The Impact of New Public Management on the Financial Performance of Category B Municipalities in South Africa African Journal of Public Administration and Environmental Studies (AJ...

Article · November 2024

DOI: 10.31920/2753-3182/2024/v3n3a11

4 authors, including:

Abongile Goodman Zweni
Sol Plaatje University

Bingwen Yan
Cape Peninsula University of Technology

African Journal of Public Administration and Environmental Studies (AJOPAES)

ISSN 2753-3174 (Print) ISSN 2753-3182 (Online)
indexed by IBSS, EBSCO and SABINET. It is accredited by DHET (the South African regulator of Higher Education)

Volume 3, Number 3, December 2024

Pp 213-244

The Impact of New Public Management on the Financial Performance of Category B Municipalities in South Africa

DOI: https://doi.org/10.31920/2753-3182/2024/v3n3a11

Dr Abongile Zweni
Senior Lecturer in Public Finance
Department of Management Sciences
Sol Plaatje University
Abongile.zweni@spu.ac.za

Prof B Yan
Head of Department
Faculty of Engineering
Cape Peninsula University of Technology
yanb@cput.ac.za

&

Prof Ramos E. Mabugu
Professor- Economics
Department of Accounting and Economics
Sol Plaatje University with Partnership for Economic Policy
Emmanuel.mabugu@spu.ac.za

Abstract

The study seeks to evaluate the impact of the New Public Management Model (NPM) on the financial performance of category B municipalities in South Africa. NPM, adopted by African nations in the 1990s, aimed to modernise the public sector through enhanced efficiency and effectiveness. In South Africa, the implementation of NPM was emphasised across all government spheres, particularly at the local level. However, several municipalities continue to struggle with effective governance, financial mismanagement, insufficient budgeting, infrastructure deficits, and poor risk management, which impedes their performance. This research uses descriptive methods. It employs a qualitative research approach, including semi-structured interviews with selected public managers and public document analysis, alongside assessments of municipalities audited financial results. Findings indicate a critical need for institutional transformation to improve financial management and governance. The study recommends that category B municipalities adopt existing norms, standards, statutes, and policies to strengthen financial management and control.

Keywords: *New Public Management Model; Descriptive Methods; South Africa; Category B Municipalities; Financial Performance; Service Delivery.*

1. Introduction And Background

From a global perspective, many local municipalities in developing countries, such as Namibia, Zimbabwe, and Ethiopia, face interconnected challenges that impede their operational effectiveness and service delivery. Key issues include limited financial resources, mismanagement of funds, governance deficiencies, and a lack of accountability among municipal officials (Kalonda & Govender, 2021; Teshome, 2021; Marumahoko, 2023).

The significant challenges, including debt burdens, poverty, disease, and instability in the public sector, were prevalent in most African countries in the 1990s (Rubakula, 2014:84). For instance, municipalities in Botswana are not performing effectively, they have weak financial systems, and they are heavily reliant on financial assistance and bailouts from their central government (Mosha, 2004; Mosha, 2010). In Nigeria, national governors interfere in the financial allocations of municipalities (local government); as such, service delivery and the overall performance of the municipalities have declined over the years (ADEYEMI, 2013; Mangai & Vries, 2018; Salami, 2019).

South African local municipalities face challenges that are common in other developing countries, such as limited financial resources, mismanagement of financial resources, governance challenges, and a lack of accountability by municipal officials. The United Nations Sustainable Development Goals require a capable and effective public sector that manages resources with diligence, particularly in developing countries, including poor countries in Africa.

Public sector reform became a global trend, and South Africa adopted the New Public Management Model (NPM) to address financial mismanagement, misconduct, and lack of skills (Thornhill, Van Dijk, & ILE, 2014:14). NPM aimed to professionalise government and enhance accountability, transparency, efficiency, and public participation. However, financial mismanagement persists, hindering local governments' ability to implement laws, policies, and alleviate poverty (Mishi et al., 2022).

The Republic of South Africa's Constitution mandates municipalities to provide services to people. Many category B municipalities have been unable to achieve their commitments in various regions of the country. Furthermore, following 1994, many municipalities experienced declining financial performance and poor service delivery, particularly in rural areas, with continued disclaimer audit opinions (Mishi et al., 2022). As such, these challenges warrant an investigation on their causes and how NPM is implemented by category B municipalities in South Africa to improve financial performance.

Therefore, the main research question of this study is: Is the NPM designed in a manner that effectively enhances financial performance in South African municipalities? This study aims to conceptually analyse the adoption of NPM in South Africa's public sector, particularly its impact on local government post-1994. It also examines NPM's role in enhancing municipal financial performance. This paper will discuss the objective of the study, the methodology that will be followed in the study, literature that covers financial performance and NPM, the empirical findings, and lastly, provide conclusions and recommendations.

2. Research Objective

The study aims to assess the impact of the NPM on the financial performance of selected South African Category B municipalities.

3. Research Questions

To align with the research background and objectives, the research questions of this study were formulated as follows:

- Is the NPM designed in a manner that effectively enhances financial performance in South African municipalities?

- Should the shortcomings in financial performance be attributed to the policymakers who design the frameworks?
- Does inadequate implementation by the administrative layer in municipalities contribute to these shortcomings?

4. Literature Review

In this section, the literature on financial management, risk management, budget management, municipal infrastructure challenges, cash flow management, revenue and expenditure management, legislative considerations, and the NPM will be discussed.

4.1. Financial Management in Local Municipalities

Fallaw, Grable, and Kruger (2020:2) define financial management as the strategic use of financial resources to achieve organisational goals. In the public sector, effective financial resource management is vital. However, the Auditor General of South Africa discovered that in 2022, many government departments and municipalities failed to adhere to legal frameworks for financial management. Since 1994, instances of financial misconduct, especially in municipalities, have risen. Financial management procedures aim to curb irregular expenditure, unauthorised spending, fraud, and inefficiency (Hendriks, 2012:4).

Numerous cases of fraud and corruption involving government officials have surfaced. For instance, in the VBS bank heist, municipal officials unlawfully invested municipal funds without adhering to legislation. Similarly, in the Gumede case, the accused manipulated supply chain management policies, defrauding EThekwini Municipality of R320 million, in violation of the Municipal Finance Management Act no. 56 of 2003 (MFMA). According to Section 172, (3), (a) of the MFMA, municipalities are required to investigate allegations of financial misconduct against accounting officers or other municipal employees involved in fraudulent activities.

4.2. Risk Management in Local Municipalities

Without risk management systems and culture, public institutions are unlikely to be effectively managed, negatively impacting service delivery. Ridha and Alnaji (2015:9) define risk as 'an unplanned, unknowable incident that could happen in the future and is harmful to the organisation's goals.' They argue that risk poses significant challenges to government operations and service delivery. Nel (2019:60) contends that factors such as a dynamic environment, accurate risk intelligence, and skills impact public sector risk management. Further, promoting an organisational culture that effectively manages risks is essential to increasing risk tolerance and support (Nel, 2019:60).

The public sector should implement risk management models tailored to their specific needs, as they provide a strong foundation for a risk management framework (Ahmeti et al., 2017). Risk management systems are crucial to avoid financial losses (Meyer, 2014). In South Africa, the National Treasury has risk management frameworks that provide guidance on how local government should manage risks. These frameworks are implemented, managed, and evaluated by risk management committees. These committees follow guidelines and policies from the National Treasury on designing and coordinating risk management activities in municipalities (National Treasury, 2010). However, some municipalities lack the required risk management systems, as mandated by the MFMA (Mnguni & Subban, 2022; Whittle& Nel-Sanders, 2022; Meyer, 2014:165; National Treasury, 2010).

4.3. Budget Management in Local Municipalities

Challenges in budget management have led to several municipalities being placed under administration by provincial governments, as outlined in Section 139 of South Africa's Constitution (Khaile, 2023). Local governments implement performance budgeting to enhance service management, improve work organisation, and facilitate decision-making throughout every stage of the budget process (Dynowska & Cereola, 2018). In this context, Zweni et al. (2022) proposed a model to address budget management challenges, emphasising the need for municipalities to enhance their budgeting skills for effective public service delivery. Under the NPM paradigm, organisational performance is assessed based on the efficient utilisation of financial resources. Effective budget management plays a pivotal role in this assessment, directly influencing a municipality's ability to deliver services to the community.

4.4. Municipal Infrastructure Grant Challenges (MIG)

In South Africa, the New Public Management Model (NPM) aimed to ensure proper funding for government service delivery. However, since democracy, infrastructure deterioration, particularly in water and sanitation, has been a significant challenge. To address this, the

Municipal Infrastructure Grant (MIG) was introduced under Chapters 3 and 7 of cooperative governance and local government, respectively (Patience & Nel, 2021).

This study will analyse the effectiveness of fiscal decentralisation in reducing infrastructure backlogs by examining the implementation of the MIG. Initially, the study will scrutinise the formula used by the National Treasury to allocate the MIG. Bikam, Rapodile, and Chakwizira (2015) highlight that the current allocation method by the National Treasury does not always consider factors such as human capital, geographical scope, and low revenue bases of some local municipalities.

4.5. Cash Flow Management

Optimal cash flow management is a crucial municipal task that must be handled with diligence (Su and Hildreth 2018). A municipality's ability to survive is affected by inefficient cash flow management systems (Belobo and Pelser 2014). According to Cohen and Malkogianni (2021), to be sustainable and survive, municipalities must have practical cash flow management plans. Cash flow management is a critical function that informs management when and how to avoid a deficit and prevent underperformance in the public sector (Cohen and Malkogianni, 2021). Cash flow management involves the systematic monitoring of revenue and expenditures, which is vital for informing municipal management about when and how to address potential deficits. This proactive approach helps prevent underperformance in the public sector (Bird, 2011: Cohen & Malkogianni, 2021).

Effective cash flow management not only supports financial health but also enhances accountability and transparency within municipal operations (KrishnanVenkateswaran, 2014). In summary, robust cash flow management systems are fundamental to the sustainable operation of municipalities, enabling them to deliver services effectively.

4.6. Revenue Management in Municipalities

According to Rakabe (2010:137), municipalities need effective revenue management systems to classify, collect, reconcile, and record income from businesses and citizens for services rendered. A lack of such systems hampers accurate budgeting for revenue and expenditure (Malobela, 2016:13). Kanyane (2014:97) emphasises that municipalities rely on a strong revenue base to provide services effectively. The management of revenue and expenditure by accounting officers and officials significantly impacts municipal performance.

Section 62(1) of the MFMA mandates the management of resources and the establishment of revenue and expenditure systems to achieve municipal goals. Due to variations in size, municipalities have different capacities for revenue generation and spending. Municipal managers must ensure the collection of all monies owed to the municipality.

The Constitution's Section 152(1) entitles local municipalities to a fair share of national revenue. Although the national government transfers funds to local municipalities through the equitable share, these funds often fall short of meeting the growing demand for basic services, especially in rural areas (Shava, 2020:398). These transfers, regulated by the Division of Revenue Act (DORA), are reviewed annually by the National Treasury to support municipalities in fulfilling their constitutional obligations to provide social services.

4.7 Legislative Considerations

The Constitution serves as the supreme law, mandating municipalities to manage financial resources prudently and uphold accountability in the local government sector. Among the legislative acts empowering municipalities, the Municipal Finance Management Act (MFMA) stands out, focusing on robust financial management and curbing maladministration (Imuezerua and Chinomona, 2015:359). This Act offers clear directives to municipal entities, managers, and staff on proper financial resource management (Reddy, 2016:2).

The MFMA assigns responsibility for implementation to councils, municipal administrators, and staff in order to improve financial management capabilities (Koma, 2012:53). Adherence to the MFMA and approved budgets is crucial to minimise irregular, unproductive, and wasteful spending, as emphasised by Imuezerua et al. (2015:366). This entails prudent budgeting, spending, revenue collection, fund management, and creditor payments in line with the Act.

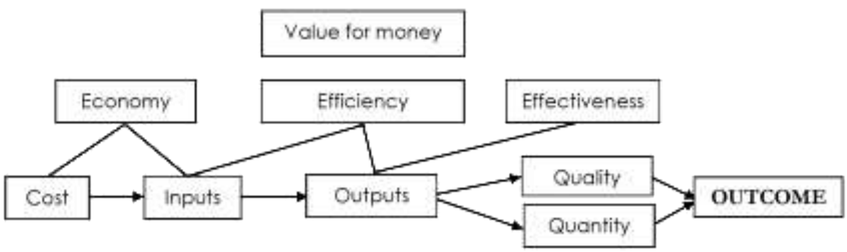
4.8 The New Public Management Model

The NPM was created to help the public sector make better decisions about resource allocation and measure service delivery of government departments. By distinguishing between profitable and non-profitable activities, NPM boosts efficiency and effectiveness in managing public financial resources. This innovative approach has led to significant

internal changes in the public sector and its management practices. According to Lapuente and Van de Walle (2020:462), NPM-induced changes have improved the quality, efficacy, and efficiency of public service delivery. It emphasises inspiring government workers to deliver high performance (Lapuente et al., 2020: 465).
Despite the Constitution and legislative frameworks like the Public Finance Management Act and MFMA, municipalities and state-owned enterprises still face challenges in performance management. Performance in the public sector can be measured by comparing quality and quantity (National Treasury, nd:2).

Raudla, Taro, Agu and Douglas (2016:218) note that NPM involves reducing controls and giving managers more responsibility. Public sector managers should implement internal controls proactively rather than relying solely on external audits by the Auditor General. NPM emphasises the economic and efficient use of public resources, using a value-for-money framework that requires credible expenditure management. The following figure illustrates the value-for-money model, highlighting its components and the interplay between efficiency, effectiveness, and economy.

Figure 1: Value for Money model



Source: Adapted from Mpehle and Qwabe (2008:260)

NPM forced public sector auditors to shift from compliance auditing to performance auditing and focus on the correlation between economy, efficiency, and effectiveness to evaluate organisational performance (Mpehle et al., 2008:260).

5. Methodology

A qualitative research approach was employed in this study to provide in-depth descriptions of the characteristics of people and situations without relying on numerical measurements. The study used a case study research design. According to Tetnowski (2015), case study research design seeks to answer complex questions.

In this study, three municipalities from different provinces in South Africa were selected as case studies. These municipalities were chosen to represent a range of governance scenarios, enhancing the study's comprehensiveness. Two municipalities are governed by different political parties, allowing for an exploration of the impact of varying political ideologies on local governance and service delivery. The third municipality is currently under administration as stipulated in Section 139 of the Constitution of the Republic of South Africa, providing a unique perspective on governance challenges and interventions in a distressed context. This diversity in case selection enriches the analysis and facilitates a deeper understanding of the factors influencing municipal performance across different governance frameworks.

Data collection involved a comprehensive literature review from various scholarly sources, document analysis, and policy analysis within the framework of the NPM model. Additionally, semi-structured interviews were conducted with six managers from the three selected municipalities, providing detailed insights into the financial management practices. The study used a purposive sample strategy to select the participants. Purposive sampling procedures are aimed to enhance the understanding of selected people's or groups' experiences (Devers & Frankel, 2000).

Thematic analysis was employed to interpret the collected data, allowing for the identification of key themes and patterns within the responses. Two complementary approaches to thematic analysis were used: deductive and inductive. In this study, themes such as risk management, budget planning, and cash flow management were derived from the literature on public financial management and the New Public Management (NPM) model. These predefined themes provided a structure for analysing the data and ensured that the analysis was aligned with the study's conceptual framework. The inductive approach, or "bottom-up" analysis, involves deriving themes from the data itself without imposing predetermined categories. In this study, inductive analysis allowed for the discovery of new themes and insights that emerged organically from the interview data. The combination of deductive and inductive approaches enabled a more comprehensive thematic analysis, as it allowed the researchers to test existing theories while remaining open to new insights from the participants' experiences.

An interview guide was developed to ensure consistency and gather experiential views from relevant stakeholders. This guide included themes and questions addressing the research problem, facilitating a thorough examination of the financial management practices and challenges faced by the municipalities. The semi-structured interviews allowed for flexibility, enabling deeper probing into specific issues as they arose during the conversations.

6. Study Results

In line with Braun and Clarke's (2006) six-step framework for thematic analysis, the following themes were identified based on the literature review in compiling the interview guide. This framework facilitated systematic exploration of the data, ensuring that key patterns and insights were captured effectively.

Risk Management: This theme aligns with the literature emphasising the importance of robust risk management systems in public financial management (Braun & Clarke, 2006).

Budget Planning: Budget planning involves the processes and strategies municipalities employ to allocate financial resources effectively. It includes setting priorities, forecasting revenues, and aligning budgets with long-term goals. Budget planning is foundational for financial stability, as discussed in prior literature.

Cash Flow Management: Cash flow management is essential for ensuring that municipalities can meet their financial obligations while maintaining liquidity. Effective cash flow management, as highlighted by Cohen and Malkogianni (2021), is key to financial sustainability and preventing service disruptions.

Revenue and Expenditure Management: This theme delves into how municipalities manage their income streams, such as taxes and service fees, and control their spending to maintain financial balance. It examines the strategies used to optimise revenue collection and ensure expenditures are in line with available resources.

Legislative Considerations: This theme focuses on the legal and regulatory frameworks governing municipal financial management, including compliance with national and provincial laws. It explores how municipalities adhere to legislative requirements, such as those outlined in the Municipal Finance Management Act (MFMA) and Section 139 of the Constitution.

Each of these themes was selected due to its relevance to the financial management challenges facing South African municipalities, with the aim of providing a comprehensive understanding of the financial governance landscape. The thematic analysis process followed the guidelines of Braun and Clarke (2006), ensuring a rigorous approach to identifying and analysing patterns within the data.

6.1. Details of the Interviewees:

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

6.2. Current position in the Municipality

Table 1: 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 sections of the municipalities.

Source: Authors

This question aims to distinguish and categorise respondents according to their suitability for the interview. Some positions may not have anything to do with budget formulation or budget management (control).

6.3. Number of years working in the municipality

Table 2: 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: Authors

This question was designed to delve further into the likelihood that persons will gain more experience with the budgeting process. This information will help with information focused on years of experience, which the interviews hoped to capitalise on. The involvement of a senior official or municipal manager, on the other hand, suggests that some couching and mentoring may have occurred.

6.4. *In-Depth Interviews*

6.4.1. Theme One: Risk Management

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

Probe: For how long have you had these systems?
Based on the question in response to the theme, risk management participants responded in the following manner:

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.

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 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.

Respondent Five:

> We have a risk management committee that oversees all the activities of the municipality together with the internal audit section.

Respondent Six:

> The CFO is in charge of creating risk management systems as required by the MFMA.

Participants confirmed that their municipalities have implemented risk management systems to address various types of risks. This aligns with Meyer (2014:163) assertion that risk management is indispensable within municipalities, as ineffective risk management can result in financial losses. For future municipal governance, this implies that risk management systems must not only be implemented but also actively monitored and refined to address evolving risks.

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.

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.

Respondent Five:

> We implement the MFMA in line National Treasury Regulation.

Respondent Six:

> Part of our responsibility in terms of risk management in our municipality; is to implement leave policy; supply chain management; and financial management systems and including disaster 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?

Probe: What is your role in the overall governance of the municipality's risks? What challenges have you faced in your capacity so far? How did you overcome these challenges?

This question was answered by four 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 integrates risk management into my day-to-day activities.

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.

Respondent Five:

The Municipal Manager, the CFO and the risk management committee of the municipality.

Respondent Six:

The Municipal Manager, CFO, and the Director of Corporate Governance.

Respondents One, Two, Three, Five, and Six consistently emphasised that the Municipal/City Manager holds primary accountability for overall governance of the municipality's risks, as mandated by the MFMA. Some also noted that the CFO, Risk Management Committee, and Director of Corporate Governance play supporting roles in this accountability.

6.4.2. Theme Two: Budget Planning

Question 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.)
This question was answered by five participants except respondent number six.

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.

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.

Respondent Four:

> As informed by Chapter 4 sections 21-26 of the MFMA, I oversee the budget planning and implementation process for the department. This is I do with the office of the CFO. 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.

Respondent Five:

> I am not involved, all the planning in our municipality is done by the Municipal Manager and the Chief Financial Officer

All participants acknowledged their involvement in the budget process within their departments. However, some highlighted challenges such as political interference and limited funds during the planning phase. Olivier (2016:49) suggests that involving employees from lower to middle management in the budget planning phase can ensure a more comprehensive and inclusive approach.

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.

Respondent Two:

> Consult Supply Chain Management during planning phase. involve 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.

Respondent Five:

> All the managers from lower to middle management should be included in the planning processes.

Respondent Six:

> Everyone should be consulted when it comes to budget planning so that resource can be allocated properly.

The participants indicated that a lack of skilled personnel to manage budgets impacts negatively 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).

6.4.3. Theme Three: Cash Flow Management

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

Probe: Is this an ideal time? Why or why not?

This question was answered by five 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 municipality we agreed that all of the departments must on a monthly basis submit cash flow projections to the office of the CFO.

Respondent Five:

> I submit before the start of the new financial year, and we review every month.

All respondents indicated that municipalities submit their cash flow projections 90 days before the start of the new financial year, as required by the MFMA. This process follows the tabling of the draft budget to council before the end of March, as stipulated in Section 16(1)(2) of the MFMA.

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

Respondents two and five 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/departments 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.

Respondent Six:

> we review every month via the budget office.

All participants affirmed their regular reference to cash flow projections, highlighting their importance in municipal financial planning. It is crucial for municipalities to prepare realistic projections before each fiscal year and monitor their achievement monthly using 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 participants emphasised the significance of cash flow management in municipal financial resource management. A clear understanding of the cash position enhances forecasting and planning for unexpected or excessive expenditure.

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

Respondents two, five, and six did not respond to this question.

Respondent One:

> It has to be improved because that is the life-blood of the municipality. If the 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.

Respondent Four:

> Key is to collect anticipated revenue the moment revenue accrued has been realised then proper cash flow management could be improved.

Participants expressed a shared belief that cash flow management in local government could be enhanced. They highlighted the need for the development of policies and procedures to regulate cash management in municipalities. Ineffective processes and monitoring of cash flow management systems were identified as critical factors impacting a municipality's survival (Belobo et al., 2014:227).

6.4.4. Theme Four: Revenue Management

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

Respondents two, five, and six 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.

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 line with the requirements of the Act, particularly Sections 64 and 65.

Question 4.2; What are your thoughts on the expenditure of the municipality regarding the budget?

Probe: What are some of the things you do to try to ensure that municipal expenditure is in line with the budget? Are there times you have overspent your budget? How did this happen? What were the consequences of this?

Respondents two, five, and six 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.

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.

Participants mentioned consulting the budget before committing funds to ensure expenditures align with the budgetary allocations. However, one participant noted instances where managers under their supervision fail to consult the budget before spending, leading to potential overspending or underspending. This discrepancy raises concerns, as expenditure should consistently adhere to budgetary provisions.

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

Respondents two and six 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.

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.

Respondent Five:

> I ensure that we bill the residents monthly.

Participants who responded to this question indicated various revenue management enhancement strategies are implemented in their municipalities. According to Rakabe (2010:137), municipalities should establish revenue management systems to effectively classify, collect, reconcile, and record income 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?

Respondents 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.

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 leave in a constitutional democracy which enforces us to adhere to legislation/s.

Respondent Five:

> Revenue and billing staff members should be trained continuously when it comes to legislation implementation.

Respondent Six:

> Is to ensure that staff members should be trained to understand treasury circulars and guidelines when it comes to implementing the MFMA.

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

6.4.5. Theme Five: Legislation

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

Probe: Are there any restrictions arising from the legislation? If so, what are these?

Respondents five and six did not answer this question.

Respondent One:

> Legislation is critical because it guides us. We have to follow the legislation.

Respondent Two:

> Legislation plays an important role in shaping the annual budget and in providing budgetary oversight.

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.

Participants indicated that legislation, particularly Section 18 of the MFMA, imposes restrictions to ensure credible municipal expenditure.

Question 5.2: How best can legislation support management of finances in the municipality to improve financial performance?

Respondent five did respond to this question.

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.

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.

Respondent Six:

> The only thing we need to do in finance is to implement the legislation as is.

The participants indicated that the legislation should be clearer on how budgets should be managed. 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 the provisions of the Act?

Respondent One:

> I would not say the 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.

Respondent Five*:*

> Yes, because in most cases the MFMA is not in line with the IDP and SDBIP.

Respondent Six*:*

> Yes, there is, the Act has a lot of red tapes.

Most participants agree that there is a disjuncture between the act and demands of the employees, and powers of managers and employees are restricted by the Municipal Act. 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. Summary of the Qualitative Analyses (In-Depth Interviews)

The interviews revealed that all (n=6) participants holding management positions serve as budget holders. While some noted effective risk management systems, others expressed concerns about cash flow management. The survey highlighted the critical role of MFMA legislation in municipal resource management, stressing the importance of full stakeholder understanding and implementation.

All municipalities have established risk management systems to prevent financial losses, with respondents affirming MFMA compliance, albeit to varying degrees. Risk governance lies with the municipal manager, involving all managers.

Cash flow projections are typically submitted 90 days before the fiscal year, with regular monthly reviews deemed essential. Effective cash flow management was highlighted as crucial for financial stability, with suggestions for clear policies and efficient revenue collection.

Regarding MFMA adherence, respondents noted compliance but identified challenges like underspending on capital budgets and budget plan adherence. Strategies for revenue management included enhancing policies and maintaining robust billing systems, with an emphasis on policy development and training for compliance.

According to respondents, continuous training and upskilling of employees handling budgeting and financial management are crucial to sustaining municipalities. Skilled and committed staff are essential for effective budget management, ensuring the municipality's financial well-being. From a management perspective, factors such as political interference and maladministration influence budget management.

7. Conclusion

The transition to a new model of public governance in post-apartheid South Africa aimed to address past exclusion and marginalisation. This study examined the impact of the NPM model on selected South African municipalities and identified ongoing challenges. While the NPM model, with its focus on various aspects of governance like financial management and service delivery, holds promise for improving residents' quality of life, persistent challenges pose financial and compliance risks. Despite NPM reforms, many municipalities continue to struggle with issues, highlighting the importance of political stability in governance and community well-being.

This research provided a comprehensive analysis of critical financial management practices within municipalities by focusing on the following variables to evaluate the financial performance of category B municipalities. Based on these variables, the study concludes as follows:

- **Risk Management:** Generally, municipalities have strong risk management frameworks, essential for mitigating risks such as financial fraud and operational inefficiencies. Compliance with the MFMA is crucial for effective risk management.
- **Budget Planning**: Influenced by political dynamics, funding constraints, and skilled personnel availability, inclusive planning and continuous training for staff and councillors are vital. Public participation ensures budgetary decisions reflect community needs.

- **Cash Flow Management**: Effective cash flow management is essential for fulfilling financial obligations and delivering services. Regular submission and review of cash flow projections are critical for financial stability.
- **Revenue Management**: Significant challenges include non-payment issues and insufficient revenue bases. Enhancing billing systems and collection practices are vital for financial sustainability.
- **Legislative Compliance**: Adherence to the MFMA and other regulations ensures transparency, accountability, and effective financial governance.

In conclusion, effective risk management, robust budget planning, strategic cash flow management, efficient revenue management, and strict legislative compliance are integral to municipalities' financial health and operational efficiency.

To address challenges faced by category B municipalities in relation to financial performance, the study advances the following recommendations:

- Municipal officials of the municipalities should subject themselves to accountability at all levels.
- There should be improved financial management, managerial controls, and the enforcement of rules and regulations.
- The South African national government should train via the school of national government municipalities on the effective implementation of the NPM to modernise how municipalities should function.
- Continuous improvement and adherence to best practices are necessary to enhance municipalities' ability to serve their communities effectively.

References

Adeyemi, O., 2013. Local government and the challenges of service delivery: The Nigeria experience. *Journal of Sustainable Development in Africa*, *15*(7), pp.84-98.

Ahmeti, R. and Vladi, B., 2017. Risk management in public sector: A literature review. *European journal of multidisciplinary studies*. Vol *2*(5):190-196.

Bird, R.M., 2011. Subnational taxation in developing countries: a review of the literature. Journal of International Commerce, Economics and Policy, Vol 2(01): 139-161.

Devers, K.J. and Frankel, R.M., 2000. Study design in qualitative research—2: Sampling and data collection strategies. *Education for health*. Vol*13*(2): 263-271.

Dynowska, J. and Cereola, S.J., 2018. Expectations Related to the Implementation of Performance Budget in Municipalities. Olsztyn Economic Journal, Vol 13(4): 475-486.

Fallaw, S.S., Grable, J.E. and Kruger, M., 2020. The household CFO: Using job analysis to define tasks related to personal financial management. *Financial Planning Review*. Vol 3(2): 1-21.

Hendriks, C.J., 2012. Integrated Financial Management Information Systems: Guidelines for effective implementation by the public sector of South Africa. *South African Journal of Information Management*. Vol 14(1): 1-9.

Kalonda, J.K. and Govender, K., 2021. Factors affecting municipal service delivery: A case study of Katima Mulilo Town Council, Namibia. African Journal of Public Affairs, 12(2), pp.1-26.

Kannaland Municipality. 2022. Report of the auditor- general to Western Cape Provincial Parliament and the council of Kannaland Municipality. https://www.kannaland.gov.za/resource-category/annual-reports. Volume 1 2021-2022 AG Report. [Accessed by 06 April]

Khaile, T., 2023. The effectiveness of Section 139 interventions in strengthening municipal accountability in South Africa. Journal of Local Government Research and Innovation, Vol 4: 10.

KrishnanVenkateswaran, R., 2014. Municipal financial management. Municipal Finances: A Handbook for Local Governments, p.93.

Lapuente, V. and Van de Walle, S., 2020. The effects of new public management on the quality of public services. *Governance*. Vol 33(3): 461-475.

Maluleke, T. 2022. Consolidated general report on local government audit outcomes MFMA 2020/21. https://www.agsa.co.za/Portals/0/Reports/MFMA/2020-21/FINAL_MFMA%202020-21%20GR_15%20June_2022%20tabling.pdf?ver=2022-06-15-095648-557 [Accessed by 05 April 2023]

Marumahoko, S., 2023. Urban local government service delivery in post-Mugabe Zimbabwe. In Global encyclopedia of public administration, public policy, and governance (pp. 13123-13130). Cham: Springer International Publishing.

Meyer,N. 2014. A Critical Analysis of Risk Management Knowledge within the Sedibeng District Municipality, South Africa. *Mediterranean Journal of Social Sciences*. Vol 5(7): 163-170.

Mishi, S., Mbaleki, N. and Mushonga, F.B., 2022. Financial mismanagement and efficiency trade-off in local municipalities: Lessons from Eastern Cape, South Africa. Journal of Local Government Research and Innovation, (3):16.

Mnguni, S. and Subban, M., 2022. Audit outcome challenges in local government: the case of three metropolitan municipalities in South Africa. African Journal of Public Affairs, Vol 13(1): 144-172.

Mosha, A.C., 2004. Challenges of municipal finance in Africa: Gaborone City, Botswana. In *2nd World Urban Forum Conference on challenges of city financing: Habitat's professionals forum and land urban poverty, organized by the Habitat Professionals Forum and the UN-Habitat.* Barcelona, Spain 13-17 September 2004

Mosha, A., 2010. *Challenges of municipal finance in Africa: With special reference to Gaborone City, Botswana*. Un-Habitat.

Mpehle, Z. and Qwabe, B., 2008. Performance auditing as means to entrench professional ethos in the public sector: A South African local government perspective. *Journal of Public Administration*. Vol 43(si-1): 258-270.

National Treasury. Nd.Normative Measures for Financial Management: Phase I: Perfecting the Basics). https://www.treasury.gov.za/legislation/pfma/normative%20measures/Normative%20Measures%20Phase%20I.pdf. [Accessed on the 30 March 2023]

National Treasury. Combined Assurance Practical Approach and Reporting Key Learning's. Available at file:///C:/Users/Admin/Downloads/2.%20System%20of%20Combined%20Assurance%20and%20Institutional%20performance%20%20A%20Moosa%20and%20JC%20Heyns.pdf .[Access by 08 March 2023].

Nel,D. 2019. Risk management in the South African local government and its impact on service delivery. *International Journal of Management Practice.* Vol 12(1):60-80.

Rana, T., Steccolini, I., Bracci, E. and Mihret, D.G., 2022. Performance auditing in the public sector: A systematic literature review and future research avenues. *Financial Accountability & Management*. Vol *38*(3): 337-359.

Ridha, M.B., Alnaji, L. 2015. Analysis and Measurement of Risks in Business: A Case Study on the Jordan Valley Authority. *European Journal of Business and Management*. Vol 7(9): 9-19.

Rubakula, G., 2014. The new public management and its challenges in Africa. *Public Policy and Administration Research*, Vol 4(4): 85-96.

Teshome, F.B., 2021. Municipal solid waste management in Ethiopia; the gaps and ways for improvement. Journal of Material Cycles and Waste Management, Vol 23: 18-31.

Tetnowski, J., 2015. Qualitative case study research design. Perspectives on fluency and fluency disorders, Vol 25(1): 39-45.

Thornhill, C., Van Dijk,G., ILE, I. 2014. Public Administration & Management in South Africa: A developmental Perspective. Oxford University Press. South Africa.

White, C.J. and Van Dyk, H., 2019. Theory and practice of the quintile ranking of schools in South Africa: A financial management perspective. *South African Journal of Education*, Vol 39(1): 1-19.

Whittle, C.E. and Nel-Sanders, D., 2022. The regulatory framework for enterprise risk management in South African local government. Africa's Public Service Delivery & Performance Review, Vol 10 (1): 8.

Zweni, A.G., Yan, B. and Uys, C., 2022. Modelling budget management for public service in South African Municipalities: A structural equation modelling approach. Journal of Local Government Research and Innovation, Vol 3: 14.