

Publication of the state of selected municipal budgets for the first quarter, ending September 2006

Introduction

The Municipal Finance Management Act, No. 56 of 2003 (MFMA) has introduced the requirement, in section 71, for municipalities to submit regular reports to the mayor, council and the provincial treasury on the state of the municipal budgets.

A selection of consolidated information for forty municipalities, for the three months ending September 2006, is contained in the supporting schedules. The selection covers municipalities in all nine provinces, large, medium and small, urban and rural, including metropolitan, district and local jurisdictions. The schedules contain actual spending on capital/infrastructure and operations, major revenue by source, statement of cash flows, debtor and creditor age analysis. The aggregate figures for other municipalities will be published by the provincial treasuries shortly.

Information contained in these schedules has been obtained from municipalities and every attempt is made to reflect this accurately, however, some municipalities are in the process of adopting adjustment budgets which may change the published numbers. It should be noted that many of the selected municipalities are participating in the financial management reforms and are busy addressing internal structures, systems, processes and procedures to be able to improve on their performance.

Summary of capital spending and sources of revenue

The data on capital/infrastructure shows that spending trends vary considerably. The six metropolitan municipalities, with relatively good capacity, spent between 5 and 16 per cent of their annual capital budgets, for the first three months. The best performing metro being eThekweni reflects spending levels at 16 per cent. The other five metropolitan municipalities show lower spending levels, ranging between 5 and 9 per cent. Spending by the metros was focused on the major infrastructure categories of electricity, water and roads which was primarily funded from grants, loans and own revenue contributions. It should be noted that the capital budgets of the metros do not yet reflect national allocations for the 2010 World Cup programme since these have been announced in October 2006.

The spending for the selected local municipalities on capital/infrastructure ranges from 1 to 40 per cent, of the annual capital budget for the first three months. The best capital spenders are Knysna at 37 per cent and Lukhanji at 40 per cent. The major spending categories for the larger local municipalities are housing, water and sanitation primarily funded by grants and loans. The spending levels appear to be low, ranging from 2 to 22 per cent, with Mbombela at 3 per cent, Mangaung, Buffalo City and George at 7 per cent, Msunduzi at 11 per cent, Sol Plaatje at 12 per cent, Potchefstroom at 14 per cent, Polokwane and Newcastle at 5 per cent and Rustenburg at 3 per cent.

For the nine selected district municipalities capital spending ranges from zero to 29 per cent, with iLembe the highest on 29 per cent and Amothole on 18 per cent. Spending patterns in districts vary considerably as some have more functions assigned than others. Water services appear to be the primary focus which is funded from grants.

We anticipate that capital spending patterns are likely to increase in the second quarter.

Summary of operating expenditure and sources of revenue

Operating revenue is higher by 9 per cent over expenditure, for the first three months ending September 2006. The aggregate operating expenditure ranges from 11 per cent to 26 per cent, with four municipalities reflecting spending at over 30 per cent of their total budget, for the three months. The aggregate revenue ranges from 15 per cent to 38 per cent, excluding five municipalities that show revenue at over 40 per cent.

Operating expenditure

The six metropolitan municipalities show that salary and wage costs, bulk purchases of water and electricity and provision for working capital are the top three spending areas at around 24 per cent of the total budget. The spending on bulk purchases by Johannesburg is 32 per cent whilst the provision for working capital is 30 per cent in the case of Tshwane. Spending on repairs and maintenance for both these metros are at 23 per cent, whilst the other metros are at 7 per cent of the total budget.

The operating expenditure trend, for the first quarter, of the selected local municipalities is similar to that of metropolitan municipalities, with the addition of repairs and maintenance featuring prominently. The local municipalities in the sample range between 9 per cent and 33 per cent of the total operating budget, with the lowest expenditure experienced at Polokwane at 9 per cent and the highest expenditure at BaPhalaborwa at 33 per cent. For example, Rustenburg spends 14 per cent on salaries and 13 per cent on bulk purchases of electricity and water, Polokwane shows spending patterns on water and electricity at 28 per cent and salaries at 8 per cent, uMhlathuze shows 31 per cent for electricity and 15 per cent for water and Msunduzi spends 35 per cent on electricity, 26 per cent on salaries and 23 per cent on water.

The operating and expenditure trend for the first quarter across the nine district municipalities in the selected sample, show that the largest category of spending is on salaries and wages, at 43 per cent, followed by bulk purchases of water, provision for working capital and repairs.

The above examples highlight some of the differences in the spending patterns of municipalities.

Sources of revenue

Generally, operating revenue exceeds operating expenditure. The revenue trends for the six metropolitan municipalities show that property rate revenue ranges from 20 to 80 per cent and 24 per cent on average for service charges, for the first quarter, as a percent of the total budget. The Nelson Mandela Bay metro and City of Cape Town show property rates revenue at 80 and 42 per cent, respectively. This may be ascribed to the manner in which these municipalities undertake their billings.

For local municipalities, the operating revenue ranges from 8 to 43 per cent of the total budget. Polokwane reflects 8 per cent, while George shows 43 per cent, for the first quarter. Revenue from property rates is also the largest source for local municipalities ranging from 17 to 33 per cent and service charges ranging from 8 to 32 per cent. The local municipalities of Sol Plaatje, George and Buffalo City have been excluded from the above ranges since they show property rates revenue around the 100 per cent level. Again, this can be ascribed to the billing cycles of these municipalities.

The district municipalities operating revenue ranges from 15 to 53 per cent, primarily derived from grants and other revenue, due to the replacement of the RSC levy with transfers.

Debtors and Creditor Age Analysis

The total debtors (outstanding consumer accounts) for the selected municipalities amount to R34.4 billion, with the six metropolitan municipalities making up R28.6 billion or 83 per cent. The consumer accounts for the metros outstanding over 90 days amounts to R20.9 billion or 73 per cent.

The total creditors (payments owing by municipalities) amount to R4 billion, largely current accounts less than 30 days, with the six metropolitan municipalities making up R3.3 billion or 83 per cent. The largest portion of these are for Tshwane at R928 million, Ekurhuleni at R870 million and Johannesburg at R643 million.

Conclusion

The summary highlights key trends for selected municipalities, based on the capital and operating revenue and expenditure patterns and other supporting information, for the first quarter ending September 2006. We also provide the contact details of the relevant municipal officials alongside the consolidated Section 71 reports in order to facilitate communication with municipalities.