Assessing the financial viability of metropolitan municipalities in Gauteng

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ABSTRACT

Metropolitan municipalities in Gauteng have been plagued by poor service delivery in recent years. This has been the root of violent protests in most of the communities in this province. This article intends to explore the reasons for this by specifically focussing on assessing the financial viability of the three metropolitan municipalities in Gauteng, namely Ekurhuleni, City of Johannesburg and City of Tshwane, by means of ratio analysis. It is vital to have an understanding of the financial viability of municipalities as it can identify and address the problems related to poor service delivery. The following six ratios were used to determine the financial viability of the metropolitan municipalities in Gauteng: cash quick ratio, debt to asset ratio, ability to provide basic services ratio, percentage change in total assets, proportion of income from Government grant/subsidy, and consumer debt to total revenue ratio. The results of the group revealed improvements in certain areas and areas that need improvement. The group results were used as a benchmark for the three individual municipalities to assess whether they are performing above or below the group average. The results of individual metropolitan municipalities also revealed valuable information that these municipalities can use to formulate their intervention strategies.

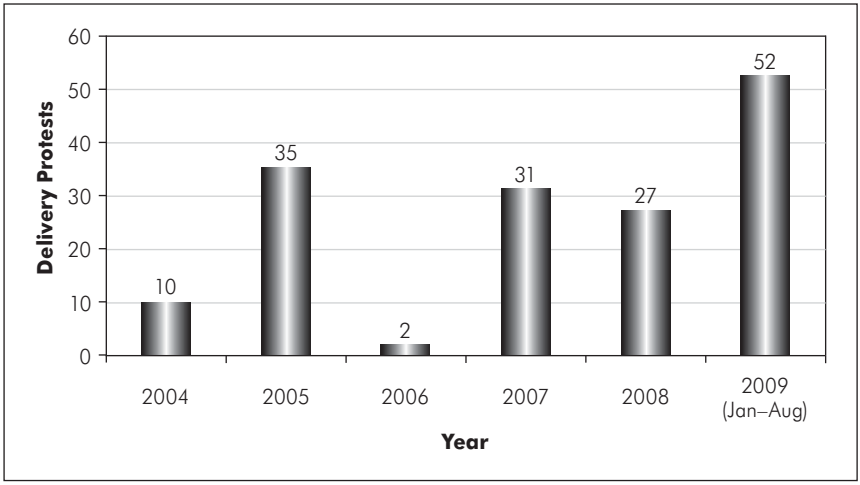
INTRODUCTION

Poor service delivery by municipalities in South Africa has been seen as the root cause of violent protest in most communities in Gauteng (Mahlangu, 2009:4). Van Dijk and Croucamp (2007:665) revealed that more than 50 service delivery protests occurred between 1994 and 2005. Since then, the number of service delivery protests have escalated and reached a peak in 2009. Figure 1 provides a summary of major service delivery protests that took place in South Africa between 2004 and 2009.

From Figure 1, it can be seen that service delivery protests have been escalating since 2004, recording the highest figure of 52 between January and August 2009. Figure 2 indicates the breakdown of major service delivery protests per province between January and July 2009.

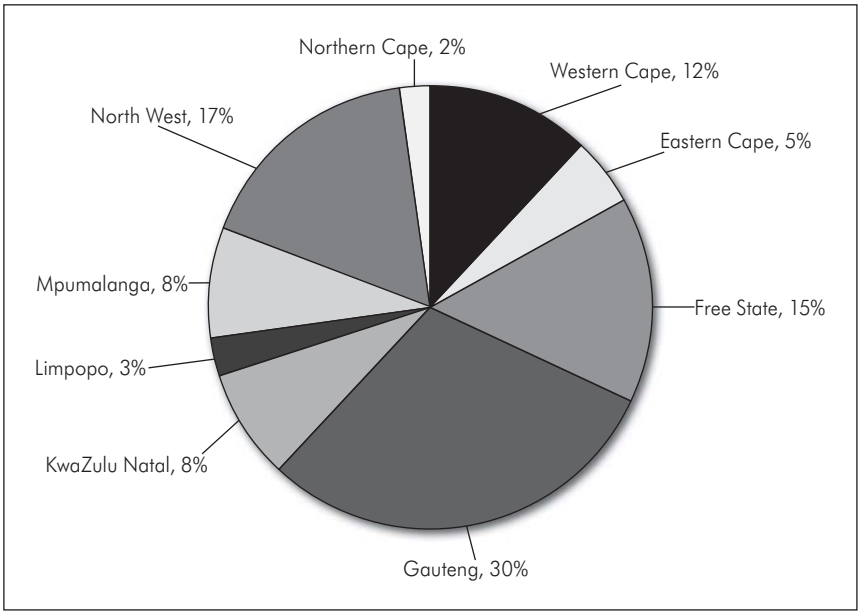
Figure 2 highlights that most major service delivery protests (30%) occurred between January and July 2009 in Gauteng (COGTA 2009a:11). These service delivery protests prompted the Minister of the National Department of Cooperative Governance and Traditional Affairs (COGTA) to launch an intervention project called "Operation Clean Audit 2014" (COGTA 2009b), as well as the Local Government Turnaround Strategy that was approved by Cabinet on 2 December 2009 (COGTA 2009c). The Turnaround Strategy focuses on five strategic objectives aimed at improving service delivery, and

Figure 1: Major service delivery protests in South Africa between 2004 and 2009



Source: Adapted from *State of Local Government in South Africa* (COGTA 2009a:12)

Figure 2: Major service delivery protests per province between January and July 2009



Source: Adapted from *State of Local Government in South Africa* (COGTA 2009a:11)

identifies one of the immediate implementation priorities for addressing the financial and administrative problems in municipalities.

In order for effective service delivery to take place, there is a need for accountability and good financial management. Financial management in municipalities is governed by the *Public Finance Management Act*, 1999 (Act 1 of 1999 as amended by Act 29 of 1999) (PFMA) and the *Local Government: Municipal Finance Management Act*, 2003 (Act 56 of 2003) (MFMA). Regulation No. R. 796, published in *Government Gazette* No. 22605 on 24 August 2001, deals with municipal planning and performance management regulations. In terms of Regulation (2) (1) (e), municipalities should set key performance indicators in their Integrated Development Plan (IDP). Chapter 3 of the regulation deals with performance management. Regulation 10(g) of Chapter 3 introduces three ratios (debt coverage, outstanding service debtor to revenue and cost average) that must be calculated from annual financial statements in order to measure the financial viability of a municipality.

Swanevelder (2005:68) proposed several ratios relating to the analysis of the income statement, balance sheet and cash flow statement that are considered necessary to evaluate the financial performance of municipalities. Chaney

(2005:183) also suggested various ratios that measure the financial position, financial performance, liquidity and the solvency of a government. Kamnikar, Kamnikar & Deal (2006:32) and Visser & Erasmus (2002:345), used ratios suggested by Chaney (2005:181) and identified three ratios they considered essential to evaluate the financial condition of a government, namely liquidity, leverage and ability to provide basic services. The question arises: Which ratios are essential to assess the financial viability of the Gauteng Metropolitan Municipalities?

The purpose of this article is to revisit the ratios proposed by Regulation 10(g), Swanevelder (2005:68), Chaney (2005:183), Kamnikar *et al*. (2006:32), and Visser & Erasmus (2002:345) and use them to identify essential ratios that can be used to measure a municipality's financial viability. The article is structured as follows: Firstly, a literature study is conducted to explore ratios used to measure the financial condition of governments and municipalities that are not mentioned in Regulation 10(g). Secondly, ratios used to measure the financial viability of municipalities were taken into consideration, and a list of proposed ratios was compiled and used to assess the financial viability of the three metropolitan municipalities in Gauteng. Finally, the results, summary and conclusion are discussed.

LITERATURE REVIEW

According to Nsingo (2007:40), Public Financial Management (PFM) involves decision making on where financial resources are needed to implement Government programmes and projects; where to obtain these resources; how to collect and utilise the resources; and how to control all financial processes within given time frames. Therefore, PFM not only deals with the effective allocation and distribution of financial resources, but also the effective recording and reporting of these financial resources.

To this end, the PFMA emphasises the importance of financial reporting as an integral component to sound PFM. Financial reporting entails daily, weekly, monthly and quarterly reports, as well as comprehensive financial reports, such as annual financial statements. For example, income statements, balance sheets and cash flow statements.

The financial statements of metropolitan municipalities are prepared in accordance with the Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practices (GRAP), as provided for in S216 of the *Constitution* and Section 91 (1(j) (b)) of the PFMA (National Treasury, 2004). Fourie, Opperman & Scott (2007:421) state that the major objectives of GRAP are to:

- Ensure consistency in the accounting treatment of transactions and classification of account balances in municipalities.
- Enhance comparability between similar sized municipal bodies on a national basis.
- Enable users of financial statements to make more accurate assessments of risks and returns.

The information contained in the financial statements is of major significance to various stakeholders who regularly need to have relative measures of the institutions' performance. In metropolitan municipalities, stakeholders include council members, chief financial officers (CFOs), management, Provincial Government, National Government, auditors and households. In order for information contained in the financial statement to be useful, the financial statements need to be analysed by calculating certain ratios. One of the most important and frequently used methods is ratio analysis. Gitman (2009:54) states that ratio analysis involves methods of calculating and interpreting financial ratios to analyse and monitor the firm's performance.

Faul, Pistorius, Van Vuuren & De Beer (1994:526) describe ratio analysis as identifying, measuring and evaluating financial relationships or ratios of the financial position and results of a municipality. Therefore, ratio analysis specifically focuses on calculating these ratios and measuring their performance in financial statements. Visser & Erasmus (2002:345) identify four main categories of financial ratios used to analyse financial statements, namely rate of return, liquidity, efficiency or activity, as well as investment ratios.

- Besides the abovementioned ratios, Swanevelder (2005:68) suggested seven additional ratios that provide a broader view of the financial position of a municipality. These ratios measure the following areas: Analysis of the income statement of the rate of general service.
- the income statement of the electricity service.
- the statistical information related to the electrical service.
- the income statement of the water service.
- the statistical information related to the water service.
- percentage net surplus (or deficit) for all services.
- the appropriation section of the income statement.
- the balance sheet.
- the cash flow statement.

Chaney (2005:183) also suggested various ratios that measure the financial position, financial performance, liquidity and the solvency of a government. Using ratios suggested by Chaney (2005:183), Kamnikar *et al.* (2006:32) identified three ratios they considered essential to evaluate the financial

condition of a government. The three ratios measure liquidity, leverage and the ability to provide basic services. In this study, the ratios mentioned in Regulation 10(g) of *Regulation Gazette* No. 7146, the ratios proposed by Swanevelder (2005:68), Chaney (2005:183) Kamnikar *et al.* (2006:32) and Visser & Erasmus (2002:345) were considered. Furthermore, six ratios were selected for analysing the financial statements of the three metropolitan municipalities in Gauteng. The six ratios used in the research are discussed below.

Liquidity

According to Gitman (2009:58), the liquidity of an institution is measured by its ability to satisfy its short-term obligations as they come due. Liquidity answers the question: Is the institution likely to meet its financial obligation on a timely basis? Municipalities must also maintain a certain level of liquidity to continue providing uninterrupted services to the community. Visser and Erasmus (2002:345) define liquidity ratios as a measure of the institution's ability to pay its debts when due. The two liquidity ratios defined in literature are the current ratio (current assets/current liabilities) and the quick (acid test) ratio (current assets – inventory/current liabilities). The quick ratio is more preferable than the current ratio because it excludes inventory, which is generally the least liquid current asset. In municipalities, inventories are excluded because they are not for sale, but are mostly used in normal operating activities of the municipality (Swanevelder 2005:74). Kamnikar *et al.* (2005:33) adjusted this ratio and called it the cash-quick ratio. It includes only cash, cash equivalents and investments that have been identified by the respective government as current (short-term marketable securities) as part of current assets. A quick ratio of 1, 0 or greater is occasionally recommended (Gitman 2006:59). However, according to Chaney (2005:185), it is not unusual for a government to have quick ratios that are in excess of 2,0 because of the cash management policies that the public sector uses.

Leverage

In finance, leverage (also known as gearing or levering) refers to the use of debt to supplement investment. It refers to the degree to which an investor or institution is utilising borrowed money. Chaney (2005:33) explains that government institutions ' debt can become a burden for taxpayers. The higher the debt, the more the budget must be devoted to interest and debt principal payments. The two ratios suggested by Chaney (2005:33) to measure solvency in government is the debt to asset ratio (long-term debt divided by total assets) and interest coverage ratio (change in net assets plus interest expense divided

by interest expense). Swanevelder (2005:75) used the debt to cash ratio, which is calculated as long-term debt as per balance sheet divided by cash generated from activities. For the purpose of this article, only the debt to asset ratio will be considered.

Ability to provide basic services

According to Chaney (2005:184), the financial position of a government is measured as unrestricted net assets divided by expenses. This ratio measures how much money of unrestricted net resources is available to finance costs. It focuses on the municipality's ability to continue providing services. Kamnikar *et al.* (2006:33) mention the same ratio but prefer the name "continuing service ratio", to better describe the focus of the measure. The higher the ratio, the greater the unrestricted net resources that have been accumulated, and the low ratio suggests that few resources are available to weather the budget crisis (Chaney 2005:184). Chaney (2005:184) also indicates that an extremely high ratio might suggest that too many resources have been obtained from taxpayers or too few services have been provided. This state of affairs is not strange to South Africa, where municipalities and Government departments under spend their budgets and thus fail to render the necessary services citizens require.

Financial performance

Chaney (2005:184) mentions two ratios for measuring financial performance, namely the percentage change in total net assets (change in net assets/total net assets) and the general support rate (general revenue + transfers/expenses). For the purpose of this research, only the percentage change in total net assets was considered. This ratio indicates how much the current year surplus (deficit) contributes to accumulating net assets. According to Chaney (2005:184), an extremely low or even negative ratio is not necessarily bad if the government has accumulated significant net assets; neither is an extremely high ratio necessarily good for the same reason.

Extent of dependence on income from National Government

In order for municipalities to be able to fulfil their constitutional duties of rendering essential services to citizens, the National Treasury provides a subsidy in the form of a grant during the annual financial budget. However, the bulk of the finances are derived from the payments users (consumers) make for services such as electricity and water. For a municipality to be able to provide uninterrupted services, it is essential that it does not depend on Government

subsidy, although the economic status of municipalities in urban areas and rural areas might differ. Municipalities calculate the ratio proportion of income from Government grants to their total income to measure the extent of dependence on income from National Government (City of Johannesburg 2008:20).

How much revenue is tied up in consumer debt?

One of the ways for municipalities to ensure that they maintain a healthy cash inflow and outflow is to ensure that consumers pay for the services they receive. A municipality usually provides services to consumers (users) in credit and then send a statement of account at the end of the month, hoping that consumers will fulfil their obligation of paying for services from which they have benefited. To measure how much revenue is tied up in consumers, municipalities calculate

Table 1: Summary of financial ratios used to assess the financial viability of municipalities in Gauteng

Measurement	Ratio	Formula
Liquidity	Quick ratio (Cash quick ratio)	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$
Leverage	Debt to asset ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$
Financial position	Continuing service ratio (Ability to provide basic services)	$\frac{\text{Unrestricted net assets}}{\text{Expenses}}$
Financial performance	% change in total assets	$\frac{\text{\% change in net assets}}{\text{Total assets}}$
Extent of dependence on income from government	Proportion of income from government	$\frac{\text{Government grants}}{\text{Tax revenue}}$
Revenue tied up in debtors	Consumer debt to total revenue	$\frac{\text{Consumer debtors}}{\text{Total revenue}}$

the ratio consumer debt to total income (City of Johannesburg 2008:21). Table 1 provides a summary of financial ratios used to assess the financial viability of the three metropolitan municipalities in Gauteng.
The six ratios listed in Table 1 were used to analyse the financial statements of the three metropolitan municipalities in Gauteng. The next section outlines the research methodology used to achieve the objective of the research.

RESEARCH METHODOLOGY

The study used a quantitative research methodology. The population of the study consisted of financial data of the three metropolitan municipalities in Gauteng namely Ekurhuleni, City of Johannesburg and City of Tshwane. The financial data was obtained by downloading audited electronic annual reports published on the websites of the three metropolitan municipalities. The financial statements used covered the financial years 2004 to 2009. The six identified ratios (liquidity, leverage, financial position, financial performance, extent of dependence on income from Government, and revenue tied up in debtors) were calculated by means of an Excel spreadsheet. Descriptive statistics were calculated by making use of the SPSS statistical package and included the mean, the median, the range, the standard deviation and skewness to gain a better understanding of the values presented. Firstly, the group average means of the three metropolitan municipalities were calculated and analysed to assess the financial viability of the group. Secondly, the mean averages of the three individual municipalities were calculated and compared with the group average means as a benchmark to determine how the individual municipalities were performing, as compared to the group.

LIMITATIONS OF THE STUDY

The transition from the Institute of Municipal Finance Officers (IMFO) standards to Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practice (GRAP), which originated from Section 216 (1) (a) of the *Constitution of South Africa* (Act No. 108 of 1996) and section 91 (1) (b) of PFMA, Act No. 1 of 1999 (as amended), has resulted in changes in some financial policies and applications. Subsequently, this affected reporting in financial statements during the period under review (2004–2009), because GAMAP/GRAP was scheduled to be fully implemented in the financial year ending June 2009. This has resulted in inconsistency in the manner of reporting of the three metropolitan municipalities.

Table 2: Results of the group quick (cash quick) ratio

Statistics	2009	2008	2007	2006	2005	2004
Mean	0,8157	1,1129	1,3051	1,6579	1,3565	1,1684
Median	0,9071	1,0454	1,1513	1,1252	1,2219	1,2823
Range	0,38	1,15	1,64	2,06	1,23	0,51
Minimum	0,58	0,57	0,56	0,89	0,81	0,86
Maximum	0,96	1,72	2,20	2,96	2,04	1,36
Standard deviation	0,20392	0,57615	O,82844	1,13075	0,62620	0,27114
Skewness	-1,612	0,520	0,807	1,650	0,923	-1,557

Table 3: Results of the group debt asset ratio

Statistics	2009	2008	2007	2006	2005	2004
Mean	0,4063	0,4380	0,4447	0,4304	0,4747	0,5507
Median	0,5301	0,4224	0,4355	0,4007	0,4131	0,4072
Range	0,44	0,29	0,25	0,22	0,20	0,48
Minimum	0,13	0,30	0,32	0,33	0,40	0,38
Maximum	0,56	0,59	0,57	0,56	0,61	0,86
Standard deviation	0,24407	0,14370	0,12514	0,11457	0,11548	0,26985
Skewness	-1,695	0,483	0,327	1,089	1,717	1,716

RESULTS AND DISCUSSION

To measure the liquidity of the municipalities, the quick (cash quick) ratio of the group was calculated. Table 2 depicts the group descriptive statistics results.

The mean for 2009 was the lowest at 0,8157, indicating that there were fewer current assets available as compared to current liabilities. The quick (cash quick) ratio for 2006 was 1,6579, indicating more current assets than current liabilities. The median appears to be a better representation for the three municipalities and indicates that the municipalities had fewer current assets than current liabilities in 2009. In fact, the median dropped from 1,2823 from 2004 to 0,9071 in 2009, which is a decline of 38%. The range also declined from 1,64 in 2007 to 0, and 38 in 2009, indicating that some municipalities did not have sufficient current assets to meet their obligations in 2009. This does not necessary mean that the municipalities would be unable to honour their debt obligations on time because current liabilities are due within a period of a year. Table 3 depicts the results of the group measurement of leverage.

The mean in 2009 was 0,4043, indicating that the municipalities funded 40,63% of their assets with borrowed funds. This is lower when compared to 2004, where 55,07% of assets were funded from borrowing funds. The median debt to asset ratio was the lowest in 2006 (0,4007), as well as in 2004 (0,4072) when it was close to 40%, compared to 2009, which was the highest at 53%. The mean indicates that the municipalities used less debt to finance assets in 2009 (40, 63%), while the median indicates the opposite (53,01%). Table 4 depicts the results of the ability of the group of municipalities to be able to continue providing basic services.

The mean (1,6114), the median (1,3437) and the range (1,96) in 2009 indicate an increase in unrestricted net assets, as compared to 2008 (mean 0,9209, median 0,8533 and range 0,30). This does not necessarily mean that the municipalities' ability to continue providing the same level of service to consumers has increased. It appears that the municipalities provided their best service in 2009 (mean 1,614 and median 1,3437). However, Chaney (2005:184) argues that the high ratio might indicate that either too many resources have been obtained from taxpayers or too few service have been provided. This could explain high service delivery protests in 2009. Municipalities might have received more resources from consumers and Government subsidy, but they underspent in their budgets and failed to render the necessary services citizens require. The results provided in Table 5 depict the group extent of dependence on a Government grant/subsidy.

The mean for the municipalities in 2009 was 0,2786 and for 2004 was 0,0863. This means that 27,86% of the total income of the municipalities was derived from Government subsidy/grant in 2009, as compared to 8,63% in

Table 4: Results of the group continuing service ratio

Statistics	2009	2008	2007	2006	2005	2004
Mean	1,6114	0,9209	0,9910	0,9790	0,8404	0,5479
Median	1,3437	0,8533	0,8845	0,8852	0,8773	0,6519
Range	1,96	0,30	0,39	0,36	0,42	0,53
Minimum	0,77	0,81	0,85	0,84	0,61	0,23
Maximum	2,73	1,10	1,24	1,21	1,03	0,76
Standard deviation	1,00688	0,16050	0,21478	0,19969	0,21158	0,27878
Skewness	1,112	1,559	1,683	1,647	-0,760	-1,445

Table 5: Results of the group proportion of income from Government grant/subsidy

Statistics	2009	2008	2007	2006	2005	2004
Mean	0,2786	0,2651	0,2441	0,1169	0,1024	0,0863
Median	0,2150	0,1970	0,1940	0,1131	0,0973	0,0787
Range	0,23	0,22	0,17	0,05	0,02	0,02
Minimum	0,20	0,19	0,18	0,10	0,09	0,08
Maximum	0,43	0,41	0,36	0,14	0,12	0,10
Standard deviation	0,12738	0,12455	0,09735	0,02332	0,01253	0,01335
Skewness	1,687	1,725	1,703	0,713	1,532	1,732

2004. The median in 2009 (0,2150) also indicated an increase, as compared to 2004 (0,0787). Table 6 indicates the group amount of cash tied up in consumer debtors.

The mean (0,1235) and the median (0,1009) in 2009 were the lowest, as compared to 2008 where the mean was (0,1382) and the median was (0,1266). This indicates that less cash was trapped in consumer debtors, as compared to the total revenue of the municipalities in 2009. Table 7 depicts the group results of the financial performance by measuring the percentage change in total assets.

The mean was the highest in 2005 (0,1357), as compared to 2009 (0,0481). This means that there was less change in net assets to total net assets in 2009, as compared to 2005. The median supports the same notion as it was at its highest in 2005 (0,1503), as compared to 2009 (0,0485). Table 8 compares the results of individual municipalities and the group municipality mean average for the financial year-end June 2009.

With respect to the quick ratio, both Tshwane (0,9580) and Ekurhuleni (0,9071) Municipalities performed above the group average (0,8157). This indicates that Tshwane Municipality had more current assets than current liabilities, followed by Ekurhuleni Municipality, with Johannesburg Municipality having the least current assets, as compared to current liabilities. In other words, Tshwane and Ekurhuleni Municipalities were more liquid (ability to honour its short-term obligations) than Johannesburg Municipality in 2009.

Johannesburg (0,5636) and Tshwane (0,5301) Municipalities recorded debt ratios above group municipality average (0,4063), while Ekurhuleni Municipality (0,1251) recorded a debt ratio below group average. This indicates that Johannesburg Municipality funded 56,36% of their assets with borrowed funds, followed by Tshwane Municipality (53,01%), while Ekurhuleni Municipality measured the lowest at 12,51%, as compared to the group average of 40, and 63%

Regarding continuing service ratio, Ekurhuleni Municipality (2,7251) exceeded the group average score of (1,6114), as compared to Johannesburg (1,34370 and Tshwane (0,7654) Municipalities. This might be interpreted as indicating that Ekurhuleni Municipality provided the best service in 2009, followed by Johannesburg Municipality, with Tshwane Municipality providing the worst service. However, one needs to consider Chaney's argument (2005:184) that the high ratio might indicate that either too many resources have been obtained from tax payers or too few services have been provided. Furthermore, Ekurhuleni Municipalities might have under spent in their budgets and failed to render the necessary services citizens require.

Johannesburg Municipality recorded the highest mean of 0,4252 which is above the group average of (0,2786), as compared to Ekurhuleni and Tshwane Municipalities which recorded means below the group average (0,2150

Table 6: Results of the group consumer debt to total revenue ratio

Statistics	2009	2008	2007	2006	2005	2004
Mean	0,1235	0,1382	0,1660	0,1602	0,1522	0,1370
Median	0,1009	0,1266	0,1636	0,1418	0,1251	0,1189
Range	0,19	0,19	0,22	0,15	0,18	0,14
Minimum	0,04	0,05	0,06	0,10	0,07	0,07
Maximum	0,23	0,24	0,28	0,24	0,26	0,22
Standard deviation	0,09638	0,09305	0,11199	0,7436	0,9413	0,07283
Skewness	0,997	0,551	0,098	1,046	1,190	1,051

Table 7: Results of the group percentage change in total assets

Statistics	2009	2008	2007	2006	2005	2004
Mean	0,0481	0,0283	0,0833	0,0530	0,1357	0,1098
Median	0,0485	0,0212	0,0687	0,0545	0,1503	0,0791
Range	0,01	0,04	0,16	0,02	0,12	0,20
Minimum	0,04	0,01	0,01	0,04	0,07	0,02
Maximum	0,06	0,05	0,17	0,06	0,19	0,23
Standard deviation	0,00745	0,01911	0,08085	0,01090	0,06134	0,10547
Skewness	-0,240	1,448	0,787	-0,632	-1,010	1,200

Table 8: Results of individual and group municipalities mean average for 2009

Ratios (2009)	Ekurhuleni	Johannesburg	Tshwane	Group Municipalities
Quick ratio	0,9071	0,5821	0,9580	0,8157
Debt ratio	0,1251	0,5636	0,5301	0,4063
Continuing service ratio	2,7251	1,3437	0,7654	1,6114
Government grant/subsidy	0,2150	0,4252	0,1955	0,2786
Debt to total revenue	0,1009	0,0404	0,2292	0,1235
% Change in total assets	0,0485	0,0554	0,0405	0,0481

and 0,1955 respectively). This means that 42,52% of the total revenue of the Johannesburg Municipality was from Government subsidies/grants, as compared to 21,50% for Ekurhuleni Municipality and 19,55% for Tshwane Municipality.

With regard to debt to total revenue, the mean for Johannesburg Municipality (0,0404) was below the group average (0,1235), followed by Ekurhuleni Municipality (0,1009), and lastly Tshwane Municipality (0,2292). This means that less cash was trapped in consumer debtors in Johannesburg Municipality, as compared to Ekurhuleni and Tshwane Municipalities.

Regarding percentage change in total assets, Tshwane Municipality indicated a mean of 0,0405 which is below the group average of 0,0481, indicating less change in total net assets, as compared to Ekurhuleni (0,0485) and Johannesburg (0,0554) Municipalities.

SUMMARY AND RECOMMENDATIONS

The results of the group ratio analysis of the three metropolitan municipalities in Gauteng revealed the following trends: The quick (cash quick) ratio for the municipalities needs to be monitored, as it has indicated a decline of 38% in 2009 compared to 2004. This means that the liquidity of the group municipalities in 2009 has declined. The quick (cash quick) ratio indicates the extent to which the claim of short-term creditors is covered by assets that can be translated into cash. Although municipalities use different cash management policies, there

might be a need to adjust certain policies in order to ensure sustainability in terms of service delivery. If the municipalities do not have sufficient current assets to meet their obligations with regard to current liabilities, this might result in disruption of certain services. For example, if the municipalities are not able to pay for electricity received on credit from Eskom, this could cause a disruption in the provision of electricity services.

The state of the group debt for municipalities is of concern, as it indicates that municipalities have funded 40,637% of their assets with borrowed funds. Although most municipalities like the City of Johannesburg has a benchmark of 50% as far as debt is concerned, one must bear in mind that the higher the debt, the more the budget must be devoted to interest and debt principal payment. Therefore, less money will be available from the budget to be utilised in service provision. Municipalities are encouraged to stay within the set benchmarking perimeters to ensure a healthy state of solvency. If debt funding is used to fund capital assets (excluding investment in infrastructure) investment appraisal methods should be applied appropriately and only investments in capital assets that will add value and yield good return in cash inflow should be undertaken.

The group continuing service ratio indicated an increase in unrestricted net assets in 2009. This does not necessarily imply that the municipality's ability to continue providing the same level of services to consumers has increased. Individual municipalities need to conduct further analysis to ensure that this is not the result of underspending and providing consumers with fewer services, as argued by Chaney (2009:184). Municipalities must be in a position to fulfil their constitutional responsibilities, as good service delivery is key to customer satisfaction.

A dependence on income from Government grants has increased from the financial years 2004 to 2009. The increase might be the result of National Treasury increasing their funding to municipalities. However, in order for municipalities to excel in service delivery, it is desirable to generate more income from payment of services and from investment to reduce the dependency on Government subsidy.

The amount of revenue tied up in consumer debt as measured to total revenue indicated a decline in 2009. This should be sustained because the more consumers pay for the services they receive, the more available resources needed become to sustain the level of service delivery.

There was a decrease in percentage change in net assets to total net assets in 2009. This ratio trend should be monitored over a period of time, for example five years. According to Chaney (2005:184), an extremely low or even negative ratio is not necessarily bad if the municipality has accumulated significant net assets, and an extremely high ratio is not necessarily good for the same

reason. The ratio should be sustained in order to improve the municipality's financial viability.

CONCLUSION

The purpose of this article was to report on research to assess the financial viability of the three metropolitan municipalities in Gauteng. Six ratios, namely current ratio, debt to asset ratio, continuing service ratio, proportion of income from Government grants, consumer debt to total revenue, as well as percentage change in total assets were calculated and analysed to obtain the group mean averages for the financial period 2004 to 2009. The results of the group analysis indicated some areas of concern that need improvement. The means of the three individual municipalities for the financial year 2009 were also calculated and compared with the group average means, which were used as a benchmark to establish whether the three individual municipalities are performing below or above the group averages. The results of the comparison indicated that Tshwane and Ekurhuleni Municipalities have performed above the group benchmark in cash quick ratio, which means that their solvency is healthier when compared to the group. Johannesburg and Tshwane scored above the group benchmark in debt ratio, which indicates that the two municipalities funded most of their assets with borrowed funds. This is not good news as the two municipalities will have to spend more resources from their budgets in paying the debt principal and interest, thus depriving the citizens of resources that were intended for providing quality services.

Ekurhuleni Municipality exceeded the group average score in continuing service ratio, suggesting that they provided the best service in 2009, as compared to the other two municipalities. Johannesburg Municipality recorded the highest mean above the group average in Government subsidy, indicating that the major portion of their revenue for 2009 was obtained from Government subsidy. All three municipalities recorded a mean below the group average in cash trapped in consumed debtors, indicating that all three municipalities need to improve the percentage of debt recovered from consumers. Johannesburg recorded a mean above the group average in percentage change in total assets that need to be attended to as it is above the group benchmark.

In general, the results indicate that knowledge of the financial viability of individual municipalities will enhance the formulation of a turnaround strategy for individual municipalities and thus improve service delivery. However, it is important to note that ratio and statistical analyses have limitations when applied to highly complex municipalities because they are subject to different interpretation. Therefore, when comparing the financial viability

of municipalities, it is important to consider certain factors, such as the economic environment that the municipality is operating in, the population and unemployment level to avoid comparing incomparable aspects. This article revealed how ratio and statistical analysis can be used to assess a municipality's financial viability. An understanding of a municipality's financial viability can help enable management to take appropriate actions where necessary to ensure that quality services are delivered to the community.

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