



Press release: local government adopted operating and capital budgets for 2012/13 MTREF

The National Treasury today publishes on its website the operating and capital budgets of 278 municipalities as adopted by their respective councils. These budgets give an overview of expected revenue and expenditure trends in local government over the next three years, referred to as the 2012/13 Medium Term Revenue and Expenditure framework (MTREF). The revenue and expenditure numbers are compiled from the annual budgets that municipal managers must submit to the National Treasury and the relevant provincial treasury.

The information published today is presented in a variety of ways, including aggregated municipal budget totals for the 2012/13 financial year and over the medium term period, information per category of municipality and information per province. Highlights include:

- *In aggregate, budgeted revenue for 2012/13 is approximately R264.0 billion, which is expected to increase to R284.0 billion in 2013/14 and R311.0 billion in 2014/15.*
- *Total municipal expenditure in 2012/13 is estimated to be R281.1 billion which will increase to R297.1 billion in 2013/14 and R324.6 billion in 2014/15. Expenditure for 2012/13 has increased by 12.7 per cent compared to the 2011/12 MTREF.*
- *In the 2012/13 financial year, a net deficit of R372.9 million is indicated; this position improves significantly to reflect surpluses of R2.1 billion and R3.1 billion respectively in the two outer years of the MTREF period.*
- *Municipal operating expenditure on the trading services consisting of water, electricity, waste water management and waste management is budgeted to increase from R104.9 billion in 2011/12 to R120.9 billion in 2012/13. In 2012/13 this equates to just over half the total operating expenditure.*
- *Bulk purchases of electricity and water totals R69.1 billion of the aggregated operating expenditure of R229.8 billion or 30 per cent. Bulk purchases is expected to grow to R91.9 billion by 2014/15 representing 33.9 per cent of total operating expenditure; bulk purchase of electricity from Eskom is a significant contributing factor to this growth.*
- *Reporting on operational repairs and maintenance figures has now been institutionalised as part of Section 71 in-year reporting. R11.9 billion will be allocated in 2012/13 to repairs and maintenance of assets from operating expenditure. This will increase to R13.1 billion and R14.1 billion in the two outer years of the MTREF.*

- *Capital expenditure has increased by 16.5 per cent compared to the 2011/12 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 18.4 per cent in 2012/13, 17.2 per cent in 2013/14 and 16.9 per cent in 2014/15.*
- *Total capital expenditure for 2012/13 is R51.8 billion and comprises R24.2 billion for trading services consisting of electricity, water, waste water management and waste management. Expenditure on the four trading services will increase to R25.5 billion and R27.6 billion in the outer years of the MTREF.*
- *The 2012/13 capital budget reflects a R38.9 billion investment in new infrastructure which is 75.2 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R12.9 billion or 24.8 per cent of the capital budget.*

The National Treasury publishes local government MTREF information on an annual basis. Regularly published budget information enables communities to hold their municipal councils to account. Information is also used by National Treasury as the basis for the In-year Management, Monitoring and Reporting System for Local Government. The Section 71 reports published by the National Treasury give an account of actual revenue collection and spending by municipalities per quarter against their budgeted figures.

To improve the quality of reporting, the Municipal Budget and Reporting Regulations promulgated in 2009 prescribed new budget reporting formats for municipalities. All municipalities had to submit their 2012/13 MTREF budgets in the prescribed A1 Schedules as per the regulations. Improvements in reporting this year can be attributed to the collective efforts of the National Treasury and provincial treasuries to work with municipalities to improve both budgeting and reporting.

All 278 municipalities conformed to the prescribed reporting formats as per the Municipal Budget and Reporting Regulations. Also the number of municipalities whose electronically submitted budgets reconciled with the actual budget approved by their councils has increased. While only 112 municipalities managed to achieve this reconciliation last year, this year the budgets of 149 municipalities were verified as reconciling. Efforts will continue to ensure all municipalities meet requirements and to further improve the quality of budget information.

Annexure A sets out the full list of information that can be found on the website, and a high level summary of information in terms of category of municipality and per province. **Annexure B** contains a sets key graphs articulating in numbers in graphical format. Go to www.treasury.gov.za/mfma for more information.

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The full list of information published:

- Aggregated/consolidated municipal 2012/13 MTREF information;
- A set of related graphs;
- Summary of expenditure by function;
- Summary of large expenditure items;
- A. Medium-term budget (three year budget perspective of the summarised operational and capital appropriations);
- B. Municipal Budget and Reporting Regulations format (Summary of financial dimensions);
- C. Municipal Budget and Reporting Regulations format (Detail of schedules A2 to A10):
 - Schedule A2 (Standard Classification);
 - Schedule A4 (Statement of Financial Performance);
 - Schedule A5 (Capital Budget);
 - Schedule A6 (Statement of Financial Position);
 - Schedule A7 (Cash Flow Budget/Position);
 - Schedule A9 (Asset Management);
 - Schedule A10 (Free Basic Services); and
 - Combined Schedules A1 to A10.
- D. Changes to Baseline;
- E. Summary of Growth Rates;
- F. Budgeted Ratios;
- G. Additional Information;
- H. Outcome of Municipal Budget Benchmarking; and
- I. Audited results for 2010/11.

HIGH LEVEL ANALYSIS OF THE 2012/13 MTREF:

1. The analysis below is restricted to the aggregated expenditure by category of municipality, an overview of the budgets of the eight metropolitan councils, the secondary cities (next top 19 municipalities in terms of budget size) and a summary of municipal budgets per province. The detail in the supporting tables published on the National Treasury's website provides more information by type of expenditure item and other operational information. Information on each municipality's 2012/13 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

1. Aggregated Operating and Capital budgets, 2012/13 - 2014/15

Description	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
R thousands			
Total Revenue ¹	264 021 879	284 086 000	311 017 451
Total Expenditure	281 184 150	297 152 048	324 687 016
Surplus / deficit	(17 162 271)	(13 066 049)	(13 669 565)
FINANCING:			
External loans / borrowing	9 631 795	8 264 316	9 335 822
Internally generated funds	7 157 504	6 944 378	7 452 949
Total financing	16 789 299	15 208 694	16 788 772
Net surplus / deficit	(372 972)	2 142 645	3 119 206

Source: National Treasury Local Government Database

1. Total revenue is estimated to be R264.0 billion, R284.0 billion and R311.0 billion while total expenditure estimates are R281.1 billion, R297.1 billion and R324.6 billion for each of the respective financial years of the 2012 Medium-term Revenue and Expenditure Framework (MTREF).
2. Over the MTREF period municipalities intend raising external loans (borrowing) of R27.2 billion to fund infrastructure development while contributing R21.6 billion through internally generated funding.
3. In the 2012/13 financial year, a net deficit of R372.9 million is indicated. This position improves significantly to reflect surpluses of R2.1 billion and R3.1 billion respectively in the two outer years of the MTREF period. This trend is positive as it indicates municipalities are starting to understand the fundamental importance of generating surpluses in funding infrastructure and the capital budget from own municipal sources.
4. Considering that both the operating and capital budgets are prepared on the accrual basis of accounting, when depreciation and debt impairment (as non-cash items) are excluded from expenditure the net surplus/(deficit) position significantly improves. To illustrate this point, when the depreciation and asset impairment of R15.2 billion for the 2012/13 financial year is excluded as an expenditure item the net surplus is R14.8 billion (R15.2 billion less R372.9 million). Although it may appear as though municipalities are making large surpluses it needs to be noted that from a cash flow perspective depreciation is represented by repayment of borrowing; repayment of borrowing is approximately R4.1 billion for the 2012/13 financial year.
5. The financial planning and budgeting improvements associated with the operating surpluses suggests that municipalities are slowly taking heed of the funding requirements contained in Section 18 of the MFMA and the Municipal Budget and Reporting Regulations.

¹ Total revenue is overstated owing to capital transfers.

External loans and internally generated funds are the municipality's own contribution to capital revenue.

Aggregated operating and capital budget per municipal category

2. Aggregated Operating and Capital revenue per category, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	25 082 487	154 074 183	179 156 671	25 538 998	170 761 582	196 300 580	29 011 132	190 025 452	219 036 583
Category B	18 531 655	83 827 768	102 359 423	17 303 117	86 251 056	103 554 173	16 950 844	92 731 397	109 682 242
Category C	8 176 594	20 130 726	28 307 320	8 289 953	20 635 190	28 925 143	8 816 598	21 879 955	30 696 553
Total	51 790 736	258 032 678	309 823 414	51 132 068	277 647 828	328 779 896	54 778 574	304 636 804	359 415 378
<i>Less</i>									
Capital transfers	-	29 012 236	29 012 236	-	29 485 202	29 485 202	-	31 609 156	31 609 156
External loans / borrowing	9 631 795	-	9 631 795	8 264 316	-	8 264 316	9 335 822	-	9 335 822
Internally generated funds	7 157 504	-	7 157 504	6 944 378	-	6 944 378	7 452 949	-	7 452 949
Total revenue	35 001 437	229 020 442	264 021 879	35 923 374	248 162 626	284 086 000	37 989 803	273 027 648	311 017 451
% of total revenue²									
Category A	48.4%	59.7%	57.8%	49.9%	61.5%	59.7%	53.0%	62.4%	60.9%
Category B	35.8%	32.5%	33.0%	33.8%	31.1%	31.5%	30.9%	30.4%	30.5%
Category C	15.8%	7.8%	9.1%	16.2%	7.4%	8.8%	16.1%	7.2%	8.5%

Source: National Treasury Local Government Database

6. Table 2 shows the aggregated budgeted revenue by category of municipality over the 2012 MTREF period. In aggregate, budgeted revenue for 2012/13 has grown by 13.5 per cent from R232.6 billion in 2011/12 to R264.0 billion, with operating revenue growing by 12.7 per cent and capital revenue by 19.5 per cent. In the outer years of the MTREF, aggregated growth slows down to 7.6 per cent and 9.5 per cent respectively and capital growth is limited to 2.6 per cent and 5.4 per cent respectively. The decrease in the growth of capital revenue in the two outer years of the MTREF is a concern and is most probably due to the lack of proper multi-year budgeting amongst most municipalities.
7. Over the MTREF period, total revenue raised by Category A municipalities accounts for 57.8 per cent of the total aggregated revenue in 2012/13. This increases to 60.9 per cent in 2014/15 indicating that the eight metros alone account for slightly less than two-thirds of total aggregated revenue. Operating revenue of the metros constitutes 59.7 per cent of total aggregated revenue in 2012/13 increasing to 62.4 per cent by 2014/15.
8. The percentage share of total aggregated revenue for Category B and C municipalities declines slightly in the 2012 MTREF period. Total revenue raised by Category B municipalities averages 31.6 per cent and revenue raised by district municipalities 8.8 per cent to the total aggregated revenue for all municipalities.
9. The increasing percentage share of revenue raised by metros compared to total aggregated revenue for all municipalities indicates that metro revenue is growing at a faster rate than revenue in Category B and C municipalities. This could be associated with a number of factors. Firstly, metros generally have higher fiscal capacity than other municipalities. Secondly, metros are responsible for the delivery of all services and the increase in the price of electricity contributes to higher service charges which in turn results in increased revenue. District municipalities are primarily funded from the National fiscus with only some districts being allocated the powers and functions to provide water services. Hence the growth in the revenue of district municipalities will be modest.

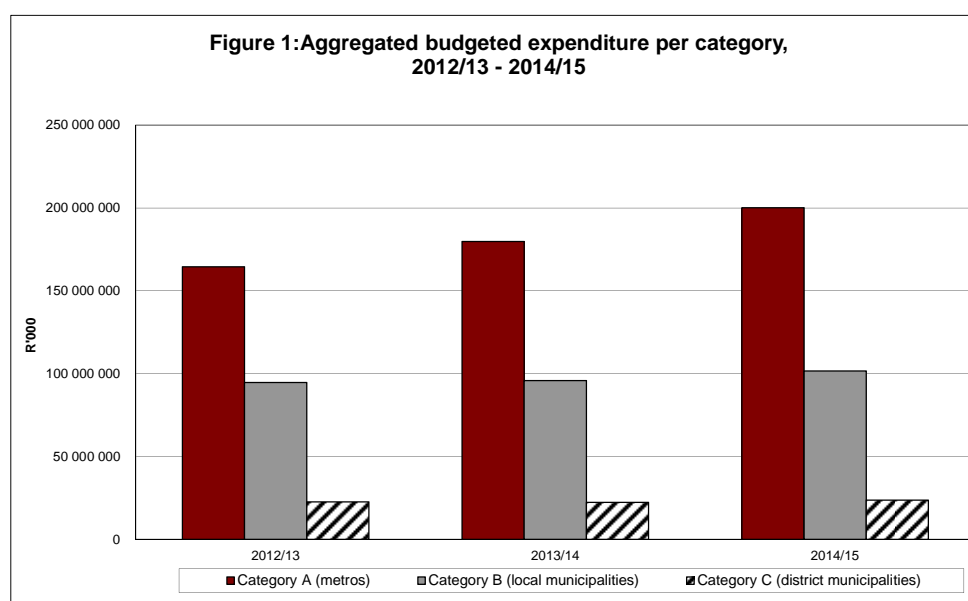
² Percentage calculations in per category tables are based on total revenue and expenditure (including capital transfers, external loans and internally generated funds).

10. Table 3 shows the aggregated budgeted expenditure by category of municipality over the 2012 MTREF period. In aggregate, budgeted municipal expenditure has grown by 12.9 per cent from R249.0 billion in 2011/12 to R281.2 billion in the 2012/13 financial year; growth in operating expenditure contributed 12.2 per cent while capital expenditure contributed 16.2 per cent suggesting that funding for infrastructure development and the capital budget has received priority.
11. Operating revenue increased on average by 10.3 per cent over the MTREF while municipalities managed to contain operating expenditure increases to 9.7 per cent representing an operational efficiency gain of 0.6 per cent; this efficiency gain translates to R1.2 billion and has contributed to the improved aggregated surplus position.

3. Aggregated Operating and Capital expenditure per category, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	25 082 487	139 402 781	164 485 268	25 538 998	154 262 745	179 801 743	29 011 132	171 123 435	200 134 567
Category B	18 531 655	76 132 370	94 664 025	17 303 117	78 533 708	95 836 825	16 950 844	84 651 159	101 602 004
Category C	8 176 594	14 320 027	22 496 621	8 289 953	13 932 128	22 222 081	8 816 598	14 727 295	23 543 893
Total	51 790 736	229 855 178	281 645 914	51 132 068	246 728 581	297 860 649	54 778 574	270 501 890	325 280 464
Less									
Taxation	-	461 764	461 764	-	708 601	708 601	-	593 448	593 448
Total expenditure	51 790 736	229 393 414	281 184 150	51 132 068	246 019 981	297 152 048	54 778 574	269 908 442	324 687 016
% of total expenditure²									
Category A	8.9%	49.5%	58.4%	8.6%	51.8%	60.4%	8.9%	52.6%	61.5%
Category B	6.6%	27.0%	33.6%	5.8%	26.4%	32.2%	5.2%	26.0%	31.2%
Category C	2.9%	5.1%	8.0%	2.8%	4.7%	7.5%	2.7%	4.5%	7.2%

Source: National Treasury Local Government Database



12. The expenditure budget of the eight metros as a share of the total local government budget for the 2012/13 financial year constitutes 58.4 per cent, whereas local municipalities represent 33.6 per cent. District municipalities represent only 8.0 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing 61.5 per cent to total expenditure by 2014/15.

² Percentage calculations in per category tables are based on total revenue and expenditure (including capital transfers, external loans and internally generated funds).

13. Aggregated capital expenditure represents 18.4 per cent in 2012/13, 17.2 per cent in 2013/14 and 16.9 per cent in 2014/15 of the overall budget of municipalities. The decreasing share of capital expenditure as a percentage of total expenditure is a concern indicating a shift in the prioritization of operating expenditure needs over capital expenditure. However, in terms of rand value the amount to be spent on capital decreases slightly in 2013/14 and increases in 2014/15 to R54.7 billion. The provision of water services remains a priority over the MTREF period as well as investment in economic and environmental services.
14. Operating expenditure in aggregate represents 81.6 per cent in 2012/13 and increases to 82.8 per cent in 2013/14 and 83.2 per cent in 2014/15 of the overall budget of municipalities. The increase in operating expenditure is attributed to the anticipated increases in remuneration and the purchase of bulk electricity.

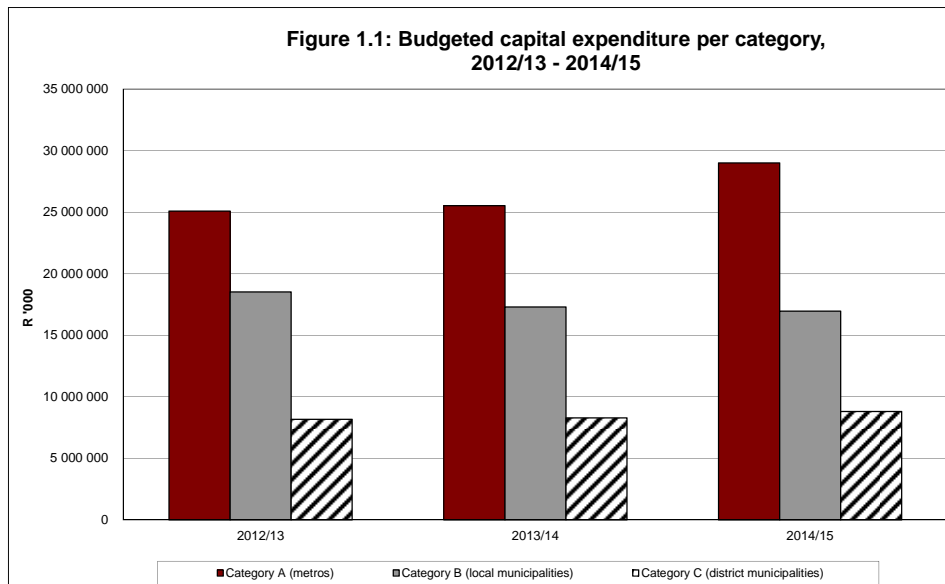
Detailed capital expenditure and funding

4. Budgeted capital expenditure and funding, 2012/13 - 2014/15

R thousands	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
Capital Expenditure - Standard Classification			
<i>Governance and Administration</i>	4 281 279	3 787 496	3 574 945
<i>Community and Public Safety</i>	7 182 950	6 585 702	7 583 570
<i>Economic and Environmental Services</i>	15 685 088	14 922 433	15 678 082
<i>Trading Services</i>	24 201 449	25 503 364	27 618 804
Electricity	6 289 267	6 568 422	7 799 924
Water	10 291 238	10 630 074	11 918 328
Waste Water Management	6 527 144	7 289 046	6 953 409
Waste Management	1 093 801	1 015 822	947 144
<i>Other</i>	439 970	333 072	323 173
Total Capital Expenditure	51 790 736	51 132 068	54 778 574
<i>Of which</i>			
Total New Assets	38 937 647	38 225 626	40 056 898
Total Renewal of Existing Assets	12 853 089	12 906 441	14 721 677
Total Capital Expenditure	51 790 736	51 132 068	54 778 574
Funded by:			
National Government	29 805 409	31 537 953	32 775 542
Provincial Government	2 669 698	1 773 874	1 769 127
District Municipality	156 717	80 590	95 582
Other transfers and grants	410 493	256 885	239 144
Transfers recognised - capital	33 042 317	33 649 301	34 879 396
Public contributions and donations	1 959 120	2 274 073	3 110 406
Borrowing	9 631 795	8 264 316	9 335 822
Internally generated funds	7 157 504	6 944 378	7 452 949
Total Capital Funding	51 790 736	51 132 068	54 778 574
Repairs and Maintenance by Asset Class			
Infrastructure - Road Transport	2 466 414	2 742 916	2 920 538
Infrastructure - Electricity	2 537 946	2 855 443	3 125 037
Infrastructure - Water	2 052 571	2 239 205	2 398 983
Infrastructure - Sanitation	1 131 650	1 190 513	1 287 904
Infrastructure - Other	364 801	403 155	416 448
Infrastructure	8 553 382	9 431 232	10 148 908
Total Repairs and Maintenance	11 893 186	13 093 952	14 081 797

Source: National Treasury Local Government Database

15. The 2012/13 capital budget reflects a R38.9 billion investment in new infrastructure which is 75.2 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R12.9 billion or 24.8 per cent of the capital budget. The renewal of assets has therefore received a lower allocation than the 40 per cent prescribed in the MFMA Circular No. 55 dated 08 March 2011.
16. Reporting on operational repairs and maintenance figures has now been institutionalized as part of Section 71 in-year reporting. R11.9 billion will be allocated in 2012/13 to repairs and maintenance of assets from operating expenditure. This will increase to R13.1 billion and R14.1 billion in the two outer years of the MTREF period.



Aggregated operating and capital budget per municipality per province

17. Table 5 and 6 show the aggregated budgeted revenue and expenditure by province over the 2012 MTREF period.
18. A provincial analysis reveals that Gauteng with 12 municipalities (including three metros and two secondary cities) has the highest capital budget for 2012/13 estimated at R12.8 billion or 24.7 per cent of the total municipal capital budget. This is followed by KwaZulu-Natal with 61 municipalities (including one metro and three secondary cities) at an estimated R10.8 billion or 20.9 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R8.1 billion or 15.6 per cent. This trend remains unchanged over the duration of the MTREF.
19. Noticeably, the Eastern Cape which is predominantly rural and now with two metros, is ranked fourth in terms of capital expenditure with capital appropriations of R6.3 billion in 2012/13.
20. Based on the newly released Census 2011 figures, the national per capita spending average is projected to be R5 440 in 2012/13. Only two provinces will exceed this national average in 2012/13, namely Gauteng at R8 061 per capita and Western Cape at R7 506 per capita. The lowest level of per capita spending is in Limpopo where spending is estimated to be R2 725 per capita in 2012/13 which increases slightly to R2 863 in 2014/15. The trend line suggests that national per capita expenditure will reach R6 283 by 2014/15.
21. The high per capita spend in the Gauteng and Western Cape provinces are probably due to the fact that a significant proportion of the country's economic activity takes place in these provinces. This increases spending on traded items like electricity and water, which then distorts the per capita analysis. In addition, the per capita expenditure numbers will also tend to be higher in those provinces where service delivery backlogs are the lowest.

5. Aggregated Operating and Capital revenue for municipalities per provinces, 2012/13 - 2014/15

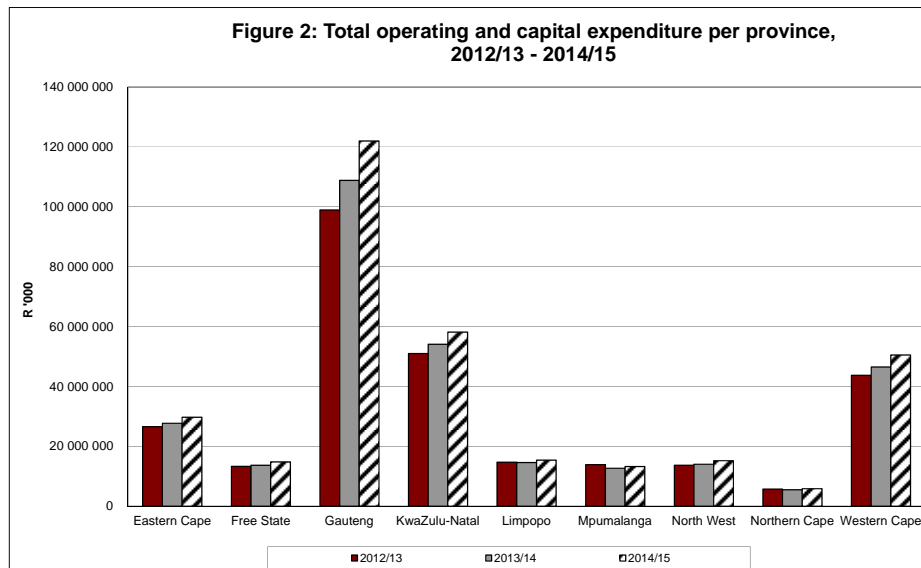
R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 264 428	25 188 470	31 452 898	6 609 950	26 581 855	33 191 805	6 964 673	28 964 086	35 928 759
Free State	2 179 415	12 496 037	14 675 452	2 006 677	13 175 384	15 182 061	2 108 265	14 352 445	16 460 709
Gauteng	12 775 384	93 822 818	106 598 203	13 607 592	104 461 887	118 069 478	16 357 850	116 073 592	132 431 442
Kw aZulu-Natal	10 848 901	46 179 600	57 028 501	10 573 852	49 833 299	60 407 150	11 107 448	54 363 915	65 471 363
Limpopo	4 363 418	12 752 587	17 116 005	4 387 129	13 137 940	17 525 069	4 589 227	13 952 233	18 541 459
Mpumalanga	2 887 346	11 204 300	14 091 646	3 006 763	10 334 576	13 341 338	2 880 025	11 119 318	13 999 343
North West	3 148 100	12 475 934	15 624 033	2 908 502	13 075 789	15 984 291	3 177 187	13 719 595	16 896 783
Northern Cape	1 259 866	4 808 449	6 068 315	937 596	4 944 584	5 882 180	889 231	5 511 401	6 400 632
Western Cape	8 063 878	39 104 483	47 168 361	7 094 007	42 102 515	49 196 522	6 704 668	46 580 219	53 284 887
Total	51 790 736	258 032 678	309 823 414	51 132 068	277 647 828	328 779 896	54 778 574	304 636 804	359 415 378
Less									
Capital transfers	-	29 012 236	29 012 236	-	29 485 202	29 485 202	-	31 609 156	31 609 156
External loans / borrowing	9 631 795	-	9 631 795	8 264 316	-	8 264 316	9 335 822	-	9 335 822
Internally generated funds	7 157 504	-	7 157 504	6 944 378	-	6 944 378	7 452 949	-	7 452 949
Total revenue	35 001 437	229 020 442	264 021 879	35 923 374	248 162 626	284 086 000	37 989 803	273 027 648	311 017 451

Source: National Treasury Local Government Database

6. Aggregated Operating and Capital expenditure for municipalities per provinces, 2012/13 - 2014/15

Census 2011	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
R thousand									
Eastern Cape	6 264 428	20 286 636	26 551 064	6 609 950	21 148 111	27 758 062	6 964 673	22 783 199	29 747 872
Free State	2 179 415	11 169 119	13 348 533	2 006 677	11 677 162	13 683 839	2 108 265	12 756 349	14 864 614
Gauteng	12 775 384	86 146 647	98 922 032	13 607 592	95 239 843	108 847 435	16 357 850	105 616 009	121 973 859
Kw aZulu-Natal	10 848 901	40 190 012	51 038 913	10 573 852	43 505 988	54 079 840	11 107 448	47 098 376	58 205 824
Limpopo	4 363 418	10 362 904	14 726 322	4 387 129	10 219 826	14 606 955	4 589 227	10 884 866	15 474 092
Mpumalanga	2 887 346	11 011 276	13 898 623	3 006 763	9 735 093	12 741 855	2 880 025	10 431 270	13 311 295
North West	3 148 100	10 561 929	13 710 029	2 908 502	11 171 009	14 079 511	3 177 187	12 053 851	15 231 038
Northern Cape	1 259 866	4 483 897	5 743 762	937 596	4 614 009	5 551 605	889 231	5 033 402	5 922 633
Western Cape	8 063 878	35 642 758	43 706 636	7 094 007	39 417 541	46 511 548	6 704 668	43 844 569	50 549 237
Total	51 770 564	229 855 178	281 645 914	51 132 068	246 728 581	297 860 649	54 778 574	270 501 890	325 280 464
Less									
Taxation	-	461 764	461 764	-	708 601	708 601	-	593 448	593 448
Total expenditure	51 790 736	229 393 414	281 184 150	51 132 068	246 019 981	297 152 048	54 778 574	269 908 442	324 687 016
Per capita spending									
Eastern Cape	955	3 092	4 046	1007	3223	4230	1 061	3 472	4 533
Free State	794	4 068	4 862	731	4253	4984	768	4 646	5 414
Gauteng	1 041	7 020	8 061	1109	7761	8869	1 333	8 606	9 939
Kw aZulu-Natal	1 057	3 914	4 971	1030	4237	5267	1 082	4 587	5 669
Limpopo	807	1 917	2 725	812	1891	2703	849	2 014	2 863
Mpumalanga	715	2 726	3 440	744	2410	3154	713	2 582	3 295
North West	897	3 009	3 906	829	3183	4011	905	3 434	4 339
Northern Cape	1 099	3 913	5 013	818	4027	4845	776	4 393	5 169
Western Cape	1 385	6 121	7 506	1218	6770	7988	1 151	7 530	8 681
Total	1 000	4 440	5 440	988	4766	5753	1 058	5 225	6 283

Source: National Treasury Local Government Database, StatsSA Census 2011



Aggregated operating and capital budget for metros

22. The aggregated budgeted revenue for all metros over the 2012/13 MTREF period is contained in Table 7. Total revenue amounts to R154.3 billion in 2012/13, R170.9 billion in 2013/14 and R190.2 billion in 2014/15, reflecting increases of 10.8 and 11.3 per cent respectively in the two outer years of the MTREF.
23. The table also shows the revenue budget of each metro as a percentage of the aggregated budget. The revenue comparison reflects the size of each metro relative to others. This generally remains stable over the MTREF with the City of Joburg topping the list at 22.7 per cent for 2012/13 followed by the City of Cape Town at 18.5 per cent and eThekweni at 17.8 per cent. The two new metros, namely Buffalo City and Mangaung, are comparatively small with total revenue at 3.0 and 3.1 per cent respectively.

7. Aggregated Operating and Capital revenue for metros, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	749 097	4 595 656	5 345 477	879 841	5 200 832	6 080 672	876 057	5 676 179	6 552 236
Cape Town	5 926 610	27 236 485	33 166 592	4 999 238	29 624 120	34 623 357	4 708 773	33 163 625	37 872 397
Ekurhuleni Metro	2 650 708	23 780 571	26 434 003	2 616 484	26 538 359	29 154 843	2 781 991	29 559 158	32 341 149
eThekwini	5 308 715	26 493 294	31 805 477	5 380 558	28 890 789	34 271 347	5 781 743	31 786 685	37 568 427
City Of Johannesburg	4 261 567	36 339 312	40 604 767	5 035 709	41 370 290	46 405 999	7 374 742	46 035 862	53 410 604
Mangaung	753 667	4 888 316	5 642 736	761 661	5 514 045	6 275 706	832 251	6 157 762	6 990 013
Nelson Mandela Bay	1 079 076	8 021 684	9 101 811	1 363 240	8 666 388	10 029 628	1 695 098	9 827 464	11 522 562
City Of Tshwane	4 353 047	22 718 866	27 074 259	4 502 267	24 956 760	29 459 028	4 960 477	27 818 718	32 779 195
Total	25 082 487	154 074 183	179 156 671	25 538 998	170 761 582	196 300 580	29 011 132	190 025 452	219 036 583
<i>Less</i>									
Capital transfers	-	14 344 981	14 344 981	-	15 130 458	15 130 458	-	16 719 325	16 719 325
External loans / borrowing	7 301 085	-	7 301 085	6 840 012	-	6 840 012	8 056 519	-	8 056 519
Internally generated funds	3 245 060	-	3 245 060	3 447 417	-	3 447 417	4 083 908	-	4 083 908
Total revenue	14 536 342	139 729 202	154 265 544	15 251 569	155 631 124	170 882 693	16 870 705	173 306 126	190 176 831
% of total expenditure									
Buffalo City	0.4%	2.6%	3.0%	0.4%	2.6%	3.1%	0.4%	2.6%	3.0%
Cape Town	3.3%	15.2%	18.5%	2.5%	15.1%	17.6%	2.1%	15.1%	17.3%
Ekurhuleni Metro	1.5%	13.3%	14.8%	1.3%	13.5%	14.9%	1.3%	13.5%	14.8%
eThekwini	3.0%	14.8%	17.8%	2.7%	14.7%	17.5%	2.6%	14.5%	17.2%
City Of Johannesburg	2.4%	20.3%	22.7%	2.6%	21.1%	23.6%	3.4%	21.0%	24.4%
Mangaung	0.4%	2.7%	3.1%	0.4%	2.8%	3.2%	0.4%	2.8%	3.2%
Nelson Mandela Bay	0.6%	4.5%	5.1%	0.7%	4.4%	5.1%	0.8%	4.5%	5.3%
City Of Tshwane	2.4%	12.7%	15.1%	2.3%	12.7%	15.0%	2.3%	12.7%	15.0%

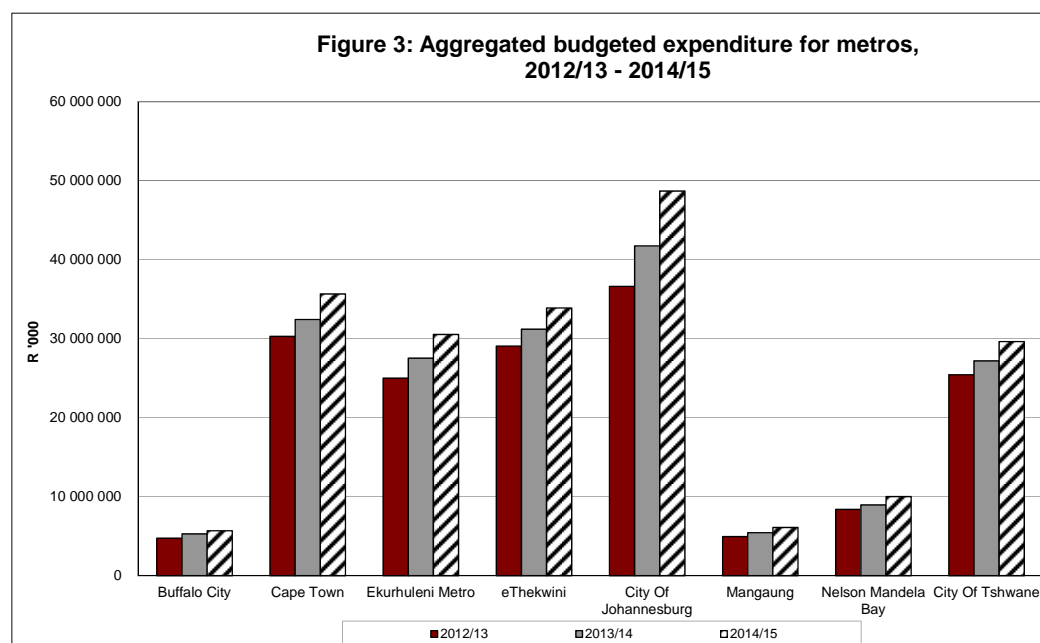
Source: National Treasury Local Government Database

24. The capital budget of the metros constitutes 48.4 per cent of the total municipal capital budget for 2012/13 and increases to 53 per cent of total municipal capital expenditure by 2014/15. This highlights the overall importance of the metros in the driving economic growth and job creation as metros are considered growth engines of the economy.

8. Aggregated Operating and Capital expenditure for metros, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	749 097	3 992 222	4 742 043	879 841	4 413 002	5 292 843	876 057	4 801 475	5 677 532
Cape Town	5 926 610	24 362 425	30 292 532	4 999 238	27 423 788	32 423 026	4 708 773	30 939 659	35 648 432
Ekurhuleni Metro	2 650 708	22 365 360	25 018 792	2 616 484	24 915 219	27 531 704	2 781 991	27 737 776	30 519 766
eThekwini	5 308 715	23 751 278	29 063 462	5 380 558	25 819 789	31 200 347	5 781 743	28 110 843	33 892 586
City Of Johannesburg	4 261 567	32 354 829	36 620 284	5 035 709	36 721 377	41 757 086	7 374 742	41 311 048	48 685 790
Mangaung	753 667	4 176 315	4 930 735	761 661	4 684 847	5 446 508	832 251	5 257 878	6 090 129
Nelson Mandela Bay	1 079 076	7 316 096	8 396 223	1 363 240	7 593 923	8 957 163	1 695 098	8 298 433	9 993 531
City Of Tshwane	4 353 047	21 084 256	25 439 649	4 502 267	22 690 799	27 193 067	4 960 477	24 666 324	29 626 801
Total	25 082 487	139 402 781	164 485 268	25 538 998	154 262 745	179 801 743	29 011 132	171 123 435	200 134 567
Less									
Taxation	-	460 745	460 745	-	707 551	707 551	-	592 246	592 246
Total revenue	25 082 487	138 942 036	164 024 523	25 538 998	153 555 194	179 094 192	29 011 132	170 531 189	199 542 321
% of total expenditure									
Buffalo City	0.5%	2.4%	2.9%	0.5%	2.5%	2.9%	0.4%	2.4%	2.8%
Cape Town	3.6%	14.8%	18.4%	2.8%	15.3%	18.0%	2.4%	15.5%	17.8%
Ekurhuleni Metro	1.6%	13.6%	15.2%	1.5%	13.9%	15.3%	1.4%	13.9%	15.2%
eThekwini	3.2%	14.4%	17.7%	3.0%	14.4%	17.4%	2.9%	14.0%	16.9%
City Of Johannesburg	2.6%	19.7%	22.3%	2.8%	20.4%	23.2%	3.7%	20.6%	24.3%
Mangaung	0.5%	2.5%	3.0%	0.4%	2.6%	3.0%	0.4%	2.6%	3.0%
Nelson Mandela Bay	0.7%	4.4%	5.1%	0.8%	4.2%	5.0%	0.8%	4.1%	5.0%
City Of Tshwane	2.6%	12.8%	15.5%	2.5%	12.6%	15.1%	2.5%	12.3%	14.8%

Source: National Treasury Local Government Database



25. Operating expenditure by metros accounts for more than half (60.6 per cent in 2012/13) of total municipal operating expenditure over the 2012 MTREF.
26. Table 8 also shows that Cape Town and eThekwini have the largest capital budgets at 3.6 and 3.2 per cent of the aggregated capital budget for metros. They are followed by City of Joburg and the City of Tshwane each at 2.6 per cent. When Ekurhuleni Metropolitan Municipality is benchmarked against the mentioned metros their capital appropriations appear small at a mere 1.6 per cent in 2012/13 decreasing to 1.4 per cent by 2014/15.

27. Relative to other metros, the sizes of the capital budget of the City of Cape Town and eThekweni might appear to be over-ambitious but the two metros have sufficient cash backed reserves from previous financial years to support this level of capital spending. However, Cape Town and eThekweni will have to cautiously manage the funding mix of their capital programmes so as not to deplete their cash balances.
28. The amount to be generated by metros through the sale of core municipal services is reflected in Table 9. The major drivers of revenue in 2012/13 are electricity (R57 billion), water (R16.9 billion), waste water management (R3.9 billion) and waste management (R3.5 billion). Over the MTREF, large increases are anticipated for electricity which is illustrated by the 17.5 per cent growth in 2013/14 and 15.8 per cent in 2014/15. This significant increase in revenue is primarily due to the increase in the bulk price of electricity being passed through to customers which has been factored into the planning assumptions of metros.
29. Although the increase in electricity revenue is significant over the MTREF, this does not proportionately increase the revenue available for expenditure by the municipalities as a big share of the increase is absorbed by the higher cost of buying electricity.

9: Aggregated budgeted operating revenue for metros for functions, 2012/13 - 2014/15

	Electricity	Water	Waste Water Management	Waste Management
R thousand				
2012/13				
Buffalo City	1 279 796	260 086	203 478	199 627
Cape Town	8 977 902	2 126 165	1 161 179	907 175
Ekurhuleni Metro	10 541 911	2 414 589	838 018	964 611
eThekweni	9 670 396	2 622 733	671 421	425 706
City Of Johannesburg	12 633 515	6 079 541	-	235 369
Mangaung	1 690 563	543 286	132 361	33 847
Nelson Mandela Bay	3 028 384	455 547	312 033	155 075
City Of Tshwane	9 141 000	2 366 970	601 820	606 250
Total revenue	56 963 466	16 868 917	3 920 310	3 527 659
2013/14				
Buffalo City	1 452 568	297 929	225 251	224 979
Cape Town	11 084 724	2 381 888	1 320 813	980 236
Ekurhuleni Metro	11 867 289	2 756 191	952 511	1 124 137
eThekweni	10 850 149	2 819 427	715 093	454 830
City Of Johannesburg	16 215 227	6 474 253	-	255 635
Mangaung	1 943 395	599 996	143 783	38 582
Nelson Mandela Bay	3 393 651	514 768	352 598	175 312
City Of Tshwane	10 149 000	2 582 846	661 690	756 250
Total revenue	66 956 003	18 427 298	4 371 738	4 009 961
2014/15				
Buffalo City	1 648 665	340 086	248 451	252 652
Cape Town	13 558 771	2 678 945	1 483 433	1 061 283
Ekurhuleni Metro	13 442 112	3 052 723	1 082 654	1 310 069
eThekweni	12 315 558	2 999 173	761 514	485 959
City Of Johannesburg	19 133 968	6 979 244	-	286 362
Mangaung	2 234 085	665 977	156 163	43 448
Nelson Mandela Bay	3 817 477	586 836	401 961	199 953
City Of Tshwane	11 415 720	2 840 033	728 100	945 250
Total revenue	77 566 356	20 143 017	4 862 277	4 584 975

Source: National Treasury Local Government Database

30. Table 10 provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R38.5 billion for the purchase of bulk electricity, with an annual growth of 20.4 per cent and 18.6 per cent in the outer years of the MTREF. It is estimated that bulk purchases of electricity will exceed R55 billion by 2014/15.
31. When comparing the revenue generated from the sale of electricity to the expenditure incurred on bulk electricity purchases, it would appear as if metros generate a substantial profit from the sale of electricity. However, bulk purchases constitute on average 67 per cent of the cost of managing and rendering the electricity function. Other operational costs include expenditure on personnel, materials, refurbishment, repairs and maintenance, distribution losses and overhead costs.

32. In illustrating the above point, the increases associated with the sale of electricity in the two outer years of the MTREF are on average 2.9 per cent lower than the budgeted increases associated with bulk purchases. This can be expected as bulk purchases are only one component of the cost drivers in rendering the service for municipalities as explained above.
33. Once the actual bulk electricity increases are made available by the National Electricity Regulator of South Africa (NERSA) municipalities will have to adjust the outer year estimates of the MTREF accordingly.
34. The net profit on the sale of electricity is an important revenue source for metros. This profit margin has been under significant pressure due to the rapid increase in the bulk price of electricity resulting in affordability challenges. Municipalities are experiencing a twofold impact of the high bulk electricity increases; lower sale levels owing to changes in consumption patterns and increased bad debt as a result of affordability pressures.

10: Bulk purchase expenditure for metros for functions, 2012/13 - 2014/15

R thousand	Electricity			Water		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
Buffalo City	906 781	1 029 196	1 168 138	142 376	154 763	167 608
Cape Town	6 106 600	7 728 346	9 697 063	334 673	391 911	470 535
Ekurhuleni Metro	6 803 233	7 687 653	8 610 172	1 755 085	2 004 308	2 264 867
eThekweni	6 501 707	7 561 648	8 802 918	1 337 959	1 419 575	1 506 169
City Of Johannesburg	9 006 900	11 947 647	14 874 821	2 768 425	2 956 678	3 157 732
Mangaung	1 149 420	1 346 593	1 591 801	329 315	385 688	446 754
Nelson Mandela Bay	2 177 050	2 477 699	2 823 572	73 489	82 308	92 185
City Of Tshwane	5 898 029	6 644 238	7 491 540	1 308 055	1 486 120	1 675 221
Total expenditure	38 549 721	46 423 020	55 060 024	8 049 378	8 881 350	9 781 072

Source: National Treasury Local Government Database

35. Expenditure on bulk water amounts to R8 billion in 2012/13 and increases by 10.3 per cent in 2013/14 to R8.9 billion and 10.1 per cent in 2014/15 to R9.8 billion.

Aggregated operating and capital budget for secondary cities

36. Tables 11 and 12 depicts the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2012 MTREF period.
37. The total budgeted revenue for secondary cities amounts to R34.6 billion in 2012/13 increasing to R38.8 billion in 2014/15.
38. The total expenditure budget of secondary cities amounts to R37.7 billion in 2012/13, R38.4 billion in 2013/14, and R41.5 billion in 2014/15, a growth of 1.9 per cent and 7.9 per cent in the two outer years of the MTREF. The inconsistent increases in the two outer years could indicate poor multi-year budgeting.
39. This is also noticed with the growth in operating expenditure which is expected to increase by 2.7 per cent in 2013/14 and by 9.0 per cent in 2014/15. Although municipalities are attempting to buffer the impact of the economic downturn through identifying operational expenditure efficiencies, these increases, especially in 2013/14, seem unrealistic when considering the major drivers of local government expenditure remuneration, bulk and material purchases.
40. Spending on capital by secondary cities over the MTREF is expected to decline from R5.7 billion to R5.6 billion by 2014/15 partly due to poor multi-year budgeting practices; insufficient provision for the eradication of backlogs and insufficient own funding of the capital programme. These figures are however distorted by Emalahleni (MP) which failed to prepare a multi-year budget.

11. Aggregated Operating and Capital revenue for secondary cities, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	5 684 353	34 143 883	39 828 235	5 536 998	34 887 518	40 424 517	5 602 238	37 813 946	43 416 183
Matjhabeng FS184	246 638	1 617 397	1 864 035	315 578	1 639 103	1 954 681	414 313	1 779 330	2 193 643
Emsfuleni GT421	367 489	4 520 457	4 887 946	505 390	4 941 810	5 447 200	525 308	5 427 741	5 953 050
Mogale City GT481	382 974	1 882 511	2 265 485	388 329	2 054 316	2 442 645	234 620	2 283 835	2 518 455
Msunduzi KZN225	230 014	3 217 804	3 447 818	215 379	3 522 833	3 738 212	180 305	3 851 140	4 031 445
New castle KZN252	305 418	1 438 972	1 744 390	294 326	1 266 225	1 560 551	241 753	1 405 437	1 647 190
uMhlatuze KZN282	206 483	1 939 611	2 146 094	233 630	2 146 066	2 379 696	238 754	2 381 164	2 619 919
Polokwane LIM354	485 070	2 155 703	2 640 773	531 947	2 320 127	2 852 074	355 352	2 250 510	2 605 862
Govan Mbeki MP307	261 809	1 384 732	1 646 541	207 526	1 388 456	1 595 983	227 964	1 482 682	1 710 646
Emalahleni (Mp) MP312	149 380	1 578 002	1 727 383	-	-	-	-	-	-
Steve Tshwete MP313	195 689	1 039 718	1 235 407	234 642	1 149 099	1 383 741	244 468	1 310 196	1 554 664
Mbombela MP322	541 568	1 759 289	2 300 857	553 185	1 977 071	2 530 257	558 538	2 086 017	2 644 555
Sol Plaatje NC091	285 010	1 534 813	1 819 823	94 022	1 634 462	1 728 484	107 534	1 837 523	1 945 057
Madibeng NW372	210 500	1 166 256	1 376 756	218 600	1 232 109	1 450 709	229 200	1 304 062	1 533 262
Rustenburg NW373	888 773	2 685 773	3 574 546	782 758	2 944 899	3 727 657	1 019 514	3 203 411	4 222 924
Tlokweng NW402	157 673	959 133	1 116 806	124 060	1 011 056	1 135 116	124 558	1 102 596	1 227 154
City Of Matlosana NW403	152 246	1 916 725	2 068 971	190 044	2 094 501	2 284 545	174 487	2 243 938	2 418 425
Drakenstein WC023	277 652	1 372 562	1 650 214	272 531	1 504 728	1 777 259	304 297	1 669 085	1 973 382
Stellenbosch WC024	189 044	931 805	1 120 849	223 143	985 067	1 208 210	242 033	1 068 356	1 310 389
George WC044	150 922	1 042 619	1 193 541	151 908	1 075 589	1 227 497	179 239	1 126 922	1 306 161
Less									
Capital transfers	-	3 017 520	3 017 520	-	2 698 303	2 698 303	-	2 582 829	2 582 829
External loans / borrowing	965 587	-	965 587	920 461	-	920 461	857 473	-	857 473
Internally generated funds	1 270 326	-	1 270 326	1 071 305	-	1 071 305	1 200 555	-	1 200 555
Total revenue	3 448 440	31 126 363	34 574 802	3 545 233	32 189 215	35 734 447	3 544 209	35 231 117	38 775 326

Source: National Treasury Local Government Database

12. Aggregated Operating and Capital expenditure for secondary cities, 2012/13 - 2014/15

R thousand	2012/13			2013/14			2014/15		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	5 684 353	32 034 851	37 719 204	5 536 998	32 898 874	38 435 873	5 602 238	35 867 699	41 469 936
Matjhabeng	246 638	1 420 427	1 667 065	315 578	1 418 074	1 733 652	414 313	1 541 774	1 956 086
Emsfuleni	367 489	4 152 968	4 520 457	505 390	4 436 509	4 941 900	525 308	4 902 490	5 427 799
Mogale City	382 974	1 887 291	2 270 265	388 329	2 045 142	2 433 471	234 620	2 245 528	2 480 148
Msunduzi	230 014	2 982 647	3 212 661	215 379	3 256 673	3 472 052	180 305	3 598 813	3 779 118
New castle	305 418	1 414 019	1 719 437	294 326	1 570 422	1 864 748	241 753	1 708 674	1 950 427
uMhlatuze	206 483	1 812 294	2 018 777	233 630	2 007 865	2 241 495	238 754	2 165 894	2 404 648
Polokwane	485 070	1 670 108	2 155 178	531 947	1 788 179	2 320 126	355 352	1 895 158	2 250 510
Govan Mbeki	261 809	1 384 340	1 646 149	207 526	1 426 864	1 634 390	227 964	1 518 530	1 746 494
Emalahleni (Mp)	149 380	1 574 716	1 724 096	-	-	-	-	-	-
Steve Tshwete	195 689	1 038 540	1 234 229	234 642	1 134 684	1 369 326	244 468	1 256 915	1 501 384
Mbombela	541 568	1 703 255	2 244 823	553 185	1 855 104	2 408 290	558 538	1 984 263	2 542 801
Sol Plaatje	285 010	1 371 847	1 656 857	94 022	1 534 550	1 628 573	107 534	1 725 166	1 832 700
Madibeng	210 500	1 166 180	1 376 680	218 600	1 227 886	1 446 486	229 200	1 293 637	1 522 837
Rustenburg	888 773	2 587 146	3 475 919	782 758	2 850 656	3 633 414	1 019 514	3 195 915	4 215 428
Tlokweng	157 673	879 485	1 037 158	124 060	954 304	1 078 364	124 558	1 037 986	1 162 544
City Of Matlosana	152 246	1 790 937	1 943 184	190 044	1 958 695	2 148 739	174 487	2 097 840	2 272 327
Drakenstein	277 652	1 324 055	1 601 707	272 531	1 452 551	1 725 081	304 297	1 609 888	1 914 184
Stellenbosch	189 044	891 306	1 080 350	223 143	941 784	1 164 927	242 033	1 007 929	1 249 962
George	150 922	983 290	1 134 212	151 908	1 038 931	1 190 840	179 239	1 081 299	1 260 538
Less									
Taxation	-	-	-	-	-	-	-	-	-
Total revenue	5 684 353	32 034 851	37 719 204	5 536 998	32 898 874	38 435 873	5 602 238	35 867 699	41 469 936

Source: National Treasury Local Government Database

41. Of secondary cities, Emsfuleni, Emalahleni (MP), Msunduzi and City of Matlosana municipalities have the lowest proportion (below 9 per cent) of capital budgets to total budget.

42. Over the medium term, the total budgets of the secondary cities exhibit some stability with an average growth of 5.5 per cent over the outer years of the MTREF period. Capital budgets decrease and then appear to stabilise over the medium-term. However, we need to be mindful of the credibility of the capital budget in outer years.

Growth in Aggregated Operating and Capital Budgets compared to the 2011/12 Budgets

43. Table 13 below provides a comparison between the preliminary outcome for the year ended 30 June 2012 as published in the Section 71 Quarter 4 publication which was released on 31 August 2012, the adopted budget for the 2012/13 financial year and the average growth in municipal budgets over the 2012/13 MTREF period.

13: Growth in municipal budgets compared to S71 Preliminary Outcome for 2011/12

R thousands	2011/12			2012/13	2013/14	2014/15	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2011/12- 2012/13	2011/12- 2014/15
Operating Revenue								
Property rates	33 899 930	34 553 660	34 748 936	38 330 868	41 125 706	44 222 473	10.3%	8.4%
Service charges	104 384 276	100 550 774	101 353 191	118 626 811	133 459 416	150 968 012	17.0%	14.2%
Other own revenue	87 056 487	93 408 542	81 135 499	101 074 999	103 062 707	109 446 319	24.6%	10.5%
Total Revenue	225 340 693	228 512 976	217 237 627	258 032 678	277 647 828	304 636 804	18.8%	11.9%
Operating Expenditure								
Employee related costs	56 100 403	53 250 514	53 615 901	62 869 239	66 690 722	71 455 927	17.3%	10.0%
Bad and doubtful debt	8 872 143	8 328 317	6 883 413	10 452 247	10 840 622	11 965 826	51.8%	20.2%
Bulk purchases	59 418 167	58 144 346	57 580 720	69 153 310	79 586 104	91 940 124	20.1%	16.9%
Other expenditure	80 409 208	85 318 442	71 804 243	87 380 382	89 611 133	95 140 013	21.7%	9.8%
Total Expenditure	204 799 920	205 041 619	189 884 276	229 855 178	246 728 581	270 501 890	21.1%	12.5%
Operating Surplus/(Deficit)	20 540 773	23 471 357	27 353 351	28 177 500	30 919 247	34 134 914	3.0%	7.7%
Capital Funding								
External loans	7 260 172	7 841 509	6 209 354	9 611 671	8 261 643	9 332 932	54.8%	14.5%
Internal contributions	5 892 832	5 378 747	3 570 807	4 357 247	4 324 498	4 830 049	22.0%	10.6%
Transfers and subsidies	27 622 290	27 625 376	21 129 733	33 042 317	33 649 301	34 879 396	56.4%	18.2%
Other	3 789 132	3 759 499	1 952 107	4 779 501	4 896 625	5 736 197	144.8%	43.2%
Total funding	44 564 427	44 605 131	32 862 001	51 790 736	51 132 068	54 778 574	57.6%	18.6%
Capital Expenditure								
Water	13 136 501	12 597 189	9 865 654	16 820 422	18 075 244	19 153 093	70.5%	24.7%
Electricity	5 861 533	5 742 333	4 348 305	5 920 854	6 274 559	7 537 941	36.2%	20.1%
Housing	3 824 772	3 017 978	1 806 574	1 820 961	2 075 312	3 028 222	0.8%	18.8%
Roads, pavements, bridges and storm water	9 386 603	9 989 964	7 500 273	11 955 278	11 518 652	12 449 528	59.4%	18.4%
Other	12 355 017	14 471 335	9 718 090	15 273 222	13 188 300	12 609 790	57.2%	9.1%
Total expenditure	44 564 427	45 818 799	33 238 896	51 790 736	51 132 068	54 778 574	55.8%	18.1%

Source: National Treasury Local Government Database

Note: Capital transfers are included in the revenue and taxation in the expenditure.

44. As seen in the above table, operating expenditure increases by 21.1 per cent between the preliminary outcome for 2011/12 and the budget for 2012/13 compared to operating revenue growth of 18.8 per cent. Increasing operating expenditure at a rate higher than revenue is a concern and is considered unsustainable.
45. Compared to the preliminary outcomes of 2011/12, increases of 17.3 per cent for salaries, wages and allowances and 20.1 per for bulk purchases are expected. Increases in bulk purchases are largely attributed to the significant increase in the price of bulk electricity.

Municipalities will have to address the high increase in remuneration expenditure by finding cost efficiencies such as overtime and travelling allowances.

46. There is an average increase of 12.5 per cent over the MTREF in the total operating expenditure with the highest increase of 20.2 per cent noted in respect of bad and doubtful debt (debt impairment). This reflects the difficulty associated with the current economic climate and the increasing inability of consumers to pay for services. This percentage could however be slightly distorted owing to inaccurate budgeting; this is illustrated in the actual preliminary outcome of 2011/12 of R6.9 billion compared to the original for the same year of R8.9 billion, a difference of R2.0 billion; it is suspected that the budget appropriation for 2012/13 is overstated and subsequently distorting the percentage growth.
47. Provisions in respect of bulk purchases are also expected to increase significantly by 16.9 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
48. The increase in debt impairment is a concern as it suggests that municipalities are expecting to collect less revenue and bad debt is subsequently expected to grow. The fiscal effort of municipalities in collecting outstanding revenue will need to be carefully monitored and managed.
49. In respect of operating revenue items, the increase in service charges shows the most notable growth at 14.2 per cent over the MTREF largely due to the increases in the electricity tariffs.
50. Capital budgets grow significantly by 55.8 per cent in 2012/13 compared to 2011/12. Given the persistent trends in under-spending of capital implementation of capital projects must be managed properly.
51. Grants and subsidies show an increase of 56.4 per cent when compared to the preliminary outcomes for 2011/12. This highlights the under spending on conditional grants reported in the Section 71 quarter 4 publication.
52. The largest year-on-year decrease in capital expenditure is on spending on housing infrastructure which is expected to decline by 52.3 per cent when compared to the 2011/12 adopted budget. It must be noted that the MIG Cities grant which was classified under housing, has now been replaced by the Urban Settlements Development Grant (USDG) for metros. The change-over skewed the picture and municipalities have since been requested to appropriate separate budgets for water, sanitation and roads. The 2011/12 preliminary outcome reflects these changes.
53. Notable increases are also observed in water infrastructure where a year-on-year increase of 70.5 per cent is noticed; this significant increase can also be attributed to the distortion associated with the housing appropriations as explained above.
54. A year-on-year growth of 59.4 per cent is observed in roads, pavements, bridges and stormwater. Over the MTREF period the average growth is estimated at 18.4 per cent, indicating an area of higher planning priority.

Changes to Baseline

55. Table 14 below highlights the extent to which municipalities have allocated additional resources in the 2012/13 MTREF and demonstrates at an aggregate level how municipalities have actually reprioritised items within their budgets. The table also compares the changes to the baseline against the 2012 forward estimates.

14: Changes to baseline for 2012 MTREF

R thousands	2012/13			2013/14			2014/15	% change to		% share of total	
	2011/12 Medium term estimates	2012/13 Draft Medium term estimates	Changes to baseline	2011/12 Medium term estimates	2012/13 Draft Medium term estimates	Changes to baseline	2012/13 Draft Medium term estimates	2012/13	2013/14	2012/13	2013/14
Operating Revenue											
Property rates	36 237 096	38 330 868	2 093 772	38 964 827	41 125 706	2 160 879	44 222 473	5.8%	5.5%	18.6%	52.9%
Service charges	119 782 433	118 626 811	(1 155 622)	139 674 785	133 459 416	(6 215 370)	150 968 012	(1.0%)	(4.4%)	(10.2%)	(152.1%)
Other own revenue	90 732 597	101 074 999	10 342 402	94 922 864	103 062 707	8 139 843	109 446 319	11.4%	8.6%	91.7%	199.2%
Total Revenue	246 752 126	258 032 678	11 280 552	273 562 476	277 647 828	4 085 352	304 636 804	4.6%	1.5%	100.0%	100.0%
Operating Expenditure											
Employee related costs	59 511 233	62 869 239	3 358 006	63 996 778	66 690 722	2 693 945	71 455 927	5.6%	4.2%	51.6%	(172.6%)
Bad and doubtful debt	9 555 285	10 452 247	896 963	10 420 154	10 840 622	420 468	11 965 826	9.4%	4.0%	13.8%	(26.9%)
Bulk purchases	71 127 076	69 153 310	(1 973 767)	85 373 482	79 586 104	(5 787 378)	91 940 124	(2.8%)	(6.8%)	(30.3%)	370.8%
Other expenditure	83 148 451	87 380 382	4 231 930	88 498 859	89 611 133	1 112 274	95 140 013	5.1%	1.3%	65.0%	(71.3%)
Total Expenditure	223 342 046	229 855 178	6 513 132	248 289 273	246 728 581	(1 560 692)	270 501 890	2.9%	(0.6%)	100.0%	100.0%
Operating Surplus/(Deficit)	23 410 080	28 177 500	4 767 420	25 273 203	30 919 247	5 646 044	34 134 914				
Capital Funding											
External loans	5 923 081	9 611 671	3 688 590	6 042 889	8 261 643	2 218 755	9 332 932	62.3%	36.7%	50.2%	49.3%
Internal contributions	5 567 568	4 357 247	(1 210 321)	6 814 906	4 324 498	(2 490 408)	4 830 049	(21.7%)	(36.5%)	(16.5%)	(55.3%)
Transfers and subsidies	29 778 140	33 042 317	3 264 178	30 585 161	33 649 301	3 064 140	34 879 396	11.0%	10.0%	44.5%	68.0%
Other	3 180 444	4 779 501	1 599 057	3 184 816	4 896 625	1 711 809	5 736 197	50.3%	53.7%	21.8%	38.0%
Total funding	44 449 232	51 790 736	7 341 504	46 627 772	51 132 068	4 504 296	54 778 574	16.5%	9.7%	100.0%	100.0%
Capital Expenditure											
Water	14 266 407	16 820 422	2 554 014	14 850 335	18 075 244	3 224 909	19 153 093	17.9%	21.7%	34.8%	71.6%
Electricity	5 140 922	5 920 854	779 931	5 416 845	6 274 559	857 714	7 537 941	15.2%	15.8%	10.6%	19.0%
Housing	3 982 852	1 820 961	(2 161 891)	3 610 791	2 075 312	(1 535 479)	3 028 222	(54.3%)	(42.5%)	(29.4%)	(34.1%)
Roads, pavements, bridges and storm water	10 189 365	11 955 278	1 765 913	11 079 614	11 518 652	439 038	12 449 528	17.3%	4.0%	24.1%	9.7%
Other	10 869 685	15 273 222	4 403 537	11 670 186	13 188 300	1 518 114	12 609 790	40.5%	13.0%	60.0%	33.7%
Total expenditure	44 449 232	51 790 736	7 341 504	46 627 772	51 132 068	4 504 296	54 778 574	16.5%	9.7%	100.0%	100.0%

Source: National Treasury Local Government Database

Note: Capital transfers are included in the revenue and taxation in the expenditure.

56. Budgeted operating revenue for 2012/13 has increased by R11.3 billion and operating expenditure by R6.5 billion. An additional R7.3 billion was allocated to capital expenditure in the 2012/13 financial year compared to the 2011/12 MTREF.
57. For the 2013/14 financial year, the operating revenue will increase by R4.1 billion and operating expenditure decrease by R1.6 billion. An additional R4.5 billion will be set aside for capital expenditure.
58. Against operating expenditure, bad and doubtful debt have the largest change to baseline of 9.4 per cent in the 2012/13 financial year and of 4 per cent in the 2013/14 year.
59. The largest change to baseline in respect of operating revenue for the 2012/13 financial year is accounted for by "Other revenue" where an increase of 11.4 per cent is anticipated. However, it is important to note that "Other revenue" combines a number of smaller revenue items which have been consolidated.
60. The largest change to the capital expenditure baseline in the 2012/13 financial year is related to an anticipated decrease of 54.3 per cent in housing infrastructure spending. It appears if this decrease is also related to the change to the grant framework as discussed in point 52 above.
61. A notable increase is also observed in the capital expenditure category "Other" which shows an increase of 40.5 per cent in 2012/13. This may be a classification error.
62. From a funding perspective, the increased capital expenditure will be supported by an increase in capital grants of 44.5 per cent. The decrease of 16.5 per cent in internal contributions corresponds with the increase in debt impairment that municipalities are anticipating. Decreased collection levels would erode the capacity of municipalities to fund capital expenditure programmes out of internally generated funds. This aspect will have to be carefully monitored with the implementation of the 2012/13 MTREF.

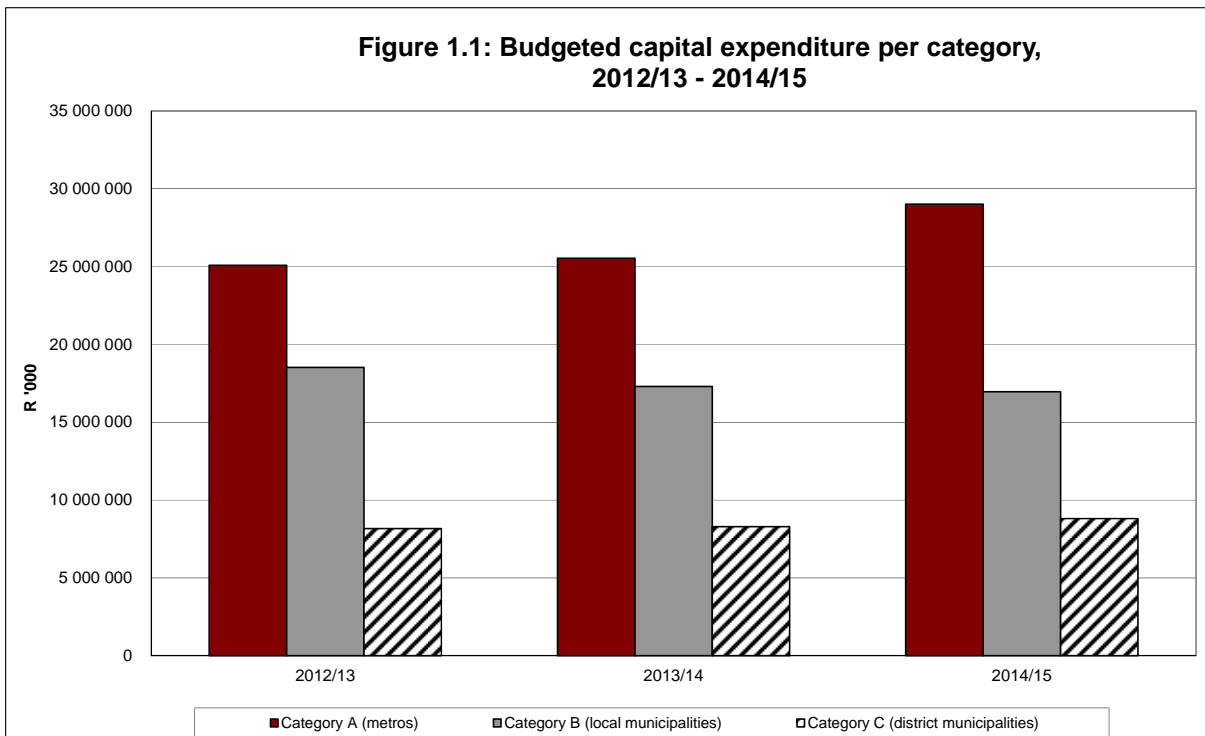
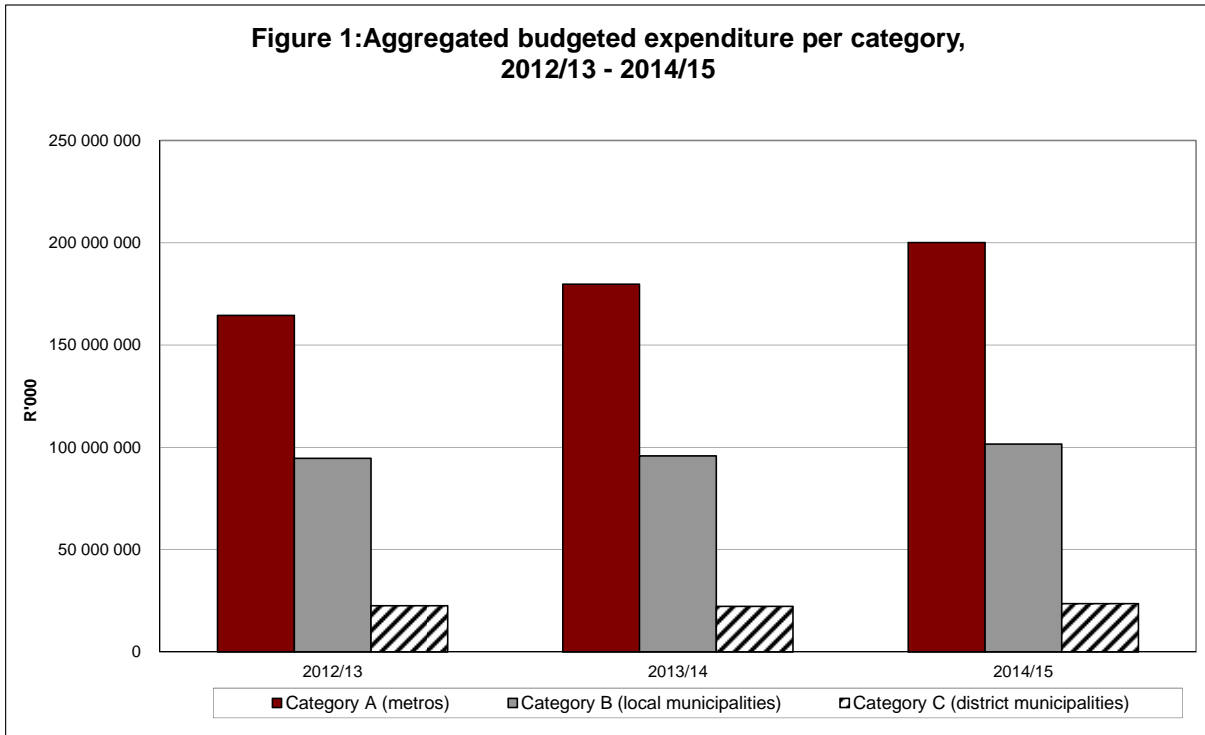


Figure 1.2: Budgeted operating expenditure per category, 2012/13 - 2014/15

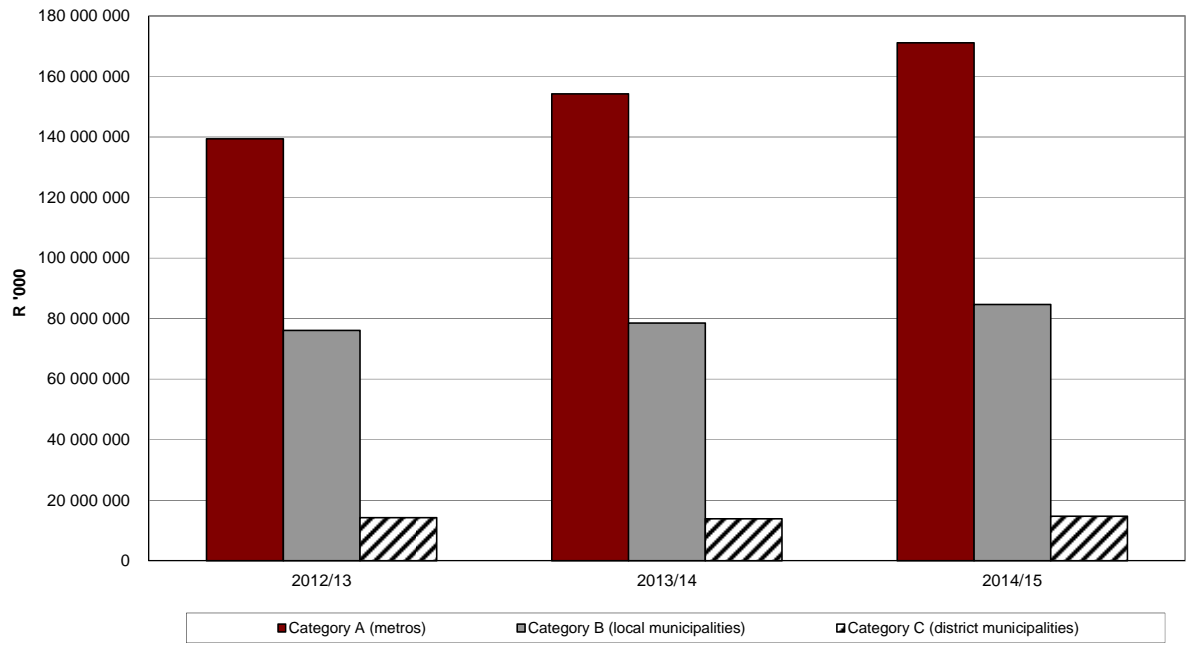


Figure 2: Total operating and capital expenditure per province, 2012/13 - 2014/15

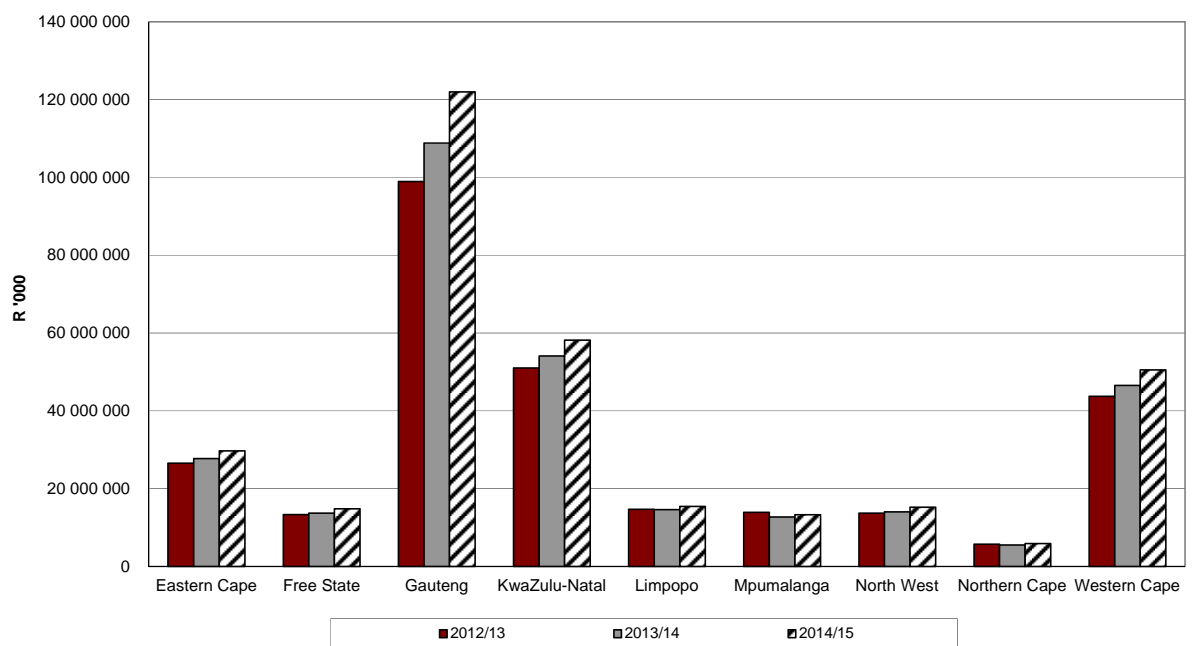


Figure 2.1: Budgeted capital expenditure per province, 2012/13 - 2014/15

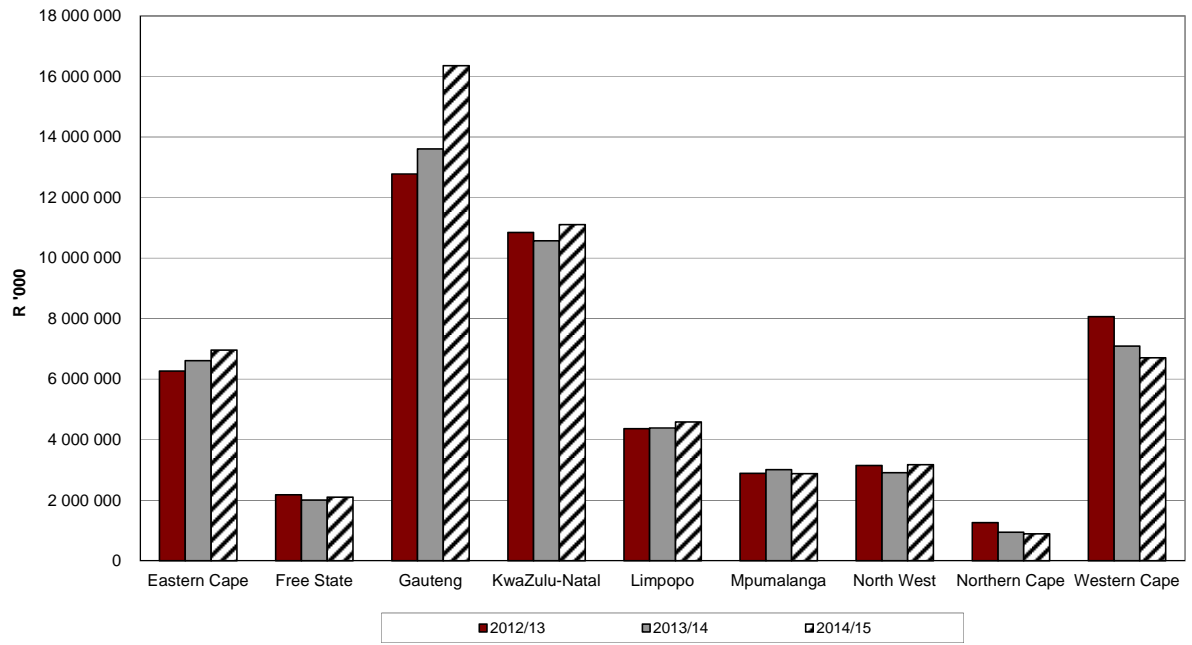


Figure 2.2: Budgeted operating expenditure per province, 2012/13 - 2014/15

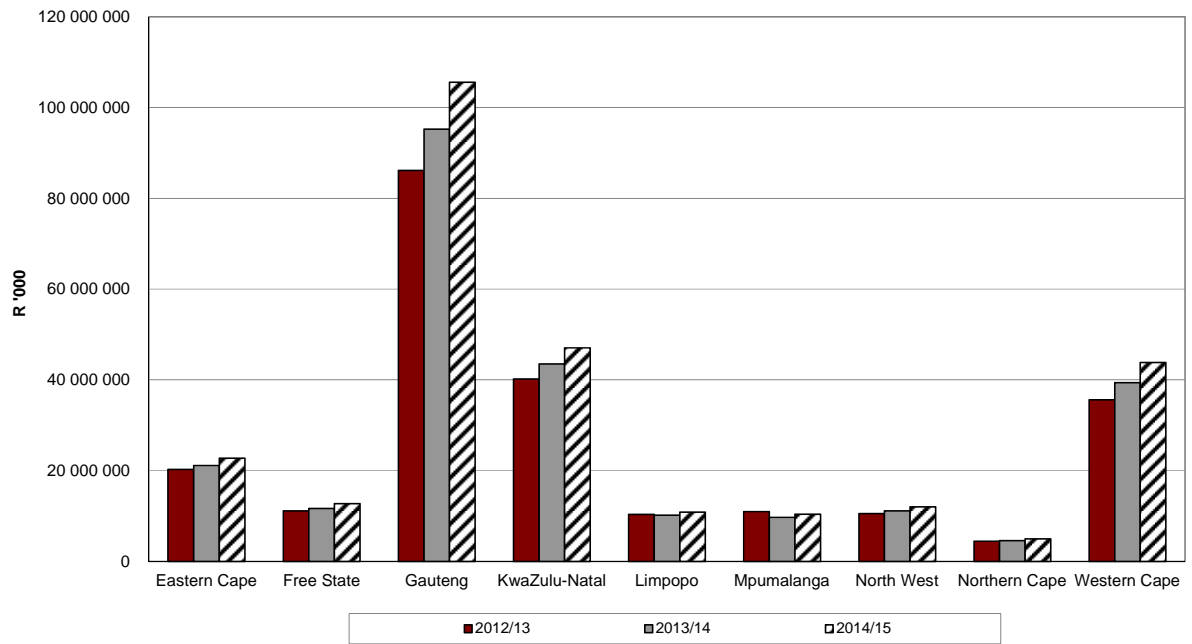


Figure 3: Aggregated budgeted expenditure for metros, 2012/13 - 2014/15

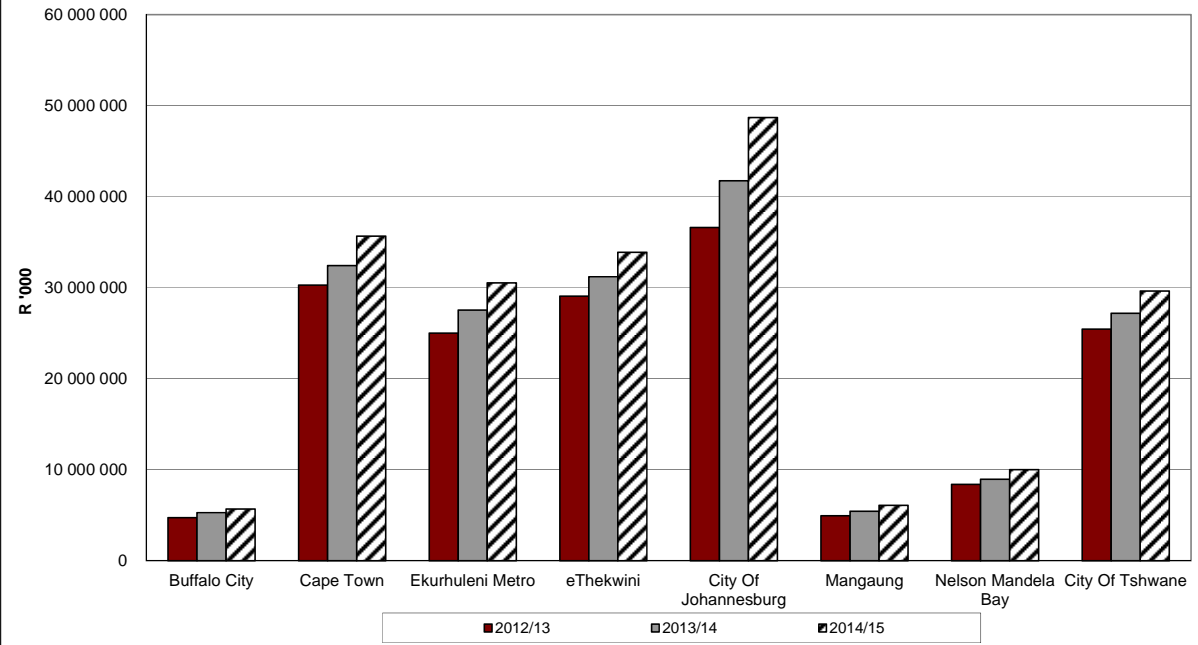


Figure 3.1: Budgeted capital expenditure per metro, 2012/13 - 2014/15

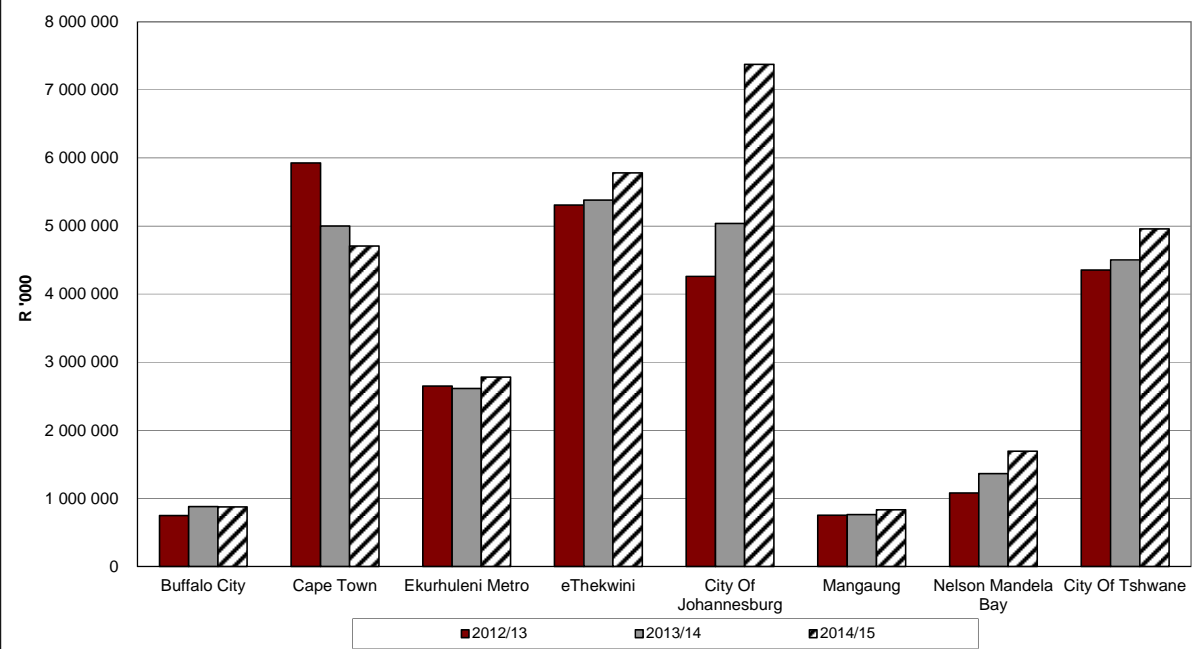
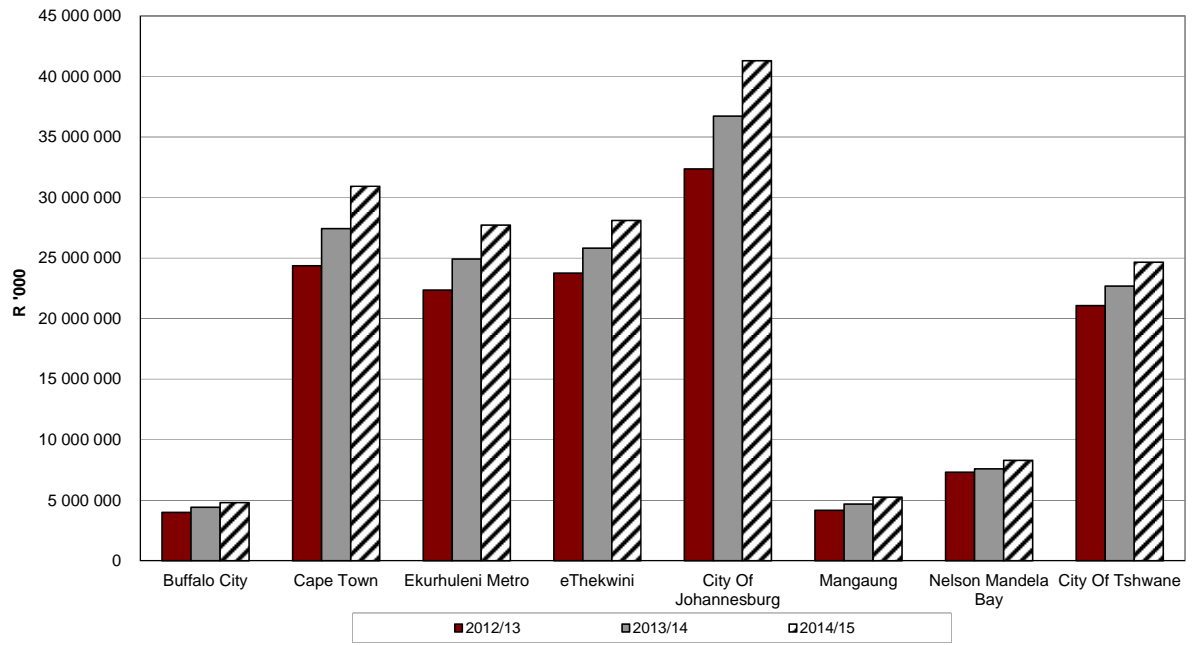
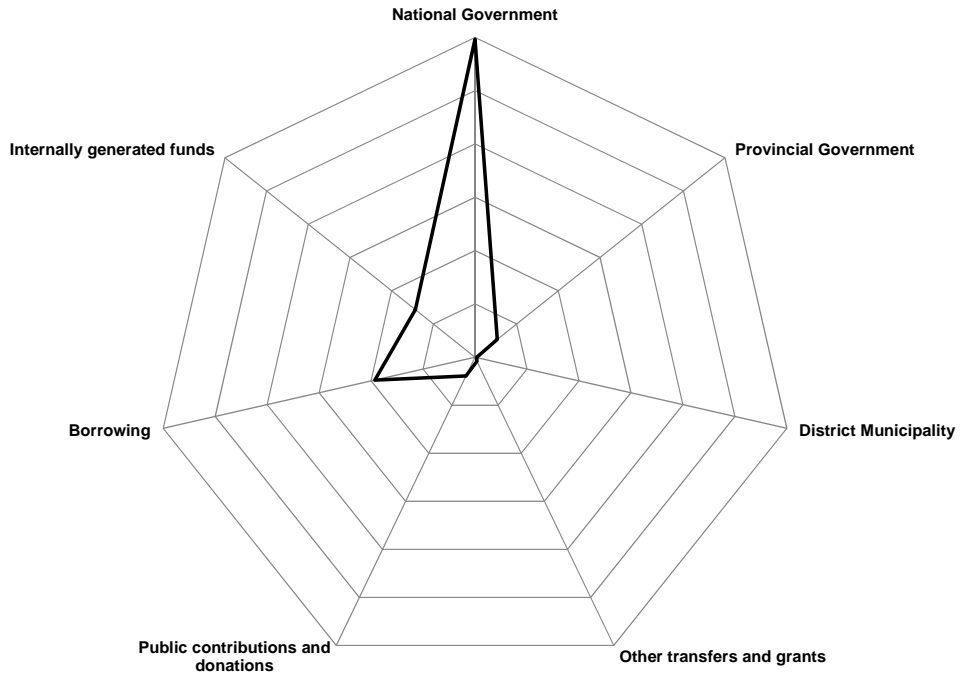


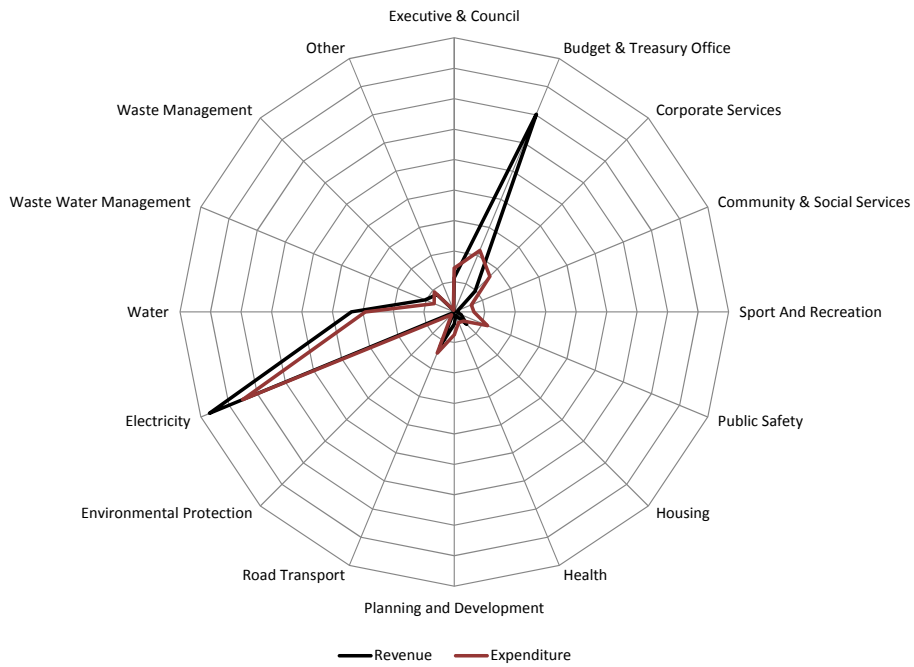
Figure 3.2: Budgeted operating expenditure per metro, 2012/13 - 2014/15



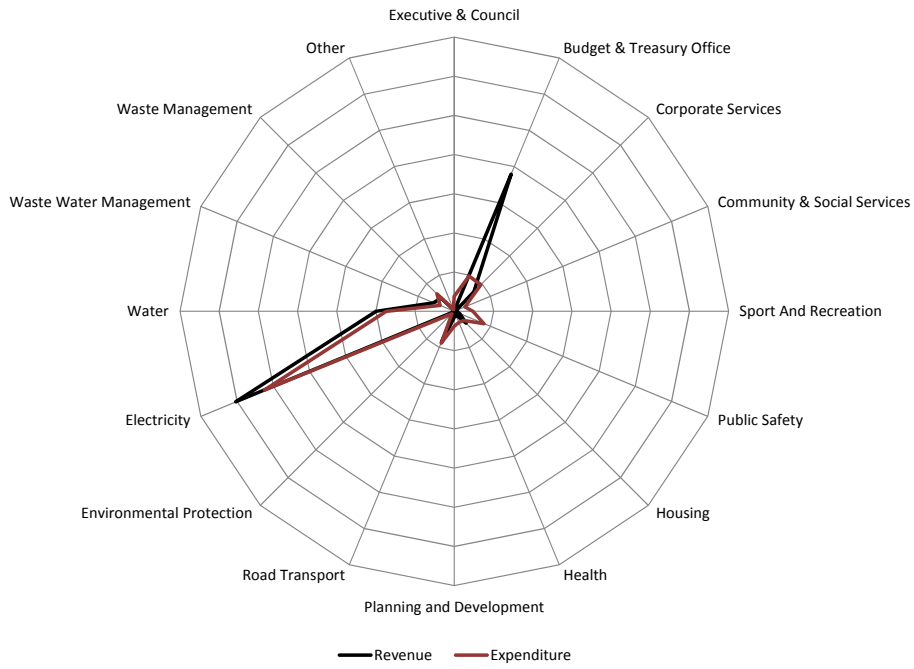
Capital funding contributions, 2012/13



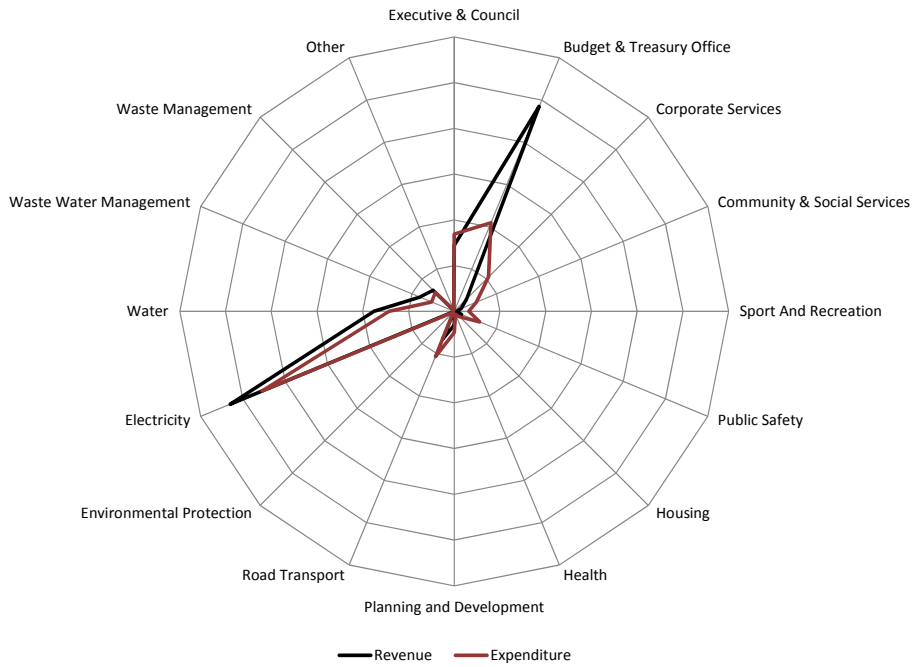
Aggregated operating revenue and expenditure by standard classification, 2012/13



Category A operating revenue and expenditure by standard classification, 2012/13



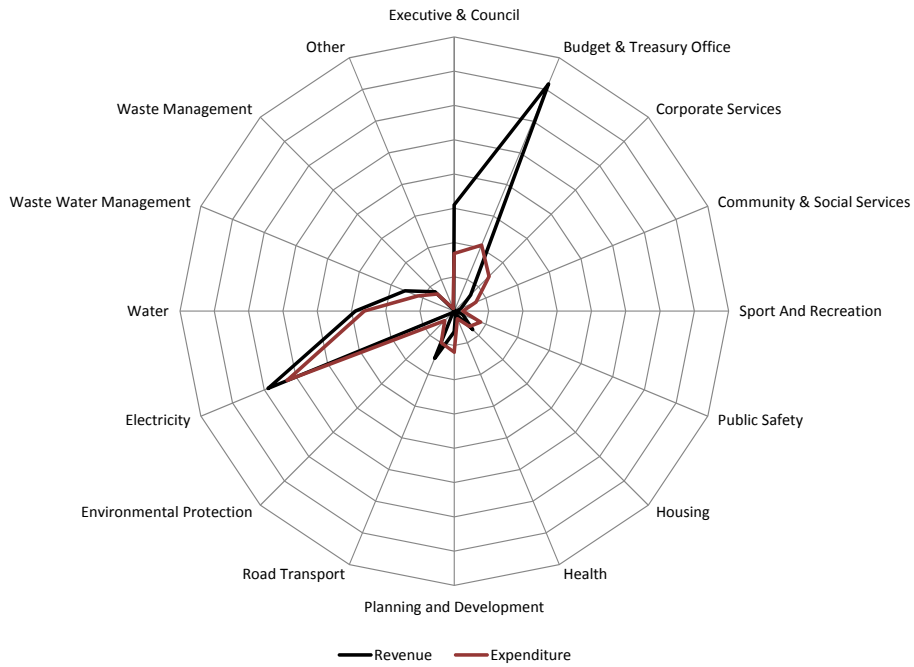
Category B operating revenue and expenditure by standard classification, 2012/13



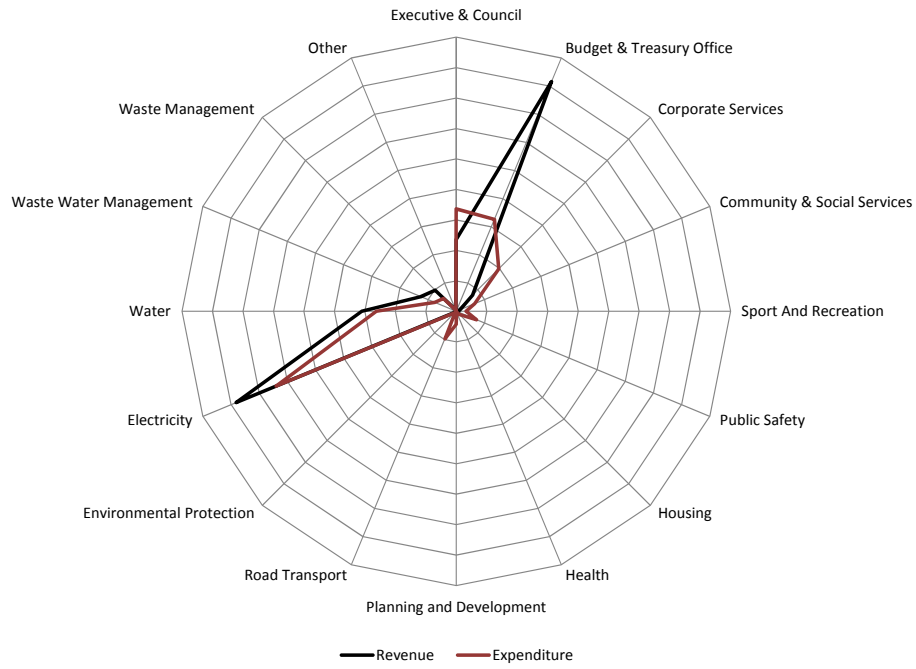
**Category C operating revenue and expenditure
by standard classification, 2012/13**



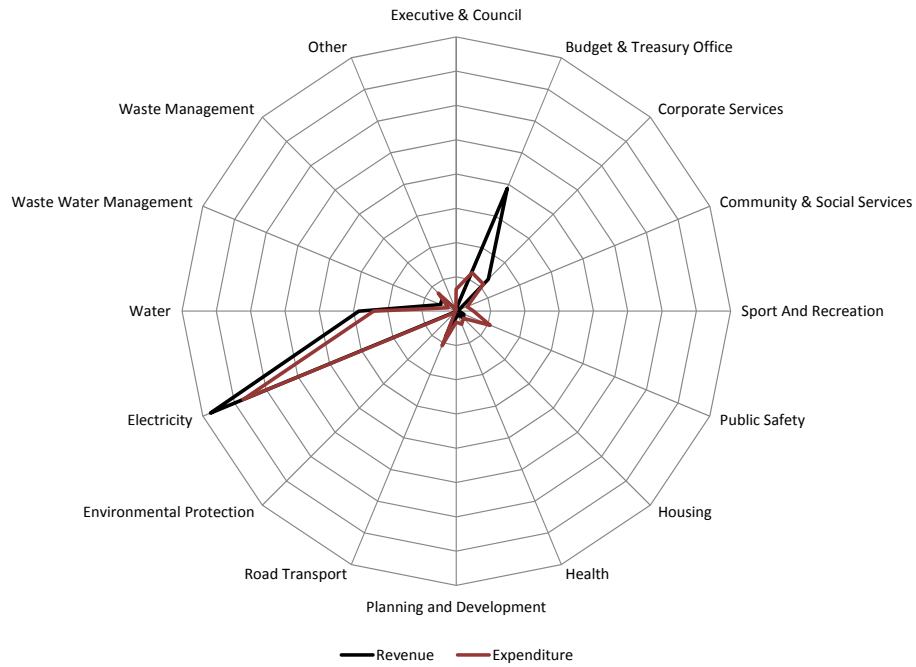
**Eastern Cape operating revenue and expenditure
by standard classification, 2012/13**



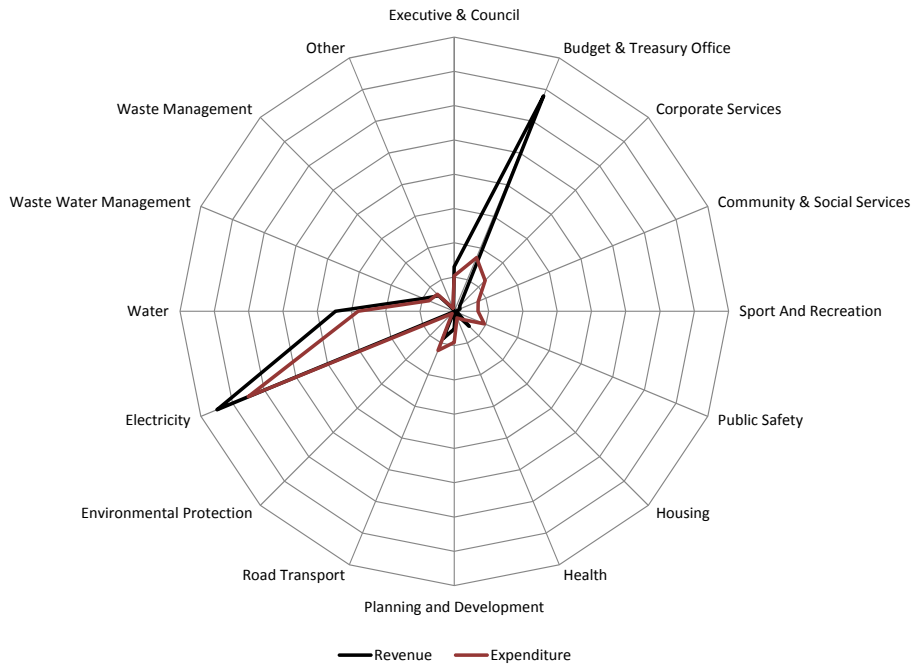
Free State operating revenue and expenditure by standard classification, 2012/13



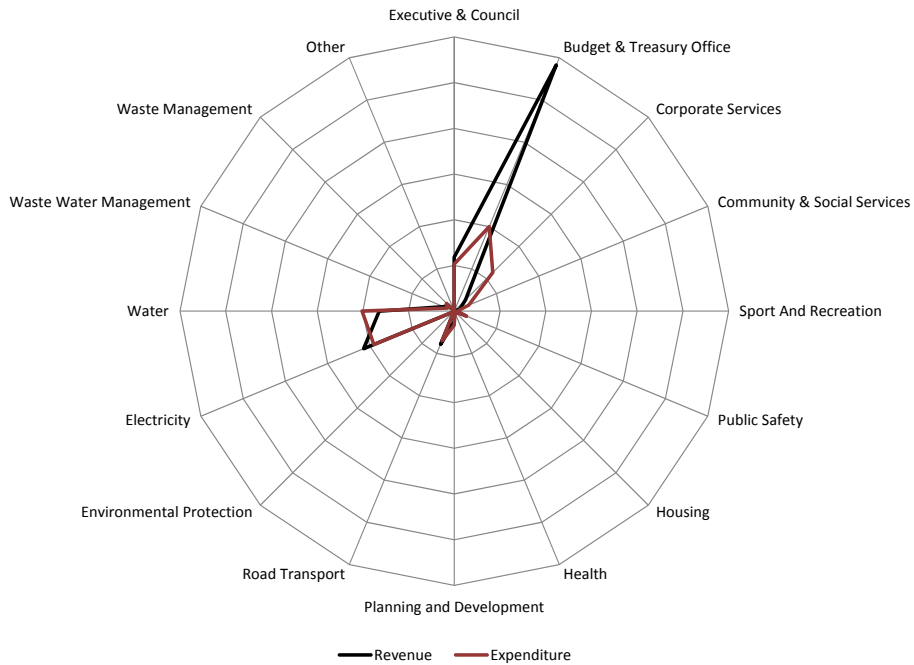
Gauteng operating revenue and expenditure by standard classification, 2012/13



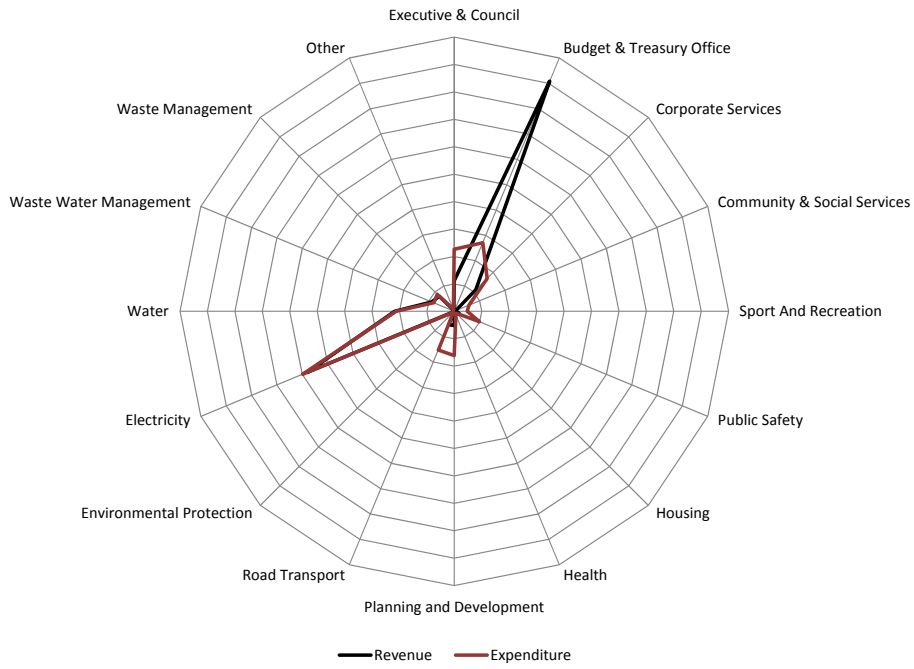
**KwaZulu-Natal operating revenue and expenditure
by standard classification, 2012/13**



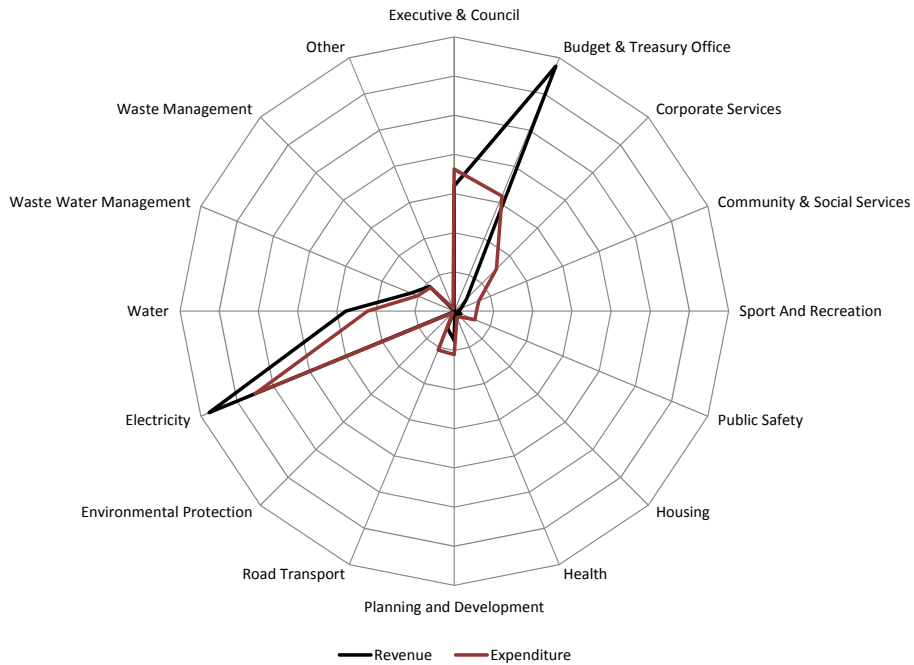
**Limpopo operating revenue and expenditure
by standard classification, 2012/13**



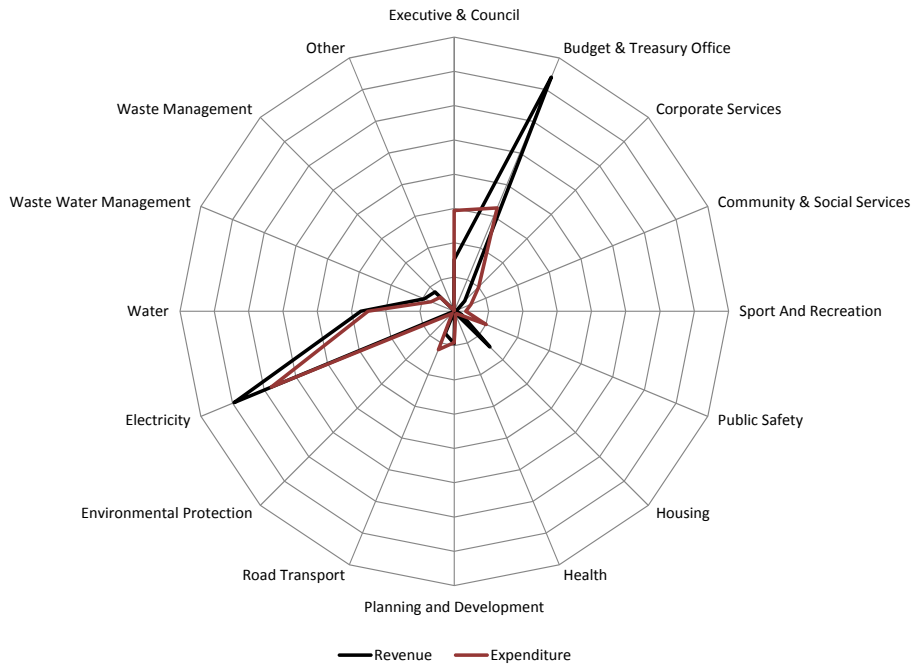
Mpumalanga operating revenue and expenditure by standard classification, 2012/13



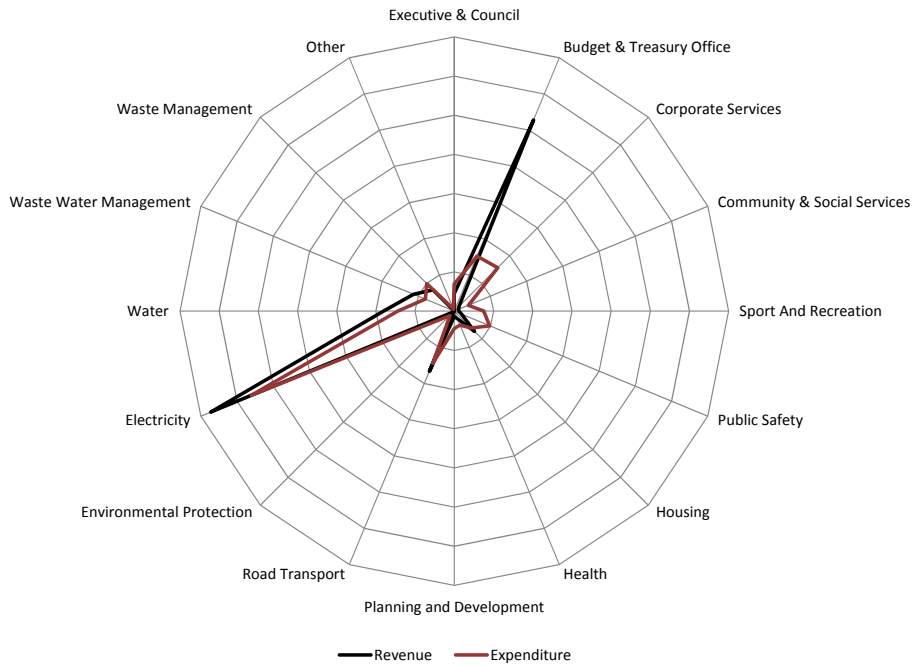
Northern Cape operating revenue and expenditure by standard classification, 2012/13



North West operating revenue and expenditure by standard classification, 2012/13



Western Cape operating revenue and expenditure by standard classification, 2012/13



Planned capital expenditure, 2012/13

