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Coalition effects on financial and service delivery performance in metropolitan municipalities in Gauteng

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Background: The South African electoral system does not favour a winner-takes-all situation. It is designed for a possible political coalition government on the basis of an electoral outcome below the 50+1 at the national, provincial and local government levels. Thus, the 2021 Local Government elections delivered nine hung municipal councils in Gauteng province. This implies that the sphere of local government has now entered an electoral epoch shaped by a multi-party system without an outright majority for a majority-led municipal council in at least 70 municipal councils throughout the country.

Aim: The objective of this study was to evaluate the financial and service delivery performance of the metropolitan municipalities of Gauteng province.

Methods: The study used a qualitative research approach in the form of secondary data analysis, in which documentary and literature reviews were conducted to answer the research question using financial ratio analysis to examine the financial performance of metropolitan municipalities governed by political coalitions.

Results: The study found that the revenue of these metropolitan areas under political coalitions is not sustainable. Additionally, the expenditure is not credible, and the budgets do not respond to the needs of the poor. Furthermore, budgets are not passed in time, which compromises and deteriorates service delivery.

Conclusion: Political parties that are involved in political coalitions in these metropolitan municipalities do not adhere to the political coalition agreements, and this leads to failing governance in these municipalities. The study makes a valuable contribution by suggesting an integrated approach to financial and service delivery performance.

Contribution: This study makes several salient contributions by suggesting an integrated approach of financial performance and service delivery in metropolitan municipalities arising from the advent of coalitions in these municipalities.

Keywords: Gauteng; coalitions; service delivery; financial performance; debt ratio; credit control; municipal finance; audit outcome; annual financial statements.

Introduction

The local government sphere is in turmoil in South Africa. This is a familiar phrase that is difficult to refute, not only because of the situation in many communities but also because it has been reported by the Auditor-General of South Africa in recent years. The 2019–2020 municipal audit results indicated that only 10% of municipalities managed to get a clean audit, while more than a quarter were in doubt as going concerns, and nearly a third ended the financial year running on a deficit (Maluleke 2022). As such, financial mismanagement has a negative impact on service delivery in South Africa and, in most cases, leads to violent service delivery protests.

In South Africa, metropolitan municipalities have financial autonomy and they report their financial affairs to the National Treasury as compared to local municipalities and district municipalities who report to the relevant Provincial Treasuries. Metropolitan municipalities are classified as category A municipalities. Currently, there are eight metropolitan municipalities (Buffalo City; City of Cape Town; City of Johannesburg; City of eThekwini;

Nelson Mandela Metropolitan Municipality; City of Tshwane; Ekurhuleni Municipality and Mangaung Municipality). Thus, the focus and locus will be on metropolitan municipalities in Gauteng province.

The revenue streams of these municipalities have been under pressure since the 2018–2019 financial year to date as the slower economy affects households and increases debtor collection days (Maluleke 2022). Maluleke (2022) further adds that in most metropolitan municipalities in Gauteng, the high unemployment rate within communities has also contributed to the lower collection of revenue from service charges. These municipalities need to implement stringent credit control measures and revenue enhancement strategies, and alternative revenue streams are critical.

Only the City of Ekurhuleni received an unqualified audit with no findings (clean audit) in Gauteng in the past 3 years (2018–2019 till 2020–2021). However, the municipality has since lost its clean status in the last financial year of 2021–2022. Ekurhuleni municipality underspent by 81.4% on its operating budget in the 2021–2022 financial year (Municipal Money 2023). Furthermore, the metropolitan municipality had a −R13 533 919 038.00 cash balance at the end of the 2021–2022 financial year.

The City of Tshwane and the City of Johannesburg regressed to adverse and disclaimed audit opinions respectively and had material irregularities in the 2021–2022 fiscal year as a result of non-compliance with procurement processes, assets of the municipality not safeguarded, revenue not billed and suspected fraud (Maluleke 2022). However, the City of Johannesburg had a positive cash balance of R4 722 549 104.00 at the end of 2021–2022 financial year; this means operating expenses can be paid for with the cash available for 5.2 months, the operating budget was underspent by 82.9%.

Several studies have been conducted on political coalitions in local government in South Africa regarding service delivery in metropolitan municipalities (Hanabe & Malinzi 2019; Joshua, James & Titos 2022; Mokgosi, Shai & Ogunnubi 2017). Some studies have looked at the policy, administrative and legislative framework of these coalitions (Munzhedzi 2020; Nzimakwe 2022; Olver 2021).

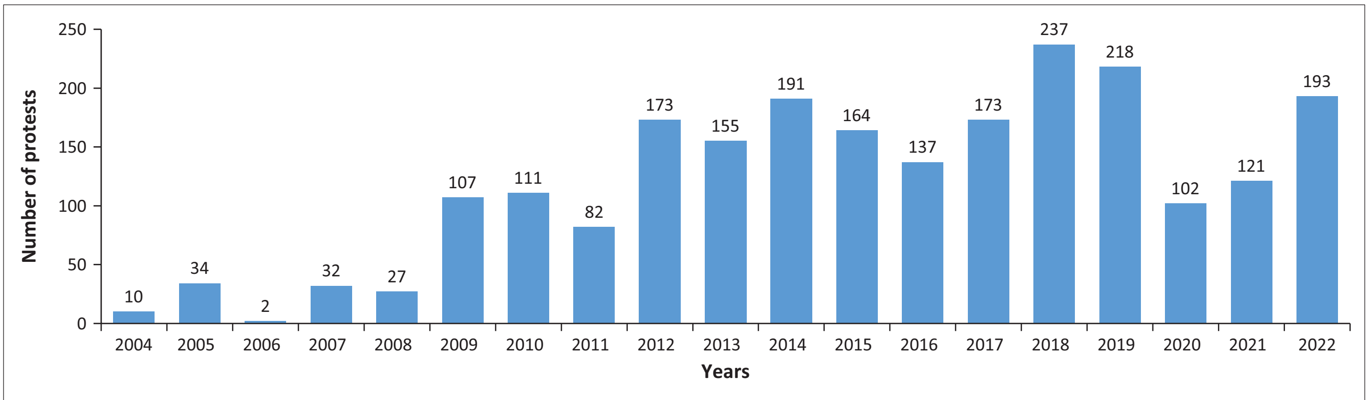
These studies did not look at the financial and service delivery performance of metropolitan municipalities. Furthermore, some of these studies used different methods to answer the issues related to service delivery. However, most researchers agree that political coalitions in metropolitan municipalities are not stable and, as such, service delivery is compromised.

Background

The results of the sixth local elections, held on 21 November 2021, were as follows: African National Congress (ANC) (47.9%), Democratic Alliance (DA) (20.0%), Economic Freedom Fighters (EFF) (10.6%), Inkatha Freedom Party (IFP) (6.3%), VryheidsFront Plus (VF Plus) (2.3%), Action SA (1.8%) and Independent Candidates (IND) (1.3%) (Independent Electoral Commission 2021). With the increase in hung municipal councils from 27 in 2016 to 66 in 2021, political parties formed political coalitions to run councils and pass budgets, particularly in metropolitan municipalities. However, most of these political parties are far apart ideologically. As such, political turmoil and conflict between the political and management components of the South African local government have also harmed service delivery (Reddy 2019:1). Therefore, it is critical to assess the state of service delivery and financial performance under these political coalitions.

In terms of service delivery, Figure 1 shows the number of violent service delivery protests in municipalities on a year-to-year basis from 2004 to 2022. These protests create high levels of dysfunction and governance challenges in municipalities. The functioning of municipalities is worsening, and residents no longer have confidence in the governing party.

Figure 1 shows that many South African communities are dissatisfied with the services provided by municipalities, particularly between the first political coalition era in 2016,



Source: Municipal IQ, 2022, *Municipal hotspots*, viewed May 2022, from https://www.municipaliq.co.za/index.php

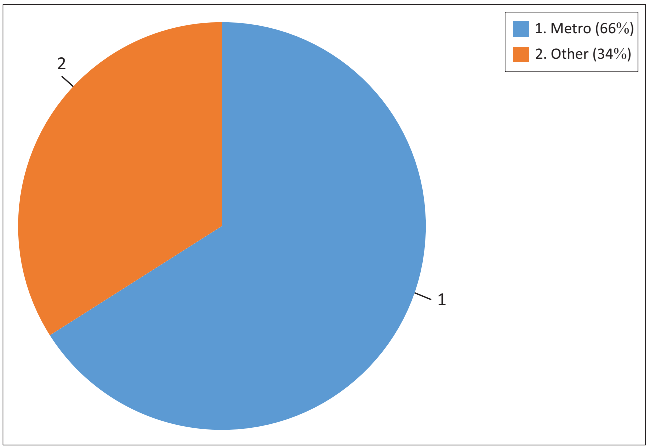
FIGURE 1: Service delivery protests in South Africa (2004–2022).

and subsequently in 2022. When residents do not receive what they are required to receive from the government, especially from municipalities, as specified in the Constitution, they usually express their dissatisfaction through protests. Therefore, service delivery remains a major concern in South Africa, particularly under political coalition governments. Figure 2 shows the civil unrest in South Africa.

According to Figure 2, metropolitan municipalities had the most civil unrest in the country. KwaZulu-Natal recorded 62% of these unrests, whereas Gauteng recorded 38%. Figure 3 shows the actual location of these protests.

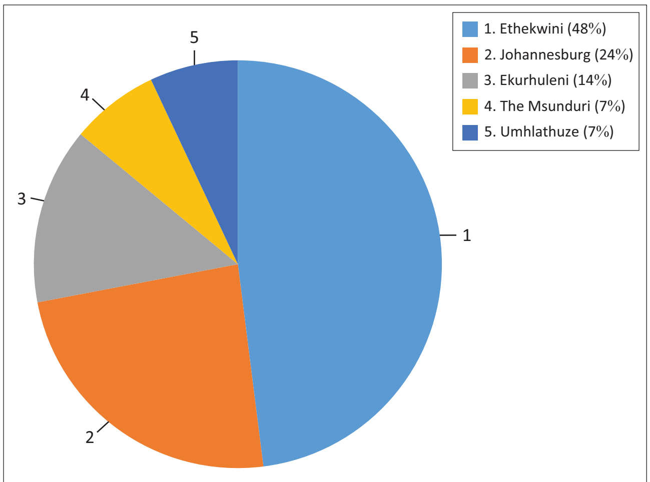
Although the metropolitan municipality of eThekwini had the highest number of incidents, the focus of this study is on the metropolitan municipalities in Gauteng province.

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



Source: Municipal IQ, 2022, *Municipal hotspots*, viewed May 2022, from https://www.municipaliq.co.za/index.php

FIGURE 2: Civil unrest in South Africa.



Source: Municipal IQ, 2022, *Municipal hotspots*, viewed May 2022, from https://www.municipaliq.co.za/index.php

FIGURE 3: Location of protests.

Section 151 of the Constitution defines the goals of municipal government, which are to provide services to citizens in a suitable way, to maintain social and economic growth, stimulate health, and ensure that communities live in a safe environment (Republic of South Africa 1996). The Constitution was formulated with the intention of democratising the republic and eradicating the inequalities attributed to the previous apartheid regime so as to raise the standard of living of all South Africans and allow them to enjoy equal rights. Figure 4 illustrates the role of the Republic's Constitution in framing these rights.

It is evident from the roles included in Figure 4 that the goal is to create a governance and value-based structure for residents to receive services. The Constitution also mandates the government to utilise public resources in an efficient and effective manner, and further it emphasises the importance of holding various government institutions, particularly local government, to be accountable to the people.

Section 11(3) of the Local Government: Municipal Systems Act 32 of 2000 (RSA 2000) provides that 'A municipality exercises its legislative or executive authority by:

- developing and adopting policies, plans, strategies and programmes, including setting targets for delivery
- promoting and undertaking development …
- providing municipal services to local communities …
- preparing, approving and implementing … budgets'.

Study objective

The objective of this study was to evaluate the effects of political coalitions on the financial and service delivery performance in selected metropolitan municipalities in Gauteng province. The selected municipalities are the City of

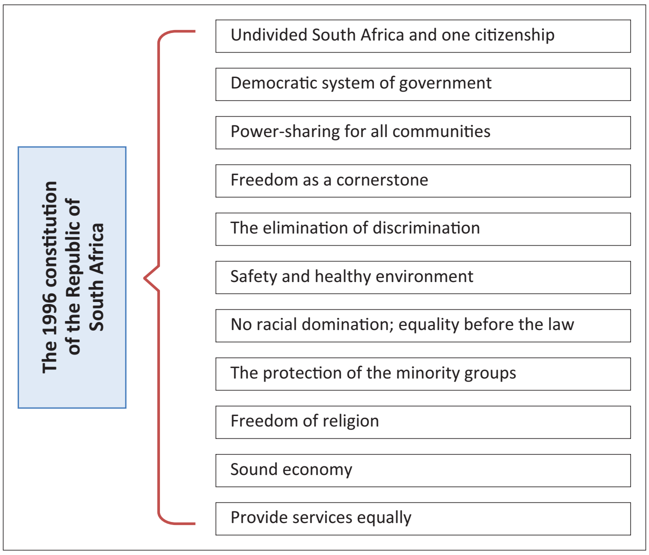


FIGURE 4: The Constitution of South Africa.

Tshwane, the City of Johannesburg and the City of Ekurhuleni. The rationale for selecting these metropolitan municipalities is the political instability in them and the infighting between the coalition partners. This affects the operation of these municipalities and has a potential effect on the delivery of services and financial performance. The study focusses on the coalition period in the 2020–2021 and 2021–2022 financial years. These municipalities were governed by coalition agreements before the 2021 election cycle; hence, the study included the fiscal year 2020–2021 to assess how they performed in the last financial year of the previous voting cycle (2016 to 2021).

Methodology

The study used a qualitative research approach with secondary data to answer the research question, which was to evaluate the financial and service delivery performance of the metropolitan municipalities of Gauteng province. In relation to service delivery, the study used documentary and literature reviews, and for the financial analysis component, secondary data were obtained from the audited financial statements of these municipalities to calculate financial ratios to evaluate their financial performance in the 2020–2021 and 2021–2022 financial years. Furthermore, the study used a multiple case study approach. Vohra (2014) defines a multiple case study as an in-depth examination of occurrences of a phenomenon in its natural setting and from the viewpoint of the phenomenon's participants in multiple organisations. Gustafsson (2017) defines a multiple case study as an in-depth investigation of persons, a group of people or units with the intention of generalising over various units.

According to Gustafsson (2017), a multiple case study is a popular approach among researchers in the social sciences. A multiple case study differs from a single case study in that the researcher examines several cases to understand the differences and similarities between them (Gustafsson 2017; Zieba, Bolisani & Scarso 2016). Using a multiple case study technique, the researchers were able to investigate the financial and service delivery performance of three metropolitan municipalities in Gauteng province by broadening the investigation of the research question. Multiple case studies enabled the researchers to compare the results of three separate cases.

Political coalitions in South African municipalities

As a result of changes in electoral systems around the world, most countries have adopted the coalition government system. The preference for a political coalition or a single-party government influences any evaluation of a new electoral system. Political coalitions have their origins in countries in Europe (Mokgosi et al. 2017:40). Mokgosi et al. (2017:53) posit that 'political parties that form a political coalition to co-govern must somehow have a concrete plan to carry out their responsibilities in ways that support their obligation'. Political kingmakers in South Africa, such as the EFF and Action SA, will play a crucial role in ensuring that these political coalitions work positively for the advancement of the poor.

Although there have been some remarkably stable political coalitions that have been able to insulate the administration from political infighting and build well-performing administrations, coalitions in local government have tended to amplify problems at the political-administrative interface. There have been some unstable political coalitions in South Africa, particularly in metropolitan municipalities that the ANC lost in 2016, namely the City of Tshwane and the City of Johannesburg. Some smaller political parties have contributed to this problem by constantly switching sides and allegiances. This was seen in Nelson Mandela Bay, where the United Democratic Movement (UDM) was unpredictable in its allegiances from 2016 to 2021.

In South Africa, there is a lack of separation of powers between political parties and councillors, which has resulted in widespread friction between political office-bearers and municipal administrations. Political turbulence arising in metropolitan municipalities remains a crucial factor in service delivery. In 2020, the Municipal Council of the City of Tshwane was dissolved by the Gauteng Provincial Government by invoking Section 139(1)(c) of the Constitution of the Republic of South Africa, 1996, and in part, the reasons given for the dissolution was a deadlock in the municipal council. No party could win a debate or gain an advantage, and no action could be taken by the municipal council, which had no mayor, mayoral committee or municipal manager.

Unpacking state of service delivery

State of service delivery

In South Africa, the delivery of services means the provision of basic services to citizens within the jurisdiction of a particular municipality to improve their quality of life. Despite the fact that the nation has made immense progress in improving quality of life since 1994 by providing basic services to previously unsettled and underserved families, the Constitution mandates municipalities to provide services to residents, which so far they are failing to do in many parts of South Africa. The Constitution requires municipalities to provide the following basic services:

- healthcare
- housing
- safety
- sanitation and water
- electricity
- roads and infrastructure
- local economic development (LED).

Municipalities have an obligation to provide healthcare services to all residents through clinic services on behalf of the provincial government. Section 27 of the Bill of Rights requires that all people have access to adequate and safe drinking water. Municipalities should offer basic, safe sanitation facilities that are simple to maintain and keep smell to a minimum. However, in some municipalities, sanitation remains a major challenge.

Housing is the most needed service in democratic South Africa because many people are affected by poverty. Some people live in awful conditions. Housing is considered a driver of economic growth and has the potential to provide a significant boost to the economy. The Constitution recognises the importance of housing as a basic human necessity in South Africa; however, the South African government, particularly municipalities, fail to provide adequate housing to citizens, despite the introduction of several government initiatives to address the demand for housing.

Sanitation has a huge impact on the environment of any municipal area. Although the rate of improvement in sanitation remains modest, few households have access to flush toilets. It is the constitutional mandate of municipalities to eradicate the bucket system in their jurisdictions to improve quality of life. In some of these metropolitan municipalities in Gauteng, refuse is rarely collected, affecting the environment. In addition, roads are not rehabilitated or maintained at all and are falling apart. Residents also are not provided with adequate electrification. Citizens need adequate housing to access basic municipal services to improve their quality of life.

The delivery of primary healthcare in South Africa has been affected by several issues that have a negative effect on the quality of healthcare (Maphumulo & Bhengu 2019:1). Metropolitan municipalities in Gauteng should strive to improve the health of their communities by providing access to basic services. According to Molinyane (2012:3), South African metropolitan municipalities have a huge backlog in service delivery. 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 promise residents in their manifestos that they will provide quality services, but when elected to power or office, they fail to implement these promises in relation to primary health, water and sanitation, and housing, among others (Ntliziywana 2017:17). Ntliziywana (2017:17) has identified the following challenges that affect delivery in the Cities of Tshwane, Johannesburg and Ekurhuleni:

- poor accountability of municipal officials
- lack of communication with residents
- political interference in administration
- political instability
- fraud and corruption
- poor budget and financial management
- lack of skilled employees.

In 2019, 2 895 124 indigent households were registered by the City of Tshwane, the City of Johannesburg, and the City of Ekurhuleni, but only:

- 1 890 691 were listed as receiving free basic electricity
- 2 163 082 were listed as receiving free water
- 1 537 749 were listed as receiving free sanitation
- 1 991 925 were listed as receiving free waste removal (StatsSA 2019).

The aforementioned challenges are the main reasons why South Africa has seen numerous violent protests about insufficient service delivery. Municipalities not only have a duty to provide services to citizens, but they also have a duty to ensure that they improve the living standards of 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 when municipalities strengthen community participation in the integrated development plan (IDP) process. Reddy (2016:4) identified other challenges that have affected service delivery, such as

- unfunded mandates
- financial viability
- legal compliance
- fiscal discipline
- clear LED plan for the City of Tshwane, the City of Johannesburg and the City of Ekurhuleni.

The aforementioned challenges require the commitment of oversight bodies such as the municipal council, municipal public accounts committees, internal audit units, audit and performance committees, political office bearers and all stakeholders in the municipality, including employees.

Financial performance

The allocation of scarce resources must be carried out judiciously within municipal financial means, and by ensuring optimal utilisation. According to Mafini and Loury-Okoumba (2018), having effective financial management systems has an impact on the overall performance of the organisation. Managing finances efficiently is one of the techniques for financial management. Municipal leaders should conduct their duties with diligence. Financial performance can be assessed by the ability of an organisation to utilise its assets for revenue generation during a specific time frame.

According to Sari, Tjahjono and Turino (2018:82), financial performance in local government is measured by calculating ratios such as quick, profitability and liquidity ratios. Effective financial performance can be measured through effective collection of revenue owed to the state or the public sector, and by paying creditors in time as required by the law. According to Zweni (2022:111), effective cash flow management systems can improve the financial performance of metropolitan municipalities. To achieve effective organisational performance, it is essential to have efficient and competent management (Arnaboldi, Lapsley and Steccolini 2015). Financial ratio analysis will be used to compare the financial performance of coalition municipalities over the years from 2018–2019 to 2019–2020 prior to political coalition agreements and during political coalitions from 2020–2021 to 2021–2022.

Financial ratio analysis

The goal of compiling a company's financial statements is to provide information to all interested parties about the organisation's overall performance and situation. Furthermore, users of these financial accounts are thereby exposed to the organisation's financial strengths and shortcomings (Adedeji 2014:39). Adedeji (2014:39) adds that one approach to interpreting financial statements is through ratio analysis. Arkan (2016:16) posits that ratio analysis is a prominent financial analysis tool. The rationale behind ratio analysis is that it makes related data comparative (Haralayya 2021:173). Thus, for this study, only the debtors' collection rate ratio, current ratio and solvent ratio are used. The rationale behind this choice is that these ratios are calculated not only for private organisations but are also relevant for and applicable in the public sector (Husna & Satria 2019).

Financial ratios from 2018–2019 to 2019–2020

Debtors management ratio

Collection ratios: The aforementioned ratio represents the collection rate or the level of payments. It measures changes in debtors in relation to annual billed revenue, and the norm for this ratio is 95% (National Treasury 2014:5). Table 1, Table 2 and Table 3 show the calculations for the City of Ekurhuleni Metropolitan Municipality, the City of Tshwane Metropolitan Municipality and the City of Johannesburg Metropolitan Municipality, respectively.

According to Table 1, the municipality's collection rate is below the 95% norm; the actual collection rate was 73% in the 2018–2019 financial year and 72% in the 2019–2020 financial year, respectively. This indicates a decline of 1% from 2018–2019 to 2019–2020. This suggests that the municipality is not collecting money for the services provided as it should. To improve revenue collection and management, the municipality should closely adhere to the *Municipal Finance Management Act* (MFMA), Treasury regulations and municipal procedures. Table 2 shows calculations of the debtors' collection rate ratio for the City of Tshwane Metropolitan Municipality.

According to Table 2, the municipality achieved the norm (95%) in the 2018–2019 fiscal year; it has since declined by 1% in the 2019–2020 financial year. Table 3 shows calculations of the debtors' collection rate ratio for the City of Johannesburg Metropolitan Municipality.

Table 3 indicates an increase in relation to this ratio from 76% in the 2018–2019 fiscal year to 80% in the 2019–2020 financial year. The 4% increase suggests that the municipality improved its debtors' management systems, and residents and businesses were willing to pay during this period.

Current ratio: According to Babalola and Abiola (2013:134), the analysis of the current ratio is a link between the current assets and current liabilities of an organisation. This ratio assesses management efficiency in an organisation (Husna & Satria 2019:50) or put in more simple terms, how much current assets can be used to meet short-term obligations (Sunaryo 2022:383). If a value of less than one is obtained in this ratio, it should be noted that an organization has less than R1.00 in current assets available to cover R1.00 of current liabilities (Els, Erasmus & Viviers 2014).

TABLE 1: City of Ekurhuleni Metropolitan Municipality debtors' collection rate.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Collection rate	(Gross debtors' closing balance + billed revenue – Gross debtors' opening balance –Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	73%	72%
				Gross debtors' closing balance	19 789 560 480	20 899 450 203
				Gross debtors' opening balance	15 287 450 200	16 200 304 289
				Bad debts written off	3 001 515 227	3 500 415 230
				Billed revenue	28 192 500 607	29 781 482 800

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

TABLE 2: City of Tshwane Metropolitan Municipality debtors' collection rate.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Collection rate	(Gross debtors' closing balance + Billed revenue – Gross debtors' opening balance – Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	95%	94%
				Gross debtors' closing balance	R15 200 789 460	R16 219 900 460
				Gross debtors' opening balance	R15 060 780 200	R16 000 880 220
				Bad debts written off	R1 220 550 278	R1 445 600 450
				Billed revenue	R27 890 498 230	R29 900 498 320

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

TABLE 3: City of Johannesburg Metropolitan Municipality Debtors' collection rate.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Collection rate	(Gross debtors' closing balance + Billed revenue – Gross debtors' opening balance – Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	76%	80%
				Gross debtors' closing balance	R29 501 600 200	R32 111 551 000
				Gross debtors' opening balance	R25 428 680 000	R28 509 754 000
				Bad debts written off	R6 203 018 000	R5 925 118 000
				Billed revenue	R42 890 702 000	R46 505 089 000

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

The ratio in Table 4 shows the municipality's ability to satisfy its short-term obligations (current liabilities) with short-term liquid assets (current assets). The ratio grew by 0.03% from the 2018–2019 to 2020–2021 financial year, with 1.42 and 1.45 ratios, respectively. This is within the acceptable range. Total current assets surpassed total current liabilities. The rule suggests that current assets must be larger than current obligations by 1.5 to 2:1, as defined in National Treasury Circular 71 (2014). Table 5 shows the calculations of the City of Tshwane Metropolitan Municipality.

The ratio in Table 5 shows the municipality's ability to fulfil its short-term obligations (current liabilities) with short-term liquid assets. The ratio has reduced by 0.03 points and is not within the acceptable range. The entire current liabilities exceeded the entire current assets. The current ratio of the City of Johannesburg Metropolitan Municipality is calculated in Table 6.

The ratio in Table 6 measures the municipality's ability to meet short-term obligations (current liabilities) with short-term liquid assets. The results indicated that the municipality was able to meet its short-term obligations with its current assets. However, the ratio fell by 0.8 points from the 2018–2019 financial year (1.31) to (1.23) in the 2019–2020 financial year. The overall current obligations did not exceed the total current assets.

Solvency ratio: Brăžndescu-Olariu (2016) defines the solvency ratio as a company's ability to repay long-term debts and commitments (Satryo, Rokhmania & Diptyana 2017). The solvency ratio of the Ekurhuleni Metropolitan Municipality is calculated in Table 7.

Table 7 demonstrates that the Ekurhuleni Municipality achieved ratios of 2.77 and 2.82 (above the norm of 1.5 to 2:1) in the fiscal years 2018–2019 and 2019–2020, respectively. The ratio in Table 7 demonstrates that, among other long-term debts and commitments, the municipality can afford to pay its contractors and service providers. The solvency ratio of the City of Tshwane Metropolitan Municipality is calculated in Table 8.

According to Table 8, the Tshwane Municipality achieved ratios of 1.99 and 2.03 (beyond the norm of 1.5 to 2:1) in the fiscal years 2018–2019 and 2019–2020, respectively. The ratio in Table 8 indicates the entity's ability to finance long-term debts or commitments. The City of Tshwane may proceed as usual with this. When the value of the

TABLE 4: Current ratio of the City of Ekurhuleni Metropolitan Municipality.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Current ratio	Current assets/Current liabilities	Statement of financial position, Budget, IDP and AR	1.5–2:1	-	1.42	1.45
				Current assets	R21 250 784 000	R23 600 120 000
				Current liabilities	R15 000 200 000	R16 300 100 000

IDP, integrated development plan; AR, annual report.

TABLE 5: Current ratio of the City of Tshwane Metropolitan Municipality.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Current ratio	Current assets /Current liabilities	Statement of financial position, Budget, IDP and AR	1.5–2:1	-	0.69	0.72
				Current assets	R10 238 125 002	R10 001 589 001
				Current liabilities	R14 850 899 210	R13 899 674 478

IDP, integrated development plan; AR, annual report.

TABLE 6: Current ratio of the City of Johannesburg Metropolitan Municipality.

Ratio	Formula	Source document	Norm	Calculation	2018–2019	2019–2020
Current ratio	Current assets /Current liabilities	Statement of financial position, Budget, IDP and AR	1.5–2:1	-	1.31	1.23
				Current assets	R18 204 500 696	R17 908 639 805
				Current liabilities	R13 899 305 788	R14 524 638 900

IDP, integrated development plan; AR, annual report.

TABLE 7: Solvency ratio of the Ekurhuleni Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2018–2019	2019–2020
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	2.77	2.82
				Total assets	R76 196 070 003	R72 001 800 481
				Total liabilities	R27 545 693 403	R25 545 693 403

AFS, annual financial statements; AR, annual report.

TABLE 8: Solvency ratio of the City of Tshwane Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2018–2019	2019–2020
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	1.99	2.03
				Total assets	R55 576 381 424	R60 800 710 424
				Total liabilities	R31 335 199 959	R29 939 332 500

AFS, annual financial statements; AR, annual report.

municipality's assets exceeds the value of its liabilities, it has enough solvency. The solvency ratio of the City of Johannesburg Metropolitan Municipality is calculated in Table 9.

According to Table 9, the Johannesburg Municipality achieved a ratio of 2.33 in the 2018–2019 financial year and 2.35 in the 2019–2020 financial year, more than the norm of 1.5 to 2:1.

Financial ratios from 2020–2021 to 2021–2022

Debtors management ratio

Collection rate: The municipality's collection rate is below the 95% norm; the actual collection rate was 75% in the 2020–2021 financial year, with a 5% decrease to 70% in the 2021–2022 financial year (Table 10). This indicates that the municipality is not collecting money for services supplied, as it should.

The municipality's collection rate decreased from 96% in the 2020–2021 financial year to 87% in the 2021–2022 financial year, which was below the 95% norm set out in Circular 71 of the National Treasury (2014) (Table 11). Therefore, the municipality did not perform according to the norm in 2021–2022.

Table 12 indicates that the collection rate of the municipality was 74% and 78%, respectively; this performance is below the norm (95%). Table 13 outlines the summary of the debt collection rate of the metropolitan municipalities in Gauteng. The public sector and individual clients' desire to pay (private residents and households) may be to blame for this poor collection rate. This situation might also be attributed to a lack of credit management procedures and processes.

The municipalities' collection rate was less than the norm of 95%, showing that they were not collecting money for services supplied, as they should. As a result, the cash flow of these municipalities is affected severely, which has a direct influence on their sustainability. However, the City of Tshwane's collection rate has increased, which is a good indicator for the municipality.

Current ratios: Table 14 shows the calculations of the current ratio of the City of Ekurhuleni Metropolitan Municipality.

TABLE 13: Summary of debtors' collection rate.

Municipality	2018–2019 (Norm 95%)	2019–2020 (Norm 95%)	2020–2021 (Norm 95%)	2021–2022 (Norm 95%)
City of Johannesburg MM	76	80	74	78
City of Ekurhuleni MM	73	72	75	70
City of Tshwane MM	95	94	96	87

MM, metropolitan municipalities.

TABLE 9: Solvency ratio of the City of Johannesburg Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2018–2019	2019–2020
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	2.33	2.35
				Total assets	R100 078 810 000	R101 309 310 000
				Total liabilities	R42 947 332 000	R43 100 690 000

AFS, annual financial statements; AR, annual report.

TABLE 10: City of Ekurhuleni Metropolitan Municipality debtors' collection rate.

Ratio	Formula	Source document	Norm	Calculation	2020–2021	2021–2022
Collection rate	(Gross debtors' closing balance + Billed revenue – Gross debtors' opening balance – Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	75%	70%
				Gross debtors' closing balance	R21 971 662 677	R27 920 936 257
				Gross debtors' opening balance	R18 383 437 309	R21 971 662 677
				Bad debts written off	R4 212 619 324	R4 819 760 979
				Billed revenue	R31 292 529 703	R36 089 862 882

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

TABLE 11: City of Tshwane Metropolitan Municipality debtors' collection rate.

Ratio	Formula	Source documents	Norm	Calculations	2020–2021	2021–2022
Collection rate	(Gross debtors' closing balance + Billed revenue – Gross debtors' opening balance – Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	96%	87%
				Gross debtors' closing balance	R16 989 016 570	R18 514 613 523
				Gross debtors' opening balance	R17 030 252 596	R16 989 016 570
				Bad debts written off	R1 355 860 388	R2 601 808 658
				Billed revenue	R30 491 540 768	R32 246 010 273

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

TABLE 12: City of Johannesburg Metropolitan Municipality debtors' collection rate.

Ratio	Formula	Source documents	Norm	Calculation	2020–2021	2021–2022
Collection rate	(Gross debtors' closing balance + Billed revenue – Gross debtors' opening balance – Bad debts written off)/Billed revenue × 100	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget, In-Year Reports, IDP and AR	95%	-	74%	78%
				Gross debtors' closing balance	R39 790 879 000	R44 921 958 000
				Gross debtors' opening balance	R34 111 551 000	R39 790 879 000
				Bad debts written off	R6 388 746 000	R5 862 208 000
				Billed revenue	R45 744 728 000	R48 970 850 000

IDP, integrated development plan; AFS, annual financial statements; AR, annual report.

The ratio in Table 14 indicates the municipality's ability to meet its short-term obligations (current liabilities) with short-term liquid assets (current assets). The ratio increased by 0.03% points and is not within the accepted norm. The total current assets do not exceed the total current liabilities. The norm indicates that current assets must be more than current liabilities by 1.5 to 2:1, as stipulated in Circular 71 of the National Treasury (2014). The current ratio of the City of Tshwane Metropolitan Municipality is calculated in Table 15.

The ratio in Table 15 indicates the municipality's ability to meet its short-term obligations (current liabilities) with short-term liquid assets (current assets). The ratio decreased by 0.15 points, and it is not within the accepted norm. The total current liabilities exceeded the total current assets. The current ratio of the City of Johannesburg Metropolitan Municipality is calculated in Table 16.

The ratio indicates the municipality's ability to meet its short-term obligations (current liabilities) with short-term liquid assets (current assets). The ratio decreased by 0.18 points, and it is not within the accepted norm. Total current liabilities exceeded total current assets.

Solvency ratios: According to Brãžndescu-Olariu (2016), the solvency ratio assesses a company's capacity to meet long-term debts and obligations (Satryo et al. 2017). Therefore, comparing total assets and total debt capital is of great importance for an organisation (Els et al. 2017:83). As such, the solvency ratio of the Ekurhuleni Metropolitan Municipality is calculated in Table 17.

Table 17 shows that the Ekurhuleni Municipality achieved ratios of 3.17 and 2.97 (more than the norm of 1.5 to 2:1) in the 2020–2021 and 2021–2022 fiscal years, respectively. The percentage in Table 17 shows that among other long-term debts and commitments, the municipality can afford to pay its contractors, service providers and Eskom debt. The entity is performing above the average, which is 2.97 and 3.17 for 2021–2022 and 2020–2021, respectively, compared to the norm of 1.5–2:1. The solvency ratio of the City of Tshwane Metropolitan Municipality is calculated in Table 18.

According to Table 18, the Tshwane Municipality achieved ratios of 2.27 and 2.18 (more than the norm of 1.5 to 2:1) in the 2020–2021 and 2020–2022 fiscal years, respectively. The entity's ability to finance its long-term debts or commitments is shown by the ratio in Table 18. The City of Tshwane may continue as usual with this. The entity is performing above the average, which is 2.18 and 2.27 for 2021–2022 and 2020–2021, respectively, compared to the norm of 1.5–2:1. Thus, the total assets and total debt capital of the City of Tshwane

TABLE 14: Current ratio of the City of Ekurhuleni Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculation	2021–2022	2020–2021
Current ratio	Current assets/current liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	0.87	0.84
				Current assets	R11 829 526 365	R10 081 033 252
				Current liabilities	R13 578 833 491	R11 944 634 193

AFS, annual financial statements; AR, annual report.

TABLE 15: Current ratio of the City of Tshwane Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculation	2021–2022	2020–2021
Current ratio	Current assets/current liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	0.54	0.69
				Current assets	R8 586 616 103	R9 551 172 383
				Current liabilities	R15 959 396 049	R13 926 652 890

AFS, annual financial statements; AR, annual report.

TABLE 16: Current ratio of the City of Johannesburg Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculation	2021–2022	2020–2021
Current ratio	Current assets/current liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	0.98	1.16
				Current assets	R17 300 134 000	R17 450 867 000
				Current liabilities	R17 692 077 000	R15 023 406 000

AFS, annual financial statements; AR, annual report.

TABLE 17: Solvency ratio of Ekurhuleni Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2021–2022	2020–2021
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	2.97	3.17
				Total assets	R77 236 048 463	R74 914 960 670
				Total liabilities	R26 043 693 345	R23 621 011 637

AFS, annual financial statements; AR, annual report.

TABLE 18: Solvency ratio of the City of Tshwane Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2021–2022	2020–2021
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	2.18	2.27
				Total assets	R68 417 038 329	R69 130 898 680
				Total liabilities	R31 335 199 959	R30 431 301 270

AFS, annual financial statements; AR, annual report.

TABLE 19: Solvency ratio of the City of Johannesburg Metropolitan Municipality.

Ratio	Formula	Source documents	Norm	Calculations	2021–2022	2020–2021
Solvency ratio	Total assets/total liabilities	Statement of financial position, Statement of financial performance, Notes to the AFS, Budget and AR	1.5–2:1	-	2.31	2.31
				Total assets	R104 412 188 000	R102 255 765 000
				Total liabilities	R45 221 720 000	R44 232 660 000

AFS, annual financial statements; AR, annual report.

Metropolitan Municipality are quite important. When the value of the municipality's assets exceeds the value of its liabilities, it has sufficient solvency.

According to Table 19, the Johannesburg Municipality achieved a ratio of 2.31, more than the norm of 1.5 to 2:1, in both the 2020–2021 and 2021–2022 fiscal years. As previously mentioned, the ratio of Table 19 shows that the firm can afford to fund its long-term debts and commitments. The entity is performing above the average, which is 2.31 and 2.31 for 2021–2022 and 2020–2021, respectively, compared to the norm of 1.5–2:1.

Discussion

In relation to the current ratios, metropolitan municipalities in Gauteng show a net current liability position (total current liabilities exceed total current assets), which affects the municipality's capacity to pay creditors within 30 days. Between 2018 and 2020, these metropolitan municipalities performed above the required norm of a 1.5–2:1 threshold. However, the performance declined from 2020–2021 to 2021–2022 fiscal years as some municipalities performed below the norm. Thus, there is a concerning trend in the current ratio of these metropolitan municipalities in Gauteng, which signals the inability of these municipalities to cover their short-term obligations. These municipalities are financially constrained and cannot afford to fulfil their short-term liabilities using their short-term cash and cash equivalents. It is important for organisations, including those in the public sector, to maintain acceptable levels of liquidity (Els et al., 2014).

The municipalities' collection rate is lower than the norm of 95%, indicating that they are not collecting money for the services they are meant to deliver. As a result, the cash flow of these municipalities is significantly impacted, which has a direct influence on their long-term survival. The City of Tshwane has experienced an improvement in collection rates in the 2020–2021 financial year; however, the collection rate declined in 2021–2022 by 9%, which is not a good indicator for the municipality.

Regarding the solvency ratios, Gauteng's metropolitan municipalities realised an overall net asset position. This ratio was calculated to evaluate the municipalities' ability to pay back their long-term liabilities with their long-term assets. This indicates that the metropolitan municipalities can adequately sustain operations in future.

Conclusion

In order to understand the financial viability of a municipality, a solvency ratio is one of the most important ratios used by different stakeholders to identify the underutilisation of resources that increase affordability over time. The solvency ratio provides a comprehensive understanding of a municipality's solvency and its ability to generate enough cash to pay off its commitment. The municipality is deemed to be financially strong if the value of its total assets is higher than the value of its total liabilities. Liabilities, in most cases, mean the debt the municipality has taken for running its operations. The study presents a positive picture; however, political instability continues to be a threat to the wellbeing of the municipalities as demonstrated by poor governance.

The political coalition agreements between the political parties in these metropolitan municipalities are broken, which results in poor governance in these municipalities. In South Africa's metropolitan municipalities, especially in Gauteng province, there is no longer a dominating political party, with support for the ANC falling to less than 50% in the 2021 local government elections. Understanding many essential elements of South African municipal coalitions requires an awareness of the political and ideological divides. The country's 1996 Constitution, which envisions a society that belongs to those who live in it, unified in their diversity, serves as the conceptual and political cornerstone of the 'rainbow nation' movement. This important aspect lowers the social tension in several ways.

These conflicts stem from the administrative and political realities, power politics that are visible at every organisational and sectoral level and an almost total lack of ideology among all parties, who are the main characters in a plot of deceit, backstabbing and intrigue. In terms of the financial performance of the three metropolitan municipalities, the following trends were revealed: ratios such as debtors' collection rate of the City of Johannesburg (74% and 78%) and the City of Ekurhuleni performed (75% and 70%) below the norm (95%) in fiscal years 2020–2021 and 2021–2022, while the performance of the City of Tshwane declined by 9% from fiscal years 2020–2021. In relation to the current ratios, all the metros did not perform well with the City of Johannesburg achieving 0.98 in 2021–2022 and 1.16 in 2020–2021. While the City of Ekurhuleni obtained 0.87 in 2021–2022 and 0.84 in 2020–2021, and the City of Tshwane obtained 0.54 in 2021–2022 and 0.69 in 2020–2021. All these metropolitan municipalities performed below the norm of 1.5:2:1. This result indicates the inability of the municipalities to meet their short-term financial obligations with the short-term assets. Whereas, in terms of the solvency ratios, Gauteng's metropolitan municipalities realised an overall net asset position.

In relation to service delivery, the City of Johannesburg faces issues in delivering water and sanitation services through its agency Rand Water, and this phenomenon has been happening since the 2020–2021 financial year (Bikam & Chakwizira 2021) and this is caused by ageing water infrastructure. Furthermore, the water crisis has also extended to other metropolitan municipalities and includes unemployment, poverty, poor infrastructure and housing shortages. Admittedly, housing is an extremely required service in urban areas because of immigration and the growth of informal settlements in Gauteng; however, many people still live in poverty without a roof over their heads. Similarly, the primary healthcare system in Gauteng, as well as throughout the country, has been adversely affected by various challenges. These challenges include poor governance, ineffective resource mobilisation and the coronavirus disease 2019 (COVID-19) pandemic in 2020–2021. These factors have significantly impacted the quality of healthcare services (Maphumulo & Bhengu 2019:1).

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Data availability

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Disclaimer

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