

Budget Allocation and Expenditure Patterns of Sedibeng District Municipality in Gauteng Province, South Africa

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Abstract

In South Africa, municipalities were created as a tier of government to perform the role of addressing the backlog of service delivery created by the pre 1994 government. The purpose of this study is to determine the budget process of Sedibeng District municipality in Gauteng province of South Africa and also examine how this budget is allocated in terms of expenditure for effective delivery of services. For this study, quantitative research method was used which requires the researcher to base knowledge claims on collection of data to best understand the research problems. Data collection also involves gathering of numeric information so that the final base represents quantitative information. The empirical study consists of a structured questionnaire handed out to a sample population of forty (40) officials at Sedibeng District Municipality. The officials were asked to respond to questions on budget allocation, compilation and its effect on services delivery. The response gathered, were consistent with the Incrementalism theory of budgeting by Wildavsky (1964) but contrast in the area of expenditure. Cronbach's Alpha (a statistical test used in order to generate internal consistency of the questionnaire) was used to measure the validity and reliability of data while analyses were done using regression analysis. The findings of the empirical investigation indicated that although the municipality claim to operate the incremental method of budgeting, the zero based method and trend analysis based method are used in certain sections of the budget which cause shortfall in service delivery. It is therefore recommended that the incrementalism theory be applied in every section of the municipality's annual budget for effective service delivery.

Keywords: Budgetary Allocation, Expenditure Patterns, Municipality, Service Delivery

1. Introduction

The Constitution of the Republic of South Africa, 1996, as amended established a three-sphere system of government (national, province and local). The local government is the sphere of government closest to the people and is responsible for the delivery of basic services to communities. The policy of South African government is clear on issues that affect municipalities and municipal officials and this policy states that municipalities and its officials should be sensitive to community views and problems. In Chapter 7 of the Constitution of South Africa, 1996, as amended, the municipality is recognised as a sphere of government which gives them the role of providing community services. To this end, there is a need for effective financial management and accurate budgeting mechanisms to transform the municipalities into a better place. In South Africa, budget allocation and expenditure patterns in municipalities has been a challenge which has led to shortfall in the municipalities responsibilities to its communities. The lack of basic amenities due to the inappropriate budget allocation and expenditure patterns have fundamentally changed the quality of life for millions of people, in their homes, families and in the work place (Mkhize & Ajam, 2006, p. 760).

Financial management is one aspect in the municipality that poses a challenge. Issues such as non payment for services, corruption, wasteful expenditure and expenditure which do not reflect the basic needs of the community have often been the problem in the municipalities (SALGA, 2006, p.78). Accordingly, Mkhize & Ajam (2006) states that for there to be effective financial management (p. 761), the municipality's policy should ensure that funds available to implement delivery of services are allocated properly in line with expenditure patterns. Accordingly, budget is defined as a financial plan that summarises financial figures and the activities planned for the forth coming year. This is achieved by setting out the cost (expenses) of these activities, and where the income will be generated to pay for them. Guide to Municipal Finance (2009) define budget as a document which sets out the municipality plan for revenue and expenditure for an annual or multi - year period (p. 56). In South Africa pre 1994, budgeting system was characterised by an expenditure control measure. This made the transition to democracy in 1994 face challenges, such as reconciling increased service delivery with fiscal discipline (Mkhize & Ajam, 2006, p. 761).

The delivery of service by municipalities in South Africa continues to be a challenge and this was noted by Sydney Mufamadi, a former Minister of Local Government and Constitutional Development (1999-2008) in a Government White Paper on Municipal Service Partnership (South Africa, 2000, p. 1). The achievement of the objectives of Reconstruction and Development Programme required municipalities to look at modern ways of providing municipal services and failure to use effective financial management principles has hindered administrative functions in municipalities (Van – Wyk, 2004, p. 411). The Local Government Municipal Structures Act (Act 117 of 1998) was introduced to standardize financial management in the local sphere of government. Its purpose ensures effective management of revenues, expenditures, assets and liabilities in local government service delivery. The Policy Framework for Municipal Borrowing and Financial Management, (South Africa, 2000) stated that in South Africa (p. 23 - 25), municipalities were preoccupied with the introduction of cautious financial management practices with a view to improve the existing municipal financial system and service delivery. Nonetheless, effective municipal development in South Africa could only be achieved if municipalities manage its governance role properly (Nidel & Rania, 2007, p. 353).

The municipal authority, by virtue of its developmental role, is expected to structure and manage the administration; budgeting and planning processes in a way that prioritises the basic needs of the community it serves (Haycock, 2005, p. 49 - 50). Hence, the effectiveness and efficiency of the municipality to deliver on a mandate is largely dependent on its ability to plan and allocate resources in a sustainable manner (Valeta & Walton, 2008, p. 373). The present form of local government in South Africa is premised on linkages between effective allocation of resources and service delivery (Govender, Khan & Moodley, 2007, p. 66). This, has made it obligatory for each municipality classified as high capacity, in terms of Municipal Financial and Management Act (Act 56 of 2003) to compile a budget implementation plan which later provide effective service delivery (Lehlohonolo, 2005, p. 10).

The classical theory applied in the study is appropriate because of the type of institution. However, in order to make a performance system successful, both the composition and the performance management systems of the municipality need to be of high quality (De - Waal & Gerritsen, 2006, p. 26). This can be achieved when goals, objectives and targets are set to decide the suitable schedules for the inputs necessary for task performance (Kent – John, 2008, p. 17). This study on budget allocation and expenditure patterns of Sedibeng District Municipality, is consistent with Wildavsky (1964) Incrementalism theory of budgeting (p. 15) and later amplified by Fenno (1965). However, Dennard (2008) recently used this theory (p. 1) and this theory is built around roles and the expected service delivery of the municipality to its communities.

2. Problem Statement, Objective and Questions

2.1 Research problem and objective

The amalgamation and restructuring of the previous racially segregated local government in South Africa had increased the demand for service delivery without any equal increases in the financial resources (Cloete & Thomhills, 2005, p. 115). This accumulation of service delivery and the deteriorating infrastructure has placed a burden on municipal budgets. The inadequate financial management capacity for example, in the area of budgeting skills and its allocation, has given rise to the current ineffective service delivery in municipalities (Cloete & Thomhills, 2005, p. 115-119). The inadequacy in the area of budgeting skills and allocation as it affects service delivery motivated this research.

2.2 Research questions

The research questions which this article will aim to answer are the following:

- the nature of budgetary procedures applied by the Sedibeng District Municipality;
- the relationship between the budgetary allocation and service delivery in the Sedibeng District Municipality; and
- identify problem areas that the municipality needs to concentrate on as priorities in an attempt to improve service delivery.

3. Literature Review

Municipalities in South Africa are a “tier of government” that lie one level down from provincial government forming the lowest level of democratically elected government in the country. The municipality is charged with the responsibility of delivering services to the community, and in order to attain this, finance and proper budgeting is needed. Municipal

financing entails the revenue and expenditure decisions of municipal governments. This covers the sources of revenue used by municipal governments that includes taxes, user fees and intergovernmental transfers. Municipal financing also addresses issues on expenditure and accountability, which is contained in the municipal budgetary process. Hence, a budget is one of the tools for monitoring and implementing operational plan of a municipality. Historically, budgets became known out of the need to control and monitor the projected income and utilisation of funds by the municipality. Budgeting has always been important as it is a means of controlling expenditures and identifying revenues. The importance of budget has developed over the years as municipalities face increasingly difficult expenditure and revenue decisions in an environment of increased demands for services and infrastructure to advance service delivery. Municipal expenditures include expenses that are necessary for the day to day operations of the municipality. It also comprises salaries and wages of municipal employees while the operating costs of the municipal offices include service delivery.

The financial arrangements for municipalities in South Africa before 1994 were regulated by ordinances passed by the then four provinces namely: Gauteng, Free State, Cape Town and Kwazulu Natal. In 1996, the Local Government Transition Act was amended to include a new section, which dealt with property rates and user fees, loans, investments and budgets. These legislations were aimed at combating the maladministration in the handling of government finance and distribution of infrastructural facilities in the past. The Constitution of South Africa specifically requires that all local government must be developmentally oriented and that basic needs of the respective communities are met in budgeting and administration. Consequently, budget is prepared by every municipality in South Africa.

4. Research Design

For this research, a structured questionnaire divided into the following section was used:

- Section one defined the terminologies used in the questionnaire;
- Section two provided instructions on how to complete the questionnaire;
- Section three dealt with the demographic information of the respondent which consisted of six questions;
- Section four on the other hand asked questions relating to municipal budget allocation practices and compilation;
- Section five dealt with expenditure pattern of the municipality; and
- Section six asked questions on the service delivery potentials of the municipality.

4.1 Validity and reliability

A valid instrument must cover the extent to which it provides adequate coverage of the variables being used (Yin, 2003, p. 81). Hence for this study, the following validity was considered:

- using a statistician to evaluate the research instrument for clarity;
- pre testing the research instrument in a pilot study;
- sampling using probability methods to ensure external population validity;
- using self administered questionnaires which generally have a high response rate;
- using a sample size with margin of error not more than 5% and a confidence level of 95%.

For reliability, the Cronbach's alpha was used. The Cronbach alpha measures how well each individual item in a scale correlates with the remaining items. A value of 0.70 and above suggests a satisfactory level of reliability while lower values are sometimes used in the literature.

5. Research Method

For this study, quantitative research method was used. Quantitative research seeks to describe and quantify data with the application of statistical analysis (Creswell, 2003, p. 95). The major basis of using a quantitative analysis is to make valid the objective of the phenomena. Quantitative research is more oriented towards counts and measures of the phenomena in question. Neuman (2007) noted that quantitative research is primarily concerned with the degree in which phenomena possess certain properties, states and characteristics (p. 54), and the similarities, that exist within and between variable. Data were collected through a questionnaire prepared for the key officials of Sedibeng District Municipality. A sample of forty (40) officials from the Sedibeng District Municipality was involved while thirty four (34) represent the sample population, which represent 85% who responded.

RAOSOFT was used to generate the sample size. Raosoft is an innovative survey software programmes for information gathering and analysis. It is the statistical software used in the calculation of sample size. The choice in

sample size of forty (40) is consistent with Tustin, Ligthelm, Martins and Van Wyk (2005) who states that any sample size (p. 360) larger than thirty (30) and smaller than five hundred (500) are appropriate for any research. In the calculation of the sample size, three factors were considered: margin of error, the confidence interval and the percentage of the sample that will chose a given answer to a survey question.

5.1 Research ethics

Firstly, clearance was obtained from the Sedibeng District Municipality to conduct this research. Participation in the study was voluntary, thus it was done through an informed letter of consent. Personal data of respondents were processed fairly and used for the purpose of the study only. In addition, data from the study were treated confidentially and the response from interview conducted was not taken out of context.

6. Limitations to Study

The findings of this study should be viewed with certain limitations in mind. These, however, present opportunities for future research studies.

- Firstly, with regard to literature review, even though literature is available on budget and expenditure, there is little reference linked to municipality and service delivery.
- Secondly, another limitation to this study was the sensitivity of respondents to disseminate information about the municipality, as municipalities generally in South Africa remains a challenging issue. Respondents delayed in filling the questionnaire for fear of implication. The researcher had to continually convince the respondents that it was purely for academic purposes.
- Thirdly, the scope of the study was limited by the sample size which included only officials of Sedibeng District Municipality. This revealed only a small portion of municipal findings. The findings of this study may have been different if a broader range of staff from other municipalities had been selected.
- Finally, the survey method has its own limitations. Respondents choose to tick the options given in the questionnaire (5 Likert scale) and refused to give statements in the space provided.

7. Results

This section reports only the significant results obtained from the statistical analyses.

7.1 Descriptive statistics

Statistical Packaging for Social Sciences (SPSS) was used to analyse the data gathered for interpretation. To make the best possible estimate however, the distribution of values obtained from the population was also known regardless of the value of correlation in the population.

Table 1: Descriptive Statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|----------|----|---------|---------|--------|----------------|
| Sec4_1 | 34 | 3 | 5 | 3.95 | .284 |
| Sec4_2 | 34 | 2.83 | 4.33 | 3.5098 | .34314 |
| Sec4_3 | 34 | 2.6 | 4.4 | 3.735 | .3256 |
| Sec5_4 | 34 | 2.8 | 4.3 | 3.495 | .4133 |
| Sec5_5 | 34 | 2.5 | 4.2 | 3.466 | .4396 |
| Sec5_6 | 34 | 3.0 | 4.2 | 3.600 | .3229 |
| Sec6_7 | 34 | 3.14 | 4.71 | 3.7913 | .39338 |
| Sec6_8 | 34 | 2.6 | 4.8 | 3.724 | .4377 |
| Sec6_9 | 34 | 1.75 | 4.50 | 3.2353 | .73325 |

In section 4_1 the mean score of the descriptive statistics is 3.9%, which means the municipality operates with an approved budget in place. This is in consonance with Wildavsky (1964) theory as amplified by Fenno (1965). In section 4_2 the mean score of 3.5 indicates that the main source of municipality funding is the government and through municipal

rates. This is consistent with Dahlby & Wilson (1995) who justify intergovernmental transfers as the source of fund for efficiency in the provision of essential public services across the community. The mean score of 3.7 for section 4_3 indicates that the municipality operates with a budget that is approved before the start of a financial year by the municipal council. This is approved by the adoption of a resolution referred to in section 17(3) (a) (i) of the MFMA (No 56 of 2003). The mean score of 3.4 in section 5_4 indicates that the expenditure of the municipality as it relates to tenders do not necessarily pass through a tender panel before award is made. This creates a waste of funds and a loop hole for officials of the municipality to embezzle funds because the tender may have been awarded based on a personal relationship which makes it difficult to be objective when a sub-standard job is delivered or when the time frame for completion of a project is not achieved.

The mean score of 3.4 in section 5_5 in the descriptive statistics is an indication that there is a relative relationship between the respondents who agreed and those who chose to remain neutral. This may indicate non-compliance of heads of department to the approved budget which is inconsistent with the public Finance Management Amendment Act, No 29 of 1999. This Act regulates financial management to ensure that all revenue, expenditure, assets and liabilities of government are managed effectively and efficiently to provide for responsibilities of persons entrusted with such financial management. In section 5_6, the mean score of 3.6 is a strong indication that officials of the municipality make unauthorised and wasteful expenditure which will affect efficient and effective service delivery to the community. This is capable of causing protest in the municipality due to non-availability of essential services to the citizenry. "Unauthorized expenditure", means any expenditure incurred by a municipality other than in accordance with section 15 or 11(3) of the MFMA (No 56 of 2003).

Section 6_7 has a mean score of 3.7 which is an indication that there have been series of protest in the municipality in the past three years because of ineffective and inefficient service delivery. Thus non availability of social amenities in the community is as a result of mismanagement of budgeted funds by officials in the municipality through unauthorized spending of the budgeted fund.

From the mean score of 3.7 in section 6_8, there was a consensus that there have been a series of protests by the community and the municipality was able to reduce its reoccurrence through the provision of amenities which are of utmost importance to the well being of the community and through constant dialogue. The mean score of 6_9 shows that basic services are not enough in the municipality due to maladministration of the approved budget of the municipality by officials who use money meant for the provision of basic amenities for other purposes.

Table 2 is an extract of correlation derived in order to establish the relationship between Budget Allocation and Expenditure Patterns using Pearson's correlation coefficient. The significance of correlation is denoted by * or ** which means there is a relationship between the two variable. A + sign indicates that an increase in one variable will cause an increase in the other variable. A negative sign indicates that if one of the variables decreases, the other one will increase.

Table 2: Extracts of correlation coefficient variable and descriptive statistics

| | | Correlations | | | | | |
|--------|---------------------|--------------|--------|--------|--------|--------|--------|
| | | Sec4_1 | Sec4_2 | Sec4_3 | Sec5_4 | Sec5_5 | Sec5_6 |
| Sec4_1 | Pearson Correlation | 1 | .617** | .342* | .221 | .228 | .581** |
| | Sig. (2-tailed) | | .000 | .048 | .208 | .195 | .000 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec4_2 | Pearson Correlation | .617** | 1 | .232 | .356* | -.048 | .410* |
| | Sig. (2-tailed) | .000 | | .187 | .039 | .788 | .016 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec4_3 | Pearson Correlation | .342* | .232 | 1 | .110 | .344* | .415* |
| | Sig. (2-tailed) | .048 | .187 | | .535 | .046 | .015 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec5_4 | Pearson Correlation | .221 | .356* | .110 | 1 | .421* | .341* |
| | Sig. (2-tailed) | .208 | .039 | .535 | | .013 | .049 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec5_5 | Pearson Correlation | .228 | -.048 | .344* | .421* | 1 | .171 |
| | Sig. (2-tailed) | .195 | .788 | .046 | .013 | | .334 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec5_6 | Pearson Correlation | .581** | .410* | .415* | .341* | .171 | 1 |
| | Sig. (2-tailed) | .000 | .016 | .015 | .049 | .334 | |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |

| | | | | | | | |
|--------|---------------------|--------|--------|-------|--------|------|--------|
| Sec6_7 | Pearson Correlation | .549** | .527** | .283 | .449** | .336 | .241 |
| | Sig. (2-tailed) | .001 | .001 | .104 | .008 | .052 | .170 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec6_8 | Pearson Correlation | .415* | .489** | .228 | .171 | .128 | .386* |
| | Sig. (2-tailed) | .015 | .003 | .195 | .334 | .472 | .024 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |
| Sec6_9 | Pearson Correlation | .309 | .327 | .370* | .446** | .175 | .570** |
| | Sig. (2-tailed) | .076 | .059 | .031 | .008 | .323 | .000 |
| | N | 34 | 34 | 34 | 34 | 34 | 34 |

8. Discussion

Findings from this research indicated that the participants have achieved a relatively low level of career maturity, with their decision making skills, the ability to apply these skills in effective decision making and self information being the weakness.

8.1 Gender

The result of the present study is consistent with Dahlerup (2005) which introduced electoral quota to allow women occupy (p. 78) certain positions in the public service in order to achieve gender equality. Dahlerup (2005) further establishes that electoral gender quota is an important strategy for women's political justice and empowerment.

8.2 Age

The result of data gathered shows that the work force within the municipality are young and full of energy which can be translated into effective and efficient delivery of duties within the municipality. This is consistent with Meijen (2007) who stated that employees' age has an effect on the commitment (p. 56) and how well the municipality performs and delivers its services.

8.3 Year of service

The result from research shows that staffs have worked in present position for less than 10 years. This is a strong indication that officials in the Budget department and Integrated Development Plan department are not experienced considering the possibility of a number of the official not having experience in the public sector. Dzansi & Dzansi (2010) affirm that the critical role of an employee in municipal administration (p. 996) is in performing tasks which often lead to interaction with members of the community. Based on this, it can be concluded that work experience is inextricably related to service delivery. The inexperienced municipal officials will hamper the delivery of services to the communities because the style of administration in the public sector might still be strange to the officials. Examples of likely problems posed by inexperience in the work force are in the area of interpersonal relationships, and that of maintenance and support factors (which include improper priority assignments on work request and quality assurance).

9. Conclusion

For municipalities to fulfil its developmental mandate given by the Constitution of the Republic of South Africa, Act 108 of 1996, as amended, it is important for challenges to be identified. These challenges should therefore be analysed so as to develop responses through proper budget allocation and expenditure patterns for effective service delivery. The following recommendations will help the Sedibeng District Municipality in budget allocation and expenditure patterns:

9.1 Need for human development

Municipality as a tier of government is dynamic in nature because it is closest to the people in the community. Its dynamic

nature and the functions it performs make it ideal for an educated and experienced work force. The researcher noted that human development is the key to developing the characteristics required for proper budgetary application. Presently, a greater percentage of the work force (82%) have less than ten years work experience while only 32% of the work force are degree holders. There is need for Sedibeng District Municipality to organise budget planning and budget implementation seminars and workshops for officials in charge of budget in the finance department.

9.2 Improved revenue collection

The South African constitution framework created a multi sphere system of government. The intergovernmental fiscal system is based on "revenue sharing" with national and provincial government receiving the bulk. It was noted that the revenue collection pattern of the municipality is not maximised. It is recommended therefore, that the budget of the municipality be maximised holistically through provision of a prepaid mode of payment (Pre paid meter services) to some of the services (water and electricity) provided. The benefit of managing this service delivery (electricity and water) through the introduction of a prepaid meter will advance the revenue of the municipality. Anyone found to be involved in any form of corruption should be prosecuted in the court. In addition, the researcher recommends that the municipality develop a stable tax base from rates, service charges and property tax since over reliance on inter government transfers can endanger municipal delivery of service.

9.3 The need for a balanced budget

The municipality in preparing its budget need to create a budget that is geared toward the delivery of effective service to the community. From the survey undertaken it was discovered that the previous year's surplus is used to balance the budget. It is the recommendation of the researcher, therefore, that because budgets are crucial to make sure municipalities do not run deficit, the budget for every financial year must balance itself which will reduce borrowing by the municipality.

9.4 Restriction of officials from making wasteful expenditure

When funds not approved in the budget are used, it is a shortfall in the planned service to be delivered. Currently, some officials are known to have the monthly bill of their cell phones and fuelling of private cars paid for by the municipality. Between August 2009 and April 2010 officials of the ruling party, the ANC, which controls the majority of the municipality in South Africa were reported to have wasted R1 billion of tax payers' money on luxury cars, banquets and advertising (News24: 2010). Consequently, the researcher recommends that wasteful expenditure by officials can be avoided by placing a ceiling for office refreshment, catering and phone bills incurred by the officials. This should be made a policy and resources saved from this venture could be directed toward other projects in the community.

9.5 Adhering to 35% of total budget as salaries and wages

A high percentage of operating budget of the municipality is likely to hamper the delivery of service because it will reduce the annual budget of the municipality. It was noted that staff with a strong political affiliation are often employed thereby increasing the salaries and wages more than 35% of the annual budget. The recommendation of the researcher is for the municipality to make salaries and wages not more than 35% of the annual budget because if the percentage is greater, the municipality will be spending too much on municipal officials and too little on providing actual services. Mare-Lise & Lucas (2007) in supporting this view stated that in 2005 (p. 114), the Department of Provincial and Local Government in doing country wide assessment of municipalities used a benchmark of 30% for a municipality's expenditure on salaries and expenditures of officials.

9.6 Quarterly audit of account

There is need for the expenditure of the municipality to be monitored quarterly through audit by the office of the Auditor General. The current practice where this is done at the end of each financial year will create an avenue for embezzlement to be properly covered. The Auditor Generals' office should not only do a quarterly audit but the office should also encourage whistle blowers to report to its office any irregularities in the financial affairs of the municipality.

9.7 Policy implementation by municipal officials

Policy implementation should be paramount because this will help the municipality translate the approved budget to projects as aligned in the IDP. The approved budget as aligned to the IDP should be adhered to strictly and feed back should also be encouraged from members of the public on the provision of amenities in their community.

The result of this study reflects (Wildavsky, 1964, p. 15) and (Fenno, 1965, p. 15) statement that supports incrementalism in budgeting. However from study, it was ascertain that the incremental method is not applied to every section of the budget by the municipality. The zero based basis is often used in the operating budget section in areas such as contracted services, congress and meetings, consultation fees, donation and grants while the incremental method is applied in the capital budget section of the municipality's budget. Over and above, from the research the municipality operates an incremental budgeting, which stabilises budgetary role and expectations.

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