.*

- *The Federal Manager's Financial Integrity Act 1982.*
- *The Balanced Budget and Emergency Deficit Control Act 1985.*
- *The Budget Enforcement Acts, 1990 and 1997.*
- *The Chief Financial Officers Act 1990.*
- *The Federal Credit Reform Act 1990.*
- *The Government Performance and Results Act 1993.*
- *The Government Management Reform 1994.*
- *The Federal Financial Management Improvement Act 1996.*

The bullets below depict a legislative framework that governs the budget process in Canada.

- *The Constitution Act 1867.*
- *The Financial Administration Act 1985 as amended (FAA).*
- *The Auditor General Act 1977 as amended (AGA)*
- *The Federal-Provincial Fiscal Arrangements Act 1985 as amended.*

Budget planning, introduction, and reporting to Parliament are governed by a mixture of rules, and legislation.

3.4.2 Africa

According to Negatu (2008:1), African policymakers view the process of creating strong institutions as a top priority, this is done through budgeting as an effective economics reform. If budget reforms are to be sustainable in Africa, particularly in Africa Countries with structural challenges, the will to change the structure of central institutions such as the Ministry of Finance must be accompanied by good financial management and service provision from sources other than the executive. In countries such as Uganda and Tanzania, business working groups with non-state actor representation play an important part in the budget process. In Uganda, reforms in budget transparency (for example, by rendering budget allocations to local-level agencies public) are intended to allow municipalities to be accountable to the residents.

One of the weaknesses of budget management is that, in some African countries money is spent without authorization from the authorities. Countries in sub- Saharan Africa use Medium- Term Budget Framework (MTBF) (Allen, Chaponda, Fisher and

Ray, 2017:4). The purpose of the MTBF which is the synonym of MTEF is to plan for income/revenue and expenditure of a government department or a municipality Allen *et al.*, 2017:5). In Nigeria planning and budgeting are done jointly as one process and every budget of the local state is linked to a performance target or indicator (SA'ID, 2010:183).

3.4.3 Europe

Under the European Union (EU), in about nine countries use a model of self-government, while in about twelve countries decisions are made at municipal and regional levels, whereas in the remaining seven countries decision making is central, it is made by the National Government (Papcunova, Hudakova, Stubnova and Urbanikova, 2020:2).

According to Krenjova and Raudla (2013:18), most municipalities in Europe use participatory budgeting (PB) framework. PB allows ordinary citizens to participate in the budget development process, particularly in budget allocation. Some scholars criticize PB as a framework that allows citizens who are less informed about socio-economic issues and political issues to make decisions (Krenjova *et al.*, 2013:19).

France has a robust legislative system for the government budget, with a constitution that gives the executive broad budgetary powers, and Local Government Code giving power to the executive on the local level. The 2001 Organic Budget Bill is the primary piece of legislation regulating budgetary procedures in France. 1958 Constitution

- 2001 Organic Budget Law (*Lio organique relative aux lois de finances, LOLF*), August
- 1996 Organic Law relating to the Finances of Social Security (*Lio organique relative aux lois de financement de la securite social, LOLFSS*) July
- Social Security Code
- 1994-95 Financial Jurisdictions Code (External Audit Law)
- Local Government Code
- 1962 Public Accounting Decree
- 1922 Law on Controlling Expenditure Commitments (OECD, 2004:187)

In France the Constitution and the two organic statutes are supplemented by a bureaucratic system of regulations and laws that detail the budget management process.

In Spain, the 1978 Constitution establishes the basic rules that regulate budget processes and defines the responsibilities of the main budget players (executive, legislature, Self-Governing Communities, and Court of Accounts). The government creates and submits the State budget, which Parliament also reviews, amends, and approves. The bullets below shows the legislative framework of budgeting in Spain.

- *The Constitution 1978 , as amended.*
- *The General Budgetary Act 47/2003.*
- *The General Act on Budgetary Stability 18/2001.*
- *The Organic Act Supplementary to the General Act on Budgetary Stability 5/2001.*
- *The Organic Act on the Court of Accounts 1982 and the Court of Accounts (Functioning) Act 1988.*
- *Standing Orders of the Congress of Deputies and of the Senate.*

Spain's budget structure is governed by a complex bureaucratic legislative code that includes the Constitution, organic rules, general laws, and regulations. In contrast to other European countries, the United Kingdom lacks a formal constitution to establish an overarching structure detailing the powers of the assembly, executive, and civil servants in budget procedures. However, the United Kingdom use several statutes such as Local Government Acts and Finance Act of 1998 to formulate and manage their budgeting.

In some European countries set yearly budget objectives, revenue, spending (as well as borrowing limitations), and evaluated them together. European budgets encompass all government agencies and other organisations that carry out government activities, so that the budget offers a cohesive image of these operations and is voted on in parliament as a whole. All resources are channelled to a single pool or fund, where they will be distributed and spent in accordance with the government's present priorities. There are structural budget legislations that empowers the government, or the minister in charge of public finance, to make comprehensive rules and directives. Table 3.4 shows a multi-stakeholder model used by European countries.

Table 3. 4: European budget models

	Porto Alegre adapted for Europe	Proximity participation	Consultation on public finance	Community participatory budgeting	Multi-stakeholder participation
Decision-making body	Council composed of citizens' elected delegates	local administration	local administration	a committee composed of representatives of LG, NGOs, state organisations	a committee composed of representatives of LG, NGOs, state organisations, private sector
Participation	Participants' selection methods				
	Self-selection;	Self-selection;	Random selection;	Targeted selection;	Targeted selection;
	Scope of participation				
	single active citizens	single active citizens	"ordinary" citizens	organised citizens	organised citizens together with private enterprise
	Participation mechanisms				
	Open meetings at neighbourhood level, delegates at town level	Open meetings at neighbourhood and town level	Open meetings or citizens' forums at town level	Different kinds of meetings at neighbourhood level, delegates at town level	Closed meetings at town level
Deliberation	Focus of discussion				
	public investments	micro-local public investments or broad guidelines of town policy	overall budget or offer of services	concrete community projects	concrete projects financed by public/private partnerships
	Modes of communication				
	Develop preferences	Listen as spectators, express preferences	Listen as spectators, express preferences	Express, develop preferences	Express, develop preferences
	Formality of the process				
	Projects ranked according to criteria of distributive justice, formalised rules	No ranking of investments or actions, informal rules	No ranking of services, possible ranking of priorities, rather informal rules	Projects ranked, formal rules	Projects ranked, formal rules
Empowerment	Decision-making power	Consultation	Consultation	Co-governing partnership	Co-governing partnership
Control and monitoring	Council composed of citizens' elected delegates	local administration	local administration	local administration + donors	local administration + donors

(Source: Krenjova et al., 2013:26)

Table 3.4 above depicts the important role that citizens play in European countries in relation to budget planning and resource allocation in their respective countries. In British municipalities uses incremental budget approach (Danziger, 2009:335).

3.5.4 Asia and Pacific Countries

According to SA'ID (2010:20), budgets are also widely used for planning, monitoring, and performance assessment in India, Malaysia, and Singapore by local authorities. Treasury Department of Malaysia introduced Modified Budget System in 1990 to interchange the Program and Performance Budgeting System (PPBS) that was used

by municipalities since 1969 (Kochik, 2011:38). The Modified Budget System allows municipal managers to manage budgets independently by setting their own targets and planning for their own programmes and activities.

According to the World Bank (2018:20) the Malaysian government also uses the Outcome Based budgeting (OBB) approach to effectively implement the PPBS. OBB reviews and refines policy processes through an interconnected program-activity system, which establishes organisational linkages to ministry services and events and continuously aligns them to national goals.

SAIID (2010:20) found that in Chinese municipalities budgeting and planning are controlled by management and there is low budget participation from employees, decision making is centralized. Indonesia has a strongly centralized budgeting system. South Asian countries such as Sri Lanka, Pakistan, Nepal, Bangladesh and India continue to use a colonial method of budget and expenditure control. While the Middle East countries follow the British budgeting methods.

Budgeting initiatives in a few Asian and Pacific countries indicate the need for fiscal administration to be strengthened (Kolovich, 2018). Determining the appropriate level of fiscal decentralization within the metropolitan area, figuring out how to coordinate the work of numerous government agencies, improving the caliber of the local government staff, and creating a workable resource mobilization strategy are all necessary to close the funding gap.

Figure 3.5 below illustrates challenges faced by government in managing budgets in the Pacific.



Figure 3. 5: Budget Management Challenges

(Source: Ruthnberg, 2012:2)

It can be seen in figure 3.5 that countries in the Pacific are faced with challenges such as poor planning, poor financial management and reporting among others. Based on the research that was done by the World Bank in 2018, certain elements were found in the budget reforms of about eight countries in Asia. Table 3.5 demonstrates those elements.

Table 3. 5: Elements addressed in Asian countries

MALAYSIA	INDONESIA	THAILAND	CAMBODIA	VIETNAM	MYANMAR	LAO PDR	PAPUA NEW GUINEA
1. Design quality: pace and coherence of reforms							
Mixed approach: Budget reform built around existing budgeting culture: Evolution rather than revolution	Incremental approach: Gradual rollout of bureaucratic reform to central govt agencies—completed in 3 waves IFMIS—SPAN based on international good practice with some modifications to fit local context	A “big bang” approach to reform Tight timelines on performance-based budgeting and GFMS but more gradual and experimental with fiscal decentralization	“Best fit” well-designed platform approach; adapt international best practice for specific reform implementation Some policies introduced after result achieved	Classic top-down reform Follow good practice—starting with laws and policy; piloting; and scale up as results materialized or abandoned as pilot failed	Flexible approach to introducing wholesale reform drawing heavily from international experience rather than best international practices	First-generation reforms focused on establishing a basic PFM framework using international experience as examples	Experimentation and “home grown” solution Extensive and open review, legislation, implementation of IFMS, changes to procurement, and human resource management innovation
2. Leadership and political support: consensus leadership and communication practices							
Strong leadership; clear national development plan and key result areas Regular communication with relevant organizations	Strong leadership support (post-Asian Financial Crisis) Multiple communication channels	Strong leadership support (post-Asian Financial Crisis)	High level support for overall PFM reform; strong ownership Communication was inadequate, revigorated with FMIS	Strong leadership support for PFM reform in the context of post Doi Moi reform	Strong leadership during transition Strong PFM sector working group for Development partners	Political commitment largely personality-driven; fluctuating levels of support Champion led communication to help facilitate reform	High-level support and trusted leadership for reform
3. Implementation capability: “Design Adaptation” and “Experimentation and Real-Time Adjustment”							
High adaptability as innovation and experimentation allowed (particularly under public service transformation) Clear timeline plan monitored by delivery unit Innovation; creativity; experimentation allowed	Best fit built in with feedback after 2 years implementation for Civil Service Reform IFMIS reform: Strong open discussion and agreement on what change is needed Lack of space for building flexibility and little time for experimentation	Combined “best practices” from other countries Classic top down reform, rapidly scaled up, and inadequate time for experimentation and adjustment in the case of PBB and GFMS Decentralization reforms more bottom up, gradual	No specific up-front decision on what kind of change shall be made; Incremental and gradual, yet substantive; whole system focus with clear objectives under each platform Implicit authorized environment allowed experimentation to work; implementation adjusted over time	Gradualist, piloting, and expansion as results emerged Gradualism plus adequate support generated satisfactory results	Incremental approach putting in place reforms where possible and adapting and adjusting timeframe and complexity to suit realities on the ground	Classic case of adopting international best practice without full consideration of local context Space for significant experimentation limited	Adaptation of best practice through experimentation. Gradual approach to decentralization, resulting in fragmentation between and across levels of government

(Source: World Bank, 2018:7)

In some of these Asian countries mentioned in Table 3.5 they have problems of political instability. In some circumstances, the amount of input from political figures seem to overshadow the bureaucracy's ability to deliver budget reforms in those countries. Facing various leadership changes at the top of the Ministry of Finance in Indonesia, a strong pro-reform message was promulgated, largely driven by regime change politics. The bullets below illustrate the legislative framework of budgeting in Japan.

- *The Constitution 1946, as amended.*
- *The Public Finance Act 1947, as amended.*
- *The Diet Act 1947, as amended.*
- *The Public Accounts Act 1947, as amended.*
- *The Board of Audit Act 1947, as amended.*
- *The Local Autonomy Act 1947, as amended; the Local Finance Act 1948, as amended; the Local Tax Act 1950, as amended; the Local Allocation Transfer Act 1950, as amended; and various Transfer Tax Acts (including the Local Road Transfer Act 1955, as amended)*

Based on the above, the foundations of the legislative system that governs expenditure processes are the Constitution and the Public Finance Act of 1947. In most countries the Public Finance Act primarily governs budget laws which are not provided for in the Constitution.

3.5 BUDGETING IN SOUTH AFRICAN MUNICIPALITIES

While municipal budgets and the budgets of service or commercial organisations have similar characteristics, there is one major difference: the former are intended to be a tool of municipal control rather than a source of profit. According to Olurankinse (2012:146), in municipalities the budgeting is too much bureaucratic, decisions are centralized to top management and lower level and employees have limited contribution say in the budget. A municipal budget serves as a reflection for collective public interest and needs (Deng and Peng, 2011:76). Budgeting is a legal control tool that governs spending in municipalities, by indicating the financial resources that are voted for by council and allocated to each budget item as per economic classification.

The World Bank introduced MTEF into African countries as a liberal project in 1996-1997 (Gollwitzer, 2010:5). The South African Government, through its Treasury Department, implemented the MTEF in the 1998/1999 financial year (Pearson, Pillay and Chipkin, 2016:16). Municipalities in South Africa plan their budgets by utilizing the MTEF budgetary procedure. The MTEF is a critical instrument for assisting and improving budget planning in municipalities by bringing resources, policy issues and municipal programmes together.

The MTEF is intended to advance resource allocation, effective use of municipal funds, responsiveness and credibility of municipal budgets (Le Houerou and Taliercio, 2002:4). After the implementation of the MTEF, municipalities have to come up with a process that will link planning and budgeting in order to link the budget preparation stages and the MTEF. Figure 3.6 illustrates how MTEF, IDP and SDBIP link.

STEP		PROCESS
1	Planning	Schedule of key deadlines, establish consultation forums, review previous processes
2	Strategising	Review IDP, set service delivery objectives for next 3 years, consult on tariffs, indigent, credit control, free basic services, etc. Consider local provincial and national issues, previous years performance and current economic and demographic trends.
3	Preparing	Prepare budget, revenue and expenditure projections, draft budget policies, consult and consider local, provincial and national priorities.
4	Tabling	Table draft budget, IDP and budget related policies before council, consult and consider formal local, provincial and national inputs or responses
5	Approving	Council approves budget and related policies
6	Finalising	Publish and approve SDBIP and annual performance agreements and indicators

Figure 3. 6: MTEF, IDP and SDBIP

(Source: National Treasury, nd)

The Integration of the MTEF multi-year budget plan, IDP and SDBIP aims to assist municipalities in planning, forecasting realistically, managing performance, and enhancing operating efficiency. The integration of these different processes clarifies the roles of different stakeholders within the municipality. The illustration below (Figure 3.7) shows the timelines of the budgeting process in relation to figure 3.6 above.

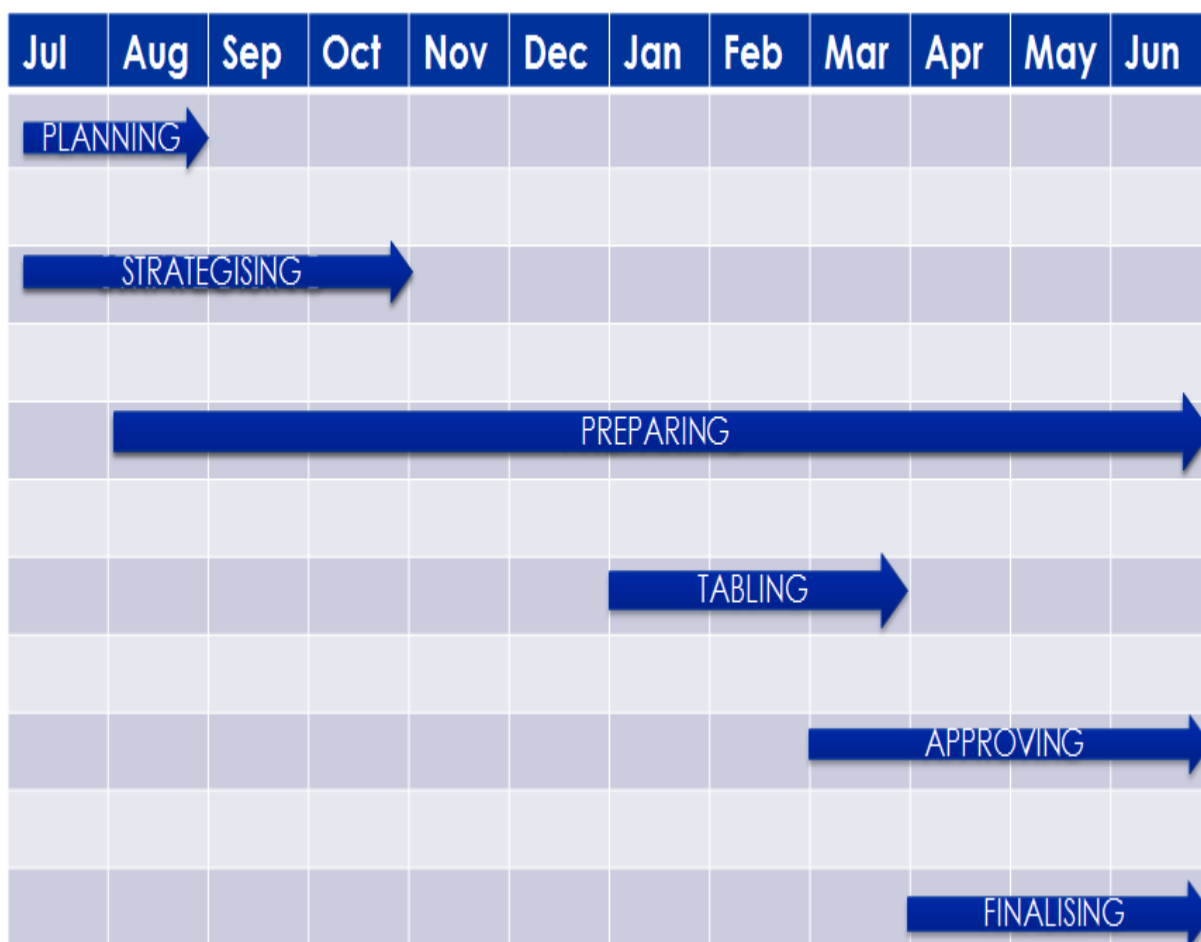


Figure 3. 7: Budget Preparation Process Timelines

(Source: National Treasury (Nd))

The timelines presented in Figure 3.7 are discussed below in relation to the Municipal Finance Management Act of 2003 (MFMA). However, the budget development process in South African municipalities is guided by the Supreme Law, which is the Constitution. Thus, section 3.5.1 unpacks the role of the MFMA in the budget development process and the timelines presented in the figure.

3.5.1 Legislative requirements

Section 16 of the Municipal Finance Management Act of 2003 (MFMA) states that:

- A municipality's council should establish the total budget for the municipality ahead of the start of each fiscal year.
- To ensure that a municipality complies with paragraph (1), the mayor shall propose the annual budget at a council meeting at least 90 days before the fiscal year begins.

Role of Mayor in terms of Section 21 of the MFMA:

- A municipality's mayor is in charge of organizing the processes for writing the yearly budget, as well as assessing the municipality's integrated development plan and budget-related legislations.
- The mayor must table before the municipal council a time plan indicating important dates for the development, tabling, and approval of the annual budget at least 10 months before the start of the fiscal year.
- When developing an annual budget, the mayor of a municipality must take into account the government's budget, the relevant province budget, and the national country's fiscal and macroeconomic policies.

Role of Mayor: Non-compliance in terms of Section 27 of MFMA;

- The mayor of a municipality shall notify the MEC for finance in the province, in writing, of any impending non-compliance by the municipality with any requirements of this Act or any other legislation related to the tabling or adoption of an annual budget or obligatory consultation processes.
- When the mayor of a municipality becomes informed of any precise noncompliance by the municipality with a stipulation of this Chapter, he or she must notify the council, the Member of the Executive Council for finance in writing of:
 - Such noncompliance;
 - and any preventative or corrective measures the municipality intends to take to prevent a recurrence

Role of Mayor: Budget processes in terms of Section 53 of the MFMA:

The mayor must offer broad political direction for the budgetary process and the goals that must govern budget development.

The mayor must also in terms of section 53:

- Coordinate the annual modification of the IDP.
- Make all measures necessary to ensure that the municipality approves its annual budget before the start of the fiscal year.

- Within 28 days of the budget's adoption, approves the municipality's SDBIP.
- Must report any delays to the municipal council as soon as possible.
- The mayor shall guarantee that the income and spending forecasts on monthly basis, as well as the service delivery targets and objectives and performance metrics for each quarter, as outlined in the SDBIP, are released publicly within 14 days of the SDBIP's approval; the same is true for entities.

3.5.2 Budgeting framework

The framework below explains the accountability cycle of local government, budgeting and monitoring for municipalities, as well as the paperwork that each of these procedures necessitates. The municipal budgeting process commences nine months prior to the end of the current financial year (National Treasury). The budget will be implemented using Service Delivery and Budget Implementation Plan, this process will continue while municipalities are planning for the following financial year.

Thus, the budgetary framework that is followed in South African municipalities is depicted in Figure 3.8 below.

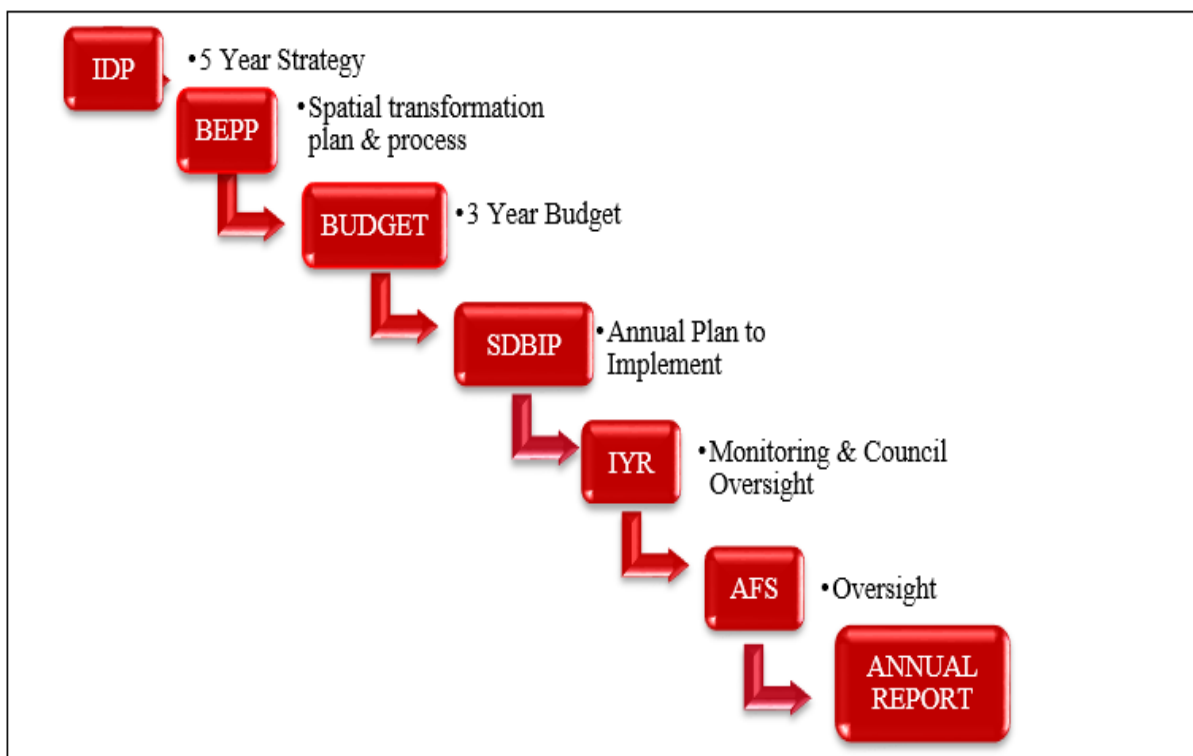


Figure 3. 8: Local Government Budgeting and Accountability Cycle

(Source: National Treasury, 2004)

Municipal budgeting frequently includes five-year development initiatives for local communities. Some countries use centralized state planning organisations, whilst others make long plans that last more than 30 years. In principle, each five-year plan tackles development components such as products and services, commodities, health, and so on, and this stage pertains to local government. These five-year plans outline what has to be accomplished and completed over the program's duration.

3.5.2.1 The IDP

The IDP determines the strategy, objectives and service delivery targets for the municipality. The IDP is a plan (document) that is hoarded by the ruling party, which is voted into office or by the municipal council during the voting cycle. A democratically elected municipal government and the mayor develop a five-year strategic plan outlining strategic policy priorities and strategies for the following five years (National Treasury, 2004.np). The plan will guide the incoming governing party in a municipality on budgetary process.

3.5.2.2 Three-year Budget

According to the MFMA “The annual budget for a financial year must be tabled in the council by the municipal mayor no later than two weeks after the national annual budget is tabled”. Financial Management within the municipality shall send the specified schedules to all managers and employees to produce or submit projections in line with the strategic plans of the municipality when assembling the yearly budgets. Thus, before the start of the fiscal, the Municipal Manager of the municipality should present to the appropriate treasury, projections for the year, and detailing what the municipality intends to spend and collect (Cash Flow) of a department (South Africa, 1999:50).

Budgets are created in accordance with an organisation's strategic objectives and priorities. All municipalities develop operating strategies in accordance with the IDP. As such, these plans are linked with the approved budget allocation letters sent to each business unit of the municipality in order for the operational plans to be carried out. Operational plans are evaluated for both objective accomplishment and budgetary performance versus the targets.

3.5.2.3 Monitoring and Council Oversight

- **In-Year financial reports**

A municipality's accounting officer must submit statement of cash flows and in-year monitoring assessment reports on actual and budgeted spending on a monthly basis. The previously mentioned reports should be filed in the norms established by the relevant provincial treasury department (South Africa, 1999:50). Thus, these reports should be delivered to the relevant treasury and the Minister or Member of the Executive Council in charge of the municipality within 15 days after the end of every month (South Africa, 1999:50). If there is a discrepancy as to what was projected and what was actually spent, the Municipal Manager should explain the problem to the appropriate treasury and detail the actions that will be taken to avoid future discrepancies.

- **Quarterly Performance Reports (QPR)**

QPRs are created and sent to the relevant treasury department. These QPRs provide information on the department's major aims and objectives as outlined in the APP. The purpose of the reports is to assess a department's efficiency in financial as well as non- financial areas. The status of departmental performance against the budget, as well as specific objectives of both financial and non-financial resources, should be reported on quarterly basis.

3.5.2.4 Oversight

- **Yearly Review Process**

The annual report should be reviewed by the national or provincial government's executive authority. Because the budget is an estimate of future expenditures, it is critical to perform regular reviews to compare the planned amount to the actuals in order to determine the level of expenditure. Whereas if resources allocation in the budget estimates is to be of any intellectual significance, the budget demands must be reviewed. The review aids in the coordination and assessment required to maximize the advantages gained from these limited resources. As a result, the budget review process is defined as the systematic examination of the estimates provided in budget proposals from various divisions. Thus, based on what is stated above, one can draw conclusions that:

1. Appropriate resource allocation is aided by adequate planning,
2. Evaluating the plans aids in the final budget assessment, and
3. Plan review aids in final budget review.

Many units in a government organisation perform budgeting at cost centers, and they are done at lower levels of management. At the higher level proposals are tabled, discussed, reviewed, synchronised (coordinated) and approved to ensure that there is a link between the plans and budgeting. As a consequence, the master budget will be created, which, if correctly implemented, everyone participating in the budgeting process should be satisfied.

The two major responsibilities of budgeting are planning and management, which are achieved by a continuous comparison of estimates and actuals. As a result, there is a budget review procedure that outlines the process in full should be put in place by municipalities. It is critical that the procedure be carried out appropriately. Most business and operational strategies are difficult to implement, thus the budget must be reviewed quarterly and annually.

Organisations should evaluate budgets using the most relevant and recent data provided to represent what was planned for, the budget, the actual expenditure on items, and how much is still left to spend. This technique is used to assess the overall performance of an organisation. A budget review allows a municipality to make more informed decisions and plan for the future. When the budgetary process is continually evaluated by the municipality, any underachievement may be identified in a timely manner and the appropriate steps can be done.

3.5.2.5 Financial Statements and annual reports

The Accounting officer of a municipality is required under the MFMA to submit financial reports for each fiscal year in line with generally accepted accounting guidelines and procedures. The legislation further states that such financials must always be submitted for auditing to the AG and the relevant treasury within two months of the fiscal year's conclusion.

At this point, progress against budgeting and strategy plan would be documented, which will include an audit committee progress report, annual financial statements, and a summary report on people management and service delivery outcomes. The Municipal Manager shall provide to the relevant treasury an annual report about the operations and financial accounts after they have been reviewed by the AG within five months of the end of the fiscal year (South Africa, 1999:49).

3.6 TYPES OF MUNICIPAL BUDGETS IN SOUTH AFRICA

South African municipalities are required by law (Constitution) to arrange and organize their administration and planning processes in order to prioritize the community's basic needs and promote the community's socio - economic development. These communities' needs are achieved by means of accurate budget management by municipalities. An efficacious budget plan could indeed resolve the issue in terms of developing a plan that will be considered necessary to minimize future risks in the future and seize opportunities that the organisation can obtain, whilst also establishing an effective method of governance and highlighting the gaps between the organisation's goal and its overall performance. Accordingly, the budget is the most immediately important mechanism in giving effect to a municipality's service delivery strategies. Both capital and operational budgets are allocated per vote within a municipality.

3.6.1 Capital Budget

A capital budget is an estimate of the capital expenses that will be incurred during the relevant fiscal year, as well as the financial resources that will be used to fund these expenses (Fourie & Opperman, 2015:141). Olurankinse (2012:146) further adds that capital budgeting is an extensive review of capital investments that are typically undertaken to produce benefits over a period of time.

Capital budgeting is the process of deciding on capital projects which including land and buildings, as well as the purchase of infrastructure and vehicles. Thus, municipalities, like any other organisation, budgets for all aspects of the municipality, including asset acquisition, maintenance, infrastructure, water plants, clinics and health operations, and a variety of other projects. In South African municipalities, capital budgets are financed through the following finance options:

- **External loans:** These loans are from financial institutions and are meant to finance roads and infrastructure, and water plants.
- **Internal loans:** These loans come from internal funds such Consolidated Loan Funds or Capital Development Funds.
- **Contributions from revenue:** This source of funding come from operating revenue to finance small capital items.

- **National and Provincial Government grants:** This type of funding is granted to municipalities upon application to National and Provincial government spheres, for the purposes of water services projects and infrastructure.
- **International Donations:** These kinds of donations come from global organisations to finance projects in developing countries.
- **Public and Private partnerships:** These are agreements between private and public entities in which the private entity acts on the object normally performed by the government sector and/or uses government property in accordance with the terms agreement

3.6.2 Operational Budget

An operating budget will include an estimate of operating revenues that will accrue to the municipality as well as operating expenses that the municipality will incur during the fiscal year whereby the budget relates (Fourie *et al.*, 2015:141). The operational budget is divided into operating expenses and operating revenue, the following items are budgeted for;

- Salaries and Wages
- Fines
- Property rates
- Service charges and tariffs
- Equitable share (National Treasury, nd)

The municipal operating budget outlines the budget forecasts expenditures and revenue for the delivery of all community services (Mbulawa, 2019). Some scholars argue that, an operational budget has to be prepared first because it includes inescapable costs that cannot be avoided, whereas some costs and items in the capital projects can be avoided.

3.6.3 Cash Budget

A cash budget is defined as a tool that alerts business owners to possible pitfalls such as cash shortages as well as opportunities that may arise from cash surpluses (Amoako et al as cited in Mungal, 2014:16). Budget decision - making is based on the business's cash inflows and outflows (Abdurahman, Addinall, Chader, Daniels, English, Green, Shade, 2012; Bruwer, 2014). Departments are provided budgets that are defined in terms of accrual concepts, and the budget, in particular, sets quantitative

limits on the expenses that they incur instead of the cash payments that they make (Robinson, 2009:2). Cash budgeting is the more important assessment of a company's current situation (Schick, 2007:134).

3.7 FINANCIAL MANAGEMENT IN MUNICIPALITIES

Both internationally and domestically, management of the financial resources allocated by the government remains the most crucial of all management functions and needs to be handled with diligence. While the government continues to formulate policies, it is important for organs of the state to discover the best ways of managing their business, particularly with regard to finances. In this final section of the chapter financial management systems in South Africa, other African countries and other parts of the world are discussed. However, before discussing financial management in municipalities, it is imperative to discuss pillars of financial management in the public sector. Figure 3.9 below illustrates how these pillars are interlinked in government.

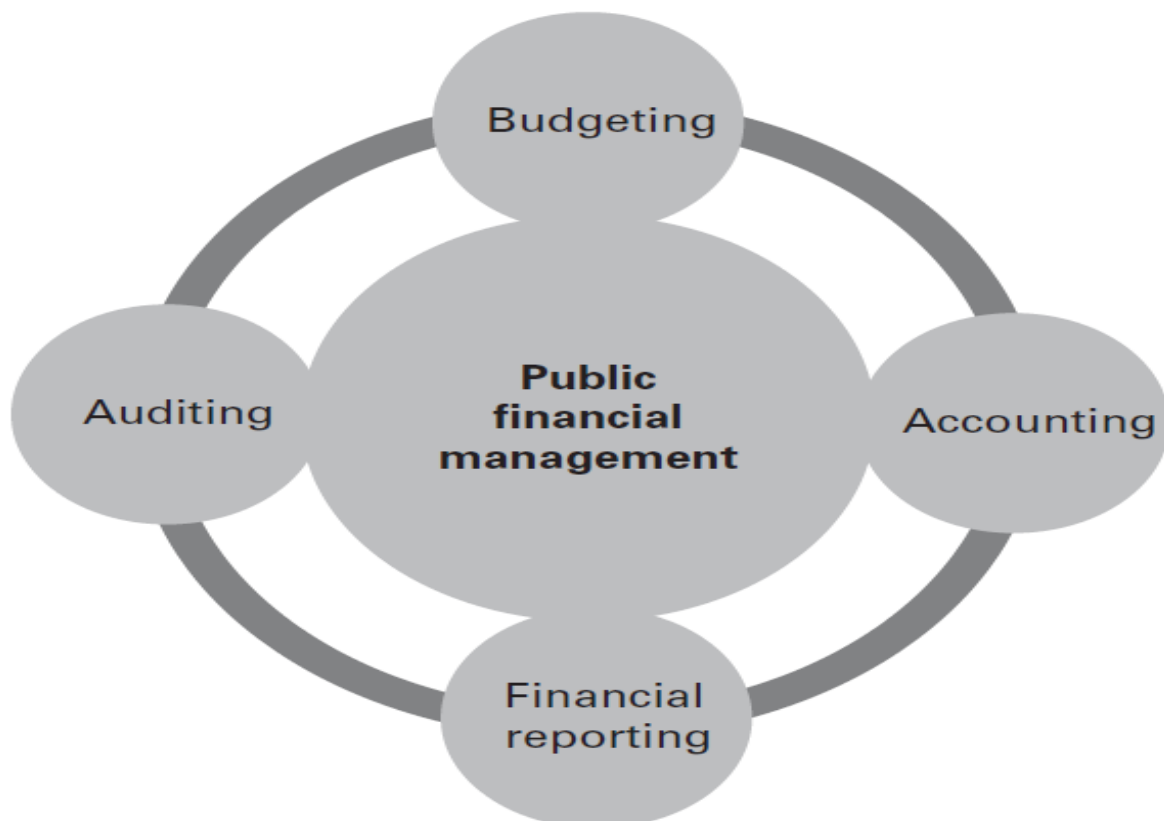


Figure 3. 9: Pillars of financial management

(Source: Venkateswaran: 2017)

As such, figure 3.9 will be briefly unpacked as follows:

- **Budgeting:** Budgeting is the way of distributing limited resources to meet unlimited demands of the citizens particularly the poor over a period of time which is usually twelve months or more, where government activities are allocated financial resources (Petroia, 2017). According to Williams et al, (2019), budgeting is critical in government planning, control, and evaluation of operations.
- **Accounting:** Accounting provide internal and external stakeholders with information about the organisation's financial resources, and the efficiency with which these resources are utilized (Kaya *et al.*, 2019). Accounting records within a local government provide relevant data on accounts of rate payers, salaries, and paying contractors for goods and services (Novas *et al.*, 2017).
- **Financial Reporting:** A wide range of stakeholders benefit from financial reporting because it provides a consolidated set of financial data (Weygandt *et al.*, 2018). Chychyla *et al.* (2019) adds that financial reports are a method of communicating with the stakeholders about the financial activities of an organisation. Financial reporting in South African municipalities is regulated by the Municipal Finance Management, with the aim of modernizing financial management practices.
- **Auditing:** Auditing aims to guarantee that funds are not subject to theft, waste, or misuse, as well as reporting errors. Auditing in the public sector also helps government departments and municipalities to operates in accordance with the applicable legislation(s) (Ngoepe *et al.*, 2016).

In light of the above the concept of financial management will be discussed from both the international perspective and South African perspective.

3.7.1 The concept of financial management

Kilonzo *et al.* (2015:66) define financial management as the mobilization and utilization of funds to finance the assets and activities of an organisation so that its goals and objectives are achieved. Jayashree *et al.* (2016:1201) add that financial management involves the planning, leading, organising and controlling of financial resources of an organisation. Financial management involves planning for the future of a firm or

organisation (e.g. a municipality) in order to maintain positive cash flow (Cheruiyot *et al.*, 2017:213).

According to Visser and Erasmus, cited by Nyamita (2015:26), financial management functions include but are not limited to budgeting, expenditure and revenue management, accountability, auditing, cash flow management and financial reporting. (Wakiriba, Ngahu & Wagoki, 2014:109) assert that, for a non-profit organisation to be financially sustainable, financial management practices should enhance accountability, transparency, accuracy, and efficiency so that an organisation can accomplish its aims and objectives.

Pimpong (2017:61) argues that effective financial management prevents misuse of financial resources, particularly in public organisations. According to Molobela (2016:263), effective financial management leads to optimal utilization of financial resources, thus leading to financial performance. Cheruiyot *et al.* (2017:212) affirm that financial management practices in the public service, particularly in local government are aimed at avoiding wasteful and fruitless expenditure, fraud and corruption, irregular expenditure, and unauthorized expenditure.

3.7.2 Financial management: international perspective

Many developed countries have reorganized financial management, particularly public finance management to promote result-oriented management and an accrual-based management accounting system (Nyamita, Dorasamy & Garbharran, 2015:25). Municipalities in Russia involve management in financial management practices in order to set the strategic direction necessary for achieving the goals and objectives of the municipality (Khominich, Rybyantseva, Borodacheva, Dik, & Afanasev, 2016:97).

Countries such as Indonesia have also taken the initiative to reform their financial management in the public sector by introducing cash to accrual accounting in order to improve financial reporting (Mir *et al.*, 2013:97). Mir *et al.* (2013:98) further argue that financial management reforms are successful in Indonesia because the state has focused on its own policies and domestic conditions instead of adopting foreign financial management systems and policies.

In the United States of America, the federal government follows financial accounting standards that were established by the Governmental Accounting Standards Board in

order to improve government accounting and financial reporting standards for both state and local governments (Kioko, Marlowe, Matkina, Moody, Smith & Zhao, 2011:116). The United States of America has undergone a succession of financial management reforms since the mid-1980s, with the objectives of improving efficiency and effectiveness of federal and state governments and of local municipalities whilst maintaining a focus on improving financial accountability (Niyitama *et al.*, 2015:29).

According to Cheruiyot *et al.* (2017:213), in Kenya, public finance is guided by the following principles:

- Openness and accountability
- The citizens should participate in financial matters
- Public finance should promote an equitable society
- The tax burden should be shared fairly
- Revenue must be shared equally among different government spheres
- Expenditure should stimulate unbiased development of the country
- Financial reporting should be done on time and it should be clear
- Financial managers should be responsible and accountable

3.7.3 Financial management: A South African perspective

According to Mbulawa (2019:2), unlike the other two spheres of government, local government is the only one which garners its own revenue to fund its obligation. Good financial management as a function of a municipality is comprehensive and complex (Laubscher, 2016:63). According to Dzomira (2015:26), in South Africa, the requirements of the constitution and of the PFMA and the, MFM Act should be taken into consideration by government departments, public institutions, and municipalities when it comes to managing financial resources. Despite the fact that the government of the Republic South African has put statutes and policies in place, in many instances finances are being mismanaged (Zonke, 2016:9).

Financial management reforms in South African municipalities have had disappointing outcomes due to poor management of budgets, irregular and unauthorised expenditure and poor cash management (Du Plessis, 2016:2). According to the AG in his annual report, financial management continues to worsen in South African

municipalities due to lack accountability. Lack of accountability by municipal managers has led to tremendous turmoil in municipalities (Sultan, 2014:51).

One factor that hinders effective financial management in municipalities is the turnover rate of accounting officers (Tsheletsane, 2014:47). A high turnover rate of municipal managers affects financial management, accountability and good governance in municipalities. Governance is the management of an organisation, thus effective governance is important in managing the financial resources of an organisation.

The AG of South African has stated that governance is a fundamental issue that leads to poor or good performance of municipalities. With that being said, according to Laubscher (2016), municipalities continue to take governance lightly. Even when municipalities receive qualified audits from the AG, there are no formal requirements that exist for municipalities to report on how they would implement the recommendations of the AG, thus this matter negatively affects good financial management (Laubscher, 2016:66).

One of the issues negatively influencing financial management in the local government sphere is lack of revenue management systems in municipalities. Malobela (2016:245) defines Revenue Management (RM) as a process of collecting monies from customers. For Molobela revenue management challenges in municipalities are caused by:

- Weak municipal governance and leadership which affects fiscal discipline and leads to mismanagement
- Political/ administrative instability
- Ineffective implementation of financial management principles in terms of budgeting; low collection levels; inadequate internal and risk management controls
- Misalignment of legislation.
- A culture of non-payment on the part of residents of a municipality (National Treasury,2018:np)

The process of revenue production in municipalities necessitates comprehensive changes in the administration of municipal financial management systems, such as effective revenue management, regular revenue collection, and the enforcement of

revenue-related rules (Rakabe, 2011:133). Figure 3.9 below outlines the reporting process of government departments and municipalities.

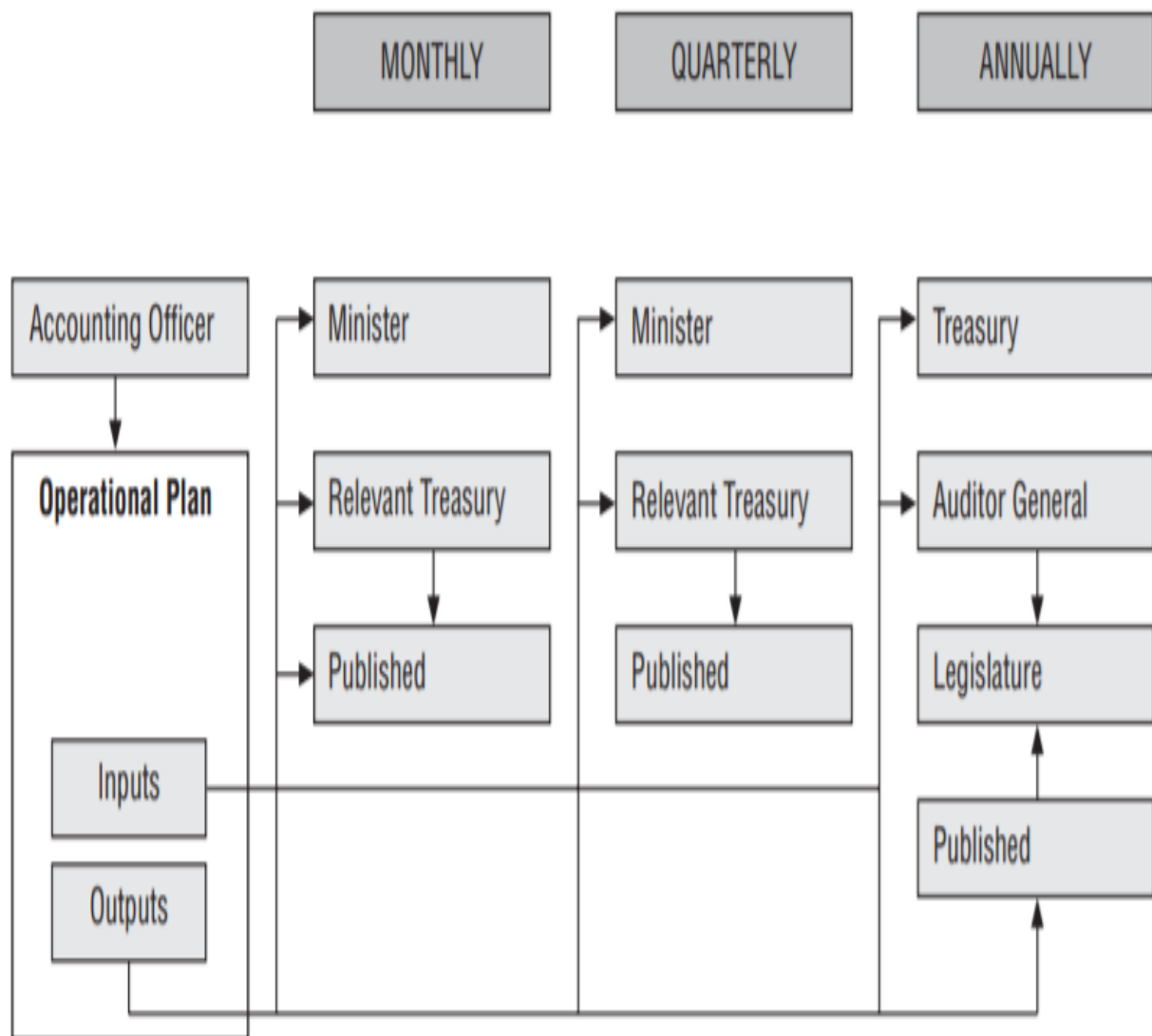


Figure 3. 10: Reporting requires of the PFMA and MFMA

(Source: Folscher & Cole, 2006:23)

The purpose of the framework represented in Figure 3.13 is to afford appropriate oversight of financial management of the government so that managers are always held accountable (Folscher *et al.*, 2006:23). Financial reports are valuable management tools for accounting in municipalities (Sibanda, 2017: 314). Effective municipal financial performance requires effective financial management and control systems that will lead to the overall municipal performance (Sibanda, 2017: 315). Figure 3.10 below depicts the municipal performance management process.

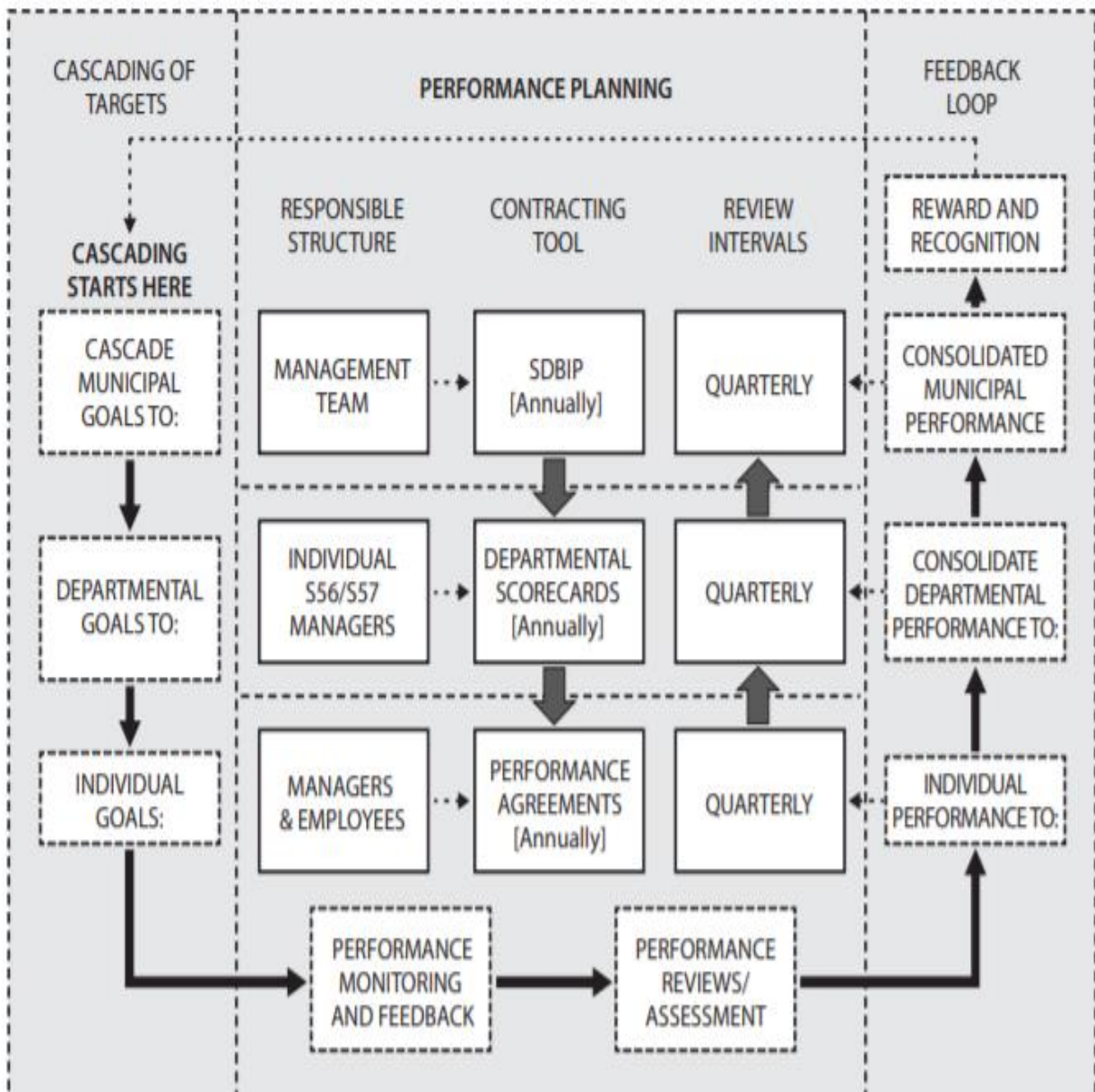


Figure 3. 9: Municipal performance management process

(Source: Dweba, 2017: 434)

Figure 3.10 indicates that all departments in a municipality should contribute towards and overall performance of the municipality. Managers and ordinary employees in a municipality should demonstrate that they understand all the stages and elements on the performance management process. According to Dweba (2017:434), performance management should be introduced very carefully to address existing and emerging challenges in municipalities, and that there should be commitment on the part of municipal leadership to implement and oversee performance management. All

municipal employees should adjust and accept a culture of municipal performance management.

The National Treasury's MFMA Circular 64 (RSA 2012b) establishes the fiscal structure for local governments, which is essential for a financially sound municipality. Circular 64 aims to foster financial health in municipalities. Figure 3.11 below shows stages of financial health in municipalities.

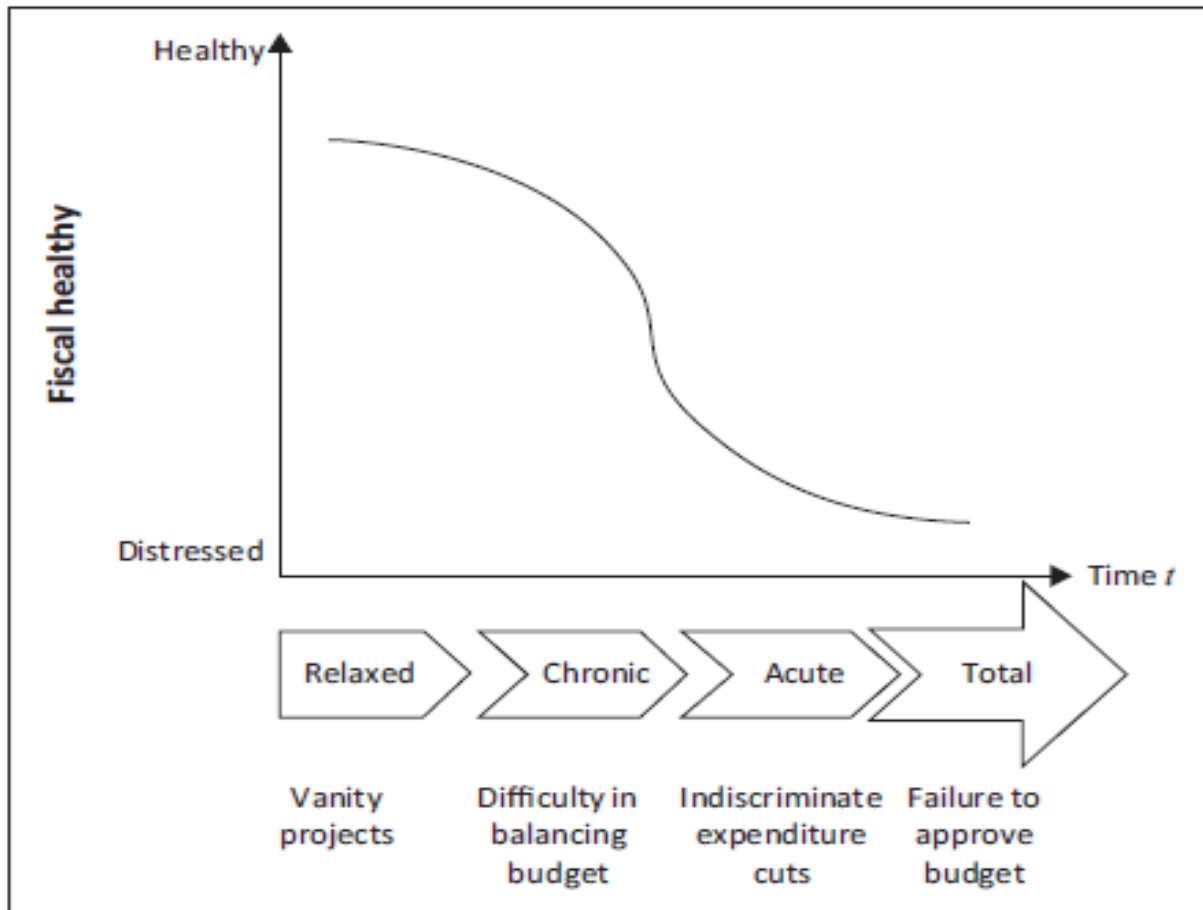


Figure 3. 10: Stages of financial health

(Source: Mbulawa, 2019:3)

The purpose of figure 3.11 is to assist municipalities on how to improve revenue collection while reducing inefficiency, expenditure and uncollectible debt (Mbulawa, 2019:3). As financial management worsens, a municipality is likely to get financial distress, thus affecting service delivery and the approval of a budget. Section 219 of the Constitution required all spheres of government to have good financial governance. This can be achieved by introducing General Recognised Accounting Practices.

3.8 AUDITS IN SOUTH AFRICAN MUNICIPALITIES

The role of the Auditor General of South Africa in local governments, as in any other public-sector organization in South Africa, is to audit their financial and other statutory reports and outputs, thereby increasing public confidence in their management of the municipality (Matlala and Uwizeyimana, 2020). It suffices to say that the existence of a strong governance role is critical for monitoring and ensuring proper administration in municipalities (Motubatse, Ngwakwe and Sebola, 2017:91). Clean administration is evaluated by the audit process, which is carried out and lead by the Auditor General's office.

The Municipal Finance Management Act compels municipalities to compile financial statements that are in line with Generally Recognised Accounting Practices (GRAP) in order to submit them to the AG after two months when the municipal fiscal has concluded. The Auditor General (AG) audits South African municipalities to report on their financial performance by evaluating financial statements, budgets, and compliance with legislation (Motubatse, 2017: 93). The audit outcomes of these municipalities fall into the following categories:

- Financially unqualified opinion with no findings: These Municipalities produce financial statements that are free of material misstatements, and comply with all the applicable legislations.
- Financially unqualified opinion with findings: These municipalities are those who can produce financial statements free of material errors, but are still struggling to bring into line performance to strategic objectives.
- Financially qualified opinion with findings: These municipalities do not comply with legislation, and are unable to generate credible and trustworthy financial statements.
- Adverse opinion with findings: Financial Statements of the municipalities reflects misstatements that the AG disagree with including the amounts.
- Disclaimed opinion with findings: These municipalities are unable to provide substantiation or evidence for the majority of the amounts and disclosures in the financial statements.

The audit outcomes for municipalities from 2016/17 financial to 2019/20 financial years are presented in figure 3.12 below.

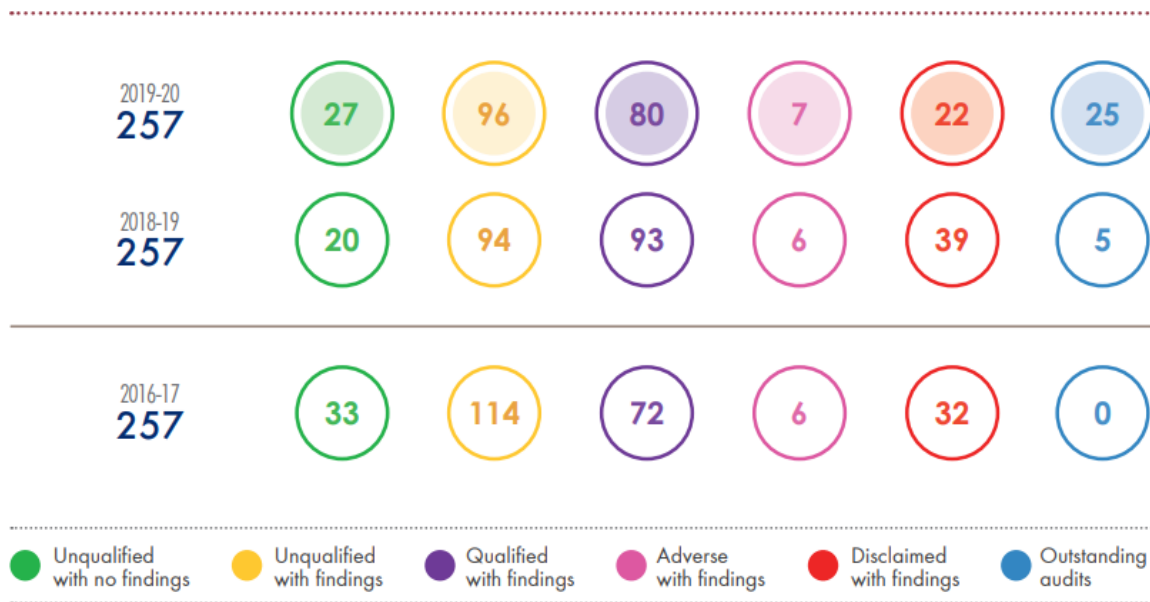


Figure 3. 11: Municipal Audit Outcomes from 2016/17 to 2019/20 fiscal years

(Source: Maluleke, 2020)

Based on the figure above, a number of municipalities who had outstanding audits has increased significantly from 2016/17 to 2019/20. This phenomenon indicates non-compliance of the Municipal Finance Management Act. Overall, the findings of the audits from 2016/17 to 2019/20 reporting period indicate poor financial, budget, performance management in some municipalities. Many scholars have indeed pointed out that the audit challenges faced by municipalities around the world are related to some of these factors:

- leadership quality;
- financial management;
- Budget management;
- Governance.

A lack of accountability, responsibility, transparency and integrity breeds a persistent disregard for regulations, resulting in resource mismanagement and a lack of service delivery in municipalities. Accordingly, the lack of internal controls, combined with a lack of repercussions for wrong doings and relatively weak oversight, is at the heart South African municipalities, with rapidly declining accountability. Lack internal controls weakens governance and financial management in municipalities. Internal audit effectiveness studies show that an effective internal audit function improves

governance and is regarded as an important governance mechanism in municipalities. Therefore, an effective and efficient internal control process as a good governance tool enables municipalities to achieve clean audits. In most instances, internal factors contribute to unfavourable audit results in South African municipalities could be remedied through corrective measures by top management. As such, all the municipalities have a responsibility to identifying, avoid, and resolve all its financial issues. According Matlala *et al.* (2020), in some instances, the Auditor General repeats findings that were previously reported to indicate that, recommendations and guidelines that were advanced to municipalities were not implemented at all.

3.9 SUMMARY

Even though budget process varies between the government and industry, the municipal council, which establishes rules that drive the process, is the most significant stakeholder in the municipal budgetary process. All stakeholders, notably the residents served by the municipality, should be consulted on a regular basis. The municipal council must be trustworthy in the budgetary process and guarantee that public cash and other resources are used efficiently.

A budget is the tools that aids employees in general on how to plan and utilization of an organisation's resources. As much as different budgeting techniques have advantages and problems, no organisation can function without one. The new model presented in this study intends to guarantee that budgets are easily created, executed, and evaluated in order to improve service delivery in accordance with the Republic's constitution.

Budget management personnel ought to be continually taught to handle funds efficiently. Every organisation, whether corporate and public, ought to have training programmes in place to constantly improve employee performance. Managers' skills must be improved, notably in managing an organisation's financial resources.

In the same vein, in the realm of local government, financial management systems are critical components of good governance, accountability, integrity, efficiency, and successful service delivery. Senior management, middle management and all staff members of a municipality need to play a role in planning, implementation and monitoring financial management systems to ensure their effectiveness.

Literature in this chapter has also emphasised the importance of monthly and annual reporting, and maintaining positive cash flow within an organisation, particularly in a municipality. Furthermore, literature indicated that leaders on municipalities both political and administrative layers play a critical role in municipalities obtaining clean audits. Lastly, the next chapter will discuss the proposed conceptual framework for this research.

CHAPTER FOUR: CONCEPTUAL FRAMEWORK

4.1 INTRODUCTION

The proposed conceptual framework has support from previous studies. Conceptual frameworks help those designing models to better understand the phenomenon that the models are being designed to address (Cronje, 2010:181). Budget management is the most important area on which to focus when developing and managing organisational performance in the municipalities. Resource allocation, mobilization, effective budgeting, organisational culture and competence are the main factors that municipal management and employees need to take into account when aiming to execute organisational plans and attain strategic goals that lead to sound financial performance. In this chapter the proposed budget management framework together with hypotheses developed from the model are discussed.

4.2 CONCEPTUAL FRAMEWORK AND HYPHOTHESES DEVELOPMENT

A framework is a collection of assumptions, beliefs, ideas, points of view, and hypotheses that are used to support and contribute to research (Maxwell, 1996:25). According to Mihindoum (2014:126), a desirable conceptual framework consists of what is discovered in literature as well as unpublished information and knowledge held by specialists and other sources related with the phenomenon under investigation.” The topic relates to the effect of budget management on service delivery has not been sufficiently studied in the South African context. Fewer researchers addressed the impact of budget management on service delivery in the South African context. For instance, Ndevu and Muller (2017) developed a value-based integrated framework as a performance measurement instrument for improved service delivery in local government and it allows management to measure financial, internal processes, learning and customer results in municipal operations. Furthermore, Masiya *et al.* (2019) confirmed that the individual and jurisdictional level of citizen satisfaction model which argues that people may or may not be satisfied with service delivery based on personal background, social status values, and circumstances can influence their satisfaction or dissatisfaction with service delivery. However, there are scant studies focused on developing a framework to evaluate how budget management could be

implemented effectively for improving the quality of service delivery in South African municipalities. This has become a gap in the research field.

In this regard, this study proposed a budget management framework that in consist of five main elements (budget planning, revenue and expenditure management, legislative consideration, risk management, and cash flow management) lead to an effective budget management (see Figure 4.1 below). These five key elements were categorised as independent variables where the effective budget management as the dependant variable.

INDEPENDENT VARIABLES

DEPENDENT VARIABLE

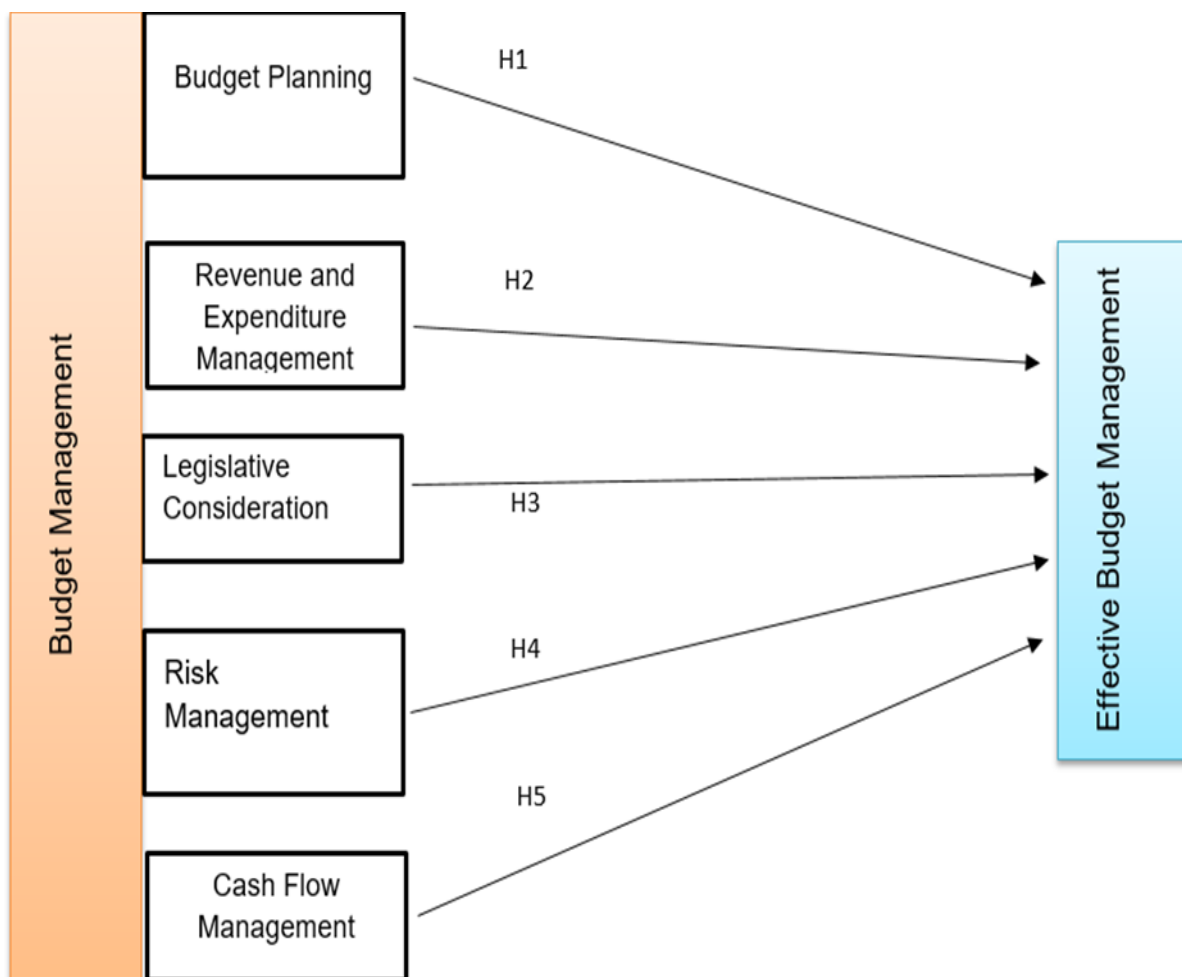


Figure 4. 1: The proposed budget management framework

(Source: Own Construction)

The explanation of the relationship between the study's concepts and the rationale for the five hypotheses in Figure 4.1 are discussed in this section. The starting point is to explain and unpack the variables in the conceptual framework. These variables have been considered to have an important effect on budget management, service delivery and quality of life and therefore, they have been included in the study as critical elements of effective budget management. For this research, the following hypotheses were advanced.

4.3 HYPOTHESIS DEVELOPMENT

4.3.1 Effect of budget planning on budget management

Budgets are management planning and control systems; thus, the effectiveness of budgeting depends on how it is organized in the municipality. A budget is defined as a financial plan which summarises, in financial terms (income and expenditure), and which relates to the planned activities of an organisation for a particular financial year. There were studies which indicated that budget planning have a significant effect on the performance of the service delivery (Sulistiyo & Pratiwi, 2021), financial management (Melnichuk, 2015) and management performance (Maher *et al.*, 2018). These studies look into the effect of budget planning on service delivery and performance from different angles. It is obviously that budget planning plays a significant role for service quality and organisational performance.

Isaac *et al.* (2015: 2) define budgetary planning as the process of creating a budget and then using it to manage a company's operations. Budgeting aids in the planning of various operations by requiring managers to review how circumstances may transform and what steps should be taken now, as well as by empowering managers to examine potential issues (Grimm, 2018). Planning also aids in the coordination of the organisation's activities by level of support to evaluate the connection amongst their own operations and that of other departments.

Indeed, the budget planning and budgeting process assist municipal managers in shifting their focus away from the daily operations of the organisation and toward the long-term service implementation. The major purpose of the budgetary process is to concentrate on strategy, distribution of resources, and profit appraisal such that

meeting organisation objectives becomes the main objective of budgeting. In this regard, the following hypothesis is formulated:

H₁: There is a relationship between budget planning and effective budget management.

4.3.2 Effect of revenue and expenditure on budget management

4.3.2.1 Revenue Management

Kanyane (2014:97) defines revenue management as a process that is required by government departments and municipalities to properly plan and fully account for income that received is by promptly safeguarding it and banking it. Public institutions such municipalities are not exempted from the above definition. Actual income and expenditure have to be monitored in relation to the budget, through regular financial reporting and corrective action has to be taken if actual performance is not in line with what is stated in the budget (Zweni *et al.*, 2018: 122). Therefore, calculating the municipality's income and balancing it against the anticipated cost should lead to effective budget management.

Some constitutionally mandated services are shared between a municipality, provincial and national government, and these services require huge amounts of financial resources. Municipalities receive grants from the national government to finance these non-funded mandates. These grants are called equitable share and municipal infrastructure grants. The municipal equitable share is the share granted to a municipality from the taxes collected by the national government whereas the municipal infrastructure grant is meant to finance the basic infrastructure services of the municipality.

The fact that municipalities differ in size, social structure and service delivery requirements and differ in the way they manage their financial resources results in differences in the way they manage their budgets. No municipality is too small or big to need a properly managed budget (Tassonyi, 2002:181). Municipal managers should use budgets to manage and control financial transactions (Tassonyi, 2002:182). These managers must also provide inputs to the accounting officer and the chief financial

officer for purposes of preparing budgets. The chief financial officer will then provide administrative and technical support as delegated by the municipal manager to heads of departments and responsibility managers to ensure that their inputs and budgets meet the terms of budget-related prescripts and are aligned to the IDP of the municipality. The municipal manager must make public the annual and adjustment budgets so that the community can submit representations before the council approves the budget. It is crucial that the municipality considers the views of the community so that service delivery implications can be addressed (Olivier, 2016:49).

According to Rakabe (2010:137), municipalities should have revenue management systems in place in order to effectively classify, collect, reconcile and record income which is generated by the municipality from businesses and citizens for services rendered. Lack of revenue management systems and procedures affects how municipalities budget for revenue and expenditure (Malobela, 2016:13).

According to Kanyane (2014:97), municipalities depend on a strong revenue base in order to effectively provide services to the residents. The manner in which accounting officers and officials manage revenue and expenditure (operating expenditure and capital expenditure) has a substantial influence on the overall performance of the municipality. Section 62 (1) of the MFMA, 56 of 2003 requires the accounting section to manage resources and create systems to manage revenue and expenditure with diligence so that the municipality can reach its goals and objective.

Because municipalities differ in size, their ability to generate revenue and the amount of money they spend differs widely. Municipal managers must ensure that all outstanding monies owed and due to the municipality are collected timeously. Common challenges faced by municipalities in relation to revenue management are articulated by the author listed in Table 4.1.

Table 4. 1: Revenue management challenges

1. Data	The reliability of a municipality's reported data.
2. Revenue Collection	Poor government revenue leads to a heavy reliance on grants.
3. Financial Management	Ineffective financial management.
4. Outstanding debts on properties	Clearance certificates on properties granted in the absence of a formal arrangement to pay outstanding obligations.
5. Indigent Groups	Excessive indigent dependence, unaffordability of consumer services, and customer refusal to pay.
6. Credit Control	Inadequate municipal capacity and reluctance to impose credit control.
7. Customer Care	Functionality of Customer Care Services.

Source: National Treasury (2004)

South African municipalities face several challenges that are well documented when it comes to management of revenue. Therefore, section 64(1) of the MFMA requires, the municipal manager to be accountable and responsible for overseeing the municipality's revenue. Additionally, the accounting officer, which is the municipal manager needs to act swiftly by ensuring that the municipality has the following systems in place:

- Reliable revenue collection mechanisms;
- Municipal income is measured on a monthly basis;
- Municipal taxes accounts are compiled on a monthly basis;
- All the money collected by or on behalf of the municipality is deposited into the municipality's bank account timeously;
- Interest on arrears is charged by the municipality;
- Revenue collected by the municipality should be recorded and reconciled at least once a week.

Given the socio-economic inequalities in most rural areas in South Africa, there is a research deficit on low revenue collection and its impact on rural public service delivery. The South African constitution requires municipalities to collect revenue, thus municipalities are forced to find other ways to boost their revenue bases. According to Shava (2020: 399), for municipalities to maintain service provision in cities, municipalities should develop reliable revenue collection sources. Some municipalities

are struggling to collect revenue as a result they always submit unrealistic revenue projections to treasury.

According to the Constitution, Section 152 (1), municipalities have the right to a fair share of revenue raised by the central government. While, South Africa's national government offers financial aid (equitable share) to local municipalities, the funds are insufficient to satisfy the growing demand for basic services particularly in rural areas (Shava, 2020:398). This portion is allocated to municipalities in order for them to fulfil their constitutional obligation by delivering social services to their constituents.

As such, revenue management system is a set of coordinated activities that a municipality should carry out to control its revenue and fulfil its obligations. A substantial number of municipalities are in financial difficulty, and several of these municipalities are on the verge of financial meltdown. To address operational inefficiencies in the municipal environment in South Africa, an integrated approach to revenue management is required.

One of the statutes that deals with revenue management in South Africa is the Division of Revenue Act (DORA) which regulates transfers, equitable shares, conditional and unconditional grants, this act is reviewed annually by National Treasury. The allows for the equitable distribution of funds among the three branches of government and promotes transparency in the budget allocation process (National Treasury, 2003). The decentralization of expenditure responsibilities and revenue prerogatives from National government to local government is bound to improve accountability, responsiveness, good governance, and higher efficiency levels of service delivery because local governments would provide goods and services based on the wants and needs of their electorates. Local municipalities in South Africa have previously faced significant service delivery challenges and poor revenue management to finance services, as such, National Treasury developed a revenue management value chain to assist municipality. Figure 4.2 below illustrates the revenue management value chain.

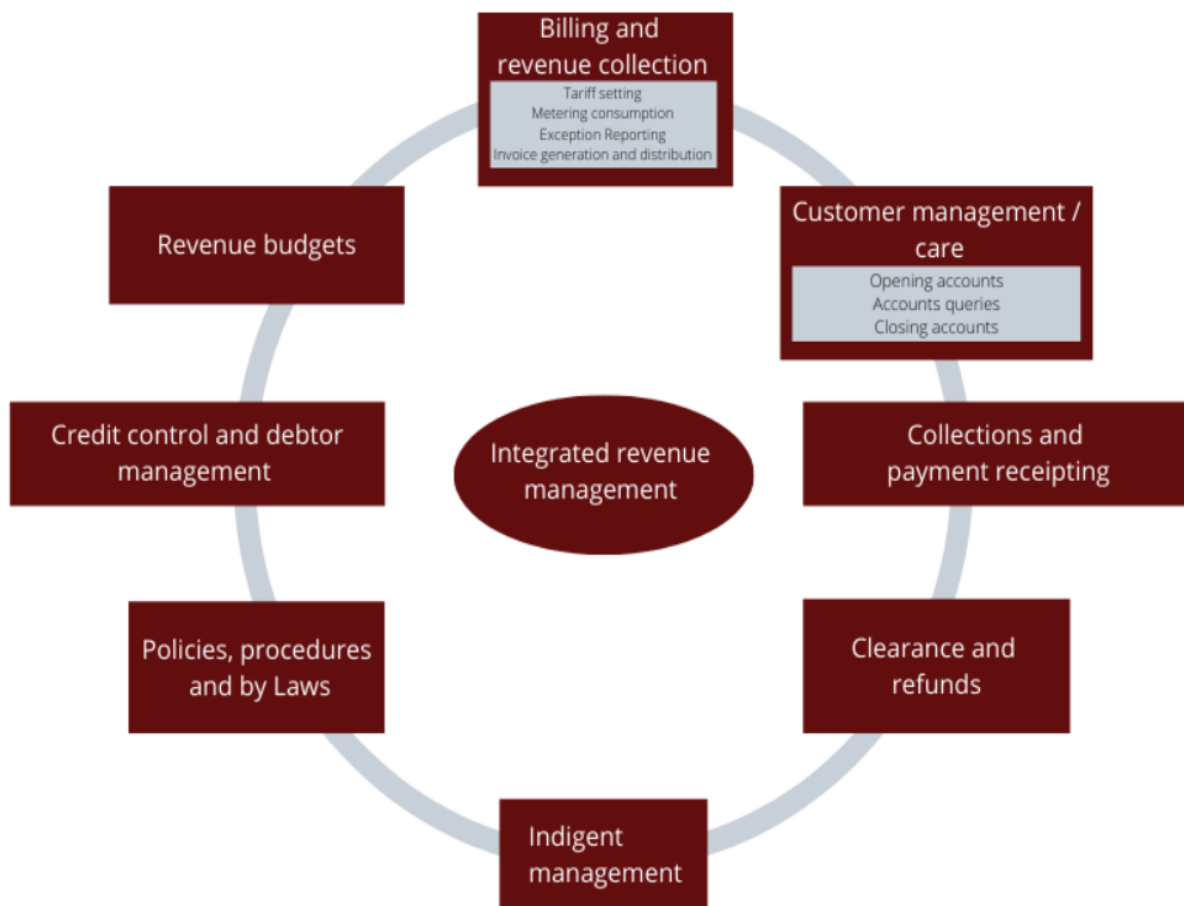


Figure 4. 2: Revenue management value chain

(Source: National Treasury: nd)

Figure 4.2 shows a variety of interrelated steps and functions within and outside of a municipality. The most important way to promote fiscal control is for municipalities to develop their own revenue streams. Thus, credit control management, indigent management, and debt collection should be management properly in order to improve financial sustainability. According to Jacobs (2019:87), municipalities who continue to expend more money than they can collect, will most likely have a deficit on their budgets.

The credibility of revenue enhancement and management in municipalities is dependent on two elements, metered service distribution and billing. The municipal indigent register is an essential aspects of municipal revenue enhancement. The term "indigent" refers to a family that is unable to provide for essential care due to a variety

of reasons (Jacobs, 2019:24). Figure 4.3 illustrates an indigent management system that municipalities should follow.

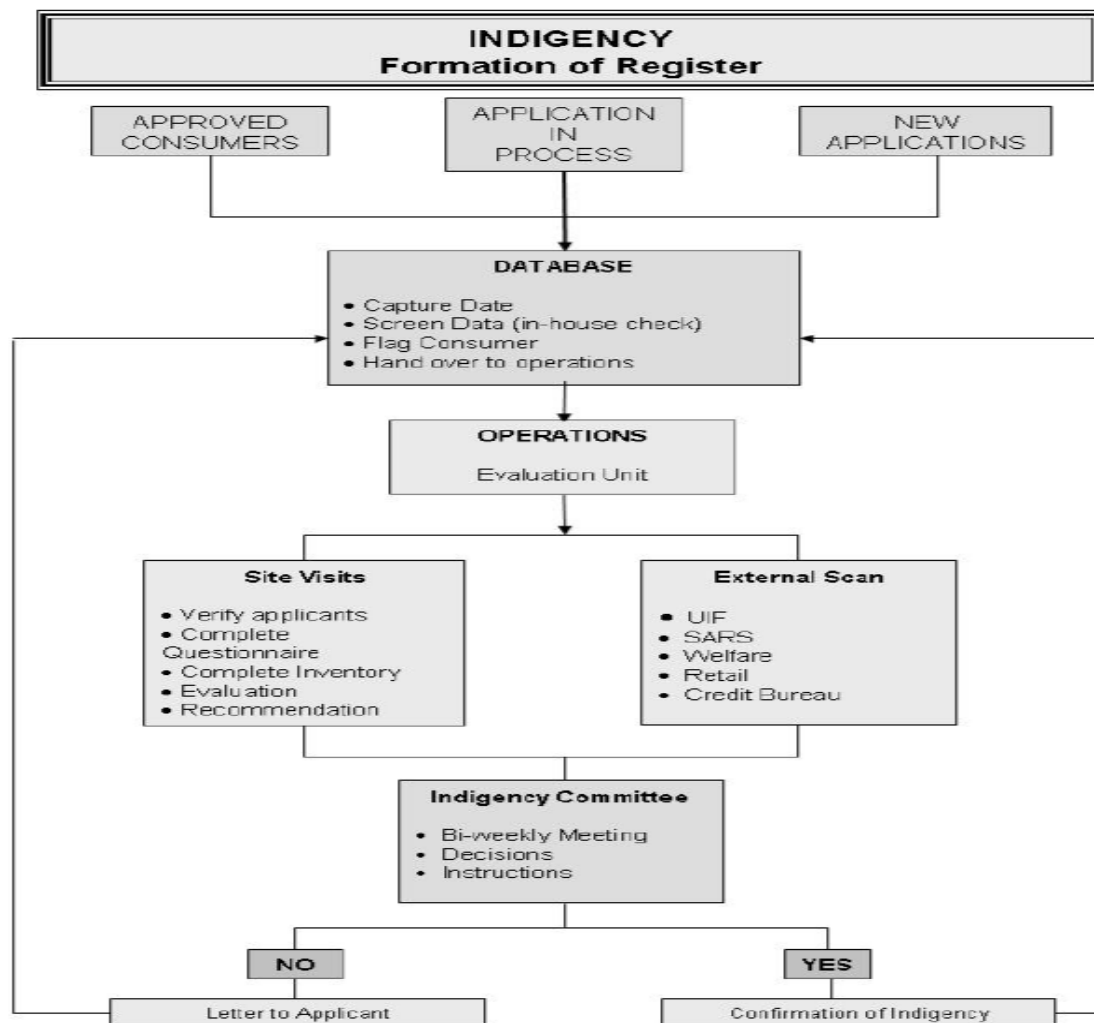


Figure 4. 3: indigent management system

(Source: Jacobs, 2019:26)

Figure 4.3 depicts a process that municipalities should follow in managing indigent groups in their jurisdictions. Municipalities in South Africa depend on a variety of sources of income, including, though not limited to, property rates, levies and service charges, unconditional and conditional grants from provincial and national governments (Molobela, 2016:263).

4.3.2.2 Expenditure Management

The underlying principles of municipal expenditure management are the authorization and regulation of expenditure according to its purpose in line with the applicable

provisions of the law. Fourie *et al.* (2015) define expenditure management as a process of managing funds in line with what they were intended for. According to Monkam (2014), the expenditure functions of municipalities vary greatly within and across categories, Metropolitan municipalities have a greater ability and capacity to provide a wide range of services, while categories B and C have a limited ability to provide a few basic services on their own. The Medium- Term- Expenditure Framework is one of the tools that requires municipalities to indicate expenditure estimates over a three-year period, and these estimates are submitted to council and the relevant treasury for approval in order for a municipality to carry-out its activities. Furthermore, the MFMA gives guidelines on how expenditure should be management in municipalities. However, despite these frameworks and statutes, municipal officials still transgress in relation to expenditure.

Generally, in South African municipalities transgressions such as fruitless, Irregular and unauthorised are of the major challenge municipalities are facing in relation expenditure management. The definitions of these transgressions are as follows:

- ***“Irregular expenditure*** is spending that is not unauthorised and is incurred in violation of or not in compliance with a provision of any relevant statutes”.
- ***“Unauthorised expenditure*** is spending committed by municipalities without consideration being made for it in the council-approved budget, or spending that does not satisfy the requirements of a grant”.
- ***“Fruitless and wasteful expenditure*** refers to wasteful spending that might have been prevented if reasonable precautions had been taken. Interest, the payment of inflated prices, and the cost of litigation that could have been avoided are examples of such expenses”.

The above mentioned definitions apply to all the shapers of government. The above mentioned transgressions are discussed below.

Irregular expenditure

Irregular expenditure in respect of a municipal or municipal body is defined by the MFMA, as an expenditure incurred in contravention of, or not in accordance with, the requirements of the Act and not condoned in accordance with section 170. While

South African municipalities use the MFMA to guarantee the prudent and long-term management of municipal and other local government financial concerns, it is crucial that municipalities apply the PFMA to manage finances. Irregular expenditure is an approved expenditure in breach of any procedural requirements of the PFMA and the MFMA.

Any conduct falling within the parameters of irregular expenditure is an act of financial misconduct, and municipalities need to act through the Municipal Manager of the municipality. According to the PFMA, sections 81 and 86(1)(a), there are provisions which constitute financial misconduct, as well as penalties and disciplinary measures which may be imposed on any person who is in violation of section 38 and other treasury regulations.

When irregular expenditure is revealed. Such an expense should be with-held in the expense account and the details should be recorded in the irregular expenditure register. Such a transgression (irregular expenditure), should be computed prior to payment, shall be considered as a matter of non-compliance prior to payment, at which time irregular spending shall be reported (National Treasury, 2004). Thus, any irregular expenditure would not result from non-compliance corrected prior to any payment that is made. There are different categories or types of irregular expenditure. These categories are table in Table 4.2 below.

Accounting officers of municipalities, municipal entities, government departments, and State-owned entities must deal with the categories of irregular mentioned in Table 4.2 with diligence and within the rule of law. The following are examples of irregular expenditure:

- Purchases exceeding budget;
- Purchasing with competitive bidding;
- Non-compliance with treasury regulations and delegations;
- Non-compliance with any applicable legislation.

Table 4. 2: Types of irregular expenditure

Categories of irregular expenditure	Relevant Authority
<p>Irregular expenditure incurred as a result of non-compliance with a Treasury Regulation where prior written approval was required from a relevant treasury. For example, a department, trading entity, constitutional institution or public entity that incurred expenditure related to a public private partnership without obtaining the prior written approval of the relevant treasury, as required by Treasury Regulation 16.4.2.</p>	<p>The National Treasury, in the case of national departments, trading entities, constitutional institutions and national public entities and the relevant provincial treasury in the case of provincial departments or provincial public entities.</p>
<p>Irregular expenditure incurred as a result of non-compliance with a Treasury Regulation which required cognisance to be taken of a National Treasury determination. For example, a department, trading entity, constitutional institution or public entity procured goods or services by means of price quotations where the value of</p>	<p>The National Treasury, in cases of all departments, trading entities, constitutional institutions and public entities.</p>

(Source: National Treasury, 2014)

Unauthorised expenditure

According to the PFMA and the MFMA, in case of an emergency or other unusual situation, the mayor may sanction an unforeseeable and inevitable expense for which no provision has been made in the approved budget. Such expenditures must not exceed the approved budget in that particular fiscal year, and must be submitted to council by the mayor, and must be effected and tabled in the adjustment estimates within 60 days of the expenditure. However, if the unforeseeable and unavoidable expenditure is not voted for and passed with 60 days, such expenditure will be recorded and classified as unauthorised expenditure. In the context of municipalities unauthorised expenditure includes:

- Over expenditure on the approved municipal budget.

- Over expenditure on the approved departmental budget within a municipal.
- Expenditure that is unrelated to any department of function within a municipality.
- Money spent for a purpose for which it was not planned.

National Treasury requires municipalities to pay particular attention to cost-cutting measures and limit spending on non-essential items. These non-essential items are:

- Paying for sports events.
- Paying for alcohol in municipal meetings or events.
- Organizing events in expensive venues.
- Paying for study tours overseas for municipal officials and political office bearers.
- Luxury cars and houses for political office bearers.
- Luxury IPADS and Cell phones for political office bearers.
- Several employees in the council speakers and mayor's office.
- Excessive overtime.
- The use of consultants.

When the expenditure is classified as unauthorised, the Municipal Manager of a municipality shall recover the funds in accordance with section 32(2) of the Municipal Finance Management Act. If the money is unrecoverable, the Council will write it off in accordance with National Treasury regulations (NTR). All monies written off in accordance with NTR must be recorded in the Annual Financial Statements (AFS).

Unauthorized spending made by the accounting officer or any other municipal official, whether intentionally or negligently, thus the accounting officer's and any other municipal official can be charged criminally. Thus, expenditure should be made or incurred within the bounds of the law by all municipal official in different levels. Fruitless and wasteful expenditure should be avoided in municipalities.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure, unauthorized expenditure, and irregular expenditure are transgressions that should be treated with diligence by municipalities. Municipalities ought to have systems in place to deal with these transgressions. Upon

becoming aware of any of these transgressions, the Accounting officer of the municipality must report such to the Council and the Mayor for investigation, determination, and decision.

If the transgressor acted negligently or was not authorized to commit such an act, the Council can dismiss the transgressor and even report such transgression to law enforcement agencies. However, if the official (Mayor, Accounting Officer, or any official) acted in the best interest of the municipality and the citizens, therefore, the municipal council can take a decision not to take any action against the alleged transgressor.

Financial transgressions or misconduct can be serious or minor depending on the circumstances and nature of the incident. As such, corrupt practices are considered financial offenses, which may necessitate the initiation of criminal prosecutions. Employees should always oversee the Municipality's financial management and take all necessary precautions to make sure that:

- Resources are utilized effectively, promptly, and reasonably.
- Full and proper records of the financial affairs of the municipality were kept in accordance with any prescribed norms and standards.

Figure 4.4 below depicts a process to be followed by municipalities when dealing with fruitless and wasteful expenditure, unauthorized expenditure, and irregular expenditure.

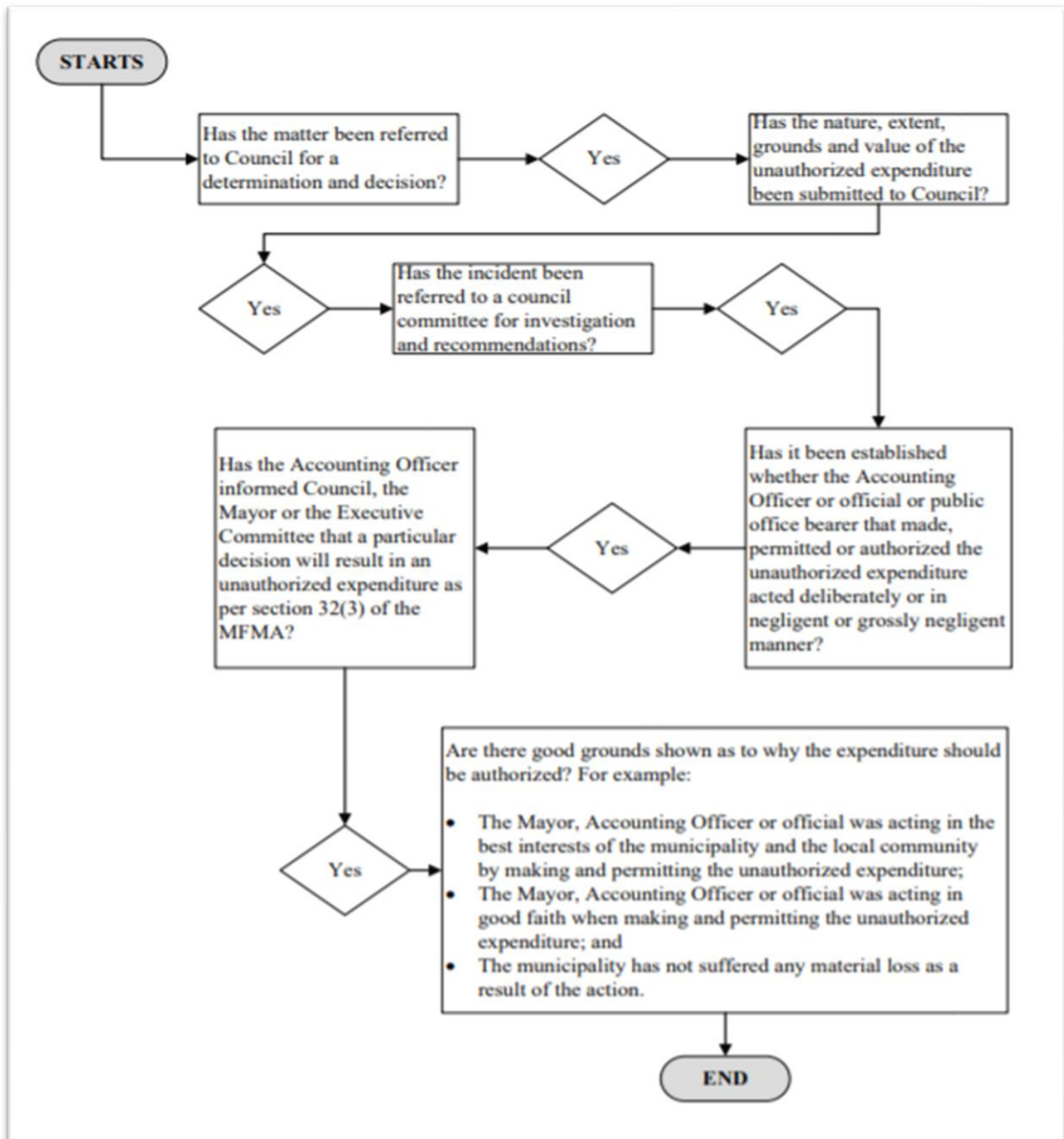


Figure 4. 4: Process of dealing with municipal expenditure

(Source: National Treasury, nd)

In view of what has been described with regard to Revenue and Expenditure Management variable, the following hypothesis was developed:

H₂: There is a relationship between Revenue and Expenditure Management and Effective Budget Management.

4.3.3 Effect of legislative considerations on budget management

The South African legislative framework that underpins public sector financial management and budgeting aims to modernize and vast accountability amongst employees (Munzhedzi, 2016). Sgarbi (2013) defines “legislation as a law or a set of laws passed by Parliament”. Legislation(s) or statutes emanate from the constitution. As such, municipalities through the National Treasury are allowed to develop their financial and budget management policies, however, these policies should be within the ambit of law.

As indicated above, the constitution is the supreme law that requires municipalities to manage financial resources with diligence and that promotes accountability in the local government sphere. There are a number of statutes such as the MFMA that empower municipalities and provide a legal framework for budget management in municipalities and municipal entities in South Africa. Since the inception of democracy in South Africa, the government has enacted legislation and passed statutes that govern municipal financial management. According to Fourie *et al.* (2013:131), the importance of the legislative stance on financial management in municipalities cannot be overstated.

The MFMA requires budget reform and management to be transparent, make provision for basic services to the citizens and to give information that is timely and reliable across municipalities (Hanabe, Taylor & Raga, 2018:168). Most municipalities focus on compliance when it comes to budget management, instead of service delivery (Hanabe *et al.*, 2018: 177). Since municipalities deal with funded and non-funded mandates, they face numerous challenges when it comes to implementing the MFMA.

The MFMA is part of a number of parliamentary acts that focus on robust financial management, and minimisation of maladministration in municipalities (Imuezerua *et al.*, 2015:359). The Municipal Finance Management Act gives a clear direction to municipalities, municipal managers and municipal employees in general on how to effectively manage financial resources (Reddy, 2016: 2). The table below depicts the basic principles of the MFMA.

Table 4. 3: Principles of the MFMA

Financial Governance	Promotes rigorous financial governance by clarifying responsibilities of municipal officials.
Budgeting	Promotes effective approach to managing budgets.
Financial Management	Modernises financial management.
Consultative	Promotes cooperative and consultative governance.
Sustainability	Promotes sustainable local government.

(Source: Author, from literature)

Adherence to the above principles should lead to municipalities rendering quality services and thus to improving the quality of life of residents. The MFMA focuses on building and promoting financial management capability in municipalities and municipal entities (Munzhedzi, 2016). Consequently, it is the duty and the responsibility of the council and of municipal managers and employees to implement the MFMA (Koma, 2012:53).

According to Imuezerua *et al.* (2015:366), municipalities should strictly comply with the MFMA and the approved budget to avoid irregular, fruitless and wasteful expenditure. The latter can be avoided by budgeting, spending, collecting revenue, managing cash and paying creditors in line with the requirements of the Act. Other statutes that governs financial and budget management in South Africa are:

- Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), and Treasury Regulations;
- The Municipal Finance Management Act, 2003 (Act 1 of 2003) (MFMA);
- Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);
- Intergovernmental Fiscal Relation Act, 1997 (Act 97 of 1997);
- Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005);
- Division of Revenue Act, 2020 (Act 4 of 2020),

Amongst the statutes mentioned above, the MFMA is an Act that regulates budgeting in municipalities. All the municipal officials from both the political layer led by the Mayor and the administrative layer led by the Municipal Manager should adhere to the MFMA at all times in terms of budget management. Section 16, sub-section 2 of MFMA state

that, the Mayor should table a budget for adoption and approval in council 90 days before the start of the new financial year.

Thus, considering what has been said above with regards to legislative consideration variable, the following hypothesis was developed:

H₃ There is a relationship between Legislative Consideration and effective budget management.

4.3.4 Effect of risk management on budget management

Fourie *et al.* (2015: 456) define risk management is the process where municipal officials including the accounting would proactively and regularly identify, define current, emerging and possible financial and operational risks within a municipality. Risk is one of the challenges that faces organisations and one which may impact negatively on the activities and operations of an organisation in terms of achieving objectives (Ridha & Alnaji, 2015:9). Ridha *et al.* (2015:15) define risk as “an unexpected and uncertain event that might happen in the future and is counterproductive to the goals of the organisation”. According to Fadun (2013:225), economic volatility requires managers to focus and manage risk effectively at all levels of management. Some benefits of risk management are summarised in Table 4.4 below.

Table 4. 4: Benefits of Risk Management

Risk Management	Saves resources: time, assets, income, property and personnel.
Risk Management	Protects the reputation of an organisation.
Risk Management	Prevents or reduces legal liabilities.
Risk Management	Increases stability of operations and promotes continuous improvement.

(Source: Author, from Fadun, 2013)

Financial managers should have a risk management strategy which consists of:

- Risk Identification
- Risk Assessment and Analysis

- Risk monitoring
- Risk Management Practices
- Credit Risk Assessment (Nair, Purohit & Choudhary, 2014:551-552)

Ennouri (2013:290) outlines several risks that can affect an organisation and its environment:

- ✓ Financial risk: exposes a company to possible loss due to changes in financial markets; it can also happen when specific creditors default.
- ✓ Legal risk: exposes the company to legal action brought by consumers, suppliers, shareholders, or personnel.
- ✓ Strategic risk: has an impact on company strategy implementation.
- ✓ Operations risk: has an impact on a company's internal ability to manufacture and deliver goods and services.

Any municipality should be mindful of, and follow, applicable government laws and regulations, such as those governing environmental protection. Compliance to government laws and regulations must be controlled and tracked, including the risks associated with non-compliance and the steps that may be implemented to prevent non-compliance.

According to Nel (2019:60), different variables affect risk management in the public sector, including shifts in a dynamic and unpredictable environment, accurate risk intelligence, and knowledge and skills. In terms of developing risk tolerance and buying in, local government needs to advocate and support an organisational culture that will manage risks effectively (Nel, 2019:60).

Iacob (2014:63) also proposes the framework for risk management stages presented in Figure 4.5. The risk management process serves as a framework for the necessary activities. To manage risk, five fundamental stages are done; these processes are referred to as the risk management process. The process starts with identifying threats, analyzes them, prioritizes them, implements a solution, and lastly monitors them. Each stage in a manual system necessitates a significant amount of paperwork and management.

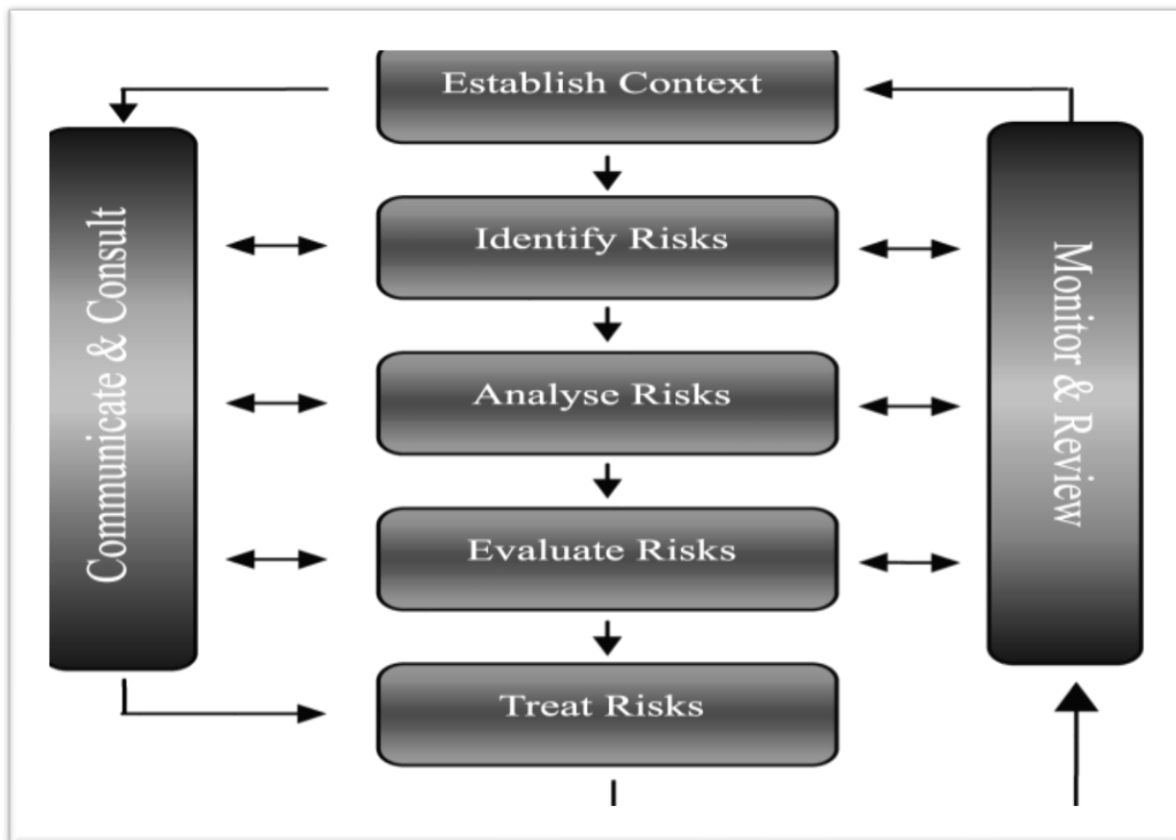


Figure 4. 5: Risk Management Stages

(Source: IACOB, 2014:63)

According to Figure 4.5, a variety of steps need to be followed in the risk management process. There are different risks at every step in the process illustrated in Figure 4.2 (Jonathan and Mafini, 2019:119). There is a continuity and overlap of the steps, even when seen separately. However, this model is a good start for a risk management framework, based on their unique organisational needs, companies are advised to further refine this model (Ahmeti and Vladi, 2017: 325).

Risk management is an unavoidable function within a municipality because failure to manage risks effectively, can lead to financial losses for the municipality (Meyer, 2014: 163). In South Africa, public entities, government departments and municipalities have developed risk management systems to fulfil the requirements of the Public Finance Management Act (Meyer, 2014: 165).

According to chapter 4 of King III report requires organisations, including government entities and municipalities to apply the following risk management principles:

- Risk management is inseparable from the company’s strategic and business procedures;
- Management is responsible for the implementation of risk management processes;
- Risk management should be practiced by all staff in their day to day activities;
- The Board is responsible for the process of risk management;
- The Board should approve the company’s chosen risk philosophy;
- The Board should adopt a Risk Management Plan;
- The Board may delegate the responsibility of risk management to a risk committee;
- Risk assessments should be performed on an ongoing basis;
- The Board should approve key risk indicators and tolerance levels;
- Risk identification should be directed in the context of the company’s purpose;
- The company should ensure that key risks are quantified and are responded to appropriately;
- Internal audit should provide independent assurance on the risk management process; and
- The Board should report on the effectiveness of risk management.”

Risk management in government is linked to quite complex, primarily derived from the broad range of interests involved, such as conflicting interests and political interests. Table 4.5 illustrates key challenges of risk management in the government.

Table 4. 5: Challenges of risk management in the government

Goal	Objectives that take precedence above all other factors.
Leadership	Leadership changes on a regular basis, as well as empty leadership positions.
Knowledge	Leaders who are unfamiliar with risk management and strategy.
Budgets	Segregation between operations and programme budgets.
Risk metrics	There are no obvious risk measurements.
Procedural requirements	Complex procedural requirements.
Risk culture	Limited risk culture and risk mind-set.

(Source: Ridha et al. 2015)

In the government, the range of stakeholders is greater than that of a company itself. In fact, we should concede to public institutions that risk management stakeholders

are essentially anyone. With this reason, these threats are ambiguous and varied (Ahmeti *et al.*, 2017: 327). The advent of modern risk management and control has been demonstrated by a growing body of literature.

There are three components of effective risk management: risk description, management and monitoring of the impact of risk management steps (Nel, 2019: 62). These components are demonstrated in figure 4.6. Proper risk control practices necessitate attentive management, a strong degree of expertise, and awareness (Dubihlela *et al.*, 2018). T

To effectively manage risks within organisational financial resources are needed to recruit experts who can deal with risk management effectively and efficiently. According to Dubihlela *et al.* (2018), Even the most meticulously operated company will run into unforeseen problems, thus it is crucial that risks are always managed with diligence.

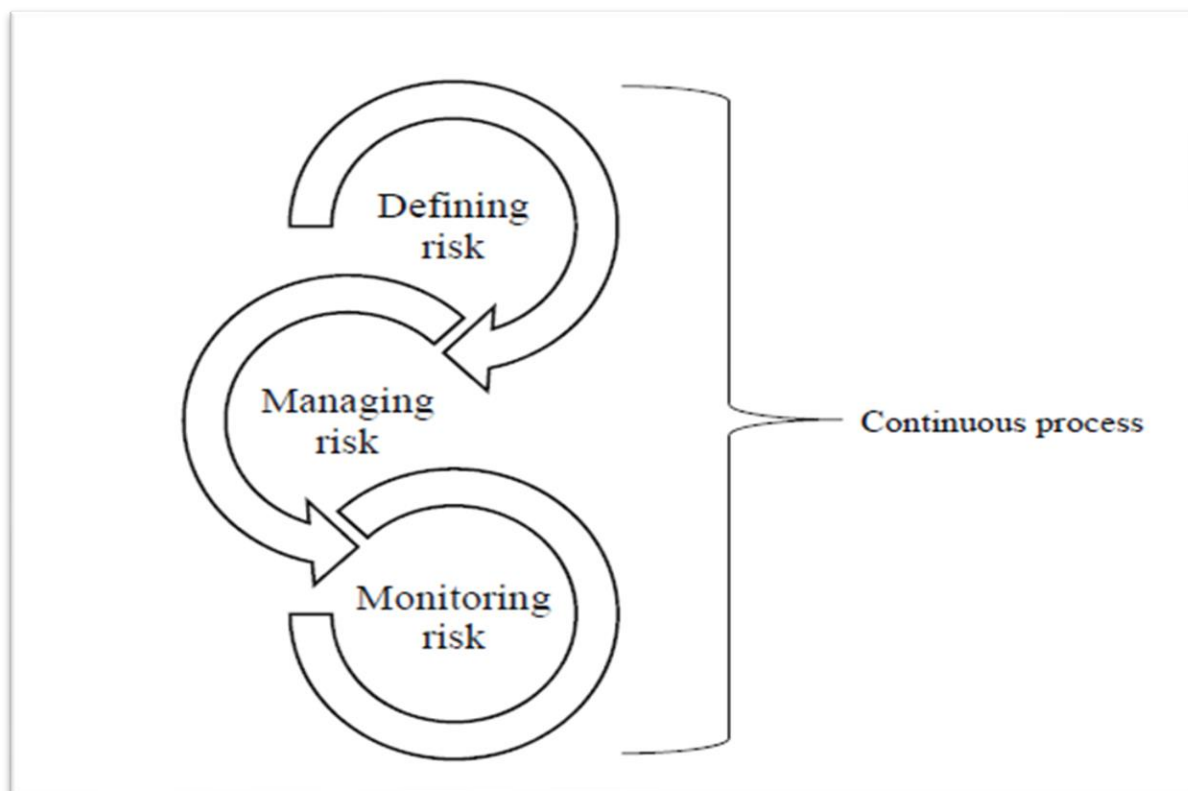


Figure 4. 6: Risk management components

(Source: Nel, 2019:62)

Risk management is a vital activity that companies must undertake if they want to accomplish their goals and business objectives (Ahmeti *et al.*, 2017: 323). Thus, in light of what has been outlined above with regard to the risk management variable, the following hypothesis was developed;

H₄ There is a relationship between Risk Management and effective budget management

4.3.5 Effect of cash flow management on budget management.

The movement of money into and out of a municipality's bank account is referred to as cash flow. Money inflow consists of money which is received from ratepayers (property rates and tariffs), whereas cash outflows consist of money paid to staff and service providers (Reutener, 2015:109). When more money flows in to than out of the bank account of the municipality, the municipality should have a "surplus" of funds which should enable the municipality to carry out its activities without any obstacles. If a municipality does not generate cash (cash inflow) this might lead to bankruptcy and thus the cash inflows and cash outflows determine the solvency of the municipality (Belobo & Pelsler, 2014: 227).

Effective cash flow management is an important municipal function. Ineffective processes and monitoring of cash flow management systems affect the survival of a municipality (Belobo *et al.*, 2014:227). Municipalities should have realistic strategies to manage cash flow in order to achieve sustainability and survival (Myeni, 2018:5). It is imperative that municipalities prepare realistic cash flow projections before the beginning of each fiscal year (Aren *et al.*,2014). The achievement of these projections must be monitored monthly using monthly cash flow statements or reports.

According to Myeni (2018:43), cash flow management has a huge impact on the investment and financing decisions of an organisation. It is crucial that cash flow information be available to managers to enable them to make effective investment and financing decisions. This information can be found and presented in a form of ratios, cash budgets, bank statements and financial statements (cash flow statements).

Frank and James (2014:82) suggest that cash flow management be classified into three different categories, which are:

- Operating activities
- Investing activities
- Financing activities

Financing activities show how operating and investment activities were financed by both internal and external sources (Belobo *et al.*, 2014:228). If there is an improvement in the 'cash generated from operations' per year, the profitability of a municipality will be increased. This section explains the cash collected from routine activities such as rates, electricity and water supplies, operating grants and deducts all outflows, such as wage payments, bulk sales, contractors' payments and all these activities are stated and recorded in the cash flow statement. The elements of the cash flow statement are illustrated in figure 4.7.

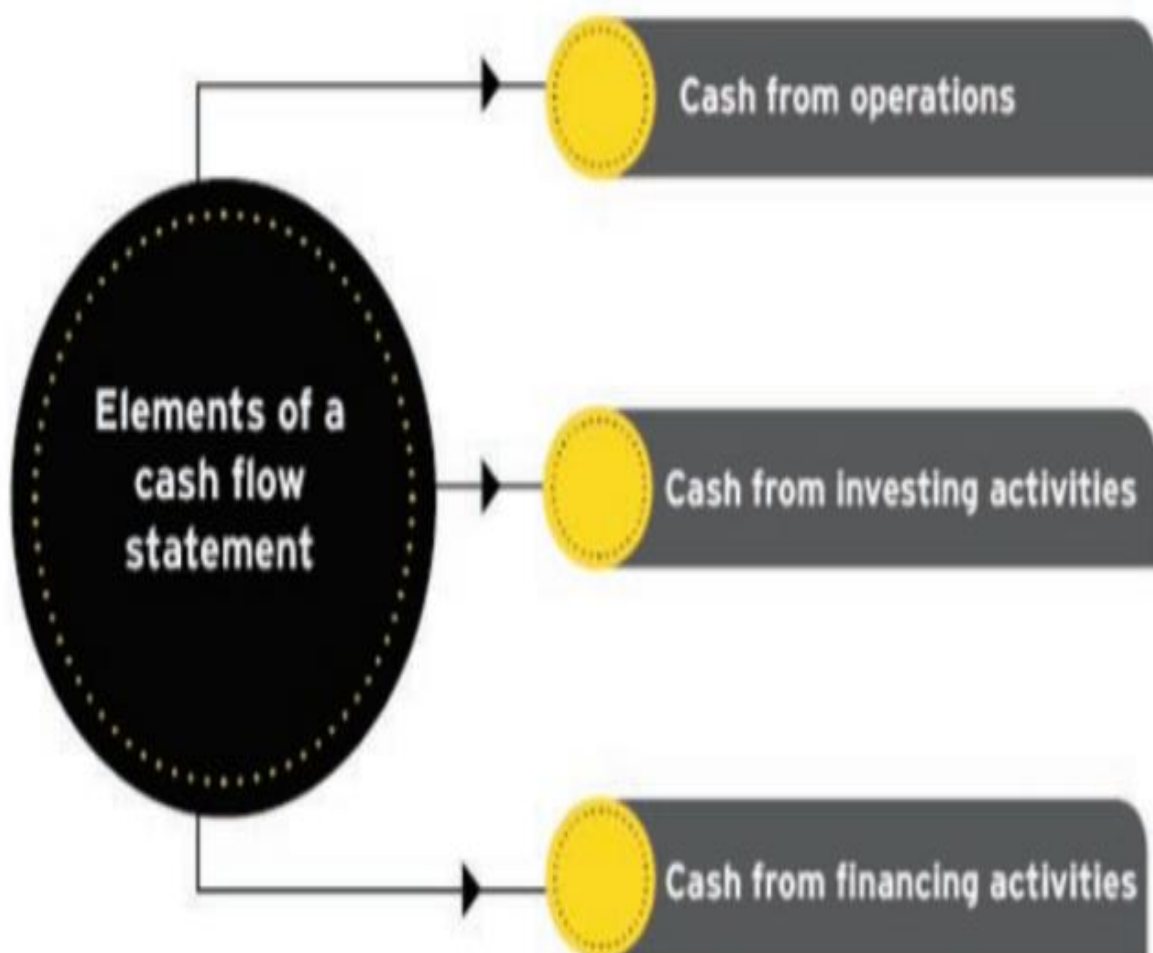


Figure 4. 7: Elements of cash flow statement

(Source: IMFO, 2013:11)

In a set of financial statements, the cash flow statement depicts the historical movement of cash during the year. As historical figures go, this is useful to determine which component of activities contributed to the cash movement; to determine how much of the cash was generated from operations. Preparation of cash flow statements in financial statements is viewed by many municipalities as a difficult (IMFO, 2013:11). It is critical that municipal managers and municipal employees in general understand the cash flow concept. Figure 4.8 shows the cash flow concept.

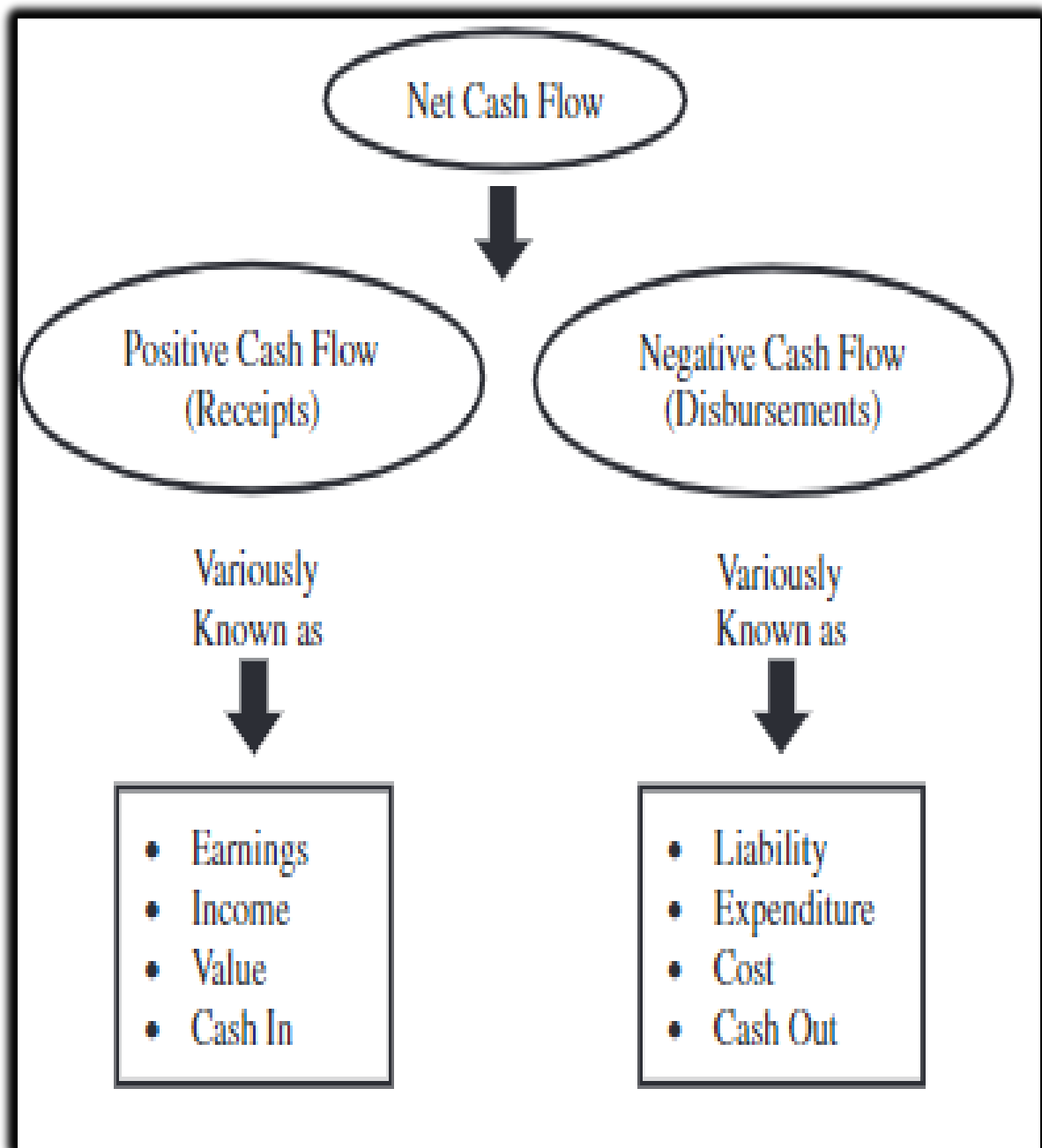


Figure 4. 8: Cash Flow Concept

(Source: Aziz, 2013: 68)

As illustrated in Figure 4.8, positive cash flow is derived from earnings or income, while negative cash flow is derived from excessive expenditure and liabilities. From a municipal perspective, positive cash flow is maintained through effective debt management that leads to effective revenue management, whereas negative cash flow is because of ineffective credit and expenditure control and leads to ineffective expenditure management by municipalities.

Thus, considering what has been said above with regards to Cash Flow Management variable, the following hypothesis was developed:

H₅ There is a relationship between cash flow management and effective budget management.

4.4 SUMMARY

Budget and expenditure management in South African municipalities has been a matter of concern since 1994 (Imuezerua *et al.*, 2015:366). The effectiveness of municipal performance depends on how a municipality allocates and manages scarce resources. These resources are used for implementing, monitoring, and evaluating, using a budget as a management tool.

South African laws (legislation) are clear on how municipalities and their officials should manage resources, particularly financial resources. Furthermore, the legislation emphasises how budgets should be managed and how municipalities should combat maladministration.

The model suggested in this study attempts to guarantee that budgets are adhered effectively and implemented properly to enhance service delivery and improve quality of life. Both dependent and independent variables of the proposed budget management model, and current approaches to municipal budget management were discussed in this chapter. Budget management practices from other selected international countries were explored and discussed looking at the legislative frameworks and debates from different scholars.

Based on the literature that was reviewed it was found that the Constitution plays a critical role in the budgeting process in most countries. However, the Constitution is not the only legal prescript that these countries depend on, there are other statutes

such as Public Finance Act and Local Government Act to mention a few that these countries are dependent on to formulate, manage and evaluate their budgets.

The following chapter describes the research methods that were used to collect and analyse data.

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1 INTRODUCTION

Suri (2013:83) defines research as a method of establishing new or old facts on the basis of which new conceptions, ideas, or hypotheses can be created. In some instances, research entails synthesizing, analysis, or a mix of the two, according to prior research findings. A scientific investigation may result in the discovery of new facts, the testing of new ideas, the refutation of previously held beliefs, or the confirmation of previously held beliefs. Empirical research entails the objective and systematic collecting of data, which is then analyzed and evaluated to perhaps answer a question or solve a problem. This is what was undertaken in this study.

Some empirical researchers use a combination of the mixed method approaches to attempt to maximise the possible benefits of each. The two support each other in that quantitative research focuses on the measurable parts of the research, whereas qualitative research aids in the identification of problem-focused causative variables, linkages, or solutions to existing problems.

A quantitative research technique was used for the survey. Quantitative research aimed at explaining and describing phenomena and correlations. Statistical methods such as correlations, empirical (descriptive) were used to assist in the establishment of causal links. The next part contains information on the population, sample, sampling techniques, sample size, the instrument, data collecting, data editing, and cleaning.

5.2 PURPOSE OF THE STUDY (PROBLEM STATEMENT)

As is evident in the literature reviewed below; there is a serious disjuncture between the policies that the government has promulgated and the implementation of these policies needed for effective service delivery in some municipalities in South Africa (Mathebula, Nkuna & Sebola, 2016:70). The national government, through the allocation of a budget, provides opportunities and capital for local government to deliver on the constitutional mandate to provide services to residents of municipalities. According to Mello (2018:2), South Africa municipalities are not performing at the level required by law and by residents. Most municipalities lack well-qualified employees,

particularly leaders who are skilled and competent to manage budgets (Makwetu, 2017:2). According to Schick (2007:116), one of the major difficulties faced by municipalities when implementing budgeting is determining who should take responsibility when it comes to utilisation of public funds. Steyn (2014:67) suggests that there should be increasing leadership involvement in the budgeting process so as to ensure that the budgeting process effectively addresses the challenges of public institutions. The purpose of this study is to try to understand budget management systems and to identify any correctible anomalies in the systems in order to aid in the provision of municipal services to residents of communities. For this purpose, tools and procedures have been created for several decades with the aim of improving financial management, but in some contexts little improvement is evident.

5.3 OBJECTIVES OF THE STUDY

The primary research goal of this study was to develop a framework for budget management for local municipalities in South Africa. To achieve this objective, this study seeks to achieve the following secondary research objectives:

- To identify budgeting challenges encountered by managers in the delivery of services in the selected municipalities.
- To explore approaches for budget management improvement in municipalities.
- To determine the key measurements for budget management improvement in municipalities.
- To develop an effective framework for budget management improvement in the selected municipalities.

5.4 RESEARCH PARADIGM AND RESEARCH DESIGN

The research took a positivist approach as it relied on hypothesis development and testing. The hypotheses were put forward in proportional or question form about relations between the phenomena, where the influence of independent variables on the dependent variable were investigated. A positivist research paradigm is relevant when a researcher is using quantitative methods to answer research questions, particularly when using large scale surveys based on close ended questionnaire

(Rehman & Alharthi, 2016:54). The numerical data generated using this method can be subjected to descriptive statistical analysis (Rehman *et al.*, 2016:54).

According to Rehman *et al.*, (2016:54). there are significant differences between research design and research methodology. The set of logical judgments made in designing a plan or strategy to be followed in the research process is referred to as research design (Etikan *et al.*, 2016:3). This is distinct from research technique, which is concerned with how the study will be carried out within the parameters of the research design. Table 5.1 The table below distinguishes between two complementary and sometimes frequently used phrases.

Table 5. 1: The distinction between research design and research technique

Research design	Research methodology
Master strategic plan	Execution strategic plan
Focuses on the path to be taken	Focuses on how the path will be walked
The emphasis is on the intended outcomes.	The focus is on tools for outcomes
Uses the research question as a guide	Tasks-guided and work-package-included
The rationality of study is the focus.	Procedures and processes are the focus.
Put more emphasis on the “what should be done?”	Put more emphasis on “how should it be done?”

(Source: Etikan *et al.*, 2016:3)

The blueprint and framework established for data collection, evaluation, and analysis, coupled with analysis, is referred to as research design (Blumberg, 2008:195). This logical framework guarantees that the evidence gathered allows the researcher (and others who use the results) to respond to the challenges being investigated (Devault, 2020)

The plan for operationalising the research design of this research involved, among several other things, devising and administering a questionnaire and analysis of the data obtained from the questionnaires. There are two kinds of study designs, which are depicted in Figure 5.1.

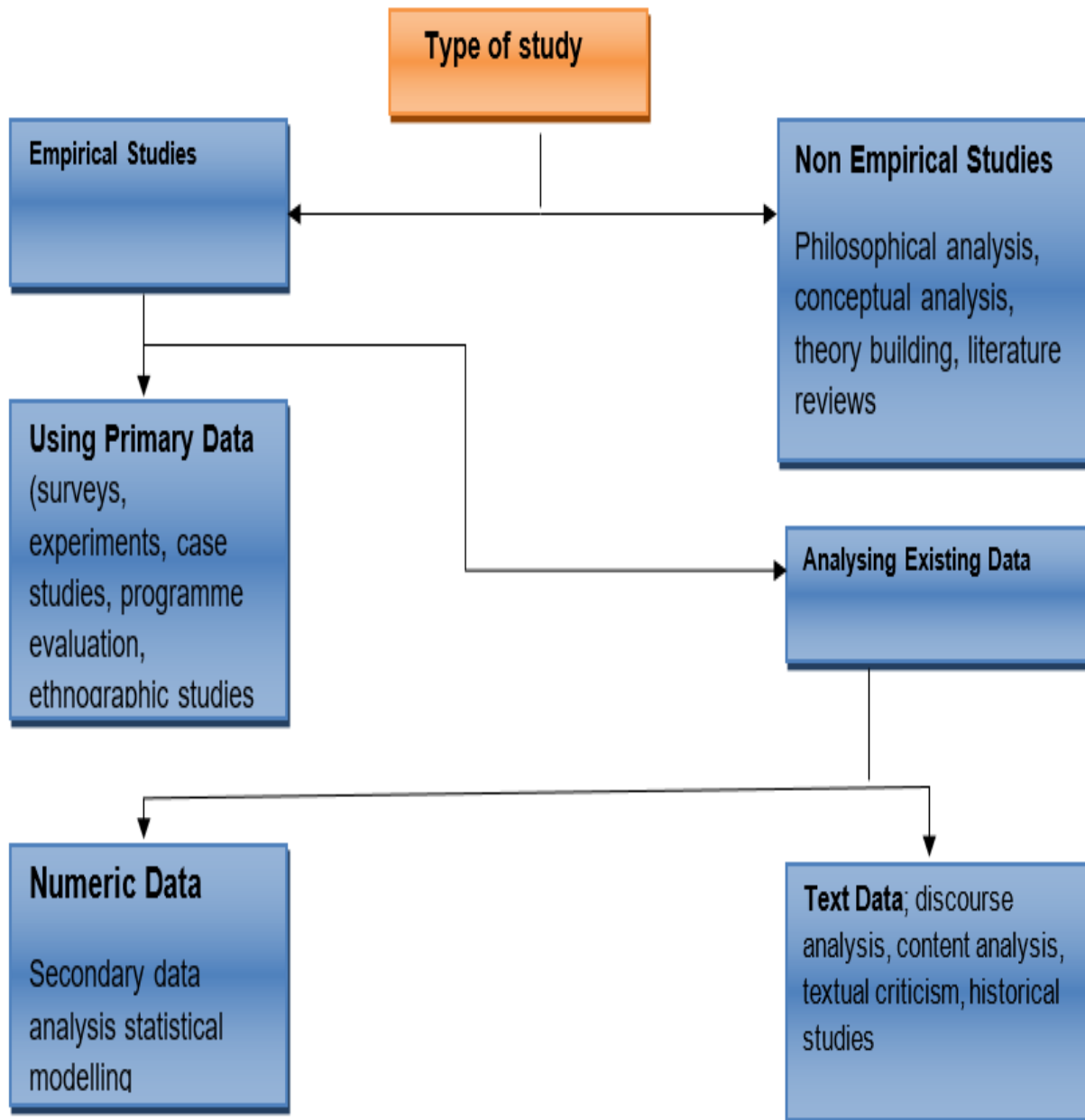


Figure 5. 1: A Typology of research design types

(Source: Zweni et al., 2017:74)

Congruence is required between the design and the approach selected, as the former feeds into the latter. The figure above depicts the pathways that the design will take depending on whether the study is empirical or not. This study is empirical, and hence required the collection of primary data through the use of a questionnaire as a data collection tool.

5.4.1 Quantitative approach

The focus of quantitative research was to try to clarify and describe phenomena and relationships. In order to help establish causal connections, statistical approaches were applied and were correlational and descriptive. This study's quantitative dimension is focused on the fact that the research aimed to find the relationship between the independent variable (budget planning; revenue and expenditure management; risk management; cash flow management; legislation consideration) and the dependent variable (effective budget management). According to Neuman, (2011:16), quantitative designs may be descriptive or experimental in nature, where only correlations between variables are formed by a descriptive analysis and causality is established by an experiment. The following aspects of the quantitative method have been defined by Rahman (2017:102):

- It is more highly formalized than the qualitative approach and more clearly regulated.
- More specifically than the qualitative method, its range is established.

According to Rahman (2017: 102), the quantitative research approach has some advantages and disadvantages. Table 5.2 below illustrates advantages and disadvantages of a quantitative research approach.

Table 5. 2: advantages and disadvantages of a quantitative research approach

Advantages	Disadvantages
Can be authenticated and reviewed	The emphasis on numbers is erroneous.
A straightforward examination	Setting up a study model is difficult.
Prestige	I can be misleading
Involves large samples	Takes snapshots of the phenomenon
Data analyses is less time consuming	It also falls short of determining deeper underlying notions and assumptions.
It measures variables	Overlooks the respondents' experiences

(Source: Devault (2020:np), Rahman (2017:102))

The purpose of the quantitative research approach is to answer the questions starting with how many, how much, and to what extent (Rahman, 2017: 105).

Quantitative research's key goal is to measure data and extrapolate findings from a survey to the whole population of interest (Omoruyi, 2015:91). In this study, the quantitative approach was used to assess the magnitude of the effect of budget

planning; cash flow management; revenue and expenditure management; legislative consideration; and risk management with effective budget management.

5.4.2 Qualitative approach

The qualitative approach assists the researchers to describe characteristics of people and events devoid of measuring or counting. According to Jamshed (2014:87), the qualitative research technique is believed to be useful when the researcher or investigator is studying a new field of study or seeking to discover and hypothesize important problems. Qualitative studies are centered on individual behavior, beliefs, and the explanations why people do certain things. Because numbers alone hardly provide answers to research questions, thus it was necessary to consider the qualitative approach in order to validate the model that was developed using SEM. To get the perception's and beliefs of the participants on budget management in South African municipalities a number (n=4) of interviews were conducted by the researcher for information purposed and to validate the budget management model that was developed using SEM.

Interviews were used to gather qualitative data and there was a desire to communicate with senior management and managers who are informed about the field of research, and to also ensure that specific information was collected from the study's main participants. Since the researcher worked as a budget manager at a provincial government department in the Western Cape for a 5-year period, this has built up his knowledge and experiences in how budget management could affect service delivery within municipalities. Thus, the researcher has a good understanding of budget management, and he conducted all the interview sessions during the entire research process. The researcher used an interview guide that had themes and questions that are in line with the research topic and variables of the proposed budget management model. Semi-structured and in-depth interviews were used by the researcher.

5.4.3 The mixed methods approach

In research, it is common practice to employ both qualitative and quantitative methods in order to maximize the value of each in attaining the intended results. The two complement each other in that quantitative analysis focuses on measurable aspects of the study, whereas qualitative analysis focuses on qualitative parts of the research.

While quantitative research assists in the discovery of problem-focused direct causes, connections, or alternatives to existing phenomena. Thus, the positivist perspective is frequently connected with the mixed method approach. The use of mixed techniques allows a researcher to acquire a variety of perspectives on the issue.

5.5 RESEARCH METHODS

5.5.1 Data collection

Data collection involves data collection for the planned research if there are specific variables to be measured. To prevent subjectivity in the data collecting process, the collection method is systematic, and it is usually done with a standard instrument - a questionnaire or an ordered series of questions. The technique in natural sciences entails observations, etc., with the use of concordant readings, etc. Whatever approach is employed, the goal of any research is to provide high-quality, impartial results. There are three sorts of data gathering procedures that are commonly used in social sciences and these methods are tabled in Table 5.3.

Table 5. 3: Types of data collection methods

Type of method	Explanation of method
Surveys	Using pre-determined and structured questions the researcher asks questions in person, gives questionnaires to the respondents or may talk to respondents on the phone as she fills in the responses on to the questionnaire.
Interviews	Structured or unstructured but generally one on one and getting involved in a conversation with the interviewer writing notes, recording on a dictaphone, or filming the conversation with the respondents.
Focus groups	Structured interviews with groups of people with the same characteristics / with variables to be measured. The questions are standardised and generally have follow-up questions including discussion on related information that may not have been included in the structured instrument.

(Source: Author)

Data collection is an important activity in and of itself, and mistakes may occur during the process. The survey technique was chosen for this study, and the questionnaires were individually delivered by the researcher. This was a deliberate choice and aimed

at reducing the number of “spoilt questionnaires” and at improving the percentage of questionnaires returned. Much effort was made to prevent wasting questions and hence wasting resources. This also aided in eliminating erroneous data and increasing the findings' reliability and validity.

5.5.2 Target population

According to Asiamah, Mensah and Oteng-Abayie (2017:1608), a population is a group of elements to be measured (objects, persons, etc.) that have similar features. What comprises a population is determined by what is to be measured, since every given population must have the same quantifiable qualities (Asiamah *et al.*, 2017:1608). This study was conducted in three South African municipalities in the Western Cape, Eastern Cape, and Free State. The population of these municipalities includes Municipal A has 203 employees, Municipal B has 660 employees, and Municipal C has 363 employees. The target population of this study (n=300) was made up of individuals directly involved in budget management such as clerks, administrative assistant, assistant accountants, accountants and managers working for these three municipalities.

Western Cape Province, the Free State Province, and from the Eastern Cape Province. The categories of the respondents from the municipalities were; executive directors, middle managers, lower level managers, and staff members directly involved in managing and executing budgets.

5.5.3 Sampling frame, sampling unit and sampling fraction

According to Mafini, 2014:150, sampling is defined as the process of finding, choosing, and isolating a relevant subset of the population of items or persons where a survey will be undertaken. Specific individuals of the study population were identified based on their involvement in the budget preparation and monitoring process, and they were designated as sample units that made up the sampling frame. It was thought important to mention the number of sample units in order to determine the proper sampling proportion. To avoid discrimination, all employees from different levels in the municipality were selected as part of the sample. This includes Administrative personnel, Accounting Clerks, Lower managers, Middle managers, and Executive managers and Directors. Thus, all cost centre at lowest levels were identified as part

of the sample. To gather sample from the population, all the cost centres were targeted to increase the reliability and validity.

The criteria used by the researcher to draw a correct was that the employees had to be working in one of the three selected municipalities from a clerical position to Executive management position, however, the individuals had to be available to partake in the study and had to do so voluntarily. In essence, apart from senior management, the lower-level employees directly deal with the daily management of budgets at their lower cost centres to render service delivery. These employees have the necessary knowledge with a good understanding of budget management. Therefore, these employees were selected from the human resource database of those municipalities as the samples. Figure 5.2 below illustrates a framework for sample design.

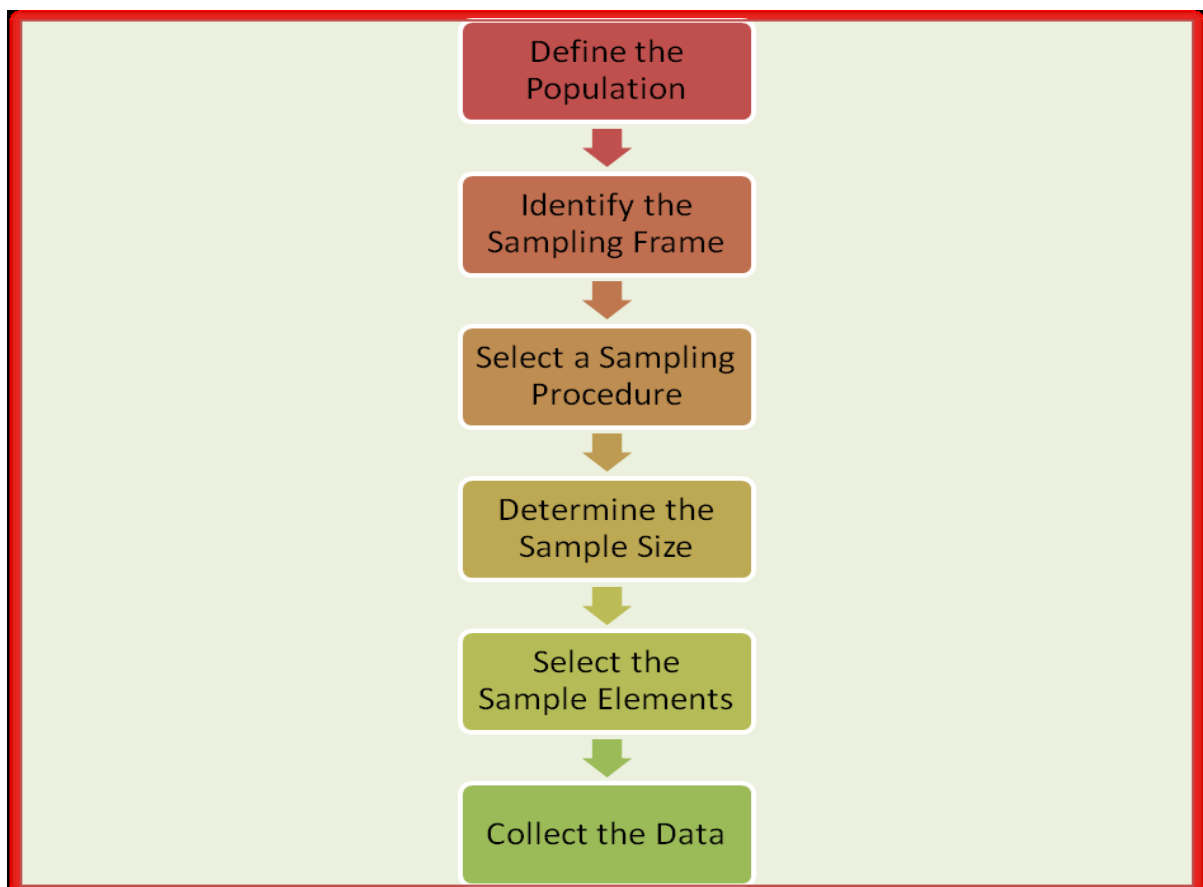


Figure 5. 2: Framework for Sampling Design

(Source: Mafini, 2014:150)

5.5.3.1 Sample size

All the targeted population work in one huge municipal building, the size of the sample was primarily dictated by availability to the sampling units. It was more convenient to contact as many people as possible, and if necessary, all managers might have been approached for the research.

Since establishing the usefulness of Structural Equation Modeling (SEM), there are a variety of viewpoints about the sample sizes that can be used for SEM. Some researchers believe that the sample size should not be less than 200 unless the population from which the sample is taken is small itself, whilst others believe that the sample size should be at least 50. When using SEM sample size plays a huge role, and sample size should be in the of 200 to 400 (Siddiqui, 2013:286). The sample size for this study was 261. In this regard, the sample of each municipality is as follows:

Municipality	Population	Sample
Municipality A	203	43
Municipality B	660	141
Municipality C	363	77
Total	1226	261

Source: Author

5.5.3.2 The sample design

Sampling is critical for study purpose, and it must be applied properly since the consequences are far-reaching (Roopa & Rani, 2017). Asiamah *et al.* (2017:1608), “there are two sorts of sampling methods: probability sampling and non-probability sampling.” The two most frequent methods of sampling from which many variations are generated, are presented in Table 5.4.

Table 5. 4: Types of sampling methods

Probability Sampling	Non-probability Sampling
Random sampling at its most basic	Inadvertent sampling
Sampling is methodical	Samples from quotas
Likelihood related to population size sampling.	Samples with a specific purpose
Random stratified sample	Samples chosen at random
Subsampling, as well as multistage sampling	Samples for your convenience
Sampling in groups	Snowball samples

Source: (Roopa *et al.*, 2017)

By employing an impartial approach, probability sampling provides equal odds to the possibilities (sampling units). This is the unbiased convenience sampling approach, which is typically used for experimental research projects that want to provide spectacular unbiased findings. One of the benefits for this approach is that it is cheap to reach the population. As such, convenience sampling was applied to select the municipalities from different provinces in South Africa. These three municipalities located from three different provinces with governed by different parties. This enable the researcher to obtain more broad perspectives on how budget is managed in various political environment.

Non-probability sampling is usually linked with bias, however it was chosen and employed in this situation since more than half of the sample units were available. This was non-probability random convenience sampling, in which each eligible individual or sample unit who was available at the time was contacted with the questionnaire. More than 30% of the sample units were reached during the procedure. This proportion is significantly greater than the typical 10-20% sample size utilized in most research initiatives.

5.5.4 The instruments

The quantitative data was collected through a questionnaire (n=261), while the qualitative data was collected through in-depth interviews (n=4). Content analysis was used to examine the qualitative data. Quantitative data was analysed using SPSS AMOS V24.

5.5.4.1 Questionnaire

According to Roopa and Rani (2017:273), a questionnaire is defined as a research instrument consisting of a sequence of questions logically arranged to elicit the necessary information from a responder. A questionnaire is the most frequent way of obtaining objective primary data. A questionnaire provides for the systematic gathering of objective data, culminating in data that is reliable and valid and valuable for research. This instrument is designed for statistical analysis, and the extent of the value of the data is determined by the instrument's dependability. This approach was chosen above the other methods commonly used in surveys. An online questionnaire

was developed using LimeSurvey see figure 5.4 below. Thus, the link from the online tool was sent to municipal officials via email.

Figure 5.3 below depicts stages of planning and designing a questionnaire.

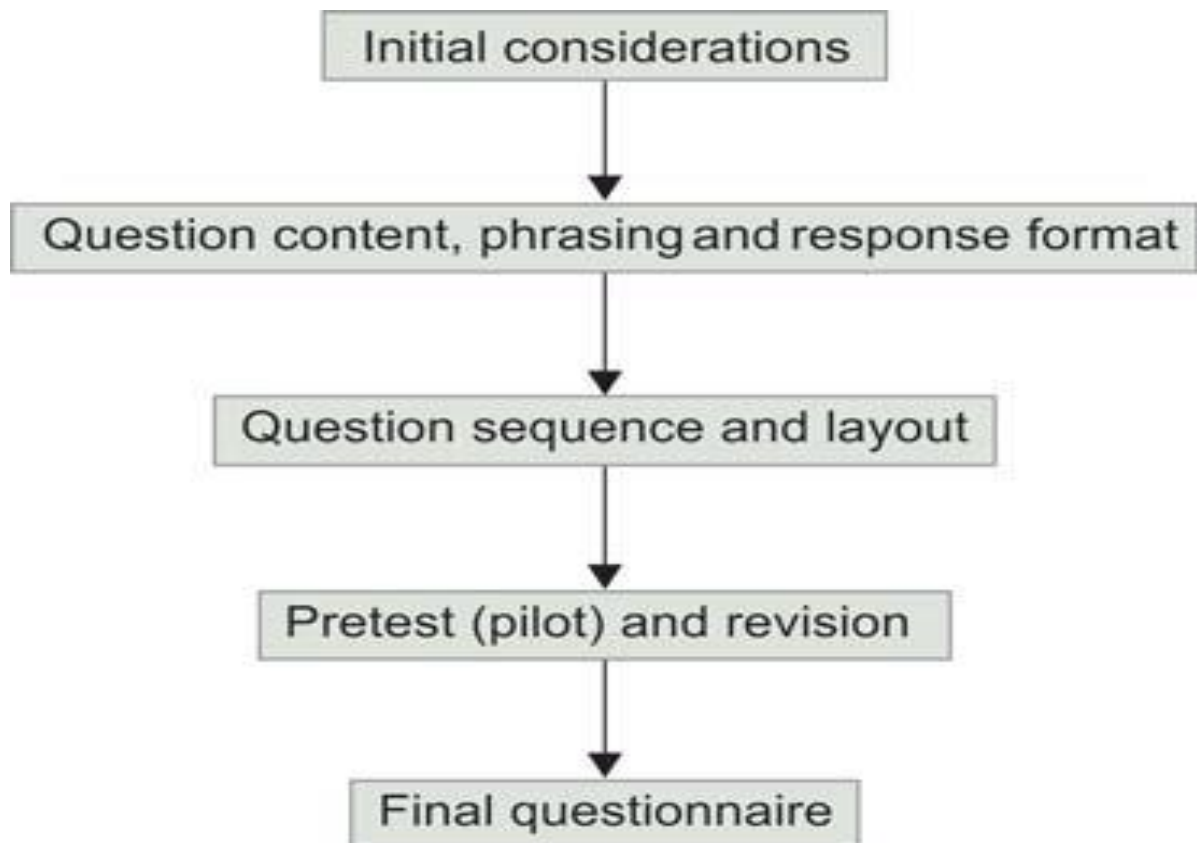


Figure 5. 3: Stages of planning a questionnaire

(Source: Roopa et al., 2017:273)

The questionnaire is cheaper to construct and administer than some other ways of obtaining data and should have well-structured and standardized questions so that it is easy to compare relationships. An online survey called LimeSurvey was used to collect data. The instrument was administered by the researcher. Before administering the questionnaires, all leading questions, ambiguous questions, and any form of bias were removed by the researcher.

The instrument was alienated into two (2) sections: Section A – Biography which was meant to “qualify” the target respondent and while Section B – comprised of Likert

scale statements necessitating ranking by the respondents. As previously reported, 261 responses were received.

Figure 5.4 presents the online survey which was used to collect data for this study.

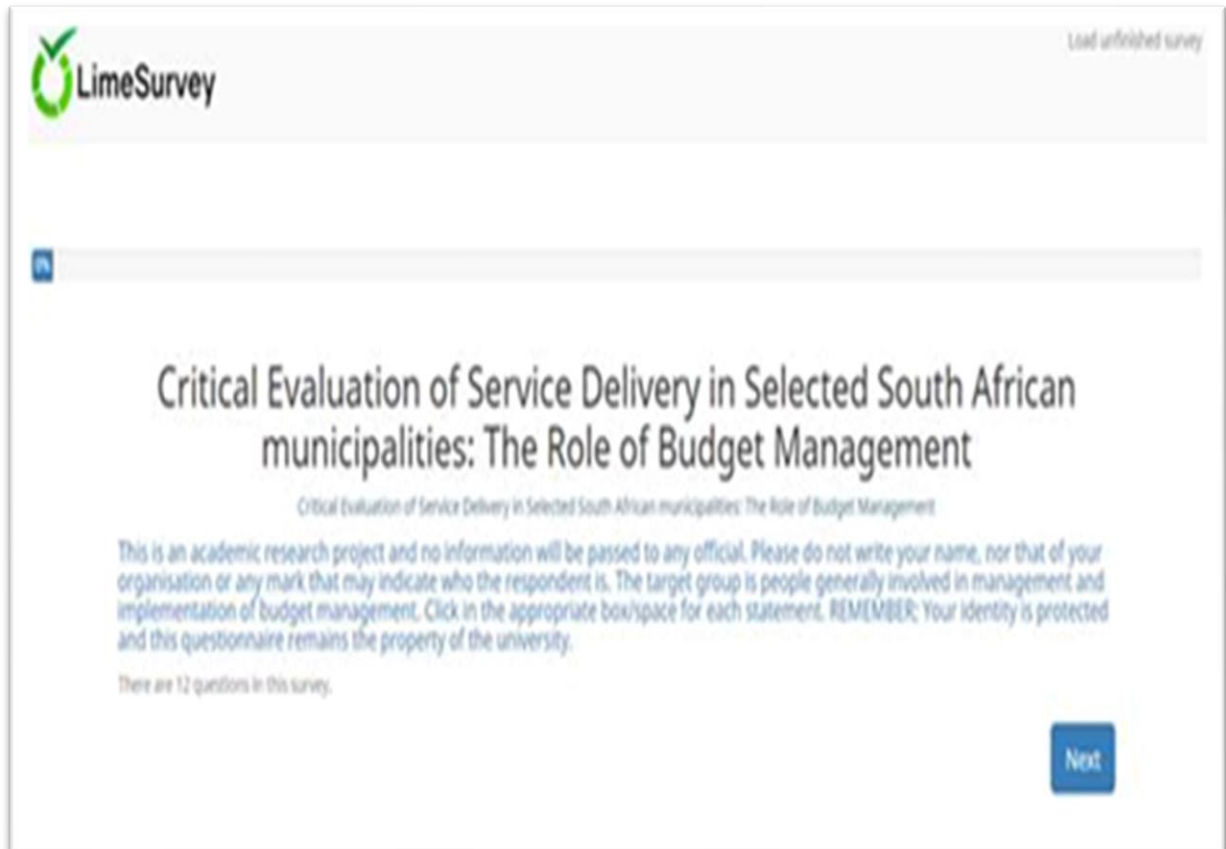


Figure 5. 4: LimeSurvey,

(Source: Author)

5.5.4.2 Interviews

An interview is a verbal exchange that is usually held face to face; however, the telephone can be used; this is when the interviewer is attempting to collect facts based on the views or thoughts of another person (Jamshed, 2014:87). The study used in-depth interviews with several managers from different departments in different municipalities. According to Jamshed (2014:87), In-depth interviews are widely used as an interviewing format, either with an individual or, in some cases, with a groups or opinions of another person. The quantitative data was analysed using SPSS AMOS. For the qualitative approach, the responses of the respondents were transcribed and then categorized into themes. The transcribed interviews were then analyzed using

content analysis. The interviews were conducted by the researcher face to face (three interviews) and one interview online via Micro-Soft Teams.

5.5.5 Data capturing

Data that was collected in this survey using an online questionnaire referred to as Lime survey which is linked to SPSS AMOS version 26, was transferred and captured to SPSS AMOS version 26. When a participant completes a survey using LimeSurvey and submit it successfully, the data is captured automatically on SPSS because LimeSurvey is linked to SPSS. The qualitative data from the interviews was transcribed by the researcher according to the responses of the participants and those responses were grouped into themes. Content analyses then used to analyse the data from the interviews.

5.5.6 Data editing

Data editing entailed evaluating and modifying the data gathered and recorded on the online questionnaires. The procedure was carried out manually with the aid of a computer, with the primary goal of eliminating any obvious mistakes and enhancing the data quality. The immersive editing system utilized allowed for data quality checks throughout the editing process, which sped up the process. This reduced the amount of time required to evaluate and correct any errors.

5.5.7 Data cleaning

Data screening was also used to discover and rectify corrupted, inadequate, incorrect, or unnecessary parts of the gathered data, including typographical mistakes. Since the survey was conducted directly by the researcher, most misconceptions were resolved at the source. As a result, few mistakes were reported because managers questioned the researcher's questions that they believed were unclear.

5.6 VALIDITY AND RELIABILITY TESTING

This section of the thesis discusses research validity testing technically and presents the findings of research instrument validity testing. According to Taber (2017:1273), validity and reliability are two essential considerations to remember when testing a

measuring instrument. In this study, the questionnaire was sent to one municipality and some errors were identified and corrected by the researcher. A validated online questionnaire was sent to all the municipalities. The reliability of the instrument was tested using exploratory factor analysis in AMOS version 20 conducting Structural Equation Modeling. Furthermore, Cronbach's alpha was used for testing the measuring scales used in the research instrument (questionnaire) that was sent to one municipality before sending it to the other two municipalities. According to Taber (2017:1273), Cronbach's alpha is a statistic used by a researcher to test for the reliability or internal consistency of a scale. Cronbach's alpha does not work to determine the reliability of a single item, a researcher must have a series of items. For alpha to be acceptable it should be 0.70 and above. Figure 5.5 below presents descriptors of Cronbach's alpha.

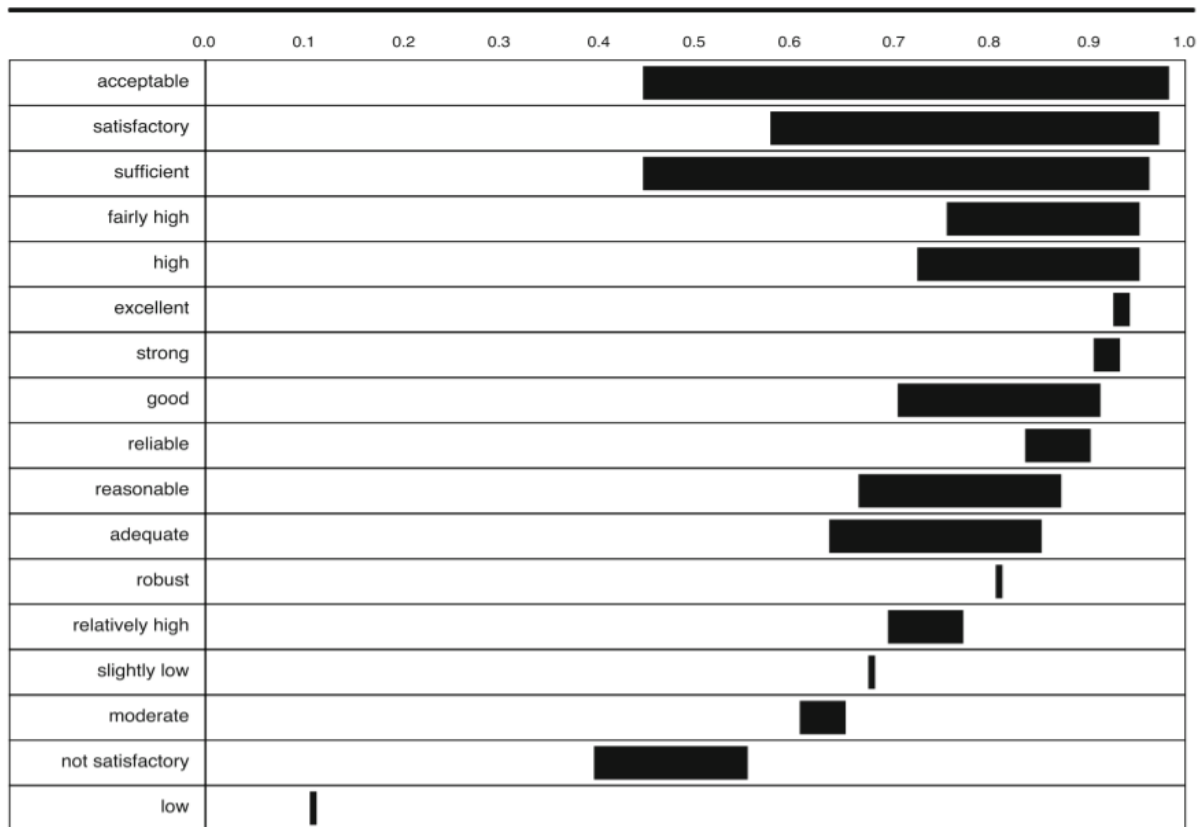


Figure 5. 5: Descriptors of Cronbach's alpha

(Source: Taber, 2017: 1279)

In this study Cronbach's alpha was 0.92 which was strong and acceptable. Thus, it can be concluded that, Cronbach's alpha is the most used tool for assessing internal accuracy is Cronbach's alpha coefficient (Omoruyi, 2015:110).

5.7 DATA ANALYSIS

Data analysis include inspecting, cleansing, and ultimately converting the data into useful graphs and charts that can help demonstrate the connections between the variables under investigation. There are several sorts of data analysis approaches (also known as data modeling), and the current study made use basic Excel software. This process is illustrated in the Figure 5.6 below.

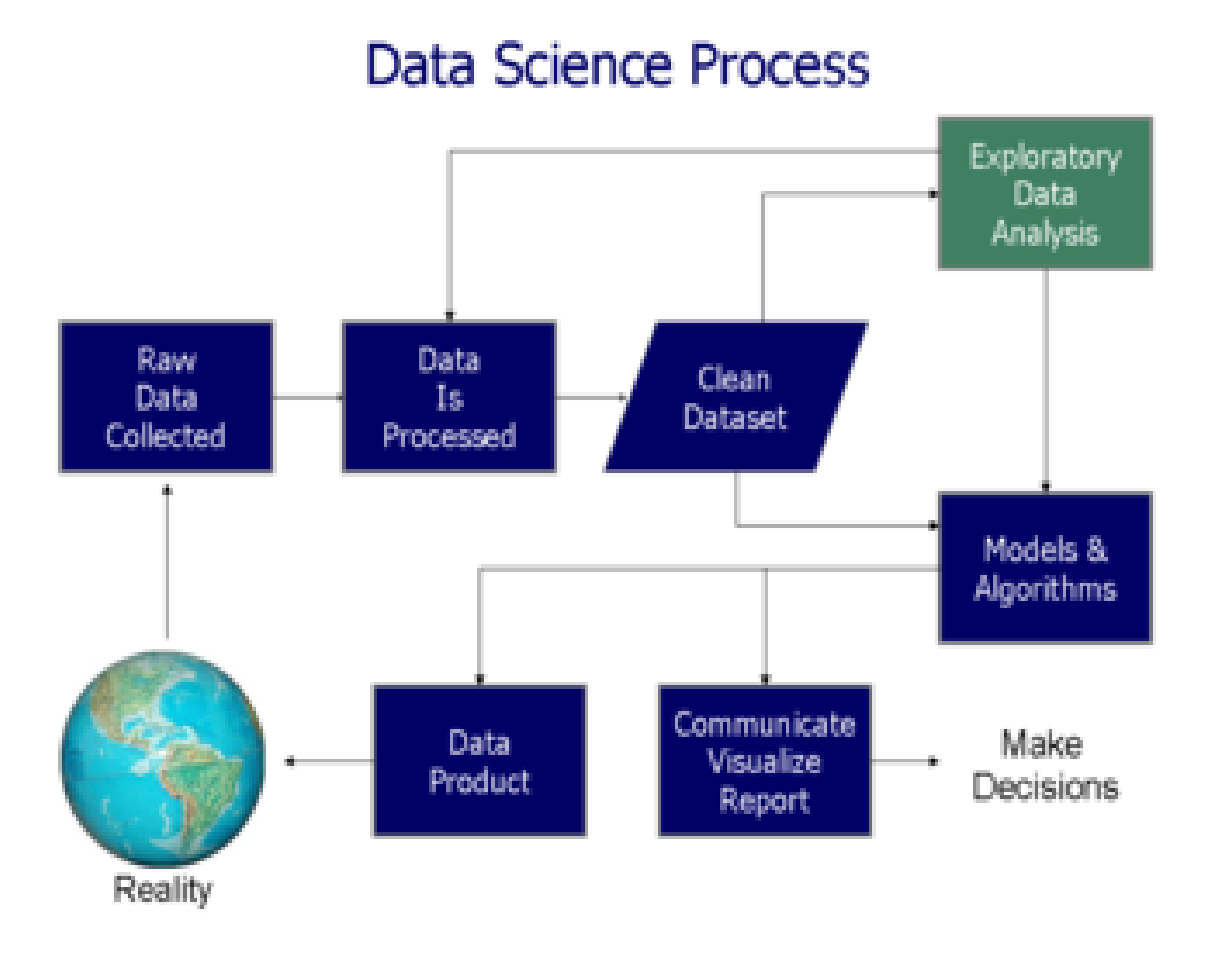


Figure 5. 6: The process of data analysis

(Source: Data science process flowchart)

Data analysis is a procedure that converts raw material that has been recorded into a program or a sequence that is then utilized to aid in the conversion of data into meaningful information. This data is then used to aid in making decisions. The analyzed data is graphically displayed to facilitate comparisons and understanding of the relationship between the two or more variables under consideration. According to Anderson et al, as cited in Laphi (2013:57), data must be analyzed in such a way that hypotheses and research questions are answered, and the study objectives are met or exceeded.

SPSS was used to collect and analyze data. SPSS is a user-friendly data analysis computer system. Just after data has been analyzed, it must be translated into useable and useful information in simple terms (Jowah, 2015:113). SPSS serves as a tool in data analysis that aids a researcher by compiling tables for simple reading and examining the connections between variables (Thiruthanigesan & Thiruchchelvan, 2017:902). Content analyses was used to analyse the data from the interviews.

5.8 DATA VERIFICATION METHODS

Verification is concerned with determining whether a research plan has been fully understood and followed, and it may necessitate the incorporation of various types of checking into working practices as indicated below (Thiruthanigesan *et al.* 2017:902):

- Comparing the research design to the aims.
- The survey instrument in comparison to the knowledge coverage.
- whether interviews were conducted in accordance with the design.

Data verification can be accomplished in four ways: by re-entering the information, by using a database structure or a data entry form design, or by using throughput analysis. Following the analysis of the research data, the researcher examined the results for conformity to established theories in leadership and, more specifically, project leadership.

5.9 STATISTICAL TECHNIQUES FOR DATA ANALYSES

To analyse the data collected for this study, the researcher used exploratory factor analyses and structural equation modeling. According to Hair *et al.* 2017:2, it is difficult

to analyse SEM with latent variables that represent hypothetical constructs without considering how those constructs can be measured.

5.9.1 Structural Equation Modeling (SEM)

Structural Equation Modeling is a tool that is used for statistical analysis by social science researchers (Hair, Hult, Ringle & Sarstedt, 2017:2). SEM is especially useful in the social sciences, where much, if not the majority, of the main ideas are not immediately measurable. SEM looks at the structure (model) and the relationships of the variables or constructs within the structure.

For the purposes of this study SEM was used to look at the relationships between the independent variables and the dependent variable, to look at which independent variables have a significant influence on the dependent variable. SEM was also used for statistical testing. According to Mali-Swelindawo (2016:79), SEM is viewed as a composite of regression, path analysis, and factor analysis, with a focus on theoretical structures represented by latent factors.

Researchers can use SEM for analysing mediator and moderator effects (Shadfar & Malekmohammadi, 2013:582). One of the benefits of SEM is that a researcher can test the entire model in one analysis (Shadfar *et al.*, 2013:582). For SEM to be effective, a system called AMOS (Analysis of Moment Structures) has to be used to analyse data (Hair *et al.* 2017:2).

According to Kline (2011:11), SEM is generally a technique used with large samples. The SPSS AMOS program was used for analysing data collected for this research. When fitting a model, determining if it fits the data at hand is crucial (Gao, Shi, & Maydeu-Olivares, 2019:1). SEM is a mixture of factor analysis, modelling of paths and partial least squares (Chen *et al.*,2014:253). According to (Shadfar *et al.*, 2013:585), for a researcher to determine whether or not it is appropriate to use SEM, there are certain fit statistics that need to be tested. These SEM fit statistics are summarised in Table 5.5.

Table 5. 5: SEM Fit statistics

Name of the fit index	Cut off for a good fit
Root Mean Square Error of Approximation (RMSEA)	Value closer to 0 not more than 0.08 = Good fit
Normed Fit Index (NFI)	NFI \geq 0.90
Comparative Fit Index (CFI)	Value closer to 1 greater than 0.90= Good fit
Non-Normed Fit Index (NNFI)	NNFI \geq 0.90
Incremental Fit Index (IFI)	Value closer to 1= Good fit
Goodness of fit (GFI)	Value closer to 1 greater than 0.90= Good fit
Relative Fit Index (RFI)	Value closer to 1= Good fit

(Source: Author's Construction)

Kline (2011:204) state that, all these indices shown in Table 5.5 are widely available with default ML estimation.

Root Mean Square Error of Approximation (RMSEA):

According to Hooper, Coughlan, Mullen (2008: 54), RMSEA indicates how well the model would match the population covariance matrix if parameter estimates were uncertain but optimally chosen. Due its sensitivity to the number of approximate parameters in the model, RMSEA is regarded as one of the informative fit indices in Structural Equation Modeling (Hooper *et al.*, 2008:54). RMSEA VALUES OF \leq .05 is a good fit, whereas values between .05 and .08 is an acceptable fit, while values $>$.10 are not acceptable (Schermelleh-Engel, Moosbrugger & Muller ,2003:36).

Normed-fit index (NFI):

NFI evaluates the experiment by adding the model's chi-square value to the chi-square null model's. According to Schermelleh-Engel (2003:40), Bentler & Bonnett proposed the NFI in 1980 to test the model proposed and the null model. This index cannot be relied upon if the sample size is less than 200 (Hooper et al, 2008: 55). The cut off for a good fit is shown in Table 5.5.

Comparative Fit Index (CFI):

Compares the fit of a target model to match an independent, or nil model (Tabachnick *et al.*, 2007:718). The CFI was developed by Bentler (Klein, 2011:204). According to Mungule (2015:197) to CFI is the improved version of NFI. The cut off for a good fit is shown in Table 5.5. The Bentler's CFI is an incremental fit index that calculates the relative change in the fit of the study's model over that of a baseline model, commonly the independence model (Klein, 2011:208). Hooper *et al.* (2008:55) postulate that, this statistic, like the NFI, presumes that certain latent variables are uncorrelated (null/independence model) and relates the sample covariance matrix to this null model. Since the CFI is based on the very same distributional assumptions as the RMSEA, its values may be inaccurate where these hypotheses are not supported.

Non-Normed Fit Index (NNFI):

This fit index looks at the complexity of the model (Hooper *et al.* 2008:55). This fit index is also called the Tucker–Lewis Index (TLI) (Sivo, Fan, Witta & Willse, 2006:273).

Incremental Fit Index (IFI):

Incremental Fit Indices (IFI) are a class of indices that measure the chi-square value to a baseline model rather than using the chi-square in its raw form (Hooper *et al.* 2008:55). The null hypothesis for these models is that variables are uncorrelated. The cut off for a good fit is shown in Table 5.5.

Goodness of fit (GFI):

According to Hooper *et al.* (2008:54), Jöreskog and Sorbom developed the Goodness-of-Fit statistic (GFI) as an equivalent to the Chi-Square measure, and it measures the proportion of variation accounted for by the approximate population covariance. GFI is a non-statistical index which measures the overall degree of model fit (Hair *et al.*, 2017:155). The GFI value should be closer to 1 greater than 0.90 (see Table 5.5)

Relative Fit Index (RFI):

Compares a chi-square for the model tested to one from a null model. This statistic is similar to Incremental fit index. In this statistic, values closer to 1 indicates a good fit.

5.9.2 Descriptive Statistics

Descriptive statistics are methods that assist to state the features or presence of sample data (Mafini, 2014:161). With descriptive statistics a researcher is simply stating what is the data showing. In this study, pie charts and frequency tables were major descriptive statistics that were used to assess the age, gender, years of work experience in the municipality, educational background, and current position of the respondents in the municipality.

5.9.3 Correlation analysis

Correlation is a statistical tool used to determine the strength of the association between two quantitative variables (Franzese and Luliano, 2019: 706). A significant correlation indicates that two or more variables are closely connected, whereas a correlation coefficient indicates that the variables are hardly related. In other words, correlation analysis it is the process of analysing the intensity of that correlation with the statistical data available.

The key correlation variable is that a coefficient of -1.0 shows a strong, negative relationship, and a coefficient of $+1.0$ shows a great, positive relationship. Correlation analysis was used in the current study to assess the relationship between budget planning; revenue and expenditure management; risk management; legislation consideration; cash flow management; and effective budget management. The results are presented in chapter six, section 6.3.2 in table 6.23.

5.9.4 Regression analysis

Regression analysis links independent and dependent variables when allowing for statistical inter-correlation (Mafini, 2014:164). Multiple regression aims to explain a variable's dependency on one (or more) independent variable; it essentially implies that perhaps the explanatory variable(s) have a one-way causal influence on the response variable, irrespective of whether the direction of impact is direct or indirect. Multiple regression analyses were used in the current analysis to determine the factors that predicted or explained the greatest proportion of the overall variance in the scores of the dependent variables.

5.10 STUDY ETHICS

Parveen and Showkat (2017:np) state that, doing what is morally and legally correct in science can be referred to as research ethics. The value of ethics in the science cannot be overstated. At different stages of the research process, researchers must adhere to certain obligations. Thus, in this study the following ethical elements were considered:

- **Permission from municipalities**

The researcher obtained permission letters from the three municipalities for conducting the research. Thus, permission was obtained from each municipality before the research was conducted.

- **Ethical clearance from the University**

Secondly, ethical approval was obtained from the Faculty Ethics Research Committee, Faculty of Business and Management Sciences, Cape Peninsula University of Technology.

- **Participation**

Participation was not compulsory the participants were informed that taking part in the study was voluntary and their right to pull out of the research at any time was respected. Participants must not be coerced into taking part in the study if they are not willing to.

- **Confidentiality**

Participants' names and identities were withheld by the researcher and were not revealed to anybody or to any institution. The participants were encouraged to remain anonymous.

- **Harm**

The study did not bring harm to the participants. Participants should be safeguarded against any kind of injury, whether physical or psychological. According to Roopa *et al.*, (2017:275), Participants could suffer damage if they are asked to share details that could jeopardize their lives or shame them.

- **Data**

The data which was collected was only used for the purposes of this study not for any other purpose. As a researcher it is critical for one to be an ethical researcher and one has a duty for protect the participants and to present correct and accurate results.

5.11 SUMMARY

This chapter has described and discussed the methods used to collect and analyse data in order to develop a budget management framework for South African municipalities. The municipalities must protect, respect, promote and fulfil the rights of the residents. According to Chapter 7 of the Constitution the municipalities have to provide basic services in a sustainable. Municipalities should find resources to fulfil those basic rights.

These resources should be managed effectively through budgeting; thus it was important that a budget management framework be developed to assist municipalities to manage budgets effectively.

Scientific research has to be conducted based on a particular research paradigm, thus in this study a quantitative research paradigm was adopted to answer the research questions. The target population, sampling, data collection instruments and data analyses tools were described. The target population for this study was restricted to staff members working in three selected South African municipalities from three different provinces (Free State, Easter Cape and Western Cape), with the sample size comprised of n=261 subjects for the survey, and (n=4) for the interviews. The results of the study interpreted in the next chapter.

CHAPTER SIX: DATA ANALYSIS, FINDINGS AND DISCUSSION

6.1 INTRODUCTION

The primary aim of this research was to understand the difficulties experienced by municipal officials and to develop a framework to guide management and employees of municipalities in budget management, as there is evidence from a range of studies and from the national treasury that many municipalities either exhaust their funds before the end of the fiscal year or have unspent funds, both of which affect service delivery to residents of a municipality.

In investigating the possible causes of these two kinds of financial circumstance, the first assumption advanced by the researcher was that the budgeting process is not entirely understood by municipal employees, particularly those who are in critical positions within municipalities. Thus, the primary research objective of this study was to develop a framework for budget management for local municipalities in South Africa.

This chapter provides a detailed discussion of the results of this study. As indicated in Chapter 5, a questionnaire was administered to 261 municipal employees. The questionnaire was divided into 2 sections, Section A – Biography, Section B – statements to be ranked on a Likert scale. For the purposes of this study, SPSS was used as a tool for data analysis. Exploratory Factor Analysis and Structural Equation Modeling (SEM) were performed using AMOS. Reliability and validity were taken into account in the analysis.

6.2 DEMOGRAPHICAL INFORMATION

The primary aim of the analysis of data from Section A of the questionnaire was to determine the suitability of the candidates for the work with which they engaged in dealing with the budget of the cost centre and the execution of budget allocations.

6.2.1 Age group

Question 1: How old are you this year? In essence, this question was used to determine the average age of the staff involved in budgeting. Although this may not have much meaning in with reference to ability to budget or handle budgeting procedures, a relationship between age and the perceived degree of comprehension

of budgets has been acknowledged. The ages of the respondents are shown in table 6.1 below.

Table 6. 1: Frequency table of the respondents' age

Age	Frequency	Percentage
18- 25 years	13	5.0
26- 30 years	44	16.9
31- 40 years	74	28.4
41- 50 years	68	26.1
51- 60 years	40	15.3
61- 66 years	22	8.4
Total	261	100.0

(Source: Author)

Table 6.1 indicates that the highest percentage of respondents at 28.4% (n=74) were between the ages of 31 and 40 years. About 26.1% (n=68) were between the ages of 41 and 50 years. Approximately 16.9% (n=44) were between the ages of 26 and 30 years, 15% (n=40) between the ages of 51 and 60 years, 8% (n=22) between the ages of 61 and 66 years and 5% (n=13) between the ages of 18 and 25 years. As fewer than a quarter of those surveyed are between the ages of 18 and 30. The age groups from 31-50 counts 54.5% as the leading groups work in municipalities. Pinto *et al.* (2014), human resource management practices based on age have a general impact on how employees of various ages act in organisations, particularly those who are matured. Thus, it could be argued that a significant majority should be considered mature adults with considerable life and work experience for an organisation to succeed. However, organizations continue to pursue and recruit young people rather than taking advantage of the expertise of older workers (Teclaw, 2014).

6.2.2 Work position

Question 2: What is your position in the organisation?

Some positions do not have anything to do with either the creation or execution of budgets (control). Out of 261 participants, only 167 respondents responded to this question. Table 6.2 shows the distribution of their positions in the municipalities.

Table 6. 2: Frequency table of the positions of the respondents

Position	Frequency	Percentage
Municipal Manager	3	1.1
Executive Director	19	7.3
Director	21	8.0
Manager	62	23.6
Other	59	23.0
No response to this question	97	37.0
Total	261	100.0

(Source: Author)

Table 6.2 shows that the highest percentage by category of those who responded 23.6% (n= 62) is that of managers. About 23.0% (n=59) of the respondents occupied other positions such as accountants, engineers, clerks, 8.0% (n=21) were directors, 6.9% (n=19) were executive directors and 1.5% (n=3) of the respondents were municipal managers. These results indicate the following: (i) that levels of employment in municipalities that are relevant to budgeting were adequately represented in this survey: (ii) that 60% of the sample either categorised their employment as ‘other’ (n=59) or did not answer the question (n=97) making it difficult to know whether or not their work would be included budgeting. As such, this factor has an impact on reducing sample bias and furthermore influences the validity and dependability of the findings in relation to fair representation in this study (Smith *et al.*, 2014)

6.2.3 Year of working for municipality

Question 3: How long have you been working for the municipality?

This question aimed to establish respondents’ likely experience in local government, and perhaps in budgeting. The responses are presented in Table 6.3.

Table 6. 3: Number of years respondents have worked for a municipality

YEARS	FREQUENCY	PERCENTAGE
0 - 5 YEARS	83	31.8
6 - 10 YEARS	70	26.8
11 – 15 YEARS	47	18.0
16 – 20 YEARS	31	11.9
21 – MORE YEARS	30	11.5
TOTAL	261	100.0

(Source: Author)

As shown in Table 6.3, the largest group of respondents 31.8% (n=83) have been employed by the municipality for a period of 5 years or less. About 26.8% (n=70) for 6 to 10 years, 18.0% (n=47) for 11 to 15 years, 11.9% (n=31) for 16 to 20 years and 11.5% (n=30) for 21 or more years. This distribution shows that a highest number of employees (58.6%) in the municipality have ten years' experience or less and thus, may lack experience in devising or executing budgets. To ensure that an organization does not suffer from a lack of experienced staff in the long run, and that budgets are effectively managed, more experienced employees should be retained (Cloutier *et al.*, 2015).

6.2.4 Involvement in budget management

Question 4: How long have you been involved in budget management and implementation of financial management policies?

The number of years spent in engaging with budget formulation, management and financial management is likely to result in improved competence in these areas, particularly if there have also been opportunities to participate in training programs. Figure 6.1 illustrates the number of years the participants have been involved in implementing budgets and financial management policies.

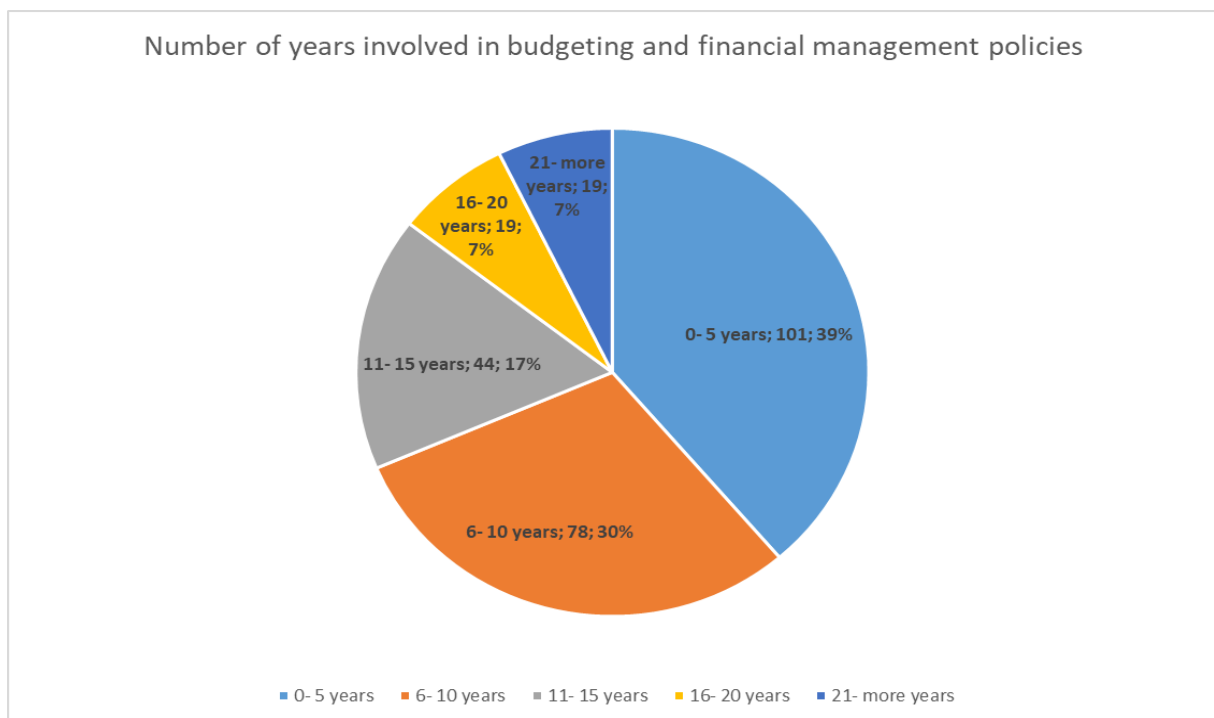


Figure 6. 1: Years involved in budgeting and financial management policies

(Source: Author)

Figure 6.1 shows that the largest category of respondents 39% (n=101) have been dealing with budgets and financial management policies for five years and less, with a further 30% (n=78) of the respondents involved in budgeting and financial management policies for 6 to 10 years, 17% (n=44) for 11 to 15 years and 7% (n=19) for 16 to 20 years. Only 7% (n=19) of the participants have been involved in implementation of budgeting and financial management policies for 21 years and more. It is concerning that the largest category of the respondents (39%) have been involved in implementation of budgets and financial management policies for less than 5 years. This suggests that a significant percentage of municipal employees have limited experience regarding implementation of budgets and of financial management policies. Job involvement assesses how much employees recognize psychologically with their profession and value their presumed level of performance in terms of self-worth (Van Antwerpen, 2016).

6.2.5 Education level

Question 5: What is your highest qualification?

This question was aimed at establishing the level of education of the participants in this research. Addressing the challenges faced by municipal employees requires them to have both relevant qualifications and sufficient expertise. The responses to this question are presented in Table 6.4.

Table 6. 4: Highest qualifications of the respondents

Level of Education	Frequency	Percentage
National Diploma	82	31.4
Bachelors' Degree	103	39.5
Master's Degree	55	21.1
Doctorate	3	1.1
Other	18	6.9
Total	261	100

(Source: Authors construction)

The largest category of respondents 39.5% (n=103) has a Bachelors Degree; 31.4% (n=82) have a National Diploma; 21.1% (n=55) a Masters Degree; and 1.1% (n=3) have a Doctorate. 6.9% (n=18) of the respondents have other credentials, such as a matriculation certificate, honours degree or completed short courses. Mafini (2014);

Pinto *et al.* (2014) posit that, organisations with appropriately qualified staff perform much better than those with employees who lack adequate qualifications.

6.3 QUANTITATIVE ANALYSES: SEM

The following section reports on fit statistics on the constructs that were created per independent variable of the model using the imputed option in IBM SPSS AMOS 24

6.3.1 SEM individual model constructs

The following constructs were calculated from a number of items, each as identified by factor analysis. Before integrating different constructs to build the primary model, it is critical to ensure that they are acceptable constructions. As such, the fit statistics of SEM were used to test the individual constructs of the proposed model in this research. The model graphic was created in SPSS AMOS ©, then evaluated, and updated for each latent variable until the model had relevant results (good fit). The results of the individual composites of the model are discussed in this section.

6.3.2 Budget planning in the municipality (independent variable)

Using exploratory factor analysis, applied to the items in the section for budget planning, two constructs were identified for Budget planning (Budget planning 1 and Budget planning 2). This construct was high dimensional, thus factor analyses created two constructs from the data. These constructs are presented separately in this section.

Budget Planning in the Municipality (1)

Figure 6.2 below illustrates the results of the Budget Planning 1 variable. Budget planning 1 is referring to the actions of the employees, while Budget planning 2 deals with action of regarding budget planning.

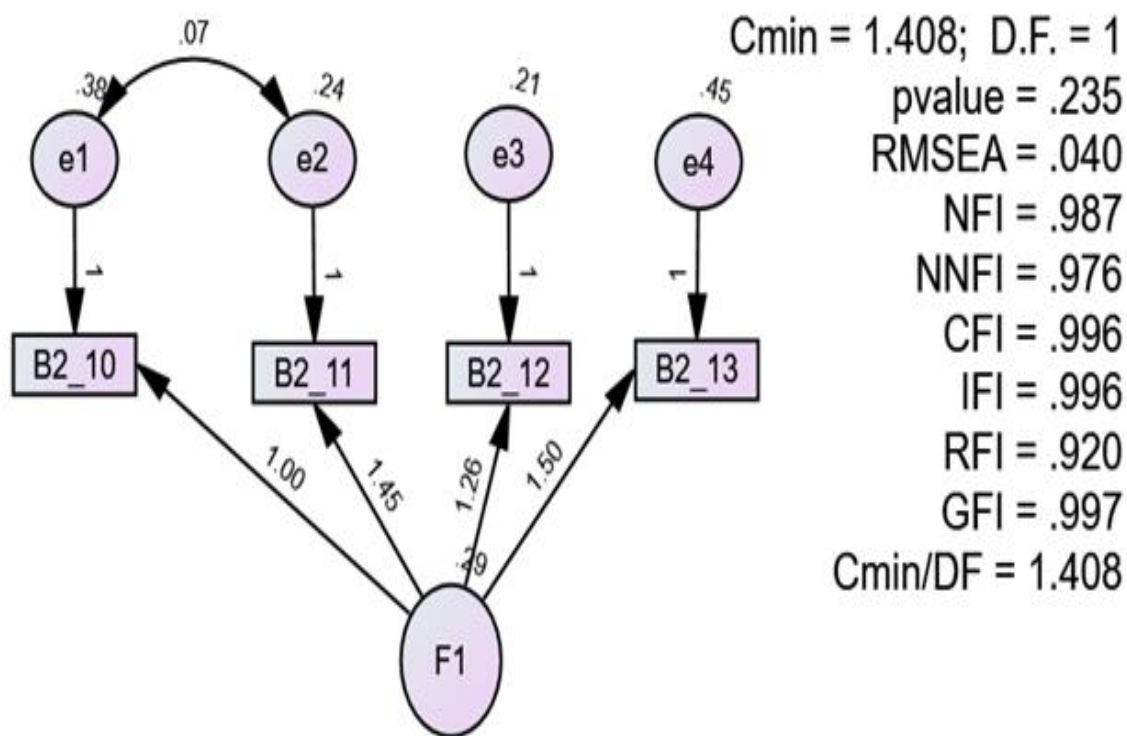


Figure 6. 2: Results: Budget Planning 1

(Source: IBM SPSS AMOS SEM)

Four items were included in the first construct (Budget Planning in Municipality 1). The items were then inserted into a SEM model. The SEM model statistics show that there is a correlation between B2_10 and B2_11, while B2_12 and B2_13 are uncorrelated. The statements from the questionnaire in relation to the first construct (Budget Planning 1) are presented in Table 6.5.

Table 6. 5: Statements of Budget Planning in the Municipality (Construct 1)

Statement	Item
The budget plans are done by municipal management	B2_10
I only follow instructions from municipal management for budget planning	B2_11
I only use the budget that is given to me	B2_12
I am not allowed to make changes on budgets	B2_13

(Source: Author)

The following fit statistics were used to test the model of Budget Planning in the Municipality 1 variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.6 below.

Table 6. 6: Interpretation of Budget Planning in the Municipality (Construct 1)

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.24	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.99	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	0.98	Goodness-of-fit Achieved
CFI	CFI > 0.90	1.00	Goodness-of-fit Achieved
IFI	IFI > 0.90	1.00	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.92	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.6, the budget planning in the municipality 1 variable confirmed goodness-of-fit.

Budget Planning in the Municipality (2)

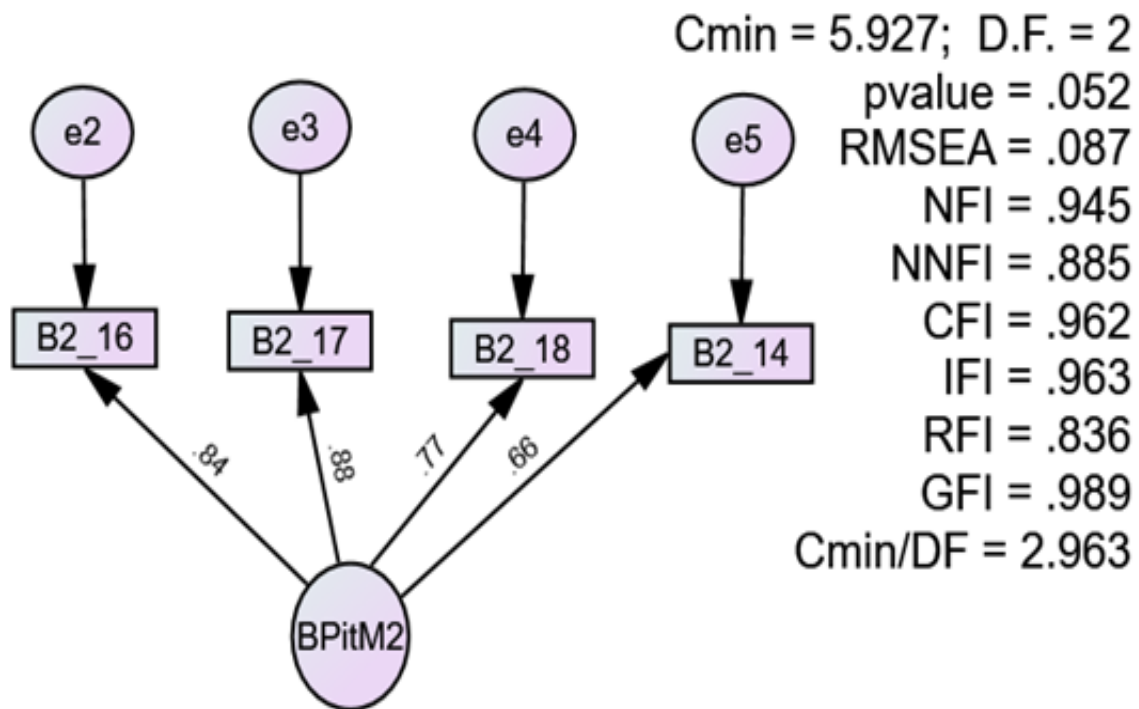


Figure 6. 3: Results: Budget Planning 2

(Source: IBM SPSS AMOS SEM)

Four items were included in the second construct (Budget Planning in the Municipality (2)). The items were then inserted into a SEM model. The SEM model statistics shows that there is no correlation between B2_16, B2_17, B2_18 and B2_14. The statements

from the questionnaire in relation to the second construct (Budget Planning in the Municipality (2)) are shown in Table 6.7.

Table 6. 7: Statements of Budget Planning in the Municipality (Construct 2)

Statement	Item
The budget approved by management does not reflect the actual needs of my department	B2_16
Our funds are mostly depleted by mid-term	B2_17
We often have to wait for the next financial year to complete projects	B2_18
Too often I have to break down what is given to try to fit into projects	B2_14

(Source: Author)

The following indexes were used to test Budget Planning in the Municipality 2 variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.8 below.

Table 6. 8: Interpretation of Budget Planning in the Municipality (Construct 2)

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.08	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.95	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	0.89	Goodness-of-fit Achieved
CFI	CFI > 0.90	0.96	Goodness-of-fit Achieved
IFI	IFI > 0.90	0.96	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.84	Goodness-of-fit not Achieved
GFI	GFI > 0.90	0.99	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.8, budget planning in the municipality 2 variable confirmed goodness-of-fit, however the means are very close.

6.3.3 Revenue and expenditure management (independent variable)

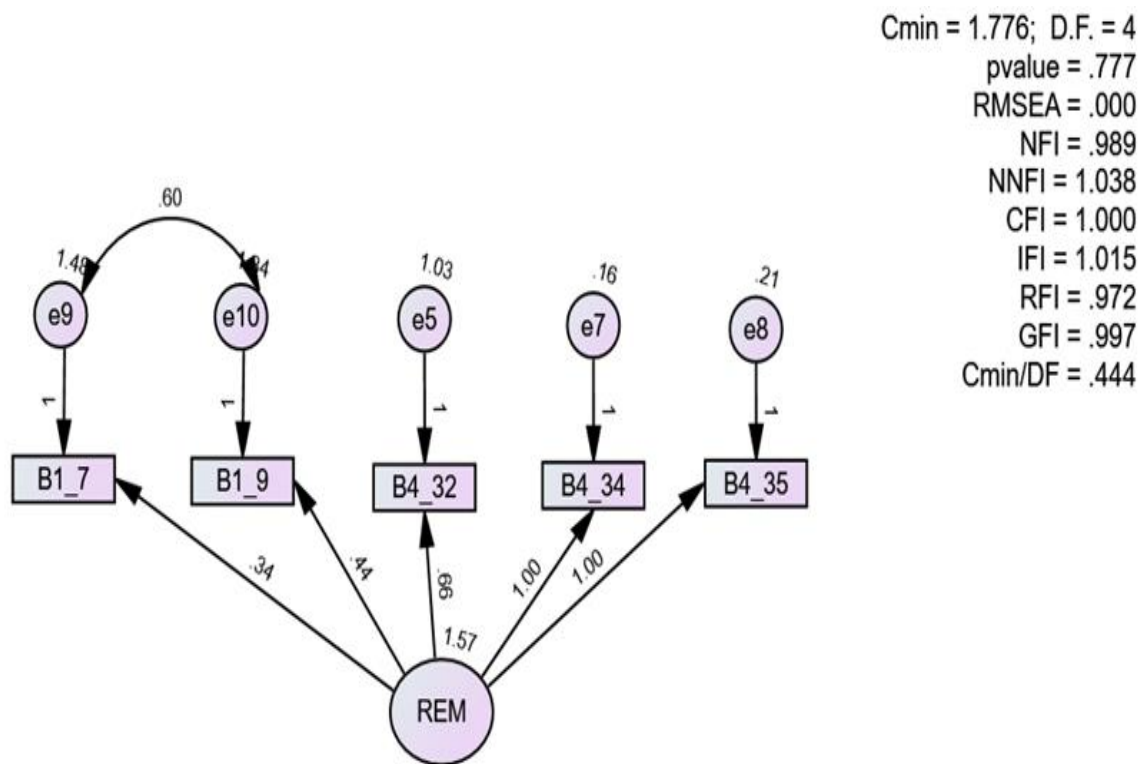


Figure 6. 4: Results: Revenue and Expenditure Management

(Source: IBM SPSS AMOS SEM)

Five items were included in the third construct (Revenue and Expenditure Management). The items were then inserted into a SEM model. The SEM model statistics show that there is a correlation between B1_7 and B1_9, while B4_32, B4_34 and B4_35 are uncorrelated. The statements from the questionnaire in relation to the third construct (Revenue and Expenditure Management) are shown in Table 6.9.

Table 6. 9: Statements of Revenue and Expenditure Management

Statement	Item
The MFMA is clear when it comes to revenue management.	B1_28
The MFMA is clear when it comes to expenditure management	B1_29
Our managers spend money in line with the budget	B4_30
Our employees spend money in line with the budget	B4_31
We do not consult the budget before we spend money.	B4_32
I always stay within budget based on revenue and expenditure for my work.	B4_33
The municipality does not have revenue management systems.	B4_34
The municipality does not have expenditure management systems	B4_35

(Source: Author's construction)

In South Africa, public entities, government departments and municipalities have developed risk management systems to fulfil the requirements of the Public Finance Management Act (Meyer, 2014: 165). Furthermore, municipalities should have revenue management systems in place in order to effectively classify, collect, reconcile and record income which is generated by the municipality from businesses and residents for services rendered (Rakabe, 2010: 137). The following indexes were used to test the Revenue and Expenditure Management variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.10.

Table 6. 10: Interpretation of Revenue and Expenditure Management

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.00	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.99	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	1.02	Goodness-of-fit Achieved
CFI	CFI > 0.90	1.00	Goodness-of-fit Achieved
IFI	IFI > 0.90	1.02	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.97	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.10, the Revenue and Expenditure Management variable confirmed goodness-of-fit but the means are very close.

6.3.4 Legislative consideration (independent variable)

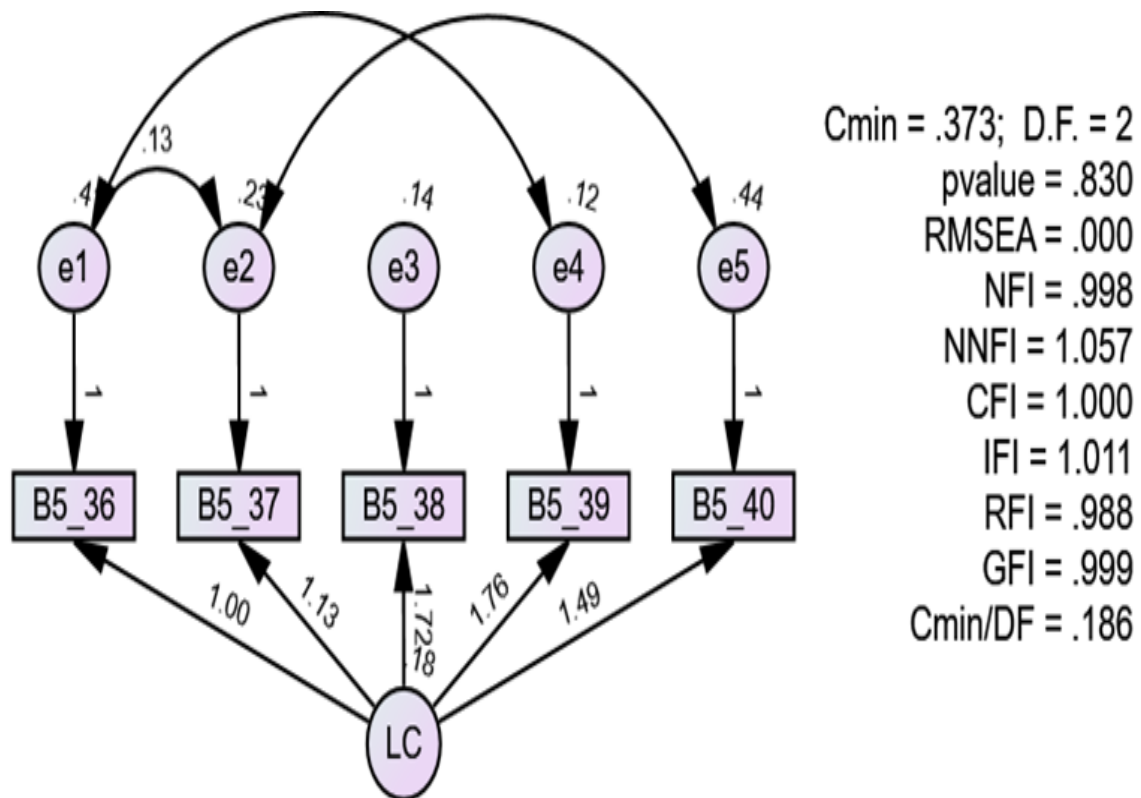


Figure 6. 5: Results: Legislative Consideration

(Source: IBM SPSS AMOS SEM)

Five items were included in the fourth construct (Legislative Consideration). The items were then inserted into a SEM model. The SEM model statistics show that there is a correlation between B5_36 and B5_37; B5_36 and B5_39; B5_37 and B5_40, while B5_38 is not correlated to any item. The statements from the questionnaire in relation to the fourth construct (Legislative Consideration) are presented in Table 6.11.

Table 6. 11: Statements of Legislative Consideration

Statement	Item
Legislation plays a significant role in the management of finances.	B5_36
I am controlled by legislation when it comes to budget management.	B5_37
Powers of managers are restricted by the Municipal Management Act.	B5_38
Powers of employees are restricted by the Municipal Management Act.	B5_39
There is a disjuncture between employees demands and provisions of the Act.	B5_40

(Source: Author)

For municipalities to function effectively and to minimise maladministration, legislation such as the MFMA, Municipal Systems Act and the Constitution should be understood and adhered to by all employees (Imuezerua and Chinomona, 2015:359). The results in figure 6.5 above show clearly that the respondents understand the significance of legislation for their respective municipalities. The following indexes were used to test Legislative Consideration variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.12 below.

Table 6. 12: Interpretation: Legislative Consideration

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.00	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.99	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	1.06	Goodness-of-fit Achieved
CFI	CFI > 0.90	1.00	Goodness-of-fit Achieved
IFI	IFI > 0.90	1.01	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.99	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.12 the legislative consideration variable confirmed goodness-of-fit.

6.3.5 Risk management (independent variable)

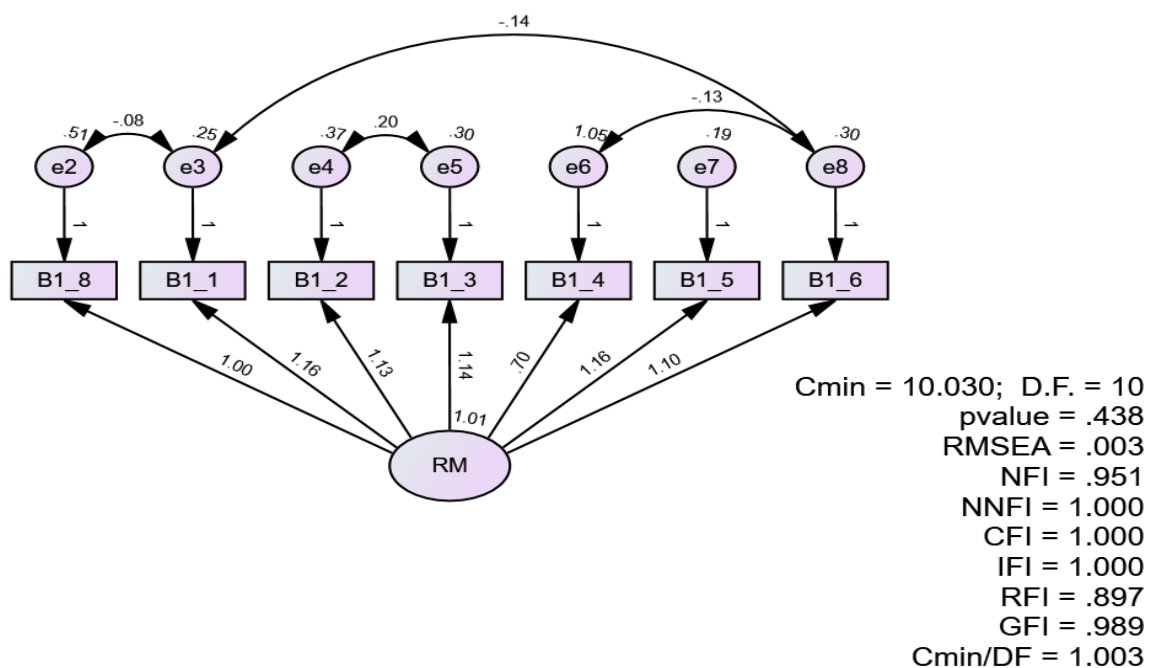


Figure 6. 6: Results: Risk Management

(Source: IBM SPSS AMOS SEM)

Seven items were included in the fifth construct (Risk Management). The items were then inserted into a SEM model. The SEM model statistics show that there is a correlation between B1_8 and B1_1; B1_1 and B1_6; B1_2 and B1_3; B1_4 and B1_6), while B1_5 is not correlated to any item. The statements from the questionnaire in relation to the fifth construct (Risk Management) are presented in Table 6.13.

Table 6. 13: Statements of Risk Management

Statement	Item
We have systems in place to manage risk in our municipality.	B1_1
I am well equipped to identify events that affecting our budget objectives.	B1_2
I follow the risk management systems to manage risks.	B1_3
All employees are accountable for risks within the scope of the work	B1_4
The municipality uses efficient financial risk management systems	B1_5
I am equipped to manage uncertainty that will affect the activities of the municipality	B1_6
In our municipality risk management is perfectly executed	B1_8

(Source: Author)

Risk management is an unavoidable function with a municipality, if not managed effectively, risks can lead to financial losses for the municipality (Meyer, 2014: 163). The following indexes were used to test the Risk Management variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.14.

Table 6. 14: Interpretation of Risk Management

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.00	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.95	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	1.00	Goodness-of-fit Achieved
CFI	CFI > 0.90	1.00	Goodness-of-fit Achieved
IFI	IFI > 0.90	1.00	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.90	Goodness-of-fit not Achieved
GFI	GFI > 0.90	0.99	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.14, the Risk Management variable confirmed goodness-of-fit.

6.3.6 Cash flow management (independent variable)

Cash Flow Management created two constructs (Cash Flow Management 1 and Cash Flow Management 2), these constructs are presented separately in this section. Cash Flow Management 1 are the general compliance issue in relation to cash flow management, Cash Flow management 2 relates to employees own perceptions.

Cash Flow Management 1

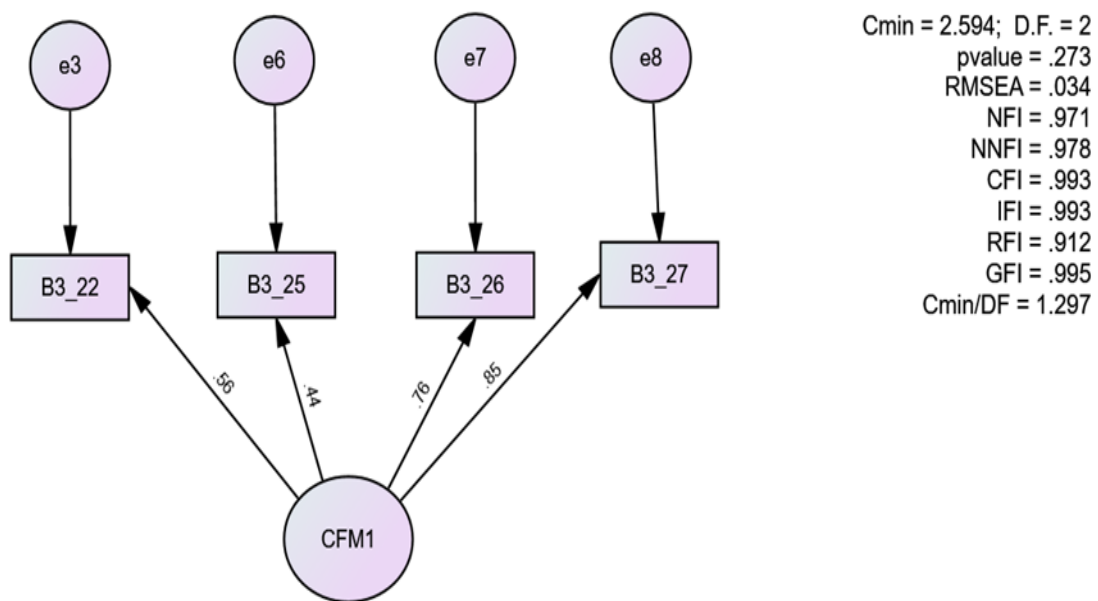


Figure 6. 7: Results: Cash Flow Management 1

(Source: IBM SPSS AMOS SEM)

Cash Flow Management 1 was created as the sixth construct, and four items were inserted into a SEM model. The SEM model statistics show that B3_22, B3_25, B3_26 and B3_27 are uncorrelated. The statements from the questionnaire in relation to the sixth construct (Cash Flow Management 1) are shown in Table 6.15.

Table 6. 15: Statements of Cash Flow Management (Construct 1)

Statement	Item
Cash flow estimates are sent to treasury for the next financial year.	B3_22
I always refer to our cash flow projections before we commit funds.	B3_25
The municipality has a positive cash balance every financial year end.	B3_26
The municipality NEVER has a negative cash balance at the end of the financial year.]	B3_27

(Source: Author)

The following indexes were used to test the Cash Flow Management 1 variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.16.

Table 6. 16: Interpretation of Cash Flow Management (Construct 1)

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.03	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.97	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	0.98	Goodness-of-fit Achieved
CFI	CFI > 0.90	0.99	Goodness-of-fit Achieved
IFI	IFI > 0.90	0.99	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.91	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.16, the Cash Flow Management 1 variable confirmed goodness-of-fit, but the means are very close. Descriptive statistics for this variable are presented in Appendix D.

Cash Flow Management 2

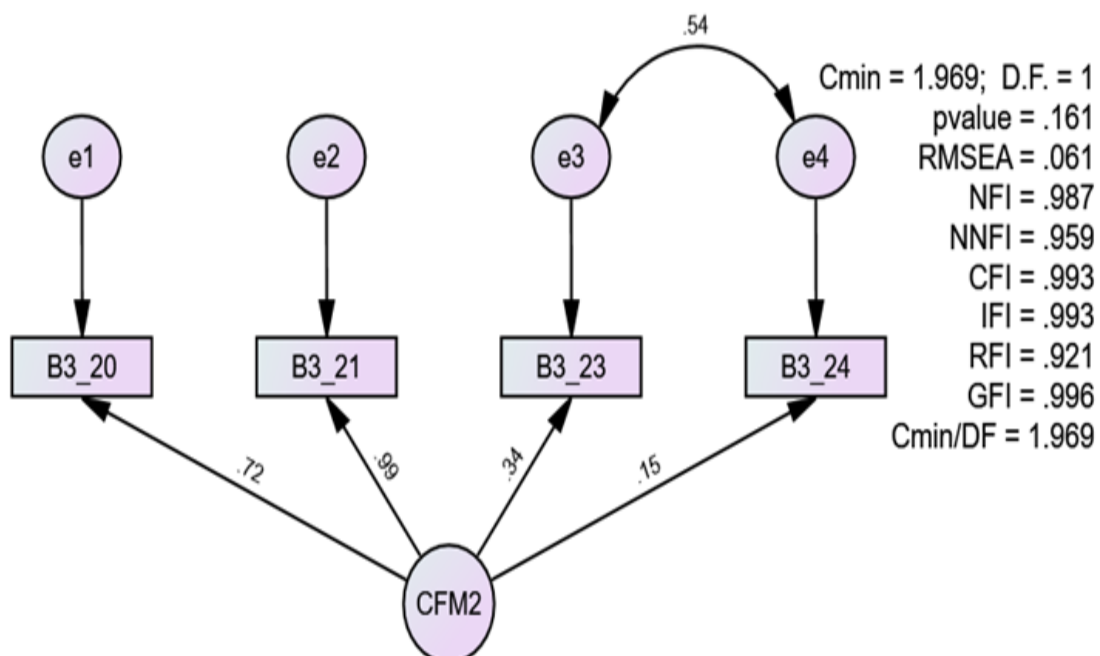


Figure 6. 8: Results: Cash Flow Management 2

(Source: IBM SPSS AMOS SEM)

Cash Flow Management 2 was created as the seventh construct, and four items were inserted into a SEM model. The SEM model statistics show that Items B3_20 and B3_21 are uncorrelated, while B3_23 and B3_24 are correlated. The statements from the questionnaire in relation to the sixth construct (Cash Flow Management 2) are shown in Table 6. 17.

Table 6. 17: Statements of Cash Flow Management (Construct 2)

Statement	Item
Adhering to projections hinders effective implementation of strategy.	B3_20
Cash flow is critical in informing employees on when to avoid a deficit.	B3_21
There are not consequences if I do not adhere to cash flow projections.	B3_23
I am not consulted by municipal management before cash flow estimates are finalized.	B3_24

(Source: Author)

The following indexes were used to test the Cash Flow Management 2 variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.18.

Table 6. 18: Interpretation of Cash Flow Management (Construct 2)

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.06	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.98	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	0.96	Goodness-of-fit Achieved
CFI	CFI > 0.90	0.99	Goodness-of-fit Achieved
IFI	IFI > 0.90	0.99	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.92	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

According to table 6.18 above, the Cash Flow Management 2 variable confirmed goodness-of-fit, although, the means are very close. Descriptive statistics for this variable are presented in Appendix D.

6.3.7 Effective budget management (dependent variable- the outcome)

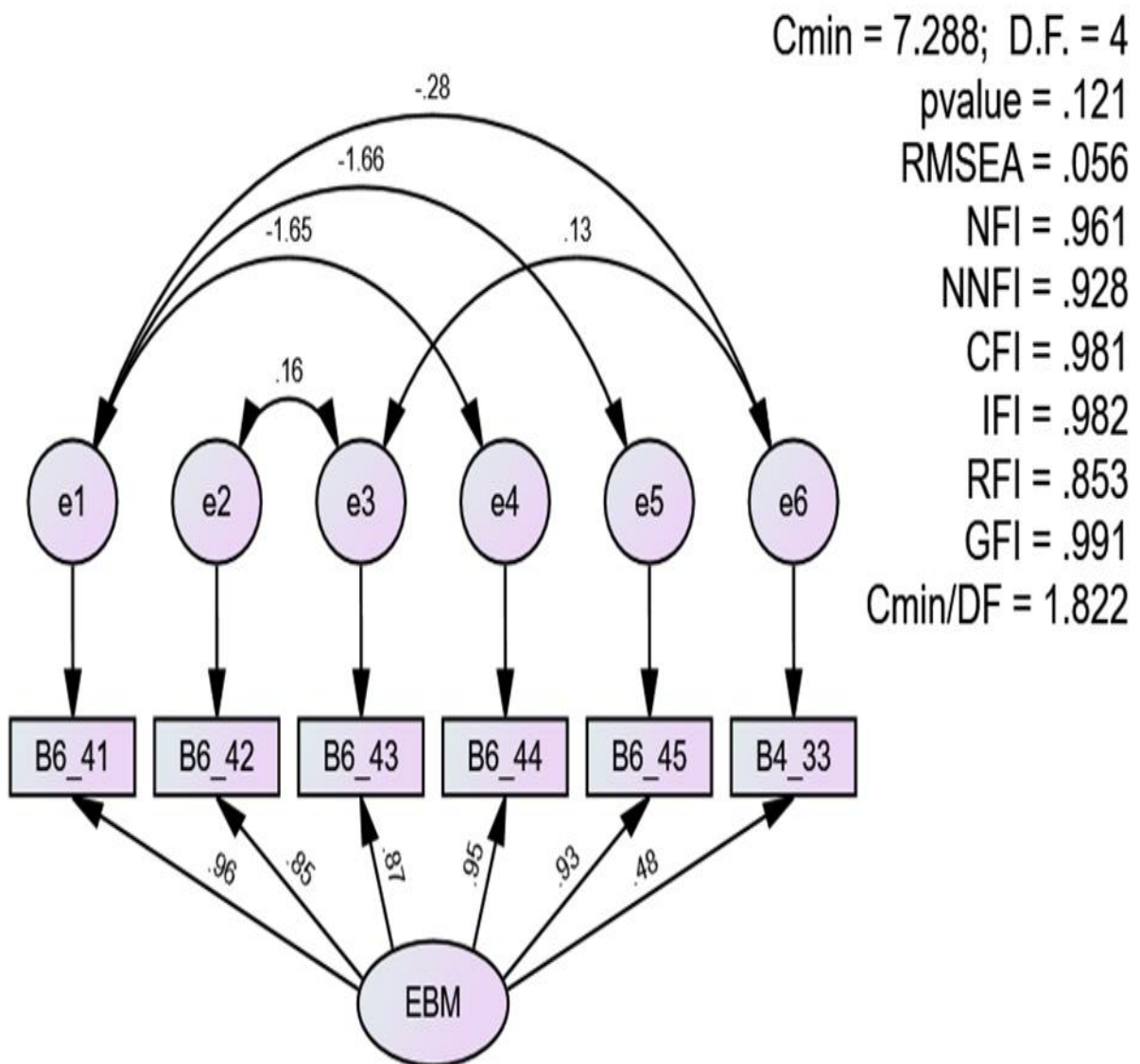


Figure 6. 9: Results: Effective Budget Management

(Source: IBM SPSS AMOS SEM)

Six items were included in the seventh construct (Effective Budget Management). The items were then inserted into a SEM model. The SEM model statistics show that the Items B6_41, B6_44, B6_45 and B4_33 have a significant correlation, while item B6_42 and B6_43 also have a correlation. (In addition, item B6_43 has a correlation with item B4_33. The statements from the questionnaire in relation to the seventh construct (Effective Budget Management) are presented in Table 6.19.

Table 6. 19: Statements of Effective budget management

Statement	Item
Always stay within budget based on revenue and expenditure for my work.	B4_33
I spent all the approved budgets that were allocated to me during last year	B6_41
Management always encourages me to spend all my allocated funds	B6_42
Our municipality spent the approved budget for what it was intended for	B6_43
Our municipality has accurate budget projections	B6_44
Our budget is aligned to our goals and objectives	B6_45

(Source: Author)

The following indexes were used to test the Effective Budget Management variable: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.20.

Table 6. 20: Interpretation of Effective Budget Management

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.06	Goodness-of-fit Achieved
NFI	NFI > 0.90	0.96	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	0.93	Goodness-of-fit Achieved
CFI	CFI > 0.90	0.98	Goodness-of-fit Achieved
IFI	IFI > 0.90	0.98	Goodness-of-fit Achieved
RFI	RFI > 0.90	0.85	Goodness-of-fit Achieved
GFI	GFI > 0.90	0.99	Goodness-of-fit Achieved

(Source: Author)

According to Table 6.20, the Effective Budget Management variable confirmed goodness-of-fit, although the means are very close. Descriptive statistics for this variable are presented in Appendix D.

6.3.8 The main model

From the information presented in the previous section, a composite latent variable was developed using SEM for each of the elements of the model and a variable was generated using the factor analysis regression process.

Following the development of variables using the factor analysis regression process, a SEM was reconstructed, running the analysis repeatedly until the model was relevant. The primary research objective was:

To develop a framework for budget management for local municipalities in South Africa.

The main model was created using SPSS AMOS. The following indices were tested for the Budget Management model: CMIN; Pvalue; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. Figure 6.10 below illustrates the budget management model developed for South African municipalities.

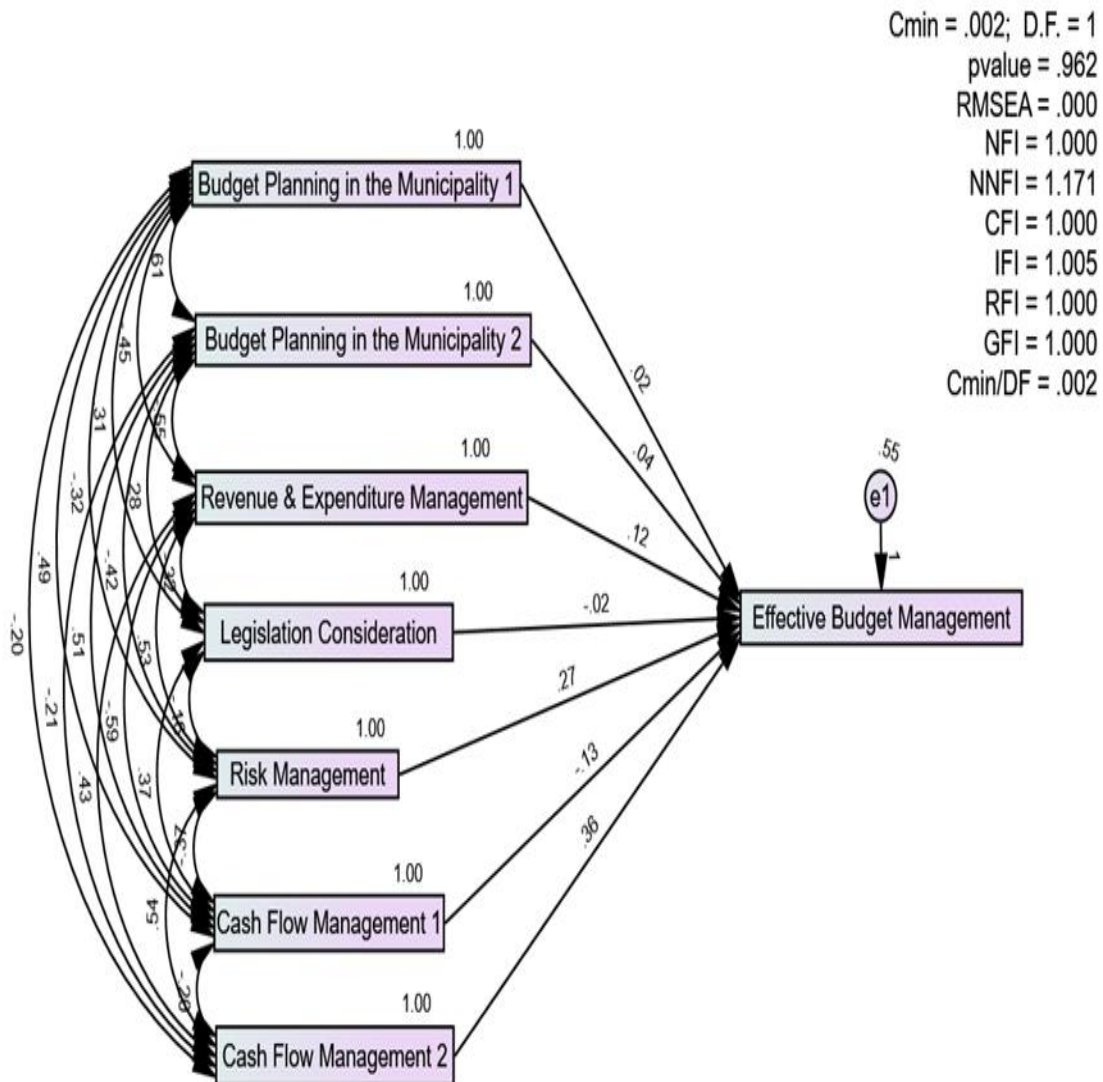


Figure 6. 10: Results: Budget management

(Source: IBM SPSS AMOS SEM)

Table 6.21 presents the results of the regressions in Figure 6.10 (Budget Management model).

Table 6. 21: Regression Weights

Path		Estimate	S.E.	C.R.	P	Significance Level	
EBM	<---	BPitM1	.024	.061	.395	.693	Not accepted at p>0.05
EBM	<---	BPitM2	.045	.065	.693	.489	Not accepted at p>0.05
EBM	<---	REM2	.121	.068	1.776	.076	Partly accepted at p>0.05
EBM	<---	LC	-.023	.051	-.445	.657	Not accepted at p>0.05
EBM	<---	RM	.273	.061	4.469	***	Accepted at p<0.05
EBM	<---	CFM1	-.128	.062	-2.060	.039	Accepted at p<0.05
EBM	<---	CFM2	.364	.057	6.388	***	Accepted at p<0.001

*: p<0.05; **: p<0.01; ***: p<0.001

(Source: Author)

Based on the regression weights in Table 6.21, BPitM1 and BPitM2 have a very low impact on Effective Budget Management at .02 and .04 respectively, however the two constructs have a positive relationship with effective budget management. This is concerning because budget planning is important in municipalities for effective resource allocation and management (Hanabe *et al.*, 2018:168).

REM2 (Revenue and Expenditure Management) has some impact on Effective Budget Management at .12, while LC (Legislative Consideration) has a negative impact on Effective Budget Management at .02. RM (Risk Management) has a significant influence on Effective Budget Management at .27. However, CFM1 (Cash Flow Management 1) has a negative impact on Effective Budget Management at -.13 and CFM2 (Cash Flow Management 2) has a great impact on Effective Budget Management at .36. The negative and the positive relationships of (CMF1 and CFM2) was due to the nature of the questions that were advanced to the respondents.

The following indexes were used to test the Budget Management model: Cmin; P value; RMSEA; NFI; NNFI; CFI; IFI; RFI; GFI and CMIN/DF. The results are interpreted in Table 6.22.

Table 6.22 shows that goodness-of-fit was confirmed for the Budget Management variables.

Table 6. 22: Interpretation: Budget Management

Index	Level of Acceptance (According to Literature)	RESULT	Interpretation
RMSEA	RMSEA < 0.08	0.00	Goodness-of-fit Achieved
NFI	NFI > 0.90	1.00	Goodness-of-fit Achieved
NNFI (TLI)	TLI > 0.90	1.17	Goodness-of-fit Achieved
CFI	CFI > 0.90	1.00	Goodness-of-fit Achieved
IFI	IFI > 0.90	1.01	Goodness-of-fit Achieved
RFI	RFI > 0.90	1.00	Goodness-of-fit Achieved
GFI	GFI > 0.90	1.00	Goodness-of-fit Achieved

(Source: Author)

In terms of the co-variance, the rule is if $p < 0.05$ the covariance of the paired independent variables in Figure 6.10 above is significant. This is confirmed in Table 6.23.

Table 6. 23: Co-variance for paired independent variables

Co-variance		Estimate	S.E.	C.R.	P	Interpretation
BPitM1	<--> CFM2	-.196	.060	-3.273	.001	Strongly and positively related
BPitM2	<--> CFM2	-.211	.061	-3.475	***	Strongly and positively related
REM2	<--> CFM2	.426	.064	6.645	***	Strongly and positively related
RM	<--> CFM2	.536	.069	7.724	***	Strongly and positively related
RM	<--> CFM1	-.371	.064	-5.767	***	Strongly and positively related
REM2	<--> CFM1	-.590	.071	-8.369	***	Strongly and positively related
BPitM2	<--> CFM1	.514	.069	7.442	***	Strongly and positively related
BPitM1	<--> CFM1	.494	.068	7.214	***	Strongly and positively related
REM2	<--> RM	.531	.068	7.771	***	Strongly and positively related
BPitM2	<--> RM	-.417	.066	-6.314	***	Strongly and positively related
BPitM1	<--> RM	-.315	.064	-4.956	***	Strongly and positively related
REM2	<--> LC	-.323	.059	-5.452	***	Strongly and positively related
BPitM1	<--> LC	.307	.063	4.842	***	Strongly and positively related

Co-variance			Estimate	S.E.	C.R.	P	Interpretation
BPitM2	<-->	REM2	-.547	.070	-7.867	***	Strongly and positively related
BPitM1	<-->	REM2	-.446	.067	-6.691	***	Strongly and positively related
BPitM1	<-->	BPitM2	.607	.072	8.431	***	Strongly and positively related
CFM1	<-->	CFM2	-.195	.059	-3.325	***	Strongly and positively related
LC	<-->	CFM1	.366	.065	5.653	***	Strongly and positively related
BPitM2	<-->	LC	.279	.063	4.439	***	Strongly and positively related
LC	<-->	RM	-.164	.053	-3.088	.002	Strongly and positively related

(Source: Author)

A correlation co-efficient greater than 0.5 is strong, whereas a correlation co-efficient of less than 0.5 indicates a weak relationship. Table 6.24 shows the correlations between paired independent variables in Figure 6.10.

Table 6. 24: Correlations for paired independent variables

Correlations			Estimate
BPitM1	<-->	CFM2	-.197
BPitM2	<-->	CFM2	-.212
REM2	<-->	CFM2	.428
RM	<-->	CFM2	.538
RM	<-->	CFM1	-.373
REM2	<-->	CFM1	-.593
BPitM2	<-->	CFM1	.516
BPitM1	<-->	CFM1	.496
REM2	<-->	RM	.534
BPitM2	<-->	RM	-.418
BPitM1	<-->	RM	-.317
REM2	<-->	LC	-.325
BPitM1	<-->	LC	.309
BPitM2	<-->	REM2	-.549
BPitM1	<-->	REM2	-.447
BPitM1	<-->	BPitM2	.609
CFM1	<-->	CFM2	-.196
LC	<-->	CFM1	.367
BPitM2	<-->	LC	.280
LC	<-->	RM	-.164

(Source: Author)

RM and CFM2 are strongly related; BPitM2 and CFM1 are strongly related; REM2 and RM are strongly related; BPitM1 and BPitM2 are strongly related.

6.3.9 Revised Model

The findings of SEM revealed that some constructs that were originally conceptualized had to be split into two due to the nature of the statements that were advanced to the respondents. The variables that were split into two, were budget planning and cash flow management. Budget planning was split into budget planning 1 which dealt with the responses of employees in relation to planning in the municipalities, while budget planning 2 dealt with management actions in relation to planning in municipalities. Furthermore, cash flow management was divided into two components: the first dealt with policy and legislation compliance, while the second dealt with employee perception of cash flow management.

The revised model is illustrated in Figure 6.11 below.

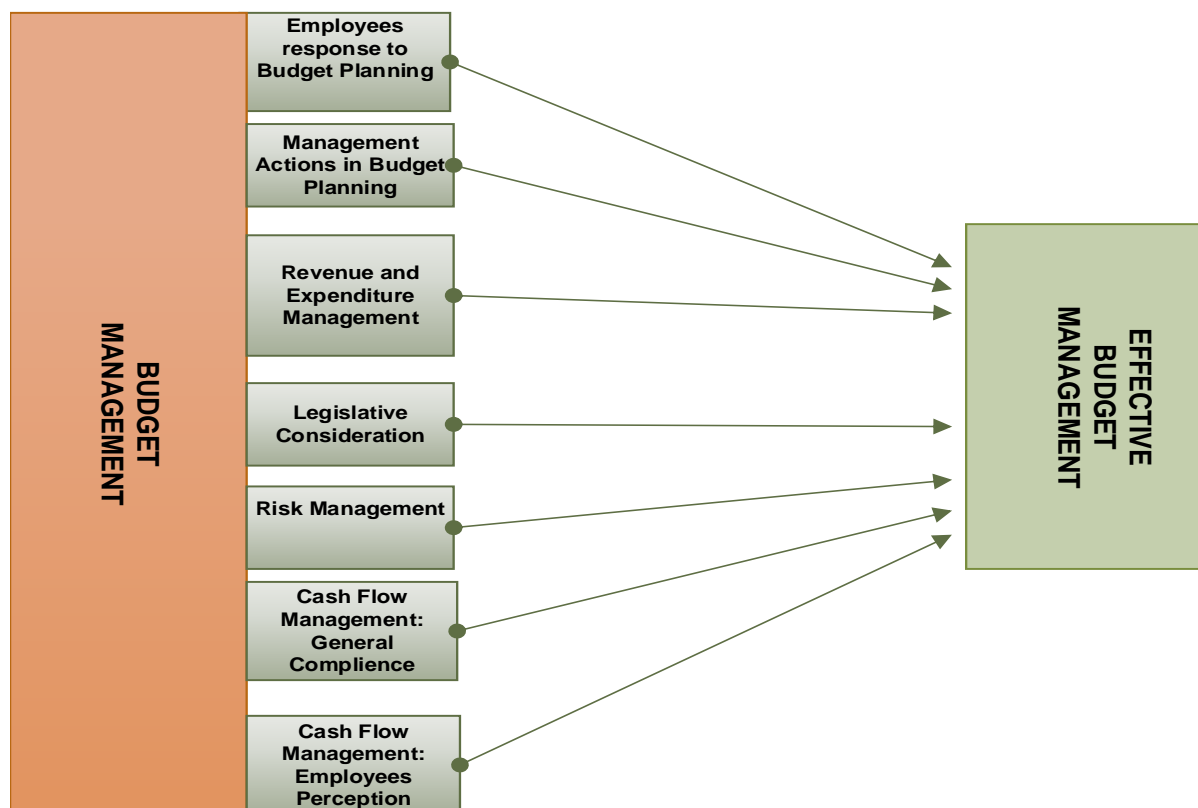


Figure 6.11: Revised Model

(Source: Author)

Figure 6.11 encapsulates the revised variables of the study. Thus, the following conclusions are drawn based on the revised model:

- The role of lower level employees in relation to budget planning is critical to effective budget management.
- The actions and role of management in relation to budget planning has an impact on how budgets are effectively managed.

6.4 QUANTITATIVE ANALYSES: DESCRIPTIVE STATISTICS

Likert scale was used to gather and measure data for this for this section. Where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4= Agree, and 5=Strongly Agree

6.4.1 Budget Planning in Municipalities

According to Faleti *et al.* (2014), budgets are used by the government as a guiding tool for planning and controlling its resources, whether fiscal or otherwise. Thus, the statements in table 6.25 were advanced to the respondents to probe whether they considered planning as a guiding tool to effectively manage budgets in their municipalities.

Table 6. 25: Budget Planning in Municipalities (N=261)

Code	Item	*Min	**Max	Mean	***SD	Cronbach's alpha
BPM 1	The budget plans are done by municipal management	1	5	4.22	.819	0.92
BPM 2	I only use the budget that is given to me	1	5	4.21	.820	
BPM 2	I only follow instructions from municipal management for budget planning	1	5	4.15	.922	
BPM 3	I am not allowed to make changes on budgets	1	5	3.97	1.047	
BPM 4	The budget approved by management does not reflect the actual needs of my department	1	5	3.92	1.045	
BPM 5	Too often I have to break down what is given to try to fit into projects	1	5	3.88	1.012	
BPM 6	We often have to wait for the next financial year to complete projects	1	5	3.69	1.144	
BPM 7	Our funds are mostly depleted by mid-term	1	5	3.63	1.135	

*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

Based on the indicators of budget planning in municipalities in table 2.25, there are eight items that measure the extent to which employees identify with budget planning. The means are close to four and above four, which on the Likert scale indicated agreement. Thus, the respondents agree that they are not involved in budget planning and that budgets are done by municipal management. Despite, researchers such as Okpala (2014); and Ibrahim (2013), asserting that the budgeting process in government should be a bottom-up approach in order to accommodate the needs of the lowest cost centres.

All these items in Table 6.25 are measuring budget planning in municipalities reliably as seen in Cronbach's alpha being 0.92 which is greater 0.70. For alpha to be acceptable it should be 0.70 and above (Taber, 2017).

6.4.2 Risk Management in Municipalities

Risk management does not fully eliminate, but rather manages risks associated with organisation's operations, maximizing opportunities, and minimizing threats (Myeza *et al.*, 2021). In this study it was necessary to probe how risk is managed in the selected municipalities. Table 6.26 outlines items that were advanced to measure risk management.

Table 6. 26: Risk Management (N=261)

Code	Item	*Min	**Max	Mean	***SD	Cronbach's alpha
RM1	All employees are accountable for risks within the scope of the work	1	5	3.30	1.251	0.92
RM2	I am well equipped to identify events that affecting our budget objectives.	1	5	2.95	1.293	
RM3	We have systems in place to manage risk in our municipality	1	5	2.94	1.271	
RM4	I follow the risk management systems to manage risks	1	5	2.89	1.271	
RM5	I am equipped to manage uncertainty that will affect the activities of the municipality	1	5	2.83	1.236	
RM6	The municipality uses efficient financial risk management systems	1	5	2.80	1.248	

RM 7	In our municipality risk management is perfectly executed	1	5	2.73	1.245	
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*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

Table 6.26 has seven items to measure how employees evaluate risk management in relations to budget management in the selected municipalities. The mean scores were close to three, which indicates Neutral in terms of the Likert scale. Thus, this implies that majority of the respondents decided to remain neutral and not engage with the statements. This is concerning because risk management is one of the most important activity or a function that is meant to address uncertainty within an organisation (Jovanović *et al.*, 2016). The public service should have employees who have confidence in managing risks (Ahmeti *et al.*, 2017).

All these items are measuring risk management in municipalities reliably as seen in Cronbach's alpha being 0.92 which is greater 0.70. For alpha to be acceptable it should be 0.70 and above (Taber, 2017).

6.4.3 Legislative Consideration in Municipalities

The theme (legislative consideration) in Table 2.27 has five items to test how employees consider legislative requirements to manage budgets. The constitution and the MFMA are important statutes when it comes to budget and financial management in municipalities and these laws contain all of the procedures required to manage municipal finances (Enwereji *et al.*, 2019).

Table 6. 27: Legislative Consideration (N=261)

Code		*Min	**Max	Mean	***SD	Cronbach's alpha
LC1	Legislation plays a significant role in the management of finances	1	5	4.32	.7479	0.92
LC2	I am controlled by legislation when it comes to budget management	1	5	4.29	.6780	
LC3	Powers of managers are restricted by the Municipal Management Act	1	5	4.19	.8060	
LC4	Powers of employees are restricted by the Municipal Management Act	1	5	4.17	.8063	
LC5	There is a disjuncture between employees demands and provisions of the Act.	1	5	4.05	.9037	

*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

The mean scores are above four, which in terms of Likert scales indicates agreement. Thus, the respondents agreed that legislation is crucial on how budgets are formulated and managed in municipalities. According to Munzhedzi (2019), legislation provides a legal framework on how municipal resources should be managed. All these items are measuring legislative consideration in municipalities reliably as seen in Cronbach's alpha being 0.92 which is greater 0.70. For alpha to be acceptable it should be 0.70 and above (Taber, 2017).

6.4.4 Cash Flow Management in Municipalities

According to Su (2018), some municipalities face challenges of deficits due mismanagement of cash inflows and outflows, thus, that affects the manner in which services are delivered to the poor. Table 6.28 has eight items for the theme (Cash Flow Management) to measure how employees assess cash flow management relations to budget management in the selected municipalities.

Table 6. 28: Cash Flow Management (N=261)

Code	Item	*Min	**Max	Mean	***SD	Cronb ach's alpha
CFM 1	Cash flow is critical in informing employees on when to avoid a deficit.	1	5	4.06	.811	0.92
CFM 2	I am not consulted by municipal management before cash flow estimates are finalized.	1	5	3.74	1.136	
CFM 3	Adhering to projections hinders effective implementation of strategy	1	5	3.59	1.134	
CFM 4	There are not consequences if I do not adhere to cash flow projections.	1	5	3.44	1.196	
CFM 5	Cash flow estimates are sent to treasury for the next financial year	1	5	3.37	1.161	
CFM 6	The municipality has a positive cash balance every financial year end.	1	5	3.20	1.291	
CFM 7	I always refer to our cash flow projections before we commit funds.	1	5	3.13	1.189	
CFM 8	The municipality NEVER has a negative cash balance at the end of the financial year.	1	5	3.02	1.311	

*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

The means are from agree to Neutral, as such, the employees choose not to participate in most of the statements under this theme. According to Botlhoko (2017), cash flow management is the underlying motivation for performance evaluation and resource allocations in municipalities. All these items are measuring cash flow management in municipalities reliably as seen in Cronbach's alpha being 0.92 which is greater 0.70. For alpha to be acceptable it should be 0.70 and above (Tavakol & Dennick, 2011).

6.4.5 Revenue and Expenditure Management in Municipalities

Revenue management refers to the ability of the municipalities to identify, collect, reconcile and bank income that is received from service users (Erdem *et al.*, 2016; Nkabane *et al.*, 2018). While expenditure should be made in accordance with applicable legislation and policies in municipalities (Fourie *et al.*, 2015). Revenue and expenditure management theme was created with five statements to measure the degree to which employees associate with revenue and expenditure management to manage budgets in municipalities.

Table 6. 29: Revenue and Expenditure Management

Code	Item	*Min	**Max	Mea n	***SD	Cronbac h's alpha
REM 1	I DO follow policies or procedures designed to mitigate and manage risks in my municipality.	1	5	3.20	1.291	0.92
REM 2	In our municipality uncertainty and risk is EFFECTIVELY managed.	1	5	2.83	1.293	
REM 3	The municipality Does not have expenditure management systems.	1	5	2.68	1.337	
REM 4	We DO consult the budget before we spend money.	1	5	2.65	1.315	
REM 5	The municipality Does have revenue management systems.	1	5	2.63	1.317	

*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

Means were less than three, which indicates that employees are not in agreement with the statements, thus, do not believe that revenue and expenditure management has a correlation with budget management. All these items are measuring revenue and expenditure management in municipalities reliably as seen in Cronbach's alpha being

0.92 which is greater 0.70. For alpha to be acceptable it should be 0.70 and above (Tavakol *et al.*, 2011).

6.4.6 Effective Budget Management in Municipalities

According to Danilina *et al.* (2016), optimal utilization of scarce financial resource in municipalities leads to effective budget management. Therefore, by advancing the statement in Table 6.30 to the respondents, the researcher intended to probe whether or not the respondents understood the impact of optimal utilization of financial resource on effective budget management.

Table 6. 30: Effective Budget Management

Code	Item	*Min	**Max	Mean	***SD	Cronbach's alpha
EBM 1	I always stay within budget based on revenue and expenditure for my work.	1	5	3.29	1.276	0.92
EBM 2	Management always encourages me to spend all my allocated funds.	1	5	2.98	1.361	
EBM 3	Our budget is aligned to our goals and objectives.	1	5	2.88	1.359	
EBM 4	I spent all the approved budgets that were allocated to me during last year.	1	5	2.83	1.364	
EBM 5	Our municipality spent the approved budget for what it was intended for.	1	5	2.81	1.323	
EBM 6	Our municipality has accurate budget projections.	1	5	2.77	1.293	

*Min: Minimum; **Max: Maximum; ***SD: Standard Deviation

(Source: IBM SPSS)

In Table 6.30 there six items to measure how the respondents manage budgets effectively in the municipalities. Based on the mean scores, majority of the employees are not in agreement with the statements that were advanced in Table 6.29. Furthermore, a good administrative environment for all employees can lead effective management of municipalities, as such, that should lead to financial performance (Rivenbark, 2006; Dynowska, 2018; Stepanovich, 2020).

6.5 QUALITATIVE ANALYSES

The main objective of this study was to develop a budget management model for South African municipalities using Structural Equation Modeling, which is a quantitative approach in nature. However, as the researcher delved into the data, an interview component arose which enable the researcher to gain an overall perspective of budget management in the selected municipalities. The themes of the interviews were based on the structural equation modelling key variables, the reason for extracting those themes was to validate the budget management model that was developed using SEM. The following themes were explored;

1. Risk Management
2. Budget Planning
3. Cash Flow Management
4. Revenue and Expenditure Management
5. Legislative Consideration

This below section provides an insight on the unique experiences and beliefs of municipal employees from different selected municipalities in South Africa. Four interviews were conducted with four managers from different directorates within the three selected municipalities. The interviewees comprised of a Municipal Manager (respondent one), Project Manager (respondent two), Grant Finance Manager (respondent three), and Head of Finance (respondent four).

This section was included to determine the suitability of the participants in the study, and to further determine if that participants were in management positions as stipulated in the sample framework.

6.5.1 Current position in the municipality

The qualitative section (Interviews) of this study focused on the management of the selected municipalities. Thus, it was crucial to ask this question to the respondents to determine their suitability.

Table 6. 31: Respondents positions in the municipalities

Question: What is your current position and section in the municipality	
Domain	Finding

Position	All participants (100%) indicated and confirmed that they were in management positions in their various municipalities.
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(Source: Author)

The purpose of this question was to distinguish and categorize respondents based on their suitability for the interview. Some position may not have anything to do with budget formulation or budget management (control).

6.5.2 Number of years working in the municipality

Table 6. 32: Number of years

Question: What is the number of years of working in the municipality	
Domain	Finding
Years	All participants (100%) have been working for their municipalities for over 5 years.

(Source: Author)

This question was designed to delve further into the likelihood of the persons getting more expertise with the budgeting process. Such information will help with information focused on years of experience, which the interviews hoped to capitalize on. The involvement of senior official or managers of the municipality, on the other hand, suggests that some coaching and mentoring may have occurred.

6.5.3 In-Depth Interviews

6.5.3.1 Theme One: Risk Management

The questions that were asked under this theme are related to the following research objectives: **“To explore approaches for budget management improvement in municipalities, and to determine the key measurements for budget management improvement in municipalities”**.

Question 1.1; Tell me about the risk management systems that you have in your municipality?

Based on the question in response to the theme, Risk Management participants alluded to the following;

Respondent One: *“Let me start by saying that we have a fully-fledged risk management section that has a risk management manager and risk management officer. We have a risk management committee that is chaired by an external person.*

It has all the Executive managers your CFO, Corporate Services, Infrastructure, LED and Community services. This committee reports to the Audit committee and the Audit committee report to Council. That is the process we have in the municipality.”

Respondent Two: *“Yes, we have flexible software for risk management for safety between patient and clinicians, we also have tools that help to monitor and control risk while maintaining good communication with role players or stakeholders, and we also have business risk management system for fraud and corruption”*

Respondent Three: *“We have risk management policies that are enforced by the risk management committee that is based in the office of the Municipal manager. In my section I focus on the risks associated with grants that the municipality receives from the National Government and other external donors”*

Respondent Four: *“We have Risk Management Department which deals with Risk Management Systems. The purpose of this department is to ensure that within the City/Municipality there are effective corporate governance through the establishment of governance structures and processes. There is also risk committee that provides critical oversight on matters of governance, risk and compliance The systems are linked to the internal reporting system (SOLAR-Venus) when it comes to reporting”.*

This question was asked to the participants to determine whether or not municipalities have risk management systems and how long have they been using these systems. The respondents indicated that their respective municipalities have risk management systems to deal with different types of risks. According to Meyer (2014: 163), risk management is an unavoidable function within a municipality and failure to manage risks effectively, can lead to financial losses for the municipality.

Question 1.2; In your opinion, how well do the financial and risk management systems of this municipality measure against the MFMA? Why?

This question was answered by all the participants. Based on the question the respondents mentioned the following.

Respondent One: *“Well we are fully compliant with the MFMA. We have a budget and Treasury office which is a requirement in the MFMA. We have a Chief Financial Officer, there are four managers under him, which are Manager SCM, Manager*

Revenue, Manager Budgeting, Manager Compliance and reporting under the Chief Financial Officer. We have a fully-fledged department called budget and treasury office. We submit all the necessary reports such section 71, 56 (d) to council. We are audited by the Auditor General and Internal Auditors. We believe we are compliant in terms of the MFMA”

Respondent Two: *“I do not think our risk management systems are effective because the municipality keeps on running out of funds”*

Respondent Three: *“Our risk management systems and policies are guided by the MFMA, and in my department we comply with the act to ensure that risk management is handle effectively”*

Respondent Four: *“The systems are faring well against the MFMA. This is evident from the mere fact that the municipality has recently received a clean audit outcome/opinion from the Auditor General meaning that when the municipality was audited there was nothing found which is against MFMA in terms of Risk Management”.*

The participants indicated that they comply with requirements of the MFMA in relation to risk management. Section 166 of the MFMA requires a municipality to establish an independent Audit Committee that will oversee risk management and governance within a municipality.

Question 1.3; Who is accountable for the overall governance of the municipality’s risks?

This question was answered by all the participants.

Respondent One: *“It is the Accounting Officer who is the Municipal Manager. Risk management reports directly to the Municipal Manager not the CFO because that would be an anomaly because most the risks are coming from finance. So the risk management unit is in the office of the Municipal Manager”*

Respondent Two: *“It is the City Manager who is accountable to the Mayoral Committee”*

Respondent Three: *“The overall governance of the Municipality’s risks, lies into the Accounting Officer of the municipality as mentioned by Section 62(1)(c)(i) of the MFMA. My role as a municipal official integrate risk management into my day-to-day activities by ensuring that I comply with the MFMA, DORA and the budget polices of the municipality”*

Respondent Four: *“The Risk Management Department. My role within the overall governance of the municipality is to participate in the quarterly risk monitoring management meetings for the department as requested by the risk management department. Appropriate understanding of risk management tools, and staff level skills in understanding risk management are some of the challenges we encounter towards risk management. The only way we have decided as the municipality we will overcome these challenges is by attending continuous training sessions and encourage sharing of expertise amongst departments”.*

This question was to probe the role the participants play in the overall governance of the municipality’s risks and the challenges they are facing in managing the risks. All the participants agreed that the governance of risks in the municipality is responsibility of the Accounting Officer. Risk management is an integral part of management, thus all managers should be responsible for the overall governance of risks in municipalities.

6.5.3.2 Theme Two: Budget Planning

The questions that were asked under this theme are related to the following research objectives: **“To explore approaches for budget management improvement in municipalities, and to determine the key measurements for budget management improvement in municipalities”.**

Question 2.1; What is your role in the budget planning process?

This question was answered by all the participants.

Respondent One: *“My role is to kick start the budget process with the Chief Financial Officer though the Integrated development plan, we prepare the draft budget which we submit to council by the end of March, we undertake the public participation process, by the end of May we must ensure that the budget for the next financial year is adopted by council, and that the budget is balancing, and we also ensure that all budget policies*

are reviewed. So that is my responsibility as the Accounting Officer. But most of the responsibilities by law are delegated to the CFO”

“Because we are in a political environment, where there are councillors, there will be different views between politicians and the administrators. Thus my duty as the accounting officer is to ensure that those views are legal and comply with the MFMA, and avoid illegal instructions. Before the budget can go to the council structures, the budget forum must sit, and the budget forum composed of councillors and municipal management”

Respondent Two: *“As a Project Manager I just monitor the budget that is given to me, planning is done by the Executive managers”*

Respondent Three: *“My role in budget planning process is to manage and ensure that municipal Directorate / Departmental conditional grant funded projects maximise funding synergies and align to Division of Revenue Act/Gazette/Frameworks/MFMA. I also ensure that financial compliance of all grant funding applications as contained in the Division of Revenue Act, National Adjustment Budgets and the various Provincial Gazettes related to all conditional Grants. I also consult with internal Directorates and external grant funder's, consolidate and provide the full spectrum of financial reporting data as per the provisions of legislation as applicable to the different grant funds received by the municipality.*

“As Grant funding Department, some challenges that we pick up from the Directorate/units/ that implement the grants is that, some of the internal directorate do not want to use the grant funds due to the reporting requirements from the transferring departments. Due to limited funds some of the programmes/projects are discontinued”

Respondent Four: *“As informed by Chapter 4 sections 21-26 of the MFMA, I am in charge of the budget planning and implementation process for the department. This is I do with the office of the GCFO. Some of the challenges we are faced with are skills level of staff, political interference with the budget planning process, underspending of the budget especially the Capital portion of the budget. The way we are overcoming these challenges is by skilling our staff and politicians in ensuring they understand the budget planning processes, they understand the legislative requirements relating to budget planning process”.*

This question was to probe the involvement of the participants in the budget process and to further identify challenges they might face in budget planning. All the participants indicated that they are somewhat involved in the budget process from their departments. However, some participants indicated that they do face challenges such as such political interference, limited funds, etc. during the planning phase. According to Olivier (2016:49), employees from lower to middle management should also be involved and give input to management during the budget planning phase.

Question 2.2; What are some of the things that can be done to improve the budget planning process?

This question was answered by all the participants.

Respondent One: *“The officials must be qualified. Finance is a technical, thus officials have to be qualified, they must be able to follow the MFMA to the latter and spirit. Treasury will issue circulars every year, those circulars needs to be taken into account. Key to that is the issue of public participation, the public must have views in relation to the budget as the rate payers”.*

Respondent Two: *“Consult Supply Chain Management during planning phase. Evolve other managers who do not deal directly with finance”.*

Respondent Three: *“The Directorates should be provided with budget guideline and schedules earlier and have workshops and meetings before the budget planning process”.*

Respondent Four: *“Key thing that needs to be done in improving budget planning process is the continuous training of councillors/politicians for them to understand the role which they are supposed to run within this process. Involvement of the community when budget is taken to them for their further inputs (when going attending budget imbizo’s you find less interest from their side etc.)”*

The participants indicated that lack of skilled personnel to manage budgets impact negatively of the performance of the municipalities. Processes should be in place to ensure that staff undergo ongoing budgeting and financial reporting preparation in order to successfully and efficiently discharge their responsibilities (Raza, 2014:67).

6.5.3.3 Theme Three: Cash Flow Management

The questions that were asked under this theme are related to the following research objectives: **“To explore approaches for budget management improvement in municipalities, and to determine the key measurements for budget management improvement in municipalities”**.

Question 3.1; When do you submit cash flow projections to treasury?

This question was answered by all the participants.

Respondent One: *“We submit the draft Service Delivery Budget Implementation Plan, and the IDP with projections before the end of March to Treasury for comments. Treasury will bring back comments about the compliance”*.

Respondent Two: *“We submit them on quarterly basis”*.

Respondent Three: *“The ideal time is 90 days before the new financial year budget is approved and it give treasury enough time to give their comments back to the municipality before the final budget is approved”*.

Respondent Four: *“Due to issues of having to closely monitor the status of “going concern” of the municipality”. As the city we agreed that all of the departments must on a monthly basis submit cash flow projections to the office of the GCFO. Then the office of the GCFO submit quarterly, half yearly and yearly it’s status to the Provincial and National Treasuries as informed by Ch. 3 and sections 7-13 of the MFMA. These are ideal timelines for us as the City and the respective department as it assists with closer monitoring of cash flow management during these difficult times of all municipalities being also impacted upon by the pandemic”*.

This question was to probe the ideal time when the municipalities submit their cash flow projections to treasury. All the respondents indicated that they submit the projections 90 days before the start of the new financial year as require by the MFMA. This process is done After the municipality have table the draft budget to council before the end of March as per section 16(1)(2) of the MFMA.

Question 3.2; How often do you refer to your cash flow projections before committing the funds?

Respondent two did not respond to this question.

Respondent One: *“The Cash Flow has to be monitored on a monthly basis. We consult the projections for both revenue and expenditure on monthly basis”.*

Respondent Three: *“There are few Directorate/department from my 8-year experience in Municipal Finance, most of the time they do cash-flow projection in order to comply”.*

Respondent Four: *“As a department within the municipality this is done on a monthly basis”.*

All the participants who responded to this question indicated that they refer to the cash flow projections regularly. It is imperative that municipalities prepare realistic cash flow projections before the beginning of each fiscal year. The achievement of these projections must be monitored on a monthly basis using monthly cash flow statements or reports.

Question 3.3; What is the importance of cash flow management to management?

This question was answered by all the participants.

Respondent One: *“Cash Flow Management assist us to get an indication of whether or not we are meeting the targets of revenue to be collected. Also one has to look at the cash flow and the expenditure so that one can adjust the expenditure if the cash flow is very low”.*

Respondent Two: *“Cash flow management is important because it is the lifeblood of management”.*

Respondent Three: *“Cash management ensures that a municipality has adequate processes and procedures to collect its revenue and is able to meet its obligations as they fall due”.*

Respondent Four: *“Assist management with proper decision making related to cash and investment management. Also assist management in terms of how to prioritise policies impacting on strategies and project implementation”.*

All the participants stated that cash flow management is an important tool in managing financial resources in municipalities. Effective cash management is important to the extent of enabling municipalities to meet its service delivery obligations. The more a municipality knows about its cash position, the better the forecast and planning for excessive and/or unexpected expenditure.

Question 3.4; If you think cash flow management could be improved, how do you think this could be done?

Respondent two did not respond to this question.

Respondent One: *“It has to be improved because that is the life-blood of the municipality. If there is no money coming in, and if the money is not used for what it is budgeted for the municipality will collapse”*

Respondent Three: *“Yes cash flow management can be improved by Municipalities by developing appropriate policies and procedures that will ensure the safe and efficient handling of public funds which would enable the cash and amounts due to a municipality being collected and promptly banked”.*

Respondent Four: *“Key is to collect anticipated revenue the moment revenue accrued has been realised then proper cash flow management could be improved”.*

The participants that took part in this question believe that cash flow management can be improved in local government. They cited issues of policy and procedure that needs to be developed to regulate cash management in municipalities. Ineffective processes and monitoring of cash flow management systems affect the survival of a municipality (Belobo *et al.*, 2014:227). Municipalities should have realistic strategies to manage cash flow in order to achieve sustainability and survival (Myeni, 2018:5).

6.5.3.4 Theme Four: Revenue and Expenditure Management

The questions that were asked under this theme are related to the following research objectives: **“To explore approaches for budget management improvement in municipalities, and to determine the key measurements for budget management improvement in municipalities”.**

Question 4.1; Do you always adhere to the MFMA when it comes to revenue and expenditure management?

Respondent two did not respond to this question.

Respondent One: *“Yes we are compliant. We submit all the necessary reports to council structures, to National and Provincial Treasury each and every month”.*

Respondent Three: *“Yes, the municipality complies with section 64 and 65 of the MFMA in its implementation of the revenue and expenditure management”.*

Respondent Four: *“Yes, as informed by sections 64 and 65 of the MFMA we are adhere to proper revenue and expenditure management. By adhering to these sections we assist by collecting monies due to the municipality and timeously paying creditors due this in turn leads to appropriate reporting and running of the municipality”.*

All the respondents who answered this question indicated that they do adhere to the MFMA when it comes to revenue and expenditure management in their respective municipalities. The MFMA is clear when it comes to revenue and expenditure management, municipalities ought to manage revenue and expenditure in accordance with the MFMA particularly section 64 and 65.

Question 4.2; What are your thoughts about the municipality’s expenditure in relation to the budget?

Respondent two did not respond to this question.

Respondent One: *“We consult the budget before we spend money”*

Respondent Three: *“My thought is that each manager or director should be accountable and responsible on how its budget its spent. For example, in my department, Grant Funding I am a representative for the Education, Training and Development budget for the Department. So, I ensure the expenditure management in the department by compiling a training implementation plan for a year, that would show quarterly targets and cash-flow projections for the year. Furthermore, each month I must report to the Education, Training and Development platform where training and development issues are ventilated and scrutinized”.*

Respondent Four: *“Municipalities have always got challenges in spending the Capital Budget (Capex) side of the budget. One of the major contributors of the Capex are planning, supply chain management processes. As long as these are not improved*

upon (SCM and planning) then Capex will always be improved upon but currently it's still a challenge, and the consequences of underspending always lead to grant funding being withheld/drawn by the Provincial and National departments”.

This question was to probe some of the things that the participants do to ensure that the municipal expenditure is in line and within the budget. Some participants indicated that they consult the budget before committing any funds. While one participant indicated that some managers that are under his control do not consult the budget before spending money, while others underspend on their budgets. That is concerning because money has to be spent in line with the budget at all times.

Question 4.3; What are some of the things that you do to maintain revenue management systems as required by the MFMA?

Respondent two did not respond to this question.

Respondent One: *“We have a revenue enhancement strategy. We have rating bi-laws. We have got revenue management policies which we use to collect revenue when people are not paying. We are using a municipal system called muni-soft, which assist us to evaluate our performance”.*

Respondent Three: *“As Grant Funding, firstly we ensure that the grants that are issued by the National and Provincial Government form part of the approve budget as per the MFMA and DORA. Secondly, I develop an excel spreadsheet that is informed by the payment schedule from each grant. The payment schedules indicate when each grants are going to be paid by National and Provincial Government, for example, the Grant management spreadsheet would tell me in a certain month I am expecting a R100 million from certain government departments and I did not receive I make a follow up and if need be I escalate the matter to my Director”.*

Respondent Four: *“Try to the best of our ability to timeously collect monies/funds due to the municipality. This we are able to do as the municipality by maintaining proper billing systems and issuing of correct accounts to the municipal clients”.*

The participants who responded to this question indicated that they have revenue management enhancement strategies that assist them to maintain and improve their revenue management systems. while others have billing systems that assist their

municipalities to collect revenue timeously. According to Rakabe (2010:137), municipalities should have revenue management systems in place in order to effectively classify, collect, reconcile and record income which is generated by the municipality from businesses and citizens for services rendered.

Question 4.4; What are some of the things that can be done to ensure that you always adhere to the MFMA when it comes to revenue and expenditure management?

Respondent one and two did not respond to this question.

Respondent Three: *“Is to develop budget related policies and procedures that are in line with the MFMA issues that deals with revenue and expenditure management. Ensure that each finance official in each directorate have access to the policy and it was workshopped. Furthermore, our unit will insure that the MFMA budget circulars and shared to the relevant officials”.*

Respondent Four: *“Key is to train staff, communities and relevant users/clients with municipalities about the importance of understanding the purpose of MFMA and the fact that we all live in a constitutional democracy which enforces us to adhere to legislation/s”.*

The participants that responded to this question indicated that policies and procedures that deals with revenue and expenditure management should be developed to guide municipalities. Employees should be trained on how to analyse and implement the MFMA. Lack of revenue management systems and procedures affects how municipalities budget for revenue and expenditure (Malobela, 2016:13).

6.5.3.5 Theme Five: Legislation

The questions that were asked under this theme are related to the following research objective: **“To determine the role of legislation in budget management in municipalities”.**

Question 5.1; In your opinion, what is the role of legislation in the management of budgets?

Respondent One: *“Legislation is critical because it guides us. We have to follow the legislation. At National and Provincial levels, they follow the PFMA. And at the*

municipality we follow the MFMA which stipulates how issue of income and expenditure must be managed. If you deviate from the act you are liable and you may be disciplined and charged with financial misconduct”.

Respondent Two: *“Legislation plays an important role in shaping the annual budget*

Respondent Three: *“The role of the legislation in the management of the budget, is to provide guidance and direction with regard to budget management; and clarifies the roles and responsibilities”.*

Respondent Four: *“Remember, the purpose of legislation is to ensure that sound, sustainable management of municipal affairs including budget management are maintained and secured. As far as I am concerned legislation doesn’t impose any restrictions instead it is supposed to do the opposite, but the key challenge is that we as implementers of the legislation we have limited understanding of it then we try to circumvent it then it leads to endless challenges of being challenged for each and every thing we have done because we didn’t implement it appropriately from the first onset”.*

This question was to probe whether or not there any restrictions arising from the legislation. The participants indicated that there are some restrictions that aimed at ensuring that municipal expenditure is credible such as section 18 of the MFMA. The MFMA ensures that “all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively”. The MFMA is part of a number of parliamentary acts that focus on robust financial management, and minimisation of maladministration in municipalities (Imuezerua and Chinomona, 2015:359).

Question 5.2; How best can legislation support management of budgets?

Respondent One: *“At the moment COVID-19 has exposed a lot of things. One of the things that it has exposed is lack of solid revenue base as local government because we depend on what we collect, and residents and businesses are not paying for services, and the government is not paying for services. This leaves us in a precarious situation where we have to eat from hand to mouth as local government. The legislation must be able to assist us by getting more share from the National fiscus. At the moment the constitution allows us to get equitable share, the equitable share is*

not enough. There must be more funding from the National government so that municipalities can survive”.

Respondent Two: *“By being more realistic and effective”.*

Respondent Three: *“The legislation can support the management of budget by being clear on what is expected from the municipality, for which at this point it is clear, where it is not clear the Municipal Budget Reporting Regulations and MFMA circulars are there to give clarity”.*

Respondent Four: *“The moment we can take ownership of the legislation and understand how to implement it then management of budgets could be easy”.*

The participants indicated that the legislation should be clearer on how budgets should be managed. While one respondent suggested that municipal employees should take ownership of the act and understand how to implement it. The Municipal Finance Management Act should give a clear direction to municipalities, municipal managers and municipal employees in general on how to effectively manage financial resources (Reddy, 2016: 2).

Question 5.3: “Do you think there is a disjuncture between the demands of the employees and provision of the Act?”

Respondent One: *“I would not say there is a disjuncture. It is a principle of supply and demand. You will find that the demands from the communities are more than the available resources. Financial resources that are available for municipalities are limited.*

Respondent Two: *“Yes, there is a significance between the two”.*

Respondent Three: *“Personally I think there no disjuncture”*

Respondent Four: *“The disjuncture comes into play when employee’s challenges without facts the provisions of the Act”.*

Some participants agree that there is a disjuncture between the act and demands of the employees, and powers of managers/ employees are restricted by the Municipal Act. While others believe that there is no disjuncture, but a principle of supply and demand.

According to Imuezerua *et al.* (2015:366), municipalities should strictly comply with the MFMA and the approved budget to avoid irregular, fruitless and wasteful expenditure.

6.5.3 Summary of the qualitative analyses

The interviews revealed that all the participants are occupying management positions and are budget holders in their various departments. Some of the interviewees indicated that they have effective risk management systems. while some interviewees raised questions about the effective management of cash flow in their municipalities. One should draw conclusions from the interview survey that legislation (The MFMA) plays an important function in management of resources in municipalities, and all the employees and stakeholders of municipalities should own and implement the legislation effectively.

From the respondent's point of view, employees who deal with budgetary management must be trained on a regular basis and be re-skilled about managing budgets and finances to sustain the municipalities. The effectiveness of budget management can only be realised through skilled and committed employees who will ensure that the municipality performs well financially.

From the management point of view, the findings revealed a variety of factors influencing the management of budgets in municipalities such political interference and maladministration. Effective budget and financial management prevents misuse of financial resources, particularly in public organisations (Pimpong, 2017:61).

6.6 SUMMARY

The main findings of this study that emerged from the quantitative analyses are highlighted in this section. SEM was used to analyse the quantitative data in order to determine whether or not the model fits the data. Thus, the model was tested for fit using statistics that are acceptable for SEM fitness. The fit statistics (indices) are presented in Table 6.32. and show that the model fits the sample data. The independent variables and the dependent variable were all valid; SEM was created for each independent variable and dependent variable.

The findings from the main model presented in section 6.3.2 can be summarised as follows in terms of the paired independent variables:

- There is a strong and positive relationship between Risk Management and Cash Flow Management;
- There is a strong and positive relationship between Budget Planning and Cash Flow Management;
- There is a strong and positive relationship between Revenue and Expenditure Management and Risk Management;
- There is a strong and positive relationship between Budget Planning 1 and Budget Planning 2.

For the purposes of validating the model, interviews had to be conducted with senior and middle managers from the selected municipalities. Thus, the qualitative data from the interviews were analysed in this chapter using content analyses. Four interviews were conducted with four managers from three selected municipalities in three different provinces.

CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

A budget is seen as a vital management tool that contributes to the smooth operation of an organisation, therefore contributing to its long-term viability. This study's major research aim was to develop a framework for budget management for local municipalities in South Africa. To achieve this objective, the study also aimed to achieve the following secondary research objectives:

- To identify budgeting challenges encountered by managers in the delivery of services in the selected municipalities.
- To explore approaches for budget management improvement in municipalities.
- To determine the role of legislation in budget management in municipalities.
- To develop an effective framework for budget management improvement in the selected municipalities.

The above mentioned objectives were formulated in Chapter One, in section 1.3. A questionnaire was used to collect data in order to achieve the above mentioned objectives. The data collected from the survey was analysed using Structural Equation Modeling to assess whether the data fits the proposed model (goodness-of-fit). In addition, descriptive statistics were used to analyse the demographic data collected. This study contributes a valuable model that can be used by all municipalities in South Africa at large towards financial, budget management and governance in local government in general.

7.2 CHAPTER SUMMARY

The goal of this study was to understand the role of budget management in service delivery in order to develop a framework for budget management. The research thesis is subdivided into seven chapters in order to explain the context of the research, the problem statement, the research goals, the research design, ethical concerns, the operational concepts used in the analysis, the results of the analysis and their implications. The chapters of this study are summarized as follows.

Chapter One: Scope of the study: The study and the research topic were introduced, followed by the articulation of the research problem and the statement of the need for

the research to be conducted. The proposed method of the study and the expected outcome were briefly introduced and discussed.

Chapter Two: An overview of service delivery in South Africa

In this chapter literature on the nature, debates and challenges faced by municipalities and residents relative to service delivery was reviewed. The concept local government was defined and discussed together with the state of service delivery in South African municipalities, and the role of the constitution in local government. The role of the local government sphere in the delivery of services was also discussed.

Chapter Three: Literature review

In this chapter literature related to budget management in municipalities was reviewed. The following were considered: the importance of budgeting in an organisation; the budgeting process in municipalities; types of budgets used in municipalities; responsiveness of the budget; credibility of the budget; sustainability of the budget.

Chapter Four: Conceptual Framework

In this chapter theories of local government were explored in order to afford a conceptual understanding of the local government. Thus the following topics were addressed in this chapter: theoretical framework; existing budget model in the municipality; and new budgeting model.

Chapter Five: Research Methodology

The research premise, research approach, and research methodologies used in the study were discussed in detail in this chapter.

Chapter Six: Data presentation, analysis and interpretation:

The results of this study were presented and analyzed in the form of graphs, tables and Structural Equation Modeling in this chapter.

Chapter Seven: Conclusions and recommendations

The thesis concludes by explaining the study's findings, offering some suggestions and outlining the study's constraints as well as future repercussions.

7.3 CONCLUSIONS BASED ON THE RESEARCH OBJECTIVES

7.3.1 Revisit research objectives

The main objective of this study was to develop a framework for budget management for local municipalities in South Africa. As such, to achieve this objective, SEM was used to test whether the data (i.e. the information obtained from 261 municipal employees) fits the model. It was found that the data fits the model with the $p < 0.05$. Table 7.1 presents the hypotheses that were advanced and tested in this study.

Table 7. 1: Hypotheses

H ₁ A relationship exists between Budget Planning and effective budget management
H ₂ A relationship exists between Revenue and Expenditure Management and effective budget management.
H ₃ There is a relationship between Legislative Consideration and effective budget management.
H ₄ There is a relationship between Risk Management and effective budget management.
H ₅ A relationship subsists between Cash Flow Management and effective budget management.

(Source: Author)

The hypotheses stated in table 7.1 were tested using various statistical tests in SEM. The findings from this testing were presented in Chapter Six.

7.3.2 Confirmation of the model

The conceptual framework constructed in chapter One and the hypotheses that were developed (see Figure 1.1) were tested using various statistical tests in SEM. SEM was the main statistical method that was used to determine the regression weights, the significance of the links between the constructs (the dependent and independent variables). The relationships that were identified by the study are illustrated in Figure 7.1 below.

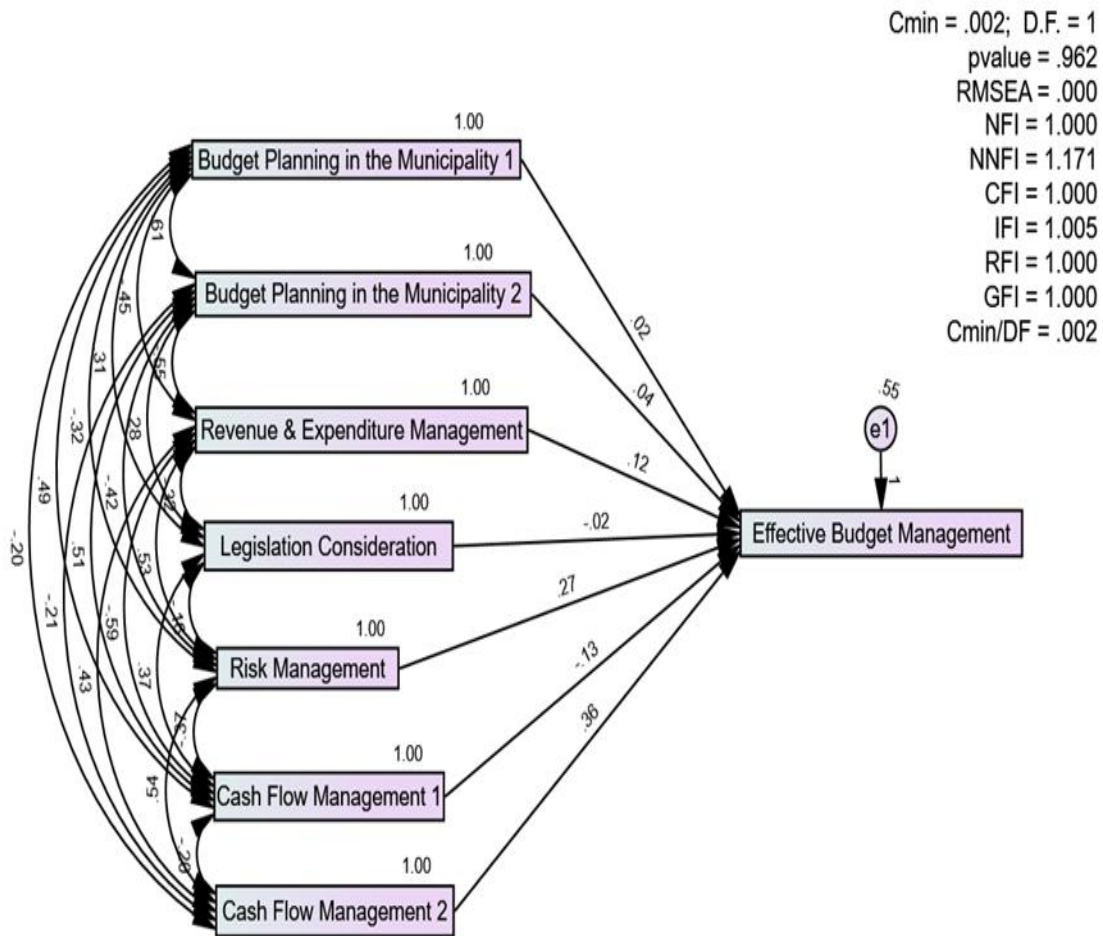


Figure 7. 1: Final Conceptual Model

(Source: IBM SPSS AMOS SEM)

H₁ There is a relationship between Budget Planning and effective budget management. SEM indicated that Budget Planning in municipalities has a very low impact on Effective Budget Management at .02 and .04 respectively. However, since the two constructs (budget planning 1 and budget planning 2) were created by factor analysis have a positive relationship (see figure 7.1), the hypothesis remain the same. It is concerning that the municipal officials who participated in this study do not believe that planning is a crucial element of effective budgeting. Planning in budgeting is the process that helps municipal managers to determine short-term goals, and daily activities and operations the municipality, and also to formulate long term plans (Hanabe *et al*, 2018:168). For financial and non-financial resources to be allocated effectively, municipal officials and management need to plan carefully for how these

resources will be utilized. Table 7.2 below indicates the results of the above mentioned hypothesis.

Table 7. 2: Hypothesis 1

Path		Estimate	P	Significance Level
Budget Planning 1	→ Effective Budget Management	.024	.693	Not accepted at $p>0.05$
Budget Planning 2	→ Effective Budget Management	.045	.489	Not accepted at $p>0.05$

Source: Author

Based on Table 7.2, hypothesis 1 was not supported for the municipalities studied, because the $p>0.05$.

H₂ There is a relationship between Revenue and Expenditure Management and Effective Budget Management. Based on this hypothesis, the results (SEM) indicated that, in the municipalities surveyed, Revenue and Expenditure Management has some impact on Effective Budget Management at 0.12. Rakabe (2010:137) recommends that municipalities should have revenue management systems in place in order to effectively classify, collect, reconcile and record income which is generated by the municipality from businesses and citizens for services rendered. Malobela (2016:13) supports this recommendation noting that lack of revenue management systems and procedures has a negative effect on how municipalities budget for revenue and expenditure. Table 7.3 below indicates the results of the above mentioned hypothesis.

Table 7. 3: Hypothesis 2

Path		Estimate	P	Significance Level
Revenue & Expenditure Management	→ Effective Budget Management	.121	.076	Partially accepted at $p>0.05$

Source: Author

Table 7.3 indicates that hypothesis 2 was partially supported $p>.076$, the rule state that p-value should be $p>0.05$.

H₃ There is a relationship between Legislative Consideration and effective budget management. SEM indicated that in the municipalities surveyed Legislative

Consideration has a negative impact to Effective Budget Management at -0.02 and thus, this hypothesis was not supported.

In any organisation compliance and application of rules, policies, statutes or legislation is an import key performance area for all employees. In the context of South African municipalities, the Municipal Finance Management Act gives a clear role to municipalities, municipal managers and municipal employees in general on how to effectively manage financial resources (Reddy, 2016: 2). Table 7.4 below indicates the results of the above mentioned hypothesis.

Table 7. 4: Hypothesis 3

Path		Estimate	P	Significance Level	
Legislative Considerations	→	EBM	-.023	.657	Not accepted at $p > 0.05$

Source: Author

Table 7.4 indicates that the relationship between legislative consideration effective budget management was not supported with the $p > 0.05$.

H4 There is a relationship between Risk Management and effective budget management. The results showed that in the municipalities surveyed risk management has a significant influence on Effective Budget Management at 0.27. Risk management is an unavoidable function within a municipality. If not managed effectively, risks can lead to financial losses for the municipality (Meyer, 2014: 163). It is commendable that the respondents see risk management as an important construct that contributes positively to effective budget management. A well-run municipality should have a fully-fledged risk management section that has a risk management manager and risk management officer (Jonathan *et al.*, 2019:119). Table 7.5 below indicates the results of the above-mentioned hypothesis.

Table 7. 5: Hypothesis 4

Path		Estimate	P	Significance Level	
Risk Management	→	Effective Budget Management	.273	***	Accepted at $p > 0.05$

Source: Author

Based on Table 7.5 the relationship between risk management and effective budget management was supported and accepted at a significance level of $p < 0.05$.

H₅ There is a relationship between Cash Flow Management and effective budget management. As presented in Chapter Six, SEM created two constructs for this variable. The results indicated that (Cash Flow Management 1) has a negative impact on Effective Budget Management at -0.13 and (Cash Flow Management 2) has a great impact on Effective Budget Management at 0.36. Cash flow management is an important function that tells management when and how to avoid a deficit. When a municipality is experiencing poor cash management it might not survive (Belobo *et al.*, 2014:227). Municipalities should have realistic strategies to manage cash flow in order to achieve sustainability and survival (Myeni, 2018:5). Table 7.5 below indicates the results of the above-mentioned hypothesis.

Table 7. 6: Hypothesis 5

Path			Estimate	P	Significance Level	
Cash Management 1	Flow	→	Effective Budget Management	.128	.039	Accepted at $p > 0.05$
Cash Management 2	Flow	→	Effective Budget Management	.364	****	Accepted at $p > 0.05$

Source: Author

Based on Table 7.5, the relationship cash flow management and effective budget management was supported and accepted at a significance level of $p < 0.05$. The revised and final model is illustrated in figure 7.2 below.

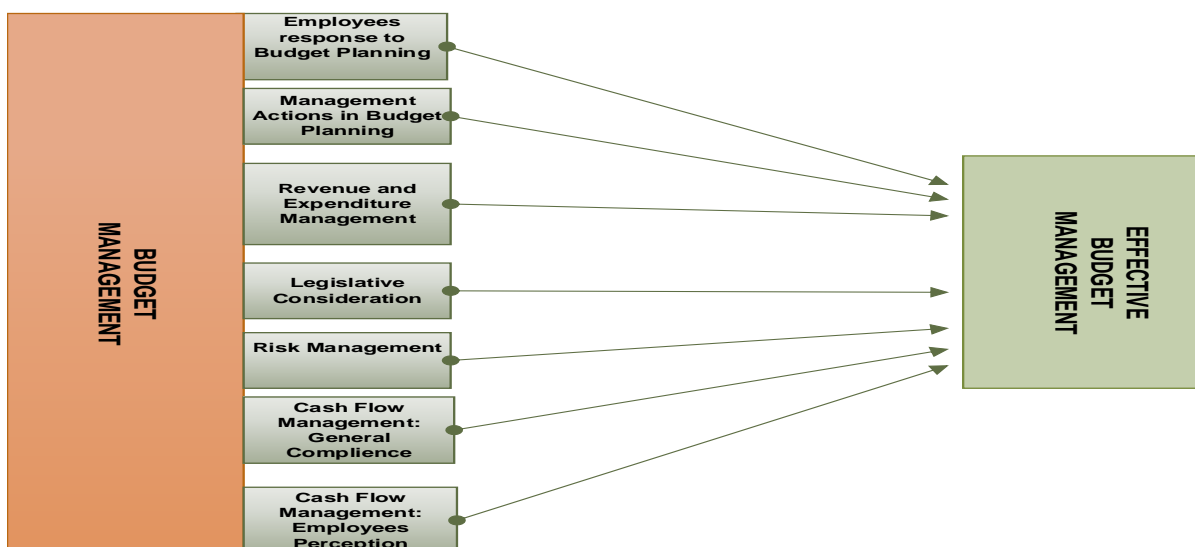


Figure 7.2: The Final Model

(Source: Author)

Thus, the following conclusions are drawn based on the revised model:

- The role of lower level employees in relation to budget planning is critical to effective budget management.
- The actions and role of management in relation to budget planning has an impact on how budgets are effectively managed.

7.3.3 Conclusions on the budgeting challenges

The first secondary (theoretical) objective was to compile a literature review of challenges faced by municipal managers in the delivery of services in their respective municipalities. In Chapter Two this literature was discussed. The literature unpacked a number of challenges that municipal managers and employees face when it comes to managing budgets. For example, Ntliziywana (2017:17) identified the following challenges in relation to budget management in municipalities:

- Poor accountability by municipal officials.
- Lack of communication with residents.
- Political interference in the administration.
- Political instability.
- Fraud and corruption.
- Poor budget and financial management.
- Lack of skilled employees.
- In some instances, the budget approved by council is not realistic.
- Lack of support from council and top management

The above-mentioned challenges are major reasons why South Africa continues to experience violent service delivery protests. Municipalities do not only have a duty to render services to residents, but they also have a duty to ensure that they improve the living standards of these residents (Molefe, 2015:1). Effective budget management can be measured by optimal utilization of resources. From the literature reviewed it was also discovered that municipalities struggle to meet their constitutional obligations (service delivery) due to mismanagement of budgets.

Therefore, it is inferred that budget management is an important factor in an organisation and should be managed with diligence if quality services are to be

provided by municipalities (Nair *et al.*, 2014:551). Ineffective budget management can have a huge influence the way wherein services are provided to residents (Ngcamu, 2019:3).

Furthermore, the empirical study found the following in relation to this objective (*Identify budgeting challenges encountered by managers in the delivery of services in the selected municipalities*).

- Legislation restricts municipal managers and employees from executing activities.
- Statutes have an important part in financial management in municipalities.
- Lower-level staff members and some middle managers are not in charge of planning at their workstations.
- Senior management directs how the budget is spent.
- Some managers and employees lack financial and budgeting skills and knowledge.

7.3.4 Conclusions on approaches to budget management

The second secondary (theoretical) objective was to compile a literature review on common approaches to budget management improvement in municipalities. These approaches were discussed in Chapter Three. This chapter presented the finding that the South African Government, through its Treasury Department, implemented the Medium-Term Expenditure Framework (MTEF) in the 1998/1999 financial year (Pearson *et al.*, 2016:16).

Municipalities in South Africa are expected to plan their budgets by utilizing the MTEF budgeting process. MTEF is an important instrument for assisting and improving budget planning in municipalities and that brings resources, policy issues and municipal programmes together (Gollwitzer, 2010:5).

The literature reviewed emphasised that budgeting in municipalities should be initiated, created, organised and regulated by municipal employees who possess the necessary skills to manage financial resources, using management tools such as a budget (Molobela, 2016:263). Without skilled employees (people), there would be mismanagement of financial resources (Laubscher, 2016:63).

7.3.5 Conclusions on the role of legislation in budget management

The study intended to explore the role of legislation in budget management in municipalities. This objective was discussed in Chapters Three and Four. It was found that, the budgeting process in South African municipalities is guided by the Constitution. Statutes such as the Constitution, MFMA and the MSA play a critical role in budget and financial management in municipalities (Olurankinse, 2012:14; Hanabe *et al.*, 2018).

There are procedural systems that affect the mayor's position in budget management matters. Table 7.2 presents sections of the Municipal Finance Management Act 56 of 2003 in relation to the role of a mayor in the budget process.

Table 7. 7: The role of a mayor

Co-ordination	Section 21 of the MFMA
Non-compliance	Section 27 of MFMA
Budget processes	Section 53 of the MFMA
Other responsibilities	Section 53

(Source: Author)

The four roles shown in Table 7.2 focus on issues such as budgetary management, linking strategies to budgets, budgeting planning and risk management. In addition to roles performed by the mayor, all municipal officials have equally challenging roles that require them to implement and comply with the Municipal Finance Management Act. The Municipal Finance Management Act provides the basis for sound financial and budget management in municipalities (Schick, 2007, 111).

7.3.6 Conclusions on the development of budget management framework

The accomplishment of this objective is shown in the findings presented and discussed in Chapter Six. These findings stemmed from the empirical research that was carried out in the three selected municipalities. Exploratory factor analysis was conducted using SEM, the findings showed that the data fit the proposed model that was constructed in SEM.

7.4 RECOMMENDATIONS

According to the findings of the literature review and the empirical study, the following recommendations are made with the aim of helping to improve the quality of budget management in the selected municipalities, and perhaps also in other South African municipalities.

7.4.1 Risk Management

Risk management in municipalities is still in its infancy, so efforts to improve the organizational culture of risk management must be prioritized (Nel, 2019). Emerging from the results of this study, the following recommendations are advanced:

- A municipal risk management committee should be chaired by an external person.
- The risk management committee should have all the Executive managers such as the Chief Financial Officer, the Executive of Corporate Services, the Executive of Infrastructure, the Executive of Local Economic Development and the Executive of Community services that will report to Council.
- All employees need to be fully aware of the risk management policy.
- Risk management should be classified as an important function that will assist municipalities to avoid non-compliance in regard to service delivery.
- Municipalities should use risk management as a management tool to minimize maladministration.
- Municipalities ought to conduct risk assessments in relation to budgeting on an ongoing basis.
- Municipal management should ensure that there is constant risk monitoring in municipalities.
- Management should have procedures in place that ensure accurate, timely, and appropriate disclosure of specific and open risks to all stakeholders.

Numerous variables influence risk management in the public sector, including change in a volatile and challenging environment, reliable threat intelligence, and the knowledge and skills required to assess opportunities and risks that may adversely impact service delivery (Nel, 2019). Risk management is a full-fledged aspect of management and a subset of the general management discipline (Myeza *et al.*, 2021).

To ensure the effective implementation of risk management systems, municipal management must allocate adequate financial resources for risk management (Rossouw, 2018).

7.4.2 Effective Budget management

South Africa's move from the apartheid system pre 1994 to a democratic system post 1994 paved the way for institutional reform. While this step paved the way for effective governance and robust budget and financial management, municipalities are still struggling to manage their budgets. Thus, it is recommended that municipalities should ensure that:

- The budget is fully aligned with the IDP and Service Delivery and Budget Implementation Plan.
- The budget is fully integrated with the procurement systems.
- It is recommended that municipalities ensure that a funded and credible budget is maintained for each financial year.
- Proper record keeping of Council decisions for the implementation of the budget should be encouraged.
- All employees are continuously trained and capacitated to manage and monitor budgets.
- As financial and budget management are technical, the municipalities should employ qualified people with the appropriate qualifications.
- Residents are thoroughly aware of municipal actions and programmes, budget, and any changes thereto, and that budget assessment reports are presented on at least a quarterly basis.
- The budget is monitored and reviewed continuously as required by the Municipal Finance Management Act.
- In planning its budget, the budget is geared towards providing effective services to residents.
- All managers and employees who are involved in budget management attend and participate in budget meetings.

Managers and all the employees tasked with budget execution should attend a financial or budget management course at least once a year in order to comprehend

the ever-changing accounting and reporting standards (Benito,2015; Monacelli, 2016). Su'un (2020) and Ríos (2018) recommends that, red tape must be reduced to allow managers and employees to be the creators of their own budgets at their cost-centres to effectively manage them.

7.4.3 Legislation and policies

Effective implementation of the MFMA can contribute to improvement in the general performance of a municipality and in its financial performance (Enwereji *et al.*, 2019). However, effective implementation of the Municipal Finance Management Act depends entirely on the willingness and ability of accounting officers and all municipal officials. Since legislation is critical in managing budgets, it is recommended that:

- Measures be taken by municipalities to persuade all employees to adhere to legislation and policies.
- Because national and provincial governments issue circulars and directives, municipal employees must be able to interpret and apply them.
- Municipalities should use legislation and regulations for planning and growth purposes.
- Municipal employees should avoid inappropriate instructions from politicians.
- Legislation should be amended to allow municipalities to obtain more financial resources from the national government. The 'equitable share' that municipalities are getting as directed by the constitution is not enough, because some residents and some businesses, and also some government departments, are not paying for municipal services.

To avoid a disastrous performance of municipalities, Sibanda (2020); Malefane (2009) recommends that, legislation and policies in municipalities should be implemented by both management and employees in general in their respective departments. It could also be useful for all staff members of the municipalities to be constantly educated and trained on how to analyse and apply legislation (Van der Berg, 2020).

7.4.4 Revenue and expenditure management

It is imperative that municipalities comply with the MFMA and other treasury regulations and policies when it comes to revenue and expenditure management. According to Manyaka (2014), municipalities are required by law to collect their own

revenue. Municipal revenue strategies are ineffective because they struggle to collect revenue, resulting in a large debtors' book (Chauke & Sebola, 2016). In light of what is said above, the study recommends the following:

- Municipalities first they increase the revenue base and then they establish measures to increase the revenue base to establish income-generating initiatives.
- The municipality must strictly follow the existing rules, regulations and procedures in order to enhance revenue collection and management.
- The municipalities should ensure that the administration of revenue is done in an open, accountable, and equitable manner.
- All the employees involved in revenue management must keep records of collected and anticipated revenue up to date.
- Municipal managers must ensure that all monies owed and due to the municipality are collected timeously.
- All funds are immediately deposited into the municipality's main bank account.
- There should be a clear and realistic revenue enhancement strategy.
- There should be a revenue management policy which guides the collection of revenue from residents who are not paying for municipal services.
- At least once a week, the municipality should reconcile all revenue collected, including revenue earned from any collection agencies acting on its behalf.
- Municipalities should increase capacity and be willing to implement credit control.
- Municipalities monitor expenditure diligently. To do this, expenditure should be captured and classified correctly.
- MEC for local Government, Mayor and AG should all be informed of unauthorized, irregular, fruitless and/or wasteful expenditure regularly as required by the MFMA.
- Municipalities should strive to maintain a collection rate of 95% of its revenue.

Chitiga-Mabugu and Monkam (2013); Ncube, M. and Monnakgotla (2016) acknowledges that, the ability of a municipality to manage its revenue and expenditures determines its capacity to improve economy growth and reduce poverty. Municipalities should improve its fiscal capacity and minimize the over reliance on

conditional and unconditional grants from the National fiscus (Monkam, 2014; Chitiga-Mabugu *et al.*, 2013).

7.4.5 Cash Flow Management

In relation to this variable the following recommendations are advanced:

- Cash flow projections must be submitted to the relevant treasury at least three months before the beginning of the new financial year.
- The cash flow for both revenue and expenditure should be reviewed on a monthly basis so as to comply with the targeted plans.
- Municipalities should use money for what it was budgeted for, in order to avoid deficits that might lead to the collapse of the municipalities.
- It is recommended that the cash coverage ratio of at least one month be done in order to allow the municipality to develop good fiscal health.

Many municipalities are confronted with the challenge of cash flow deficits as a result of misaligned cash flow-in and flow-out schedules (Belobo, 2014). Su (2018) confirms that Cash flow misalignment is a common problem in many municipalities.

7.5 LIMITATIONS OF THE STUDY

The research was limited to three selected municipalities. Thus, the findings or results of this study cannot be applied to other municipalities. Furthermore, the sample population was limited to employees who manage or are directly involved in the budget process. It would have been ideal to conduct the study in more municipalities. The overall model is significant, however there are three single constructs that are not significant, with a larger sample size the results might change. There is thus a need for further research on the topic in more municipalities.

Furthermore, it was difficult to do so due to unwillingness of municipalities to participate in the study. Furthermore, it was difficult to access a large sample due to the lockdown resulting from the COVID-19 pandemic, as most municipal employees were at their places of residence and did not have access to computers to complete the online survey. The study used the quantitative approach, thus, it would be interesting to see the results of the similar study if it can be triangulated by another researcher.

7.6 POLICY IMPLICATIONS

This study's results may be extremely significant for South African municipalities to effectively manage their budgets. Decision-makers in South African municipalities are dealing with bottlenecks in service delivery as well as fiscal problems due to the lack of structured budgeted management frameworks in South African municipalities. The South African Constitution has been in existence for 25 years, however, some municipalities still fail to implement it (Hanabe *et al.*, 2018). Some communities still live under bad conditions due to a lack of basic services. Lack of effective budget and financial management skills by municipal officials has contributed immensely towards this problem.

A budget reflects policy implementation decisions in municipalities and government departments (Monnakgotla, 2016). Thus, an effective budget management model can be used to redress those challenges and imbalances.

The recommendations of this study If acted upon by municipalities, might have the potential to have a big impact on how lower-level employees and managers utilize budgets as an effective managerial instrument. The model offers new solutions to assist communities in successfully managing their budgets to provide services such as protection, wellness, and housing supply, as well as water, sanitation, and waste collection, and electrical services. roads, infrastructure, and urban economic growth (LED) to increase residents' quality of life.

The study does not question the MTEF used by the South African Government (National Treasury and Provincial Treasuries). The purpose of the MTEF is to allocate financial resources to government departments and municipalities using an incremental budget approach. The MTEF does not guide managers on how to manage budgets, it only focuses on the allocated budget. This budget management model will guide managers and municipal employees in general on how to manage budgets after the budget (MTEF) has been approved by the municipal council and the relevant treasury. Hence the model proposed key variables such as Budget planning; Risk Management; Cash Flow Management; Revenue and Expenditure Management; and Legislation Consideration.

The budget planning and legislation phases are applicable before the MTEF process commences (Mpehle, 2015; Moradi, 2015). It is meant to guide municipalities on how to plan for the allocation of financial and non-financial resources on the MTEF. While risk management; cash management; revenue and expenditure management; and legislation phases are applicable during the implementation and monitoring stages of the budget.

7.7 CONCLUSION

The necessity of budgeting has been emphasized in the literature and has received the most attention. Budgeting is a fundamental component of most organisations' management systems. In South Africa, sound budget management practices are important for municipal survival. Legislations, regulations and regulatory policies are part of the regulatory structure for budget management in municipalities and government in general. Poor implementation of legislation and policies can lead to maladministration (Masegare & Ngoepe, 2018).

For budgets to be managed effectively, municipalities have to comply with these regulations and statutes, and implement them as mandated by the supreme law of the Republic. Without proper budgeting in municipalities, service delivery might be negatively impacted. According to Hendriks (2018), municipal budgets play a significant role in providing pro-poor services. Matlala and Iwuzeyimana (2020) adds that, municipalities should be held accountable for their own financial planning and budgetary processes. According to the MFMA, a credible, sustainable and responsive budget must be prepared in accordance with the act for a municipality to ensure financial long - term viability (Molobela, 2016).

In essence, inadequate budget management indicates weak management of municipalities and, as a result, the institution's priorities in terms of its overall agenda to satisfy the legitimate aspirations of the public for good governance will not be achieved (Masekoameng and Mpehle, 2018). Van der Berg (202) posits that, municipalities must focus on ensuring that municipal services are provided to the local communities in a timely manner. The results of the study have somehow emphasized that financial management, cash flow management, and risk management skills should be emphasized to ensure that budgets are managed effectively.

The study was initiated in response to evidence of budgetary problems in some South African municipalities, with the aim of developing a budget management framework for the municipalities surveyed in the research. The study has brought to light factors that result in managers at various levels failing to manage municipal budgets efficiently and effectively and concludes with recommendations for responding to these factors. Taxpayers' money should be managed carefully and wisely to ensure that they get quality services from the government with minimum resources.

Ruiters, and Matji (2016), some municipalities encounter difficulties in terms of performance because council decisions to approve projects and budgets take far too long. These difficulties stem from a lack of infrastructure funding, significant delivery backlogs that have denied constituents the opportunity for a better life (Ababio, Vyas-Doorgapersad & Mzini, 2008; Ajam, 2014).

A further pressing matter in South African municipalities in relation to audits conducted by the Auditor General (Maluleke) is the continuation of negative findings previously disclosed by the AG, which occurs on a yearly basis (Matlala *et al.*, 2020). The findings from literature that was reviewed on municipal audits indicates several municipalities with outstanding audits is increasing significantly. This insinuates that municipalities do not take the Constitution's and the Municipal Finance Management Act's reporting requirements seriously. As a result, this transgression has an impact not only on service delivery but also on the National government's development plans.

In 2012 the South African National government introduced a National Development Plan (NDP) to outline the long-term plans for the government (Zitha *et al.*, 2021). All the spheres of government are required to link their strategic goals to the NDP. To achieve vision 2030 of the NDP which is to alleviate poverty and inequality, the government, municipalities in particular must be staffed with competent, skilled, and committed employees in to deliver high-quality services to the citizens, and do so consistently (Phago *et al.*, 2014). Cumming *et al.*, (2017) adds that, employee commitment to completing a task is critical in ensuring that public organisations perform well. This can be measured through effective budget management.

In summary this means that Employees response to Budget Planning, Management Actions in Budget Planning, Revenue and Expenditure Management, Legislative Consideration, Risk Management, Cash Flow Management: Compliance, and Cash

Flow Management: Employees Perception are critical core variables for effective budget management.

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APPENDIX A: ETHICAL CLEARANCE CERTIFICATE



P.O. Box 1906 • Bellville 7535 South Africa • Tel: +27 21 4603291 • Email: fbmsethics@cput.ac.za
Symphony Road Bellville 7535

Office of the Chairperson
Research Ethics Committee

Faculty: **BUSINESS AND MANAGEMENT SCIENCES**

The Faculty's Research Ethics Committee (FREC) on **19 November 2019**, ethics **Approval** was granted to **Abongile Goodman Zweni (206040431)** for a research activity for **Doctor of Public Administration** at Cape Peninsula University of Technology.

Title of dissertation/thesis/project:

**CRITICAL EVALUATION OF SERVICE DELIVERY
IN SELECTED SOUTH AFRICAN MUNICIPALITIES:
THE ROLE OF BUDGET MANAGEMENT**

Lead Supervisor (s): Dr B Yan

Comments:

Decision: Approved

A handwritten signature in black ink, appearing to be "A. Zweni", written over a horizontal line.

Signed: Chairperson: Research Ethics Committee

20 November 2019

Date

APPENDIX B: CONSENT LETTERS

OFFICE OF THE MUNICIPAL MANAGER

The Acting Chief Director: Local Government Finance and MFMA Coordinator
Department of Local Government: Western Cape Provincial Treasury
7 Wale Street Msimelelo.Sigabi@westerncape.gov.za
CAPE TOWN
8001

Sir

PERMISSION TO UTILIZE KANNALAND MUNICIPALITY FOR DOCTORAL STUDIES

Permission is hereby granted for Mr Abongile Zweni, Student No 206040431, studying at the Cape Peninsula University of Technology to use Kannaland Municipality for his research to complete his Doctorate of Public Administration for his research title, "A leadership framework for management of budgets A case study of a selected municipality".

Yours faithfully

20 September 2019

To: Mr Abongile Zweni

Email: abongile.zweni@spu.ac.za

Cc: Cape Peninsula University of Technology
Department of Operations Management
Faculty of Business and Management Sciences
Bellville
7535

Attention: Dr. Bingwen Yan
Senior lecturer
Email: YanB@cptu.ca.za

Dear Senior Lecturer

**PERMISSION TO CONDUCT DATA RESEARCH: CONFIRMATION OF MASILONYANA
LOCAL MUNICIPALITY FOR PhD – ABONGILE ZWENI (206040431)**

Permission to your request for conducting data research for your PhD Public Administration at the Masilonyana Local Municipality (Free State Province) under the topic **“Critical Evaluation of Service Delivery in Selected South African Municipalities: The Role of Budget Management.”**

The municipality is in support of your studies and research project and is willing to provide you with the necessary support to make your studies and development opportunity a success.

We wish you all the best with your studies.

Best Regards

OFFICE OF THE MUNICIPAL MANAGER

Person dealing with the matter: Ms Nosisana Mbaku

Date: 17th October 2019

To: Mr Abongile Zweni
Cape Peninsula University of Technology

Dear Sir

**RE: PERMISSION TO CONDUCT RESEARCH: A BUDGET MANAGEMENT
FRAMEWORK FOR PERFORMANCE IMPROVEMENT: CASE OF SOUTH
AFRICAN LOCAL MUNICIPALITIES**

Your letter of request to undertake the study on the above subject bears reference.

Matatiele Local Municipality takes pleasure to inform you that your request to undertake the research study is approved, taking into account the objective of the research study, ethical consideration, the timeline of the study that you promised to observe and can withdraw from the study at any time.

We further give you permission to anonymously use the data collected from the institution.

The municipality wishes you success in your research study. The municipality will appreciate if the final product could be shared with the Municipality

Kind regards,



APPENDIX C: THE INSTRUMENT

QUESTIONNAIRE

TITLE; Critical Evaluation of Service Delivery in Selected South African municipalities: The Role of Budget Management

This is an academic research project and no information will be passed to any official. Please do not write your name, nor that of your organisation or any mark that may indicate who the respondent is. The target group is people generally involved in management and implementation of budget management. Check or mark the appropriate box/space for each statement REMEMBER; Your identity is protected and this questionnaire remains the property of the university.

SECTION A. DEMOGRAPHICAL INFORMATION

[Statistical purposes only]
Please cross the applicable boxes

1. How old are you this year? please use the table to indicate your age range with an X

18–25 Years	26-30 Years	31 – 40 Years	41 – 50 Years	51 – 60 Years	More than 60 Years

2. What is your position in the organisation?

Municipal Manager	Executive Director	Director	Manager	Other (Please indicate)

3. How long have you been working for the municipality?

0 - 5 years	6 – 10 years	11 – 15 years	16 – 20 years	More than 20 years

4. How long have you been involved in budget management and implementation of financial management policies?

0 - 5 years	6 – 10 years	11 – 15 years	16 – 20 years	More than 20 years

5. What is your highest qualification?

National Diploma	Bachelors’ Degree	Master’s Degree	Doctorate	Other (Please indicate)

6. Any other things you wish to state about your academic qualifications and professional work

.....

.....

.....

SECTION B

FACTORS THAT IMPACT ON BUDGET MANAGEMENT IN THE MUNICIPALITY

Please put a cross in the block that best expresses your views.

NOTE: 1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly agree

	RISK MANAGEMENT	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	We have systems in place to manage risk in our municipality	1	2	3	4	5
2	I am well equipped to identify events that affecting our budget objectives.	1	2	3	4	5
3	I follow the risk management systems to manage risks	1	2	3	4	5
4	All employees are accountable for risks within the scope of the work	1	2	3	4	5
5	The municipality uses efficient financial risk management systems	1	2	3	4	5
6	I am equipped to manage uncertainty that will affect the activities of the municipality	1	2	3	4	5
7	In our municipality uncertainty and risk is not effectively managed	1	2	3	4	5
8	In our municipality risk management is perfectly executed	1	2	3	4	5
9	I do not follow policies or procedures designed to mitigate and manage risks in my municipality	1	2	3	4	6
	BUDGET PLANNING IN THE MUNICIPALITY					
10	The budget plans are done by municipal management	1	2	3	4	5
11	I only follow instructions from municipal management for budget planning	1	2	3	4	5
12	I only use the budget that is given to me	1	2	3	4	5
13	I am not allowed to make changes on budgets.	1	2	3	4	5
14	The budget approved by management does not reflect the actual needs of my department	1	2	3	4	5
15	People at all levels of employment in the municipality are the suppliers of budget information	1	2	3	4	5
16	Our funds are mostly depleted by mid-term	1	2	3	4	5
17	We often have to wait for the next financial year to complete projects					
18	Too often I have to break down what is given to try to fit into projects	1	2	3	4	5
19	Our management allows us to roll-over unspent funds to the new financial year	1	2	3	4	5

CASH FLOW MANAGEMENT						
20	Cash flow estimates are sent to treasury for the next financial year	1	2	3	4	5
21	I always refer to our cash flow projections before we commit funds.	1	2	3	4	5
22	Adhering to projections hinders effective implementation of strategy	1	2	3	4	5
23	The municipality has a positive cash balance every financial year end	1	2	3	4	5
24	The municipality always has a negative cash balance at the end of the financial year.	1	2	3	4	5
25	Cash flow is critical in informing employees on when to avoid a deficit.	1	2	3	4	5
26	There are not consequences if I do not adhere to cash flow projections.	1	2	3	4	5
27	I am not consulted by municipal management before cash flow estimates are finalized.	1	2	3	4	5
REVENUE & EXPENDITURE MANAGEMENT						
28	The MFMA is clear when it comes to revenue management.	1	2	3	4	5
29	The MFMA is clear when it comes to expenditure management					
30	Our managers spend money in line with the budget	1	2	3	4	5
31	Our employees spend money in line with the budget	1	2	3	4	5
32	We do not consult the budget before we spend money.	1	2	3	4	5
33	I always stay within budget based on revenue and expenditure for my work.	1	2	3	4	5
34	The municipality does not have revenue management systems.	1	2	3	4	5
35	The municipality does not have expenditure management systems	1	2	3	4	5
LEGISLATION CONSIDERATION						
36	Legislation plays a significant role in the management of finances	1	2	3	4	5
37	I am controlled by legislation when it comes to budget management	1	2	3	4	5
38	Powers of managers are restricted by the Municipal Management Act	1	2	3	4	5
39	Powers of employees are restricted by the Municipal Management Act	1	2	3	4	5
40	There is a disjuncture between employees demands and provisions of the Act.	1	2	3	4	5

	EFFECTIVE BUDGET MANAGEMENT					
41	I spent all the approved budgets that were allocated to me during last year.	1	2	3	4	5
42	Management always encourage me to spend all my allocated funds	1	2	3	4	5
43	Our municipality spent the approved budget for what it was intended for.	1	2	3	4	5
44	Our municipality has accurate budget projections.	1	2	3	4	5
45	Our budget is aligned to our goals and objectives	1	2	3	4	5

THANK YOU FOR TAKING PART IN THIS RESEARCH.

APPENDIX D: INTERVIEW GUIDE

Title: Critical Evaluation of Service Delivery in Selected South African municipalities:
The Role of Budget Management

Purpose: This research study seeks to better understand budget management practices at a municipality. The study aims to foster understanding of the efficiency and effectiveness of the current budget management practices.

INSTRUMENT

1. INTRODUCTION:

Researcher: Abongile Goodman Zweni, Doctorate in Public Administration (Candidate), Cape Peninsula University of Technology

Reason for the study: To understand the role of budget management in the sustainability of the municipality and in enhancing service delivery

Procedure: Give an explanation of what is going to be done with data and agree on the confidentiality of data and anonymity. Explain the process of collecting data, and as well as to seek consent of whether or not the interview can be recorded.

2. INTERVIEWEE DETAILS:

- Current position and section in the municipality
- Years of work experience

3. QUESTIONS:

Theme 1: Risk Management

We will start by talking about risk management systems within your municipality

- 1.1 Tell me about the risk management systems that you have in your municipality
- 1.2 In your opinion, how well do the financial and risk management systems of this municipality measure against the MFMA? Why?
- 1.3 Who is accountable for the overall governance of the municipality's risks?

Theme 2: Budget Planning

Now let us talk about budget planning

- 2.1 What is your role in the budget planning process?

Probe: What are some of the challenges that you face with the budget planning? (political interference, limited funds, etc.)

What do you do to try to overcome these challenges?

2.2 What are some of the things that can be done to improve the budget planning process?

Theme 3: Cash Flow Management

We will now move on to talking about cash flow management within your municipality

3.1 When do you submit cash flow projections to treasury?

3.2 How often do you refer to your cash flow projections before committing the funds?

3.3 What is the importance of cash flow management to management?

3.4 If you think cash flow management could be improved, how do you think this could be done?

Theme 4: Revenue and Expenditure Management

Let us now talk about revenue and expenditure management

4.1 Do you always adhere to the MFMA when it comes to revenue and expenditure management? Please elaborate

4.2 What are your thoughts about the municipality's expenditure in relation to the budget?

4.3 What are some of the things that you do to maintain revenue management systems as required by the MFMA?

4.4 What are some of the things that can be done to ensure that you always adhere to the MFMA when it comes to revenue and expenditure management?

Theme 5: Legislation

Finally, let us talk about legislation

5.1 In your opinion, what is the role of legislation in the management of budgets?

5.2 How best can legislation support management of budgets?

5.3 Do you think there is a disjuncture between the demands of the employees and provision of the Act?

THANK YOU FOR TAKING PART IN THIS RESEARCH.

APPENDIX E: GRAMMARIAN CERTIFICATE



University of the Witwatersrand, Johannesburg

LANGUAGES LITERACIES AND LITERATURES
IN ISIZULU, SESOTHO, SEPEDI, ENGLISH AND AFRIKAANS

WITS SCHOOL OF EDUCATION

27 St Andrews Road, Parktown, Johannesburg, 2193 • Private Bag 3, Wits 2050, South Africa
Tel: +27 11 717-3007 • Fax: +27 11 717-3009 • E-mail: enquiries@educ.wits.ac.za • Website: www.wits.ac.za

21 June 2021

The Postgraduate Studies Co-ordinator
Department of Public Administration and Governance
Faculty of Business and Management Sciences
Cape Peninsula University of Technology

Dear Postgraduate Studies Co-ordinator

Language Certificate for PhD candidate Abongile Zweni

I confirm that I undertook the language editing of the doctoral thesis of Abongile Zweni and advised him of changes needed throughout the thesis.

Yours sincerely
Yvonne Reed

Prof Yvonne Reed
Visiting Associate Professor,
Languages, Literacies and Literatures Division
School of Education
University of the Witwatersrand

yvonne.reed@wits.ac.za

APPENDIX F: MODEL FIT SUMMARY FOR THE MAIN MODEL

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	35	.002	1	.962	.002
Saturated model	36	.000	0		
Independence model	8	191.820	28	.000	6.851
Zero model	0	1040.000	36	.000	28.889

Source: IBM SPSS AMOS SEM

Results: RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.001	1.000	1.000	.028
Saturated model	.000	1.000		
Independence model	.440	.816	.763	.634
Zero model	.590	.000	.000	.000

Source: IBM SPSS AMOS SEM

Baseline Comparisons Results

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	1.000	1.000	1.005	1.171	1.000
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Source: IBM SPSS AMOS SEM

RMSEA Results

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.000	.000	.000	.973
Independence model	.150	.130	.170	.000

Source: IBM SPSS AMOS SEM

Covariances: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
BPitM1	<-->	CFM2	-.196	.060	-3.273	.001	
BPitM2	<-->	CFM2	-.211	.061	-3.475	***	
REM2	<-->	CFM2	.426	.064	6.645	***	
RM	<-->	CFM2	.536	.069	7.724	***	
RM	<-->	CFM1	-.371	.064	-5.767	***	
REM2	<-->	CFM1	-.590	.071	-8.369	***	
BPitM2	<-->	CFM1	.514	.069	7.442	***	
BPitM1	<-->	CFM1	.494	.068	7.214	***	
REM2	<-->	RM	.531	.068	7.771	***	
BPitM2	<-->	RM	-.417	.066	-6.314	***	
BPitM1	<-->	RM	-.315	.064	-4.956	***	
REM2	<-->	LC	-.323	.059	-5.452	***	
BPitM1	<-->	LC	.307	.063	4.842	***	
BPitM2	<-->	REM2	-.547	.070	-7.867	***	
BPitM1	<-->	REM2	-.446	.067	-6.691	***	
BPitM1	<-->	BPitM2	.607	.072	8.431	***	
CFM1	<-->	CFM2	-.195	.059	-3.325	***	
LC	<-->	CFM1	.366	.065	5.653	***	
BPitM2	<-->	LC	.279	.063	4.439	***	
LC	<-->	RM	-.164	.053	-3.088	.002	

Correlations: (Group number 1 - Default model)

			Estimate
BPitM1	<-->	CFM2	-.197
BPitM2	<-->	CFM2	-.212
REM2	<-->	CFM2	.428
RM	<-->	CFM2	.538
RM	<-->	CFM1	-.373
REM2	<-->	CFM1	-.593
BPitM2	<-->	CFM1	.516
BPitM1	<-->	CFM1	.496
REM2	<-->	RM	.534
BPitM2	<-->	RM	-.418
BPitM1	<-->	RM	-.317
REM2	<-->	LC	-.325
BPitM1	<-->	LC	.309
BPitM2	<-->	REM2	-.549
BPitM1	<-->	REM2	-.447
BPitM1	<-->	BPitM2	.609
CFM1	<-->	CFM2	-.196
LC	<-->	CFM1	.367

			Estimate
BPitM2	<-->	LC	.280
LC	<-->	RM	-.164

Variances: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
BPitM1	.996	.087	11.441	***	
BPitM2	.996	.087	11.439	***	
REM2	.995	.086	11.621	***	
LC	.996	.087	11.402	***	
RM	.996	.087	11.488	***	
CFM1	.996	.087	11.457	***	
CFM2	.996	.087	11.402	***	
e1	.549	.048	11.402	***	

Modification Indices (Group number 1 - Default model)

Covariances: (Group number 1 - Default model)

	M.I. Par Change
--	------------------------

Variances: (Group number 1 - Default model)

	M.I. Par Change
--	------------------------

Regression Weights: (Group number 1 - Default model)

	M.I. Par Change
--	------------------------

Minimization History (Default model)

Iteration		Negative eigenvalues	Condition #	Smallest eigenvalue	Diameter	F	NTries	Ratio
0	e	8		-.329	9999.000	766.782	0	9999.000
1	e*	0	16.892		.889	210.129	18	.981
2	e	0	17.807		.484	99.613	2	.000
3	e	0	26.477		.453	28.349	1	1.253
4	e	0	55.035		.446	5.071	1	1.223
5	e	0	93.568		.310	.330	1	1.149
6	e	0	109.800		.108	.005	1	1.054
7	e	0	112.225		.010	.002	1	1.005
8	e	0	108.645		.000	.002	1	1.000

Minimization History (Default model)

Iteration		Negative eigenvalues	Condition #	Smallest eigenvalue	Diameter	F	NTries	Ratio
0	e	0	107.171		9999.000	.002	0	9999.000
1	e	0	107.607		.000	.002	1	1.000