



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NATIONAL TREASURY REPUBLIC OF SOUTH AFRICA

November 2006

Local Government Capital and Operating Expenditure of adopted budgets for 2006/07 and Preliminary outcomes of actual expenditure for 40 selected municipalities for 2006/07 Quarter 1

Introduction

The National Treasury, with support from the provincial treasuries, collects and aggregates local government budget information for all municipalities, as part of its monitoring and support function in terms of the Municipal Finance Management Act No. 56 of 2003 (MFMA). The supporting schedules in annexure **A** and **B** contain capital/infrastructure and operating budgets for all municipalities for the 2006/07 budget year. These figures represent the original budget adopted by the Council and exclude variations that may result from an adjustments budget.

Whilst the schedules feature all 283 municipalities it has been necessary to estimate the budgets in the case of nine municipalities who have not provided information. This was achieved by adding CPIX to the previous year (2005/06) budget.

It is proposed that the schedules should be updated once the outstanding budgets are received.

National Treasury is also obliged to publish the quarterly reports on local government preliminary expenditure outcomes of municipalities to give expression to Section 71 of the Municipal Finance Management Act (MFMA). The supporting schedules in annexure **C** contains preliminary outcomes of 40 municipalities who have been working with the National Treasury on the extensive financial reforms.

Over time it is anticipated that as financial management systems improve not only will municipalities submit financial data in time, but the quality will also improve.

The report highlights under-spending on capital budgets which reinforce the need to accelerate the roll-out of infrastructure.

The outcome report includes actual capital expenditure and operating expenditure and income for sectors such as water and electricity, cash flows analysis and debtors and creditors age analysis of the 40 municipalities spread across the country, including metros.

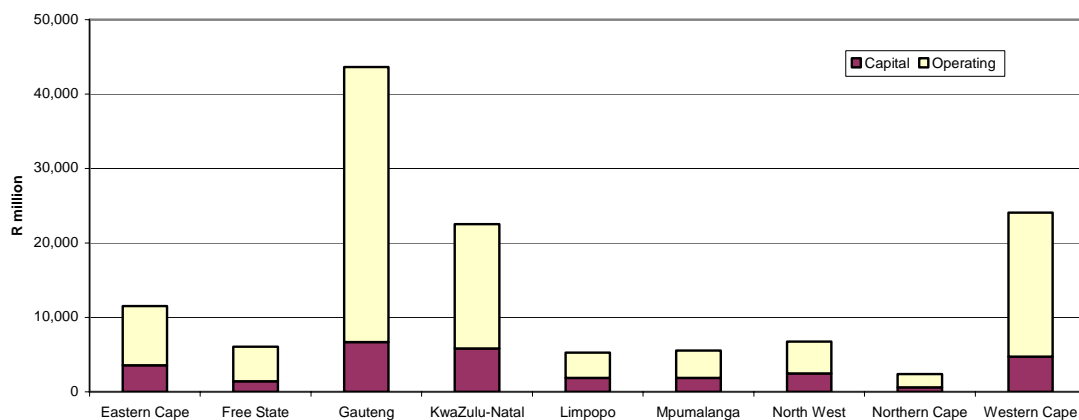
Summary

Total capital and operating budgets of municipalities for the 2006/07 year amounts to R128 billion, of which capital amounts to R28,9 billion or 23 per cent and operating budgets total R98,8 billion or 77 per cent as shown in Table and Graph 1 below. Gauteng province due to the number of metropolitan municipalities has the highest budget at R44 billion, this is followed by Western Cape at R24 billion and the province with the lowest budget is Northern Cape though it is the biggest province in terms of density.

| Total municipal budgeted expenditure, 2006/07 | | | | | | |
|--|---------------|--------------|---------------|--------------|----------------|---------------|
| R million | Capital | | Operating | | TOTAL | |
| | Budget | % | Budget | % | Budget | % |
| Eastern Cape | 3,542 | 30.7% | 7,986 | 69.3% | 11,527 | 9.0% |
| Free State | 1,415 | 23.2% | 4,672 | 76.8% | 6,088 | 4.8% |
| Gauteng | 6,688 | 15.3% | 36,945 | 84.7% | 43,633 | 34.2% |
| KwaZulu-Natal | 5,815 | 25.8% | 16,705 | 74.2% | 22,520 | 17.6% |
| Limpopo | 1,861 | 35.5% | 3,386 | 64.5% | 5,247 | 4.1% |
| Mpumalanga | 1,846 | 33.3% | 3,700 | 66.7% | 5,547 | 4.3% |
| North West | 2,453 | 36.3% | 4,295 | 63.7% | 6,747 | 5.3% |
| Northern Cape | 611 | 25.5% | 1,783 | 74.5% | 2,393 | 1.9% |
| Western Cape | 4,742 | 19.7% | 19,309 | 80.3% | 24,052 | 18.8% |
| Total | 28,973 | 22.7% | 98,782 | 77.3% | 127,755 | 100.0% |

Source: National Treasury Local Government Database

Total budgeted expenditure for municipalities, 2006/07



The percentage split between capital and operating budget shows that North West has the highest allocation to capital budget to total budget at 36/64 ratio while Gauteng shows a the lowest split of 15/85 on the budget. Other provinces are showing commitment to service delivery looking at their allocations of capital budgets to total budgets.

Capital Budget

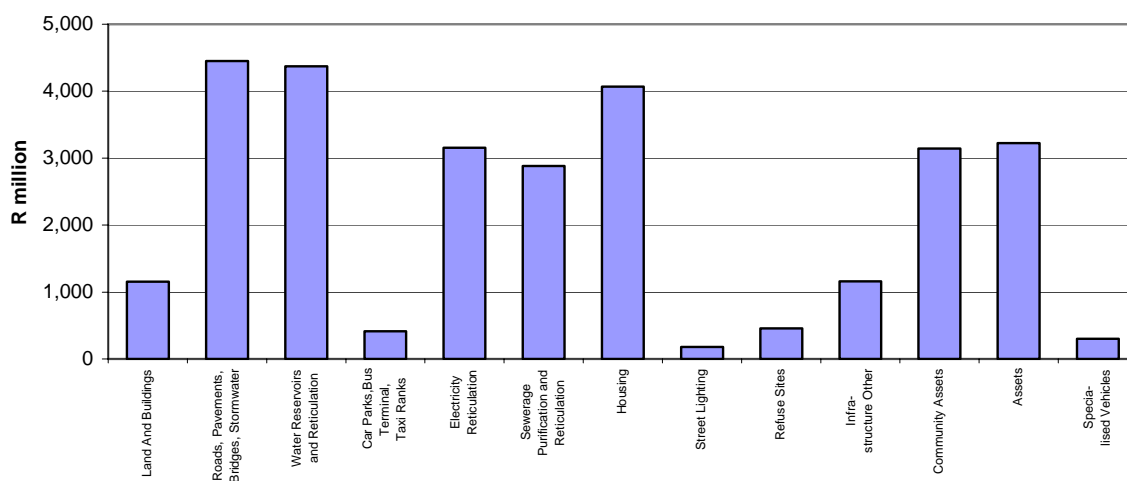
Municipalities have budgeted to spend R28, 9 billion on capital/infrastructure related projects in 2006/07.

Priorities for all municipalities' capital budget are focused on water and sanitation R7, 3 billion (25 per cent), roads R4, 5 billion (16 per cent), housing R4, 0 billion (14 per cent), community facilities R3, 1 billion (11 per cent), electricity R3, 0 billion (11 per cent), acquisition of operational assets R3, 2 billion (12 per cent), and other assets R3, 0 billion (11 per cent) respectively.

Municipalities within the province of Gauteng have budgeted R6,6 billion for capital expenditure, representing almost a quarter of the total capital budgets for all nine provinces as shown in Graph 2 below. The focus of municipalities in Gauteng province is weighted towards electricity and roads infrastructure at R1, 0 billion, respectively. Community facilities make up R880 million, followed closely by infrastructure on water supply at R830 million and housing at R736 million. Municipalities in Eastern Cape province have budgeted R3,5 billion and this is directed at addressing infrastructure on roads R683 million, community facilities R615 million, water supply R605 million and sanitation R373 million.

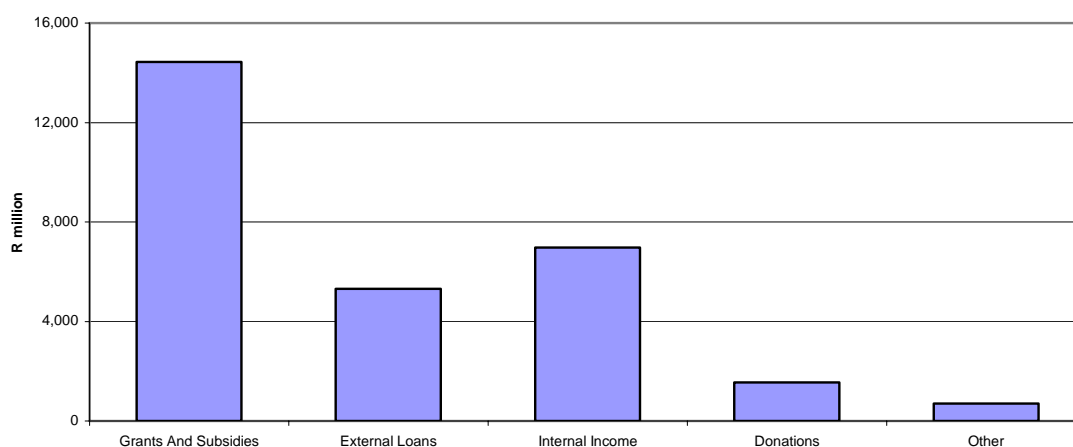
The highest budgeted capital priority areas with regards to the major infrastructure category appear to be housing (KwaZulu-Natal and North West), electricity (Gauteng) and roads (Eastern and Western Cape).

Budgeted capital expenditure for municipalities, 2006/07



Major sources of revenue to fund the capital budgets are derived from grants and subsidies at R14, 4 billion (50 per cent), own contributions of R7, 0 billion (24 per cent), external loans of R5, 3 billion (18 per cent) and R2, 3 billion from other income and donations (8 per cent) as shown in Graph 3 below.

Budgeted capital funding for municipalities, 2006/07



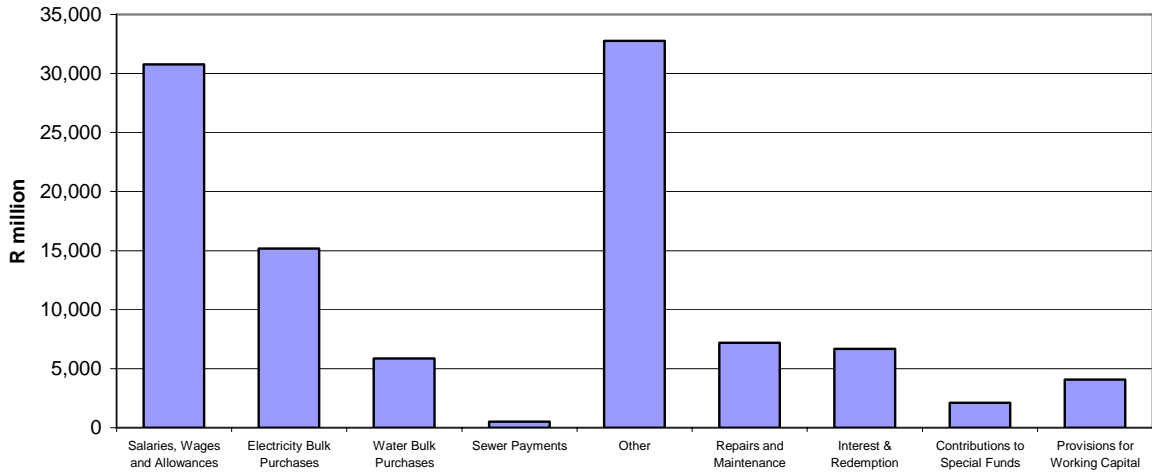
Operating Budget

Municipalities have budgeted to spend R98, 8 billion on operations in the 2006/07 year.

Across all provinces as shown in Table B10 in Annexure B, a consistent trend in the various components emerges. In aggregate, the largest operating budget component being salaries and wages totalling R31, 0 billion (31 per cent) followed by bulk purchases of electricity and water at R21, 0 billion (21 per cent), repairs and maintenance at R7, 2 billion (7 per cent) and interest and redemption on loans at R6, 7 billion (7 per cent) as shown in Graph 4 below.

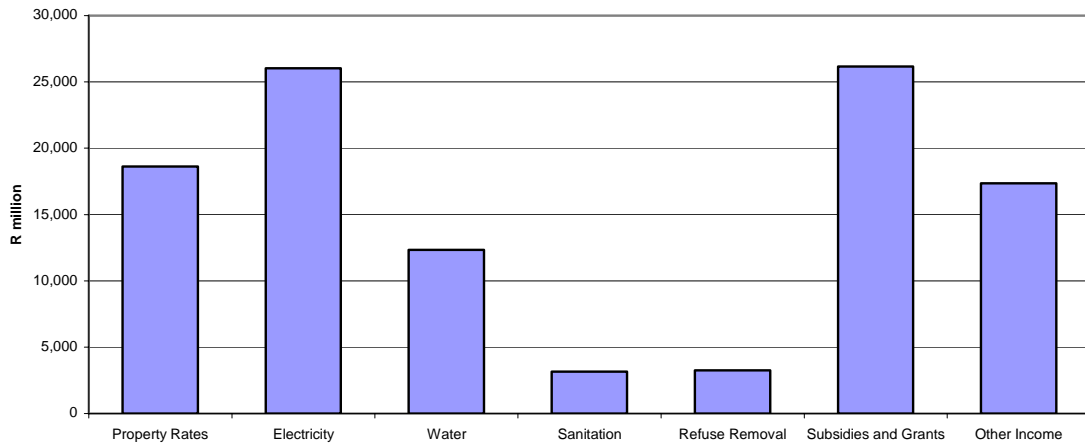
Municipalities in Gauteng province make up the largest budgets amounting to R36, 9 billion or 37 per cent, followed by Western Cape with R19, 3 billion and KwaZulu-Natal on R16, 7 billion. The smallest budgets are in Northern Cape at R1, 8 billion or 2 per cent of the total.

Budgeted operating expenditure for municipalities, 2006/07



Graph 5 below shows the sources of revenue to fund the operational budgets of municipalities. The highest source of revenue is derived from grants and subsidies with at R26,1 billion, followed by electricity at R26, 0 billion , property rates at R18, 6 billion, water and sanitation at R15, 0 billion. In addition municipalities derive revenue from refuse removal services at R3, 2 billion and other income which mainly comprise of traffic fines, entry fees, donations etc at R17, 3 billion.

Budgeted operating revenue for municipalities, 2006/07



Analysis of preliminary outcomes of actual revenue and expenditure for 40 selected municipalities for 2006/07 Quarter 1

This report shows that after three months metropolitan municipalities, on average, have spent 21 per cent of their operating budget and 9 per cent of their combined capital budget.

