

**Research article**

# **Financial Viability Challenges faced by Local Authorities: A Case Analysis of the Bindura Municipality in Zimbabwe.**

**Chiunye Maximilian Tonderai** (Corresponding author),

Department of Business Management

**Chikosha Felix,**

Department of Business Management

Zimbabwe Open University

209 Hay Road Bindura

E-mail: [chiunyetm@gmail.com](mailto:chiunyetm@gmail.com)



This work is licensed under a [Creative Commons Attribution 4.0 International License](http://creativecommons.org/licenses/by/4.0/).

---

## **Abstract**

This study sought to assess the financial challenges faced by local authorities focusing on Bindura Municipality (BM), a local government authority in Zimbabwe. The main objectives of the study were to establish the financial challenges at Bindura Municipality and to analyse the strategies it uses to raise financial resources. The study sample consisted of 14 employees and 2 members of the management team. The major findings of the study were that financial management is poor. The research concluded that the municipality needs to revisit its financial strategies so that it improves on its operations. The researchers recommended that the municipality should train its staff, tap all the sources of revenue available, engage stakeholders in the planning and implementation of programmes and projects, improve in the management of debtors and creditors and also implement some cash flows activities like investment and financing activities. **Copyright © IJABM, all rights reserved.**

**Key words:** Council, Local authority, Ratepayers

---

## Introduction

The researchers carried out a study on the financial challenges faced by Zimbabwean local government authorities. Bindura Municipality a local authority in Bindura Town was used for the case study. The researchers were keen to conduct this study because Zimbabwean municipalities are perennially dogged with cash problems resulting in poor service delivery. Bindura town is located 89 kilometres northwest of Harare. It is the provincial capital of Mashonaland Central Province. Bindura town is the beacon of infrastructural and socioeconomic development to such areas as Shamva, Mount Darwin, Matepatepa and Musana communal areas. Bindura is surrounded by rich and affluent nickel, gold mining and agriculture lands. Another striking attribute of Bindura is its well-coordinated, advanced road, rail, telephone and communication system.

Bindura got town status in 1990 and graduated to municipal status in 1999. Bindura town has a population of about forty three thousand, six hundred and seventy-five people according to the 2012 census. Bindura Municipality is a creation of the Urban Councils Act (Chapter 29:15). Like all other Urban Councils (UCs) and Rural District Councils (RDCs), BM reports to the Ministry of Local Government, Public Construction and National Housing, the parent ministry.

## Methodology

This case study drew a sample of fourteen employees and two managers from the population and the instruments used to gather data were questionnaires for employees and structured interview schedules for managers. Secondary data was sourced from council records.

## Literature review

According to Jones and Pendlebury *Public Sector Accounting*, (1992), local authorities provide public goods and services and these should be charged for. Useful strategy to adopt might be to require that all public goods and services should be charged at full cost unless there are good reasons to the contrary. Like all other Local Authorities, Bindura Municipality is not spared from financial viability challenges.

The local press carried numerous reports about local authorities' financial challenges. A Herald report of 31 December 2009 reported that the Ministry of Local Government Rural and Urban Development appointed a commission to investigate BM on allegations of financial mismanagement and deterioration of service delivery. Another report from the same paper, dated 22 January 2010 reported that BM workers had gone on strike over unpaid salaries and wages. It was alleged that BM owed its employees' salaries from July to December 2009. In most cases the creditors end up taking BM to court over unpaid accounts. It has also been reported that Municipal property is at times attached by the messenger of court over unpaid creditors.

## Financial viability

According to E:registrar@housing.nsw.gov.au. Financial viability is about being able to generate sufficient income to meet operating expenses, debt commitments and where applicable, to allow growth while maintaining service delivery levels. In addition C W Ramphele: *Municipal*

*Financial Viability* (2008) described financial viability as an overall sustainability of a municipal institution in terms of individual staff capacity, institutional and environmental capacity enabling the adequate delivery of services. A municipality considered viable should be demonstrating the proven ability to:

- Provide the necessary services and infrastructure to its communities
- Create a sustainable local economic development programme conducive for its communities to thrive
- Possess requisite institutional capacity necessary to perform municipal functions and exercise powers and functions.
- Budget adequately, manage the financial resources and prudently grow the revenue base and
- Create productive public participation in initializing, planning and executing municipal projects.

In concurrence to the above authorities, the City financial viability of India, added that local authorities become financially viable when their fiscal positions match their functional authority through both operational and fiscal decentralization. The optimum situation is when a local authority's own source revenues cover establishment costs, costs associated with the operations and maintenance of services and at least a portion of the capital costs of infrastructure.

Lawrence J Gitman (2009), identified five basic categories which indicate financial viability of organizations namely liquidity, activity, debt, profitability and market ratios. Because governments and local authorities are nonprofit making organizations and mainly use funds derived from tax to render services to the citizens, certain ratios calculated in firms such as profitability and market ratios are not applicable.

Lawrence J Gitman (2009) further more elaborated that the liquidity of a firm is measured by its ability to satisfy its short term obligations as they become due. Liquidity answers the question: is the organization likely to meet its financial obligations? Municipalities must also maintain a certain level of liquidity to continue providing uninterrupted services to the community.

Besides the above mentioned ratios, Swanevelder (2005) 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 the general service
- Analysis of the income statement of the service
- Analysis of the statistical information related to the service
- Percentage net surplus (or deficit) for all service
- Analysis of the appropriation section of the income statement.
- Analysis of the balance sheet
- Analysis of the cash flow statement.

All the above statements should be prepared in accordance to the Generally Accepted Accounting Principles (GAAP) as authorized by the Financial Accounting Standards Board (FASB). Channey (2005) also suggested

various ratios that measure the financial position, financial performance, liquidity and the solvency of a government. Financial viability has to be assessed at all times so that remedies to particular challenges can be made.

B. Coutinho (2010) observed another way that can be used by municipalities to ensure that they remain financially viable, that is to ensure that consumers pay for the service they receive. Municipalities provide services to consumers on credit, and then send a statement at the end of the month, hoping that consumers will fulfill their obligation of paying for services from which they have benefited. Measuring how much revenue is tied up in consumers is paramount as it shows how financially viable a council is. Municipalities calculate this ratio that is the consumer debt, to total income.

The preparation of reports on financial viability of an organization is imperative for the soundness of the financial health of that particular organization. The financial analysis will focus on the financial viability and the profitability, however regular financial analysis ensures timely changes in the strategies of business for the betterment. Financial viability reports prepared using highly effective tools will help the organization streamline its structure towards optimization and will provide access to comprehensive financial information.

However the researcher feels that the use of ratios in local authorities is not very much reliable because of the accrual concept that is matching of expenses and revenue to the relevant periods. Figures on paper might portray a good picture of events yet on the ground it will be a different story. The use of ratios can be evaluated with different methods and they are dependent on the perspective of the analyst, hence it is not always possible to define "good" and "bad" for the values.

## Gender distribution

**Table 1:** Gender distribution

Gender	Employees		Management	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
Male	10	71.43	2	100
Female	4	28.57	-	0
Total	14	100	2	100

*Source: Research data 2014*

Table 1 show that the 100% response rate from the employees is composed of 71.43% males and 28.57% females that is its male dominated. The 100% response came from the males though the management team is composed of five males and one female.

## Age of Respondents

Age is an important factor as it shows the age distribution of council staff.

**Table 2:** Age of Respondents in percentages

	26-30	31-35	36-40	41-45	46-50
Employees	21	43	29	7	0
Management	0	0	0	50	50

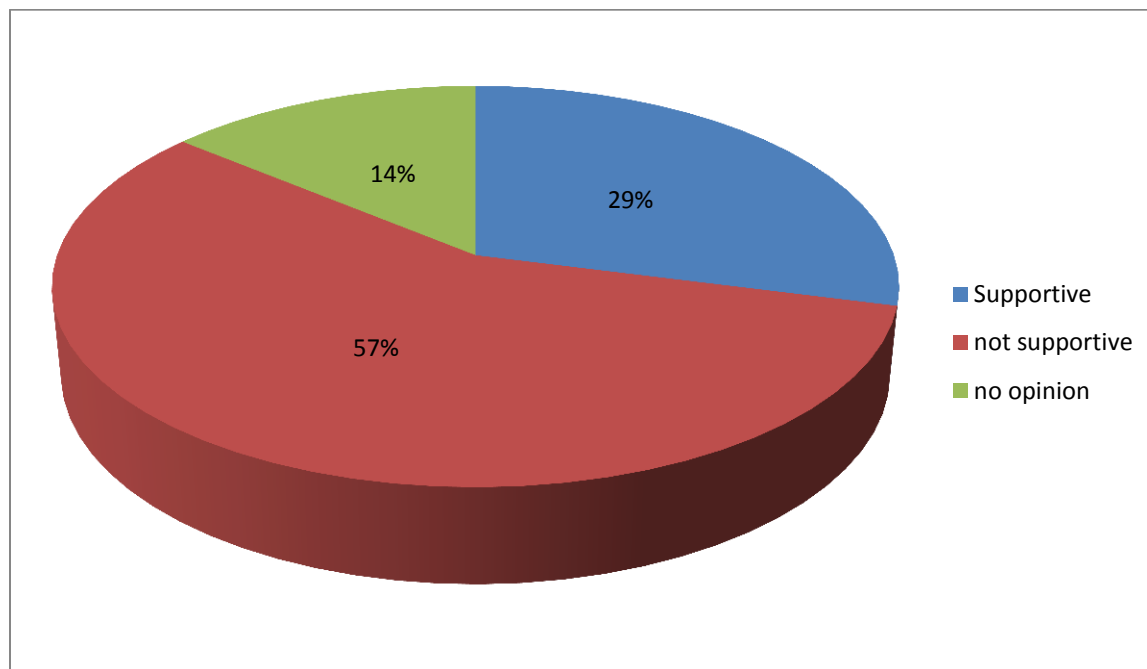
Source: Research data 2014

## Discussion

### Revenue

#### Rating of senior management's attitude on revenue collection for Bindura Municipality

#### Management's Attitude

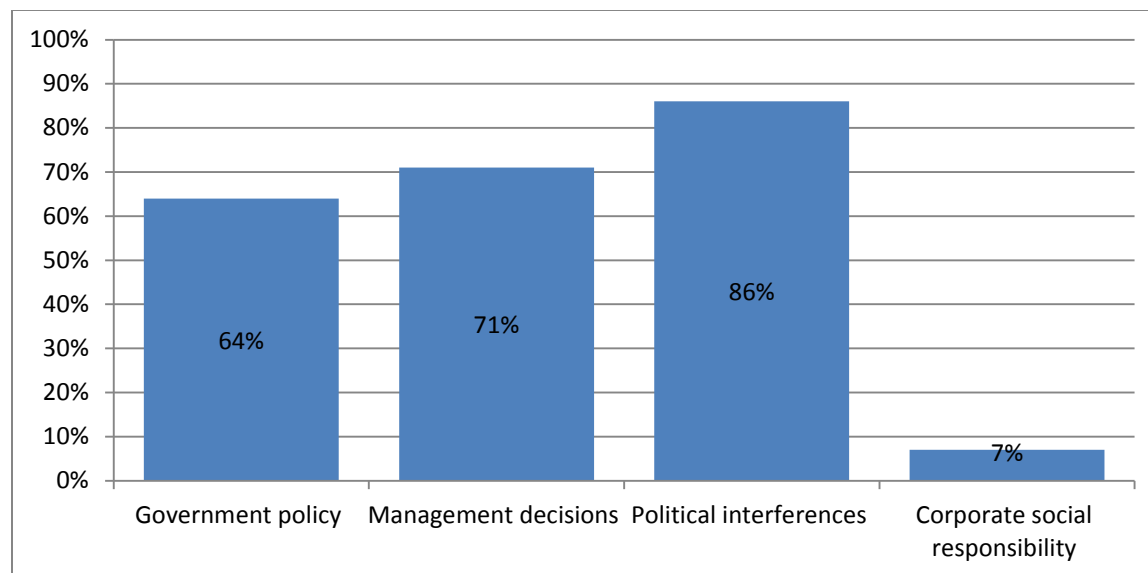


**Figure 1:** Management's attitude towards revenue collection

Source: Research data 2014

The pie-chart in fig 1 above shows that the attitude of management of Bindura Municipality's towards revenue collection is a cause of concern. A shocking figure of 57.14% said that management does not support revenue collection, 14.29% do not have an opinion and only 28.57% said the management supports revenue collection at Bindura Municipality.

#### 4.2.2 Factors affecting revenue collection at Bindura Municipality



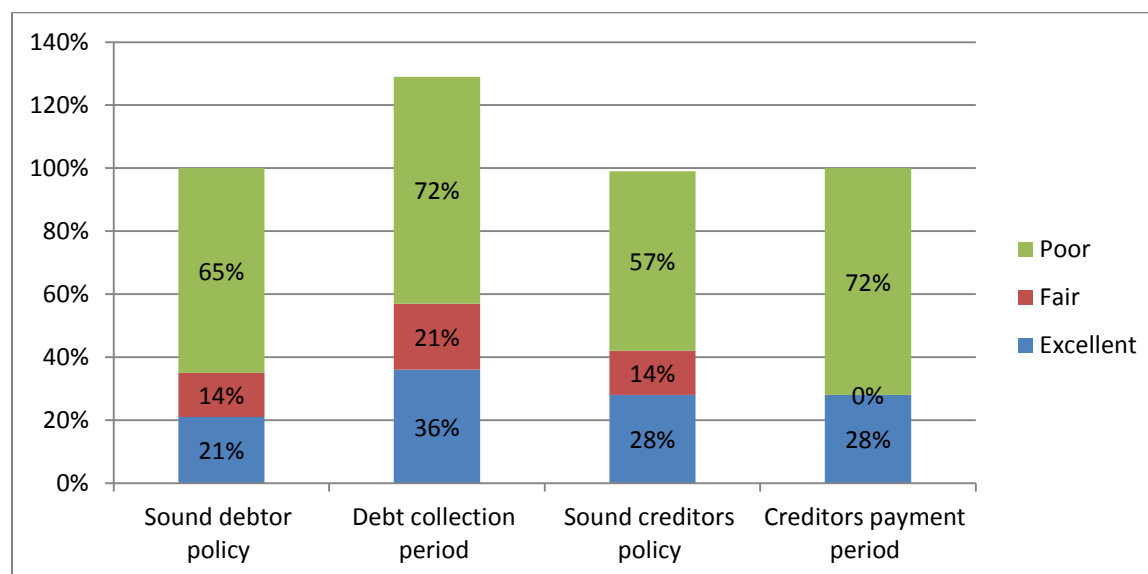
**Figure 2:** Factors affecting revenue collection at Bindura Municipality

Source: Research data 2014

Fig 2 shows government policy 64%, management decisions 71 % and political interferences 86% are the major factors that affects revenue collection at Bindura Municipality. Corporate social responsibility is a minor factor and holds only 7%.

#### Debtors and creditors

##### Debtors and creditors management at Bindura Municipality



**Figure 3:** Debtors and Creditors Management

Source: Research data 2014

Figure 3 show that respondents felt that there is poor debtors and creditors management at Bindura Municipality. Those that feel that it is fair, constitutes small percentages and no one rated the creditors' payment as fair.

## **Conclusions**

In light of the research results the researcher drew up the following conclusions

### **Revenue**

There are untapped sources of revenue for Bindura Municipality which can be used to augment or change the revenue mix. These includes sale of sand and gravel, leasing out council farms, parking fees, auctioning of impounded animals and income generating projects.

### **Factors affecting revenue collection**

Political interference, management decisions and government policy turned to be the most important factors affecting revenue collection. The issue of corporate social responsibility is not a key contributor towards affecting revenue collection.

### **Debtors and creditors management**

Lack of sound debtors and creditors management policy turned to be a major determinant of viability in Bindura Municipality. Debtors take long to pay and at times they do not pay at all. Creditors are not paid in time and they end up dragging council to courts over their dues.

### **Cash flow**

The researcher noted that council's operations are from hand to mouth. The bulk of its cash flow activities are on operations that is receipts and payments. Council does not have meaningful investing and financing activities as reflected by the pie chart.

## **Recommendations**

- **Tapping other sources of revenue**

- Bindura Municipality should strategically position itself and tap all the suggested revenues. Instead of allowing free farming on its farms, it can lease them out for a reasonable amount or it can engage in partnership farming.

- **Training**

Council should conduct training building training workshops for its management. The training workshops should centre on attitude and revenue enhancement methods for Bindura Municipality so that it operates with enough cash resources.

- **Engagement of stakeholders**

The council should invite stakeholder's participation on matters concerning the affairs of the local authority. For example, Bindura is facing ratepayers' resistance on payment of charges and levies by the two formations of Bindura residents association. These associations are urging their constituencies not to pay rates. It is therefore paramount for Bindura to engage them and diffuse

the tension.

- **Lending policies**

Council should introduce sound policies on debtors and credit management. Credit worthiness ratings should be applied. Debts should not be simply written off, where possible defaulters should be handed over to debt collectors.

- **Cash flow**

The researcher recommends that management should introduce some meaningful investing and financing activities for Bindura Municipality. It can either borrow funds to finance income generating projects such as liquor undertakings, brick molding, coffin making and farming activities.

## References

- [1] Chaney, B. A. (2005). *Analysis of the financial condition of the city of Corona, California: Using a case to teach the GASB 34 Government- wide financial statements*. Journal of budgeting, accounting and financial management
- [2] Coutinho B (2010) *Local Government Reform in Zimbabwe, A Policy Dialogue*. Law Community Centre.(University of the Western Cape) Bellville
- [3] Gitman, L. 1. (2009): *Principles of managerial finance*: Pearson Education Limited. New York.
- [4] Jones and Pendlebury (1992) 6<sup>th</sup> ed. *Public Sector Accounting*: Prentice Hall, New York
- [5] Ramphele C.W. *Paper on Municipal Financial Viability*, 11-12 August, 2008
- [6] Swanevelder, J.J (2005): *Performance measures (ratios) in the evaluation of financial and other results of municipalities*. Southern African Business Review
- [7] The Herald 31/12 2009.[www.herald.co.zw](http://www.herald.co.zw). Accessed 31/12/ 2009 and 01/ 22/2010
- [8] *Urban Councils Act* (Chapter 29:15) Government Printers, Harare