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The Impact of High Financial Management Consultancy Fees in South African Local Government

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Abstract:

This study examines the factors of high financial management consulting fees in three local governments in South Africa: Chief Albert Luthuli in the province of Mpumalanga, Greater Letaba and Lephalale in the province of Limpopo. Local government's increasing reliance on external consultants has sparked concerns about increasing costs, a lack of skill transfer, and ongoing financial mismanagement. The study, which is informed by agency theory, participatory budgetary theory, and new public management theory, investigates how poor governance, a lack of internal resources, and faulty procurement procedures influence municipal financial sustainability and service delivery while driving consultancy expenditure. A multiple-case study design was employed in a qualitative research approach underpinned by an interpretivist philosophy. Data was collected through document analysis and semi-structured interviews with municipal officials. The findings revealed that inadequate oversight procedures, political interference, inconsistent procurement procedures, and a lack of internal financial expertise are the primary contributors of excessive consulting costs. Furthermore, a lack of accountability and efficient performance monitoring increases reliance on consultants, compromising sound financial management and governance.

Keywords:

Agency Theory Consultancy fees, financial management, Governance, Local Government, New Public Management, Participatory Budgeting, South Africa.

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Introduction

Financial consultancy services have become an increasingly important component of public sector administration due to the growing complexity of financial management challenges faced by municipalities. In South Africa, local municipalities are entrusted with the responsibility of delivering essential public services such as water, sanitation, electricity, road infrastructure, and community development. To fulfil these responsibilities effectively, municipalities require sound financial management systems, strong governance structures, and adequate technical expertise. However, many municipalities continue to experience financial distress, weak governance, poor audit outcomes, and limited institutional capacity, resulting in ineffective service delivery and declining public confidence in local government. As a result of these challenges, municipalities have increasingly relied on external financial consultants to provide specialised financial management support and advisory services. According to the South African Government Annual Report (2021), approximately 91% of municipalities utilise financial management consulting services to improve administrative efficiency and service delivery outcomes. The use of consultants has therefore become a common strategy aimed at addressing financial mismanagement, strengthening compliance with legislative requirements, improving audit outcomes, and enhancing municipal performance.

Despite this extensive reliance on consultancy services, concerns have emerged regarding the effectiveness, sustainability, and cost implications of such arrangements. In the Limpopo and Mpumalanga provinces, municipalities continue to experience poor service delivery outcomes and adverse audit findings despite significant expenditure on financial consultants. The (Auditor General, 2019) reported that during the 2018/19 financial year, none of the municipalities within these provinces obtained financially unqualified audit opinions, highlighting persistent weaknesses in municipal financial governance. This situation raised questions about whether consultancy services were delivering the intended value and contributing meaningfully to institutional improvement.

The growing expenditure on consultancy services has further intensified concerns regarding municipal financial sustainability. McKenzie (2023) notes that in some municipalities, expenditure on consultants exceeds personnel costs within Budget and Treasury Offices (BTOs). Such expenditure patterns suggest an overdependence on external expertise, which may undermine the development of internal municipal capacity. Furthermore, limited transfer of financial and technical skills from consultants to municipal officials remains a significant challenge. Nama, Daweti, Lourens and Chikukwa, (2022) emphasised that inadequate involvement of municipal employees in structured training and development programmes contributes to the continued dependence on external consultants rather than promoting long-term institutional self-sufficiency.

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The inability of municipalities to build internal financial management competencies has implications for governance, accountability, and sustainable service delivery. While consultants are often appointed to address immediate financial and administrative challenges, their involvement has not consistently translated into improved municipal performance. Communities continue to experience poor service delivery, increasing service delivery protests, and declining trust in local government institutions. In some cases, protests have resulted in the destruction of public property and loss of life, demonstrating the seriousness of governance and service delivery failures within municipalities.

Against this background, the present study investigates the factors contributing to the rise in financial consultancy fees within selected municipalities in Limpopo and Mpumalanga provinces. The study further examines the relationship between consultancy services, municipal budget practices, audit outcomes, and the transfer of financial management skills to municipal staff. The research focuses on three municipalities, namely Greater Letaba Local Municipality, Lephalale Local Municipality, and Chief Albert Luthuli Local Municipality. By comparing these municipalities, the study aims to provide a deeper understanding of how consultancy pricing influences municipal financial management and service delivery performance.

The study seeks to contribute to the broader discourse on municipal governance and financial sustainability by identifying both the benefits and challenges associated with the use of financial consultants in local government. The findings are expected to assist municipalities and policymakers in developing more effective consultancy partnerships that support capacity building, improve financial governance, and enhance service delivery outcomes in South African municipalities.

Literature review

Various scholars conducted studies to look at the local government financial performance. Glasser and Wright (2020) conducted the study to look at the South African municipalities financial distress, (Mishi, Mbaleki, & Mushonga, 2022) took their study to investigate the level of efficiency in each municipality and how financial mismanagement (unauthorised, irregular, fruitless and wasteful expenditure) influences efficiency. Shaidi, Taylor and Raga (2014) examined the reasons behind service delivery protests in South African municipalities. However, not many studies conducted on the factors contributing to excessive consultancy fees and analyse how internal controls such as procurement policies, financial management impact on the reliance of consultancy services. Therefore, this research was undertaken to fill these gaps by investigating the factors that contribute to high consultancy rate and the impact it has on service delivery in three municipalities based in Limpopo and Mpumalanga. The study further determines the relationship between municipal financial health, budget constraints and consultancy spending while proposing alternative strategies for municipalities to optimise financial management while reducing excessive consultancy fees.

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Factors influencing high consultancy fees

Inadequate skills and a lack of human resources are key factors that impact how well local governments perform (Moji, Nhede, & Masiya, 2022). Abdulai, Salakpi and Nassè (2021) point out that when there aren't enough qualified people, it can lead to mismanagement and errors. This often happens because some officials are placed in significant positions without meeting all the necessary qualifications or having the right expertise to carry out their duties effectively. Research shows that while women in local government usually have basic skills, many councillors are chosen mainly for their community involvement rather than their professional qualifications (SALGA, 2021). The training these officials receive is often informal, with structured training typically happening only after they've taken office (CIGFARO, 2024). Van Helden, Grönlund, Mussari and Ruggiero (2012) highlight that public sector managers often rely on consultants due to a lack of training, expertise, and experience.

High Vacancy Rate

Vacancy rates, which highlight the number of unfilled positions, along with turnover rates, have created significant hurdles for various municipalities across South Africa (Mofolo, 2015). As pointed out by Kgobe and Selepe (2024), high vacancy rates can lead to heavier workloads, which in turn can sap motivation and contribute to employee burnout. Those who are in appointed roles often find themselves having to pick up the slack, resulting in overwhelming workloads and fatigue. Their research showed that the time it takes to fill these positions has been extended, and that better management of vacancies is crucial for improving the operational efficiency of municipalities and establishing effective performance management systems. According to the (Auditor-General, 2023), Chief Financial Officers typically stay in their positions for an average of 45 months, while the finance departments of municipalities face an average vacancy rate of 20%. Additionally, consultants have become a common presence in the financial reporting processes of municipalities, rather than local municipalities turning to district municipalities for extra support. In South Africa, the reliance on consultants' cost R1.26 billion in the 2020-21 fiscal year, and during the previous administration from 2021 to 2023, the expenses related to consultants doubled (Auditor General, 2022).

The impact of high consultancy fees on the financial sustainability of local municipalities

Consultancy and professional fees are a specific line item in the Medium-Term Expenditure Framework (MTEF) budget for municipalities. When budgets are tight and funding is scarce, high consultancy fees can eat away at a large chunk of the budget. This squeeze on resources for essential public services can lead to funds being misallocated and budgets becoming unbalanced. As a result, many municipalities find themselves facing budget deficits or overspending, often turning to loans or seeking financial help from national or provincial governments (Laing, 2021). The Auditor-General of South Africa

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(AGSA) reports have pointed out issues with financial management, including irregular and wasteful spending. The reports emphasise that most of the municipalities spend more money on consultancy services, yet they do not provide positive results as anticipated, instead it contributes to more financial mismanagement which has led to poor service delivers and negative audit outcomes (Auditor-General, 2023).

Theoretical framework

The study adopted the agency theory to examine the connection between local municipalities (the principals) and the external consultancy firms (the agents) which are currently being hired to provide financial management expertise to local municipalities. Agent theory believes that conflict of interest can rise among agents and principals due to different goal, different level of risk tolerance and information gaps (Jensen & Meckling, 1976). In this study, municipalities rely on external consultancy to manage their finances with the aim of improving service delivery. Yet, problems such as high consultancy fees, poor municipal performance and accountability have surfaced since because external consultants have placed their own interest ahead of those of the municipalities. Applying the agency theory assisted the researcher to examine how incentives, monitoring systems and governance structures warrants that external consultants' actions are aligned with the goal of the municipalities, specifically concerning managing consultancy costs and delivering value. Furthermore, this analysis assisted the researcher to identify the factors that contribute to the high fees on external consultancy services and provide recommendations for municipalities to optimise financial management while reducing excessive consultancy fees.

The budget theory assesses how municipalities allocate funds for consultancy services, seeing their financial limitations and anticipated benefits. This theory highlights the need for resource efficiency to maximise public value and ensure long-term financial health (Wildavsky, 1986). The focused on how municipalities use consultants and investigate the decision-making processes that has led to increasing consultancy costs. The adoption of budget theory assisted the researcher to provide municipalities with better budget practices that municipalities can adopt and manage consultancy fees efficiently. This approach ensures that limited financial resources are well used for the good cause which helps to improve service delivery in Limpopo and Mpumalanga. This theoretical framework lays the groundwork for understanding the financial dynamics within local municipalities and offers strategies to boost their financial sustainability.

Methods

Multiple-case study research design was employed in a qualitative research approach underpinned by an interpretivist philosophy. Three municipalities were selected to participate in the study. Three

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municipalities were selected to enable a comparative understanding of how institutional capacity, governance practices, and financial management challenges influence the use and cost of consultancy services across different local government contexts. The multiple-case approach allowed for the generation of rich contextual insights while identifying common patterns and variations in consultancy practices among municipalities. Data was collected through document analysis and semi-structured interviews with municipal officials which were purposively selected based on their knowledge and experince of the phenomena under investigationn. Each interview session lasted for 30 Minutes. With the approval of the participants, interviews were tape recorded and analysed using thematic analysis. Firstly, the tape recorded interviews were transcribed on a word document, and the researcher went through the transcribed data to identify similar themes. Interviews were stopped at a point of saturation where no new information was coming fourth.

Results

Although ten individuals initially consented to participate in the study, only seven (7) ultimately took part. The remaining three (3) participants were unable to attend their scheduled interviews due to competing work commitments. Consequently, the study achieved a response rate of 70%, reflecting a moderately high level of participation.

The demographic profile of the participants reflects a relatively experienced and professionally qualified cohort. The majority of participants (72%) were between the ages of 35 and 40, while 28% were between 41 and 45 years old. This age distribution suggests that most participants were at a mid-career stage and therefore possessed considerable professional experience and familiarity with municipal financial management and consultancy processes.

In terms of gender representation, 57% of the participants were female, whereas 43% were male. Regarding professional experience, 43% of the participants had ten years of experience, 14% had thirteen years, and a further 43% had twenty years of experience. This demonstrates that the participants had substantial practical exposure to municipal operations and financial management practices.

With respect to educational qualifications, the majority of participants (57.14%) held a Bachelor of Commerce (BCom) degree in accounting, while 28.57% possessed an Advanced Postgraduate Diploma in Accounting Sciences. The remaining 14.29% held a National Diploma in Accounting. Collectively, these qualifications indicate that the participants possessed a solid academic background relevant to the study and were therefore well positioned to provide informed perspectives on the factors influencing consultancy costs in municipalities.

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The researcher subsequently asked participants to describe the key factors contributing to high financial management consultancy fees within municipalities. The responses revealed several interconnected issues, including shortages of skills and human resources, ineffective project management and monitoring, weaknesses in procurement processes, inadequate staff development, and overreliance on external consultants due to limited institutional capacity.

One of the primary factors identified by participants was the persistent shortage of skills among municipal officials. Participants 1, 5, and 7 highlighted that inadequate technical expertise and poor project monitoring often compelled municipalities to outsource specialised functions, including information technology (IT)-related services. The participants explained that municipalities frequently relied on external consultants because internal personnel lacked the necessary expertise to manage complex projects effectively.

Participants 1, 5, and 7 stated that: “There is a shortage of skills, and sometimes projects are not properly monitored. This happens because people lack the relevant expertise; as a result, the municipality often outsources individuals, even in areas such as IT, to oversee various processes.”

These findings are consistent with existing literature, which identifies capacity constraints and inadequate technical expertise as persistent challenges facing local municipalities in South Africa (Masiya, Davids, & Mangai, 2019). Madumo and Koma (2019) argues that municipalities often depend on external consultants to compensate for internal capacity deficits, particularly in areas requiring specialised financial management and IT expertise. However, such dependence contributes to increased consultancy costs and limits institutional knowledge retention. Similarly, Durokifa, Johnson, Ramlachan, Mdhluli and Magqirana, (2023) notes that municipalities frequently struggle to attract and retain skilled professionals, resulting in inefficiencies and an overreliance on consultants. Closely linked to the shortage of skills was the issue of inadequate human resource capacity within municipalities. Participants 2, 3, and 4 observed that municipalities often prioritised cost-saving measures over competence when appointing staff members. As a result, less qualified personnel were sometimes employed in positions requiring advanced technical expertise.

Participant 3 explained that: “More than anything it is capacity; appointing someone with a master’s degree would be more expensive versus someone with a diploma.”

Participant 7 further emphasised the limitations within municipal organisational structures, stating that: “There is serious capacity in terms of human resource skills and also the expertise; the organisational structure is limited, hence certain functions lag behind, and consultants are hired.”

These responses suggest that lean organisational structures and limited staffing exacerbate institutional capacity challenges, thereby increasing reliance on consultants to perform essential financial management functions. The findings align with literature identifying human resource shortages as a

major challenge within South African local government (Masiya, Davids, & Mangai, 2019). Madumo and Koma (2019) similarly argues that many municipalities lack adequately qualified professionals to manage complex administrative and financial responsibilities, forcing them to depend heavily on external consultants. Reddy (2016) further notes that municipalities often recruit underqualified personnel because of budgetary limitations and uncompetitive salary structures, thereby weakening institutional capacity and service delivery.

In addition to skills and human resource shortages, the findings revealed that ineffective project management and insufficient monitoring mechanisms significantly contribute to escalating consultancy costs within municipalities. Participant 2 observed that consultancy projects were often poorly managed and that municipalities tended to process payments once consultants submitted closeout reports, frequently without adequate scrutiny of invoices or deliverables.

Participant 2 stated: “Consulting projects are poorly managed, and municipalities pay consultants when closeout reports are submitted.”

The participant further explained that: “The municipality pays because consultants have submitted a closeout report without stringent scrutiny of the invoices.”

Similarly, Participant 4 highlighted the absence of effective monitoring systems, noting that:

“There is poor project monitoring because a lot of times consultants would be allocating time to areas where they were working and there’s no management to monitor the number of hours spent on those deliverables.”

These findings indicate that the absence of robust oversight, time-tracking systems, and performance evaluation mechanisms allows consultants to operate with limited accountability, thereby increasing the risk of inflated consultancy costs.

Participant 6 also emphasised the importance of proactive planning and oversight, explaining that: “Before the consultant is appointed, there needs to be a gap analysis. And not only monitoring the work of the consultants but taking a reduction plan in place which is reviewed by Treasury.”

This highlights the need for municipalities to conduct proper needs assessments prior to engaging consultants and to implement mechanisms that ensure continuous evaluation and cost control. The findings correspond with existing literature, which identifies weak contract management, poor oversight, and inadequate monitoring as persistent governance challenges within South African municipalities (AGSA, 2022; Reddy, 2016). (Moji, Nhede, & Masiya, 2022) argue that many municipalities lack the institutional capacity to monitor consultancy contracts effectively, resulting in consultants being paid despite deliverables not meeting the required standards. Similarly, Abdulai, Salakpi and Nassè (2021)

maintain that weak enforcement of service level agreements (SLAs) and limited internal audit capacity contribute to inefficiencies and excessive consultancy costs.

The literature further demonstrates that ineffective monitoring undermines accountability and transparency in municipal financial management (Masiya, Davids, & Mangai, 2019). When project managers fail to compare invoices against SLAs or terms of reference, opportunities arise for overbilling, inflated costs, and substandard work delivery. Furthermore, the absence of gap analyses before appointing consultants, as highlighted by Participant 6, reflects a reactive rather than strategic approach to consultancy engagement, a concern also identified by (Cloete, 2023) within the public sector.

Another major factor contributing to high consultancy fees was municipalities' failure to comply with proper procurement and supply chain management (SCM) procedures. The AGSA (2020–2021) report identified non-compliance with SCM legislation as a significant contributor to irregular expenditure within municipalities. Challenges such as poor contract management, unfair procurement practices, and inadequate payment procedures continue to undermine financial governance.

Participants in the study reinforced these concerns. Participant 1 highlighted the absence of a dedicated buyer responsible for comparing quoted prices with prevailing market rates:

"There is no position of a buyer, who will be responsible to monitor the prices quoted and compare to the market."

Participant 2 explained that: "When a bid is advertised there is a small pool of bidders that are interested, which affects the proper SCM processes."

Participant 7 further stated that: "Municipalities fail to incorporate cost containment measures; circulars adopted and translate them into policies."

Similarly, Participant 4 observed that consultants were often retained for extended periods, contrary to SCM regulations, because municipal officials sought to avoid adverse audit outcomes: "Keeping consultants for a longer period than needed, which contravenes the supply chain regulations because the CFOs are just not willing to take that risk of losing the audit opinion."

Collectively, these findings point to systemic weaknesses in procurement governance and demonstrate the need for stronger oversight and adherence to SCM regulations within municipalities. The findings also revealed that municipalities rely heavily on consultancy services because of inadequate internal capacity and limited technical expertise. Participants explained that municipalities often lacked sufficiently skilled personnel to perform specialised functions such as budgeting, auditing, compliance, and financial reporting.

Participant 3 noted that: "We don't have enough skilled staff internally, so we rely heavily on consultants to manage complex financial reporting and compliance tasks."

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Similarly, Participant 6 stated that: “When the municipality lacks capacity in certain technical areas, such as budgeting or auditing, consultants are brought in to fill the gap.”

These findings suggest that inadequate staff development and weak skills transfer mechanisms contribute to long-term dependence on external consultants, thereby increasing operational costs and limiting sustainable institutional development. This interpretation is consistent with literature on municipal financial management, which identifies limited internal capacity as a key driver of municipalities’ reliance on external consultants (Musonda & Banda, 2018). Van der Waldt (2015) argues that municipalities with insufficient technical expertise often outsource core financial management functions to ensure compliance with statutory requirements and avoid audit qualifications. Mazzucato and Collington (2026) further contend that excessive dependence on consultants undermines the development of sustainable internal capacity and weakens long-term governance and accountability.

The researcher further explored how procurement policies and contracting processes influence consultancy costs within municipalities. Participants indicated that inadequate training and insufficient staff development indirectly contribute to increased consultancy expenditure because municipalities lack the internal expertise required to implement procurement policies effectively.

Participant 3 stated that: “Training happens on a very slow pace because of budget constraints.”

Participant 4 added that: “There is a 1% of the employee cost budget that is allocated to training, but a lot of the training is not really concentrated to finance.”

Participant 5 further explained that: “Each year we complete the skills development forms, but no training is assigned.”

These findings indicate that inadequate investment in staff development contributes significantly to municipalities’ dependence on consultants. Even where procurement policies are designed to ensure compliance and cost containment, municipalities often lack the internal capacity to implement them efficiently without external support. This finding aligns with Musonda and Banda (2018), who emphasise the strong relationship between institutional capacity, staff development, and the need for outsourced consultancy services within local government.

The researcher also asked participants to explain how consultancy fees compare across municipalities with different sizes and economic conditions. The findings suggest that consultancy costs vary considerably depending on municipal size, economic status, governance practices, and internal capacity.

Participant 1 observed that: “Smaller or less economically attractive municipalities may attract fewer bidders, potentially driving consultancy fees higher due to limited competition.”

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This suggests that municipalities with limited budgets or low economic attractiveness often face higher consultancy costs because of reduced market competition.

Participant 3 further noted that: “Municipalities fail to incorporate cost containment measures; circulars adopted and translate them into policies.”

This finding indicates that poor implementation of cost-control measures contributes to increasing consultancy expenditure.

Participant 7 additionally explained that: “Keeping consultants for a longer period than needed, which contravenes the supply chain regulations because the CFOs are just not willing to take that risk of losing the audit opinion.” This highlights a risk-averse culture within municipalities, where consultants are retained beyond necessity to minimise the likelihood of adverse audit outcomes.

These findings align with existing literature on municipal financial management and procurement practices (Kuruneri, 2025) argues that smaller or resource-constrained municipalities often rely more heavily on consultants because of limited internal capacity and reduced competition within procurement processes. Musonda and Banda (2018) further note that weak implementation of governance frameworks and cost-containment measures contributes to inefficiencies and increased consultancy expenditure. The prolonged retention of consultants, as identified by participants, reflects a risk-avoidance strategy that prioritises audit compliance over cost efficiency, a practice widely associated with inflated consultancy costs (Kuruneri, 2025).

Discussion

High financial management consultancy fees reflect deeper structural and institutional challenges within local municipalities rather than a temporary demand for specialised expertise. Persistent shortages of technical skills limited organisational capacity, and inadequate investment in professional development weaken municipalities' ability to perform essential financial management functions independently. From an institutional capacity perspective, organisations that fail to develop and retain internal expertise are more likely to depend on external service providers, resulting in recurring consultancy expenditure and limited organisational learning. This pattern suggests that consultancy services have become a substitute for internal capability instead of a complementary resource intended to address short-term technical gaps.

The continued growth in consultancy expenditure also points to weaknesses in governance and administrative systems that extend beyond human resource limitations. Effective oversight, procurement, and contract management are fundamental components of sound public financial management because they ensure accountability, transparency, and value for money. Where these governance mechanisms are weak, municipalities are less able to control consultancy engagements,

evaluate performance, or enforce compliance with contractual obligations. This interpretation is consistent with New Public Management principles, which emphasise that strong institutional controls and performance-oriented management are essential for improving efficiency and safeguarding public resources.

The variation in consultancy costs across municipalities further demonstrates that organisational context significantly influences financial management outcomes. Municipalities with weaker fiscal capacity and limited access to skilled professionals are more susceptible to prolonged reliance on external expertise than better-resourced municipalities. This suggests that reducing consultancy expenditure requires differentiated institutional reforms that respond to local conditions while strengthening internal capacity, governance systems, and workforce sustainability. Such an approach would enable municipalities to improve financial resilience, enhance service delivery, and reduce long-term dependence on external consultants.Top of Form

Conclusion

The study concludes that the persistent use of financial management consultants reflects broader institutional challenges that affect the long-term effectiveness of local government. Although consultants provide specialised expertise and support municipalities in meeting immediate operational and regulatory demands, sustained dependence on outsourced services can weaken institutional continuity, reduce organisational learning, and limit the transfer of critical knowledge to permanent employees. As a result, municipalities risk maintaining a cycle in which consultancy expenditure increases without corresponding improvements in internal capability or financial performance.

The study therefore concludes that sustainable financial management requires municipalities to shift from a reactive reliance on external expertise to a proactive model of institutional development. This transition demands leadership commitment to organisational learning, strategic workforce planning, and the creation of governance systems that support continuous improvement and accountability. Such an approach would not only enhance financial stewardship and service delivery but also strengthen public confidence in municipal administration by ensuring that public resources are invested in building resilient institutions capable of delivering long-term value

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