



Press release: local government adopted operating and capital budgets for 2013/14 MTREF

The National Treasury has today published, 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 2013/14 Medium Term Revenue and Expenditure framework (MTREF). The revenue and expenditure numbers are aggregated from the annual budgets that municipal managers are legally required to submit to the National Treasury and the relevant provincial treasury.

The published information is presented in a variety of ways, including aggregated municipal budget totals for the 2013/14 financial year and over the medium term period, information per category of municipality and information per province. Highlights include:

- *In aggregate, budgeted revenue for 2013/14 is R284.8 billion, which is expected to increase to R301.0 billion in 2014/15 and R325.9 billion in 2015/16.*
- *Total municipal expenditure in 2013/14 is estimated to be R306.8 billion, increasing to R322.2 billion in 2014/15 and R345.1 billion in 2015/16. Expenditure for 2013/14 is 9.1 per cent higher than the 2012/13 MTREF.*
- *In the 2013/14 financial year, a net deficit of R637.6 million is expected, a position that is expected to improve significantly to reflect surpluses of R1.5 billion and R4.8 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 R120.9 billion in 2012/13 to R131 billion in 2013/14. In 2013/14 this equates to just over half the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R79.1 billion of the aggregated operating expenditure of R250.3 billion or 31.6 per cent. Bulk purchases are expected to grow to R92 billion by 2015/16 representing 32.6 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. R14.1 billion will be allocated in 2013/14 to repairs and maintenance of assets from operating expenditure. This will increase to R15.1 billion in 2014/15 and R16.4 billion in 2015/16.*

- *Capital expenditure has increased by 8.9 per cent compared to the 2012/13 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 18.4 per cent in 2013/14, 18.2 per cent in 2014/15 and 18.1 per cent in 2015/16.*
- *Total capital expenditure for 2013/14 is R56.4 billion and comprises R25.9 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will increase to R27.2 billion and R29.7 billion in the outer years of the MTREF.*
- *The 2013/14 capital budget reflects a R39.1 billion investment in new infrastructure which is 69.3 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R17.3 billion or 30.7 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. In terms of the 2009 regulations, municipalities must submit their 2013/14 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 149 municipalities managed to achieve this reconciliation last year, this year the budgets of 200 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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ANNEXURE A

The full list of information published:

- Aggregated/consolidated municipal 2013/14 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):
 - o Schedule A2 (Standard Classification);
 - o Schedule A4 (Statement of Financial Performance);
 - o Schedule A5 (Capital Budget);
 - o Schedule A6 (Statement of Financial Position);
 - o Schedule A7 (Cash Flow Budget/Position);
 - o Schedule A9 (Asset Management);
 - o Schedule A10 (Free Basic Services); and
 - o 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 2011/12.

HIGH LEVEL ANALYSIS OF THE 2013/14 MTREF:

- 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 supporting tables published on the National Treasury's website provide more information by type of expenditure item and other operational information. Information on each municipality's 2013/14 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

1. Aggregated Operating and Capital budgets, 2013/14 - 2015/16

Description	Budget Year 2013/14	Budget Year 2014/15	Budget Year 2015/16
R thousands			
Total Revenue	284 848 218	300 944 322	325 854 196
Total Expenditure	306 761 932	322 218 985	345 074 624
Surplus / (deficit)	(21 913 714)	(21 274 663)	(19 220 428)
FINANCING:			
External loans / borrowing	9 728 855	9 734 978	10 218 434
Internally generated funds ¹	11 547 221	13 008 587	13 825 575
Total financing	21 276 076	22 743 566	24 044 009
Net surplus / (deficit)	(637 638)	1 468 902	4 823 580

Source: National Treasury Local Government Database

- Total revenue is estimated to be R284.8 billion, R301.0 billion and R325.9 billion while total expenditure estimates are R306.8 billion, R322.2 billion and R345.1 billion for each of the respective financial years of the 2013/14 Medium-term Revenue and Expenditure Framework (MTREF).
- For the purpose of the above table, external loans (borrowing) and internally generated funds have been excluded from total revenue. Although a funding source for the capital budget, the inclusion of borrowing would artificially inflate total revenue as would internally generated funds. Municipalities generate internal funding in two ways; either by historic cash backed reserves (generated in previous financial years through revenue) or current year surpluses (generated through current revenue – operating surpluses).
- Over the MTREF period municipalities intend to borrow R29.7 billion to fund infrastructure development while contributing R38.4 billion through internally generated funding.
- In the 2013/14 financial year, a net deficit of R637.6 million is indicated. This position improves significantly to reflect surpluses of R1.5 billion and R4.8 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 so they can fund a greater share of infrastructure and the capital budget from own municipal sources.
- 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.

Aggregated operating and capital budget per municipal category

2. Aggregated Operating and Capital revenue per category, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	28 633 130	152 203 193	180 836 323	32 858 291	164 044 151	196 902 442	34 767 126	177 631 743	212 398 869
Category B	20 019 198	82 451 347	102 470 545	17 315 829	85 418 784	102 734 613	17 554 076	92 964 635	110 518 710
Category C	7 765 439	15 051 988	22 817 427	8 452 755	15 598 077	24 050 833	10 283 445	16 697 180	26 980 625
Total	56 417 766	249 706 529	306 124 294	58 626 876	265 061 012	323 687 887	62 604 647	287 293 558	349 898 205
Less									
External loans / borrowing	9 728 855	-	9 728 855	9 734 978	-	9 734 978	10 218 434	-	10 218 434
Internally generated funds	11 547 221	-	11 547 221	13 008 587	-	13 008 587	13 825 575	-	13 825 575
Total revenue	35 141 690	249 706 529	284 848 218	35 883 310	265 061 012	300 944 322	38 560 638	287 293 558	325 854 196
% of total revenue¹									
Category A	9.4%	49.7%	59.1%	10.2%	50.7%	60.8%	9.9%	50.8%	60.7%
Category B	6.5%	26.9%	33.5%	5.3%	26.4%	31.7%	5.0%	26.6%	31.6%
Category C	2.5%	4.9%	7.5%	2.6%	4.8%	7.4%	2.9%	4.8%	7.7%

¹Percentage calculations in per category tables are based on total revenue and expenditure (including external loans and internally generated funds).

Source: National Treasury Local Government Database

7. Table 2 shows the aggregated budgeted revenue by category of municipality over the 2013/14 MTREF period. In aggregate, budgeted revenue for 2013/14 has decreased by 1.2 per cent from R309.8 billion in 2012/13 to R306.1 billion; operating revenue decreased by 3.2 per cent while capital growth totals 8.9 per cent when compared to 2012/13. The decrease in operating revenue can be associated, with among others, the global economic downturn and the reduction in the affordability of rates and taxes associated with tariff increases.
8. Over the MTREF period, total revenue raised by Category A municipalities accounts for 59.1 per cent of the total aggregated revenue in 2013/14. This increases to 60.7 per cent in 2015/16 indicating that the eight metros alone account for slightly less than two-thirds of total aggregated revenue. Operating revenue of the metros constitutes 49.7 per cent of total aggregated revenue in 2013/14 increasing to 50.8 per cent by 2015/16.
9. The percentage share of total aggregated revenue for Category B and C municipalities starts to decline slightly over the 2013 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 32 per cent of total aggregated revenue while category C (districts) municipalities contribute approximately 8 per cent.
10. 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.
11. Table 3 shows the aggregated budgeted expenditure by category of municipality over the 2013/14 MTREF period. In aggregate, budgeted municipal expenditure has grown by 9.1 per cent from R281.2 billion in 2012/13 to R306.8 billion in the 2013/14 financial year; growth in operating expenditure contributed 9.1 per cent while capital expenditure contributed 8.9 per cent.
12. Of concern is the increase in operating expenditure by 9.1 per cent from the 2012/13 MTREF and the decrease in operating revenue by 3.2 per cent. It is this widening gap between operating expenditure and operating revenue which explains the net operating deficit of R637.6 million. This is an unsustainable planning framework and will require that

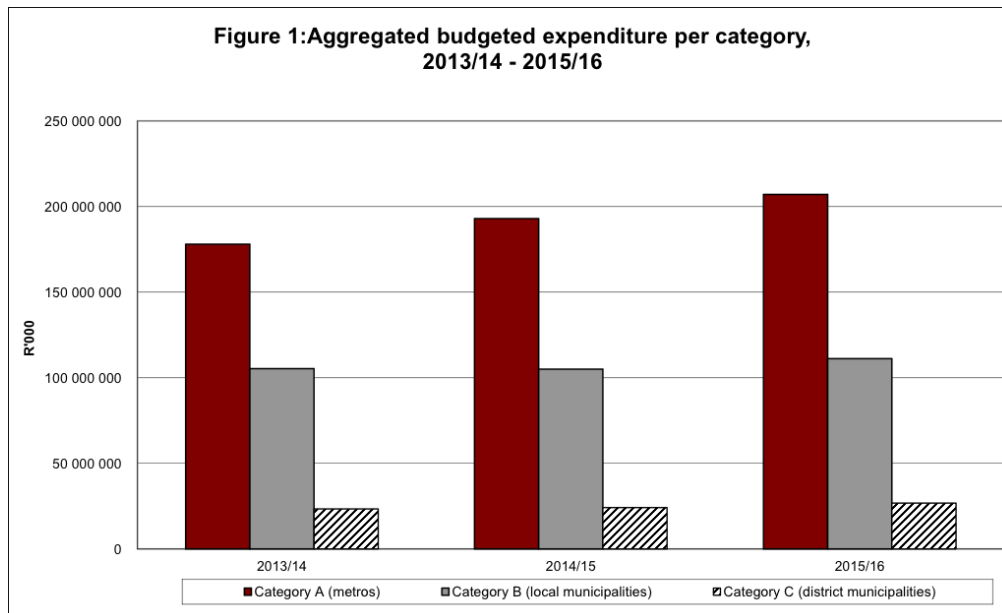
municipalities rationalise expenditures from lesser priority areas, concentrate on spending efficiencies and eliminate non-priority spending.

3. Aggregated Operating and Capital expenditure per category, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	28 633 130	149 941 555	178 574 685	32 858 291	160 715 746	193 574 038	34 767 126	173 039 993	207 807 119
Category B	20 019 198	85 363 028	105 382 225	17 315 829	87 722 556	105 038 385	17 554 076	93 605 723	111 159 799
Category C	7 765 439	15 590 467	23 355 906	8 452 755	15 753 411	24 206 166	10 283 445	16 542 861	26 826 305
Total	56 417 766	250 895 050	307 312 815	58 626 876	264 191 714	322 818 590	62 604 647	283 188 576	345 793 223
Less									
Taxation	-	550 883	550 883	-	599 605	599 605	-	718 598	718 598
Total expenditure	56 417 766	250 344 167	306 761 932	58 626 876	263 592 109	322 218 985	62 604 647	282 469 978	345 074 624
% of total expenditure¹									
Category A	9.3%	48.8%	58.1%	10.2%	49.8%	60.0%	10.1%	50.0%	60.1%
Category B	6.5%	27.8%	34.3%	5.4%	27.2%	32.5%	5.1%	27.1%	32.1%
Category C	2.5%	5.1%	7.6%	2.6%	4.9%	7.5%	3.0%	4.8%	7.8%

¹Percentage calculations in per category tables are based on total revenue and expenditure (including external loans and internally generated funds).

Source: National Treasury Local Government Database



13. The expenditure budget of the eight metros as a share of the total local government budget for the 2013/14 financial year constitutes 58.1 per cent, whereas local municipalities represent 34.3 per cent. District municipalities represent only 7.6 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing 60.1 per cent to total expenditure by 2015/16.
14. Aggregated capital expenditure represents 18.4 per cent in 2013/14, 18.2 per cent in 2014/15 and 18.1 per cent in 2015/16 of the overall budget of municipalities. The share of capital and operational expenditure remains relatively stable over the 2013/14 MTREF. This observation also suggests that in general municipalities are improving on their ability to plan for a longer term, be that at a slow pace.
15. Operating expenditure in aggregate represents 81.6 per cent in 2013/14 and increases to 81.8 per cent in 2014/15 and 81.9 per cent in 2015/16 of the overall budget of municipalities. The minor increases in operating expenditure for the outer years of the MTREF don't appear to make sufficient provision for the anticipated increases in remuneration and the purchase of bulk electricity; these expenditure categories represent a large proportion of municipal operating expenditure.

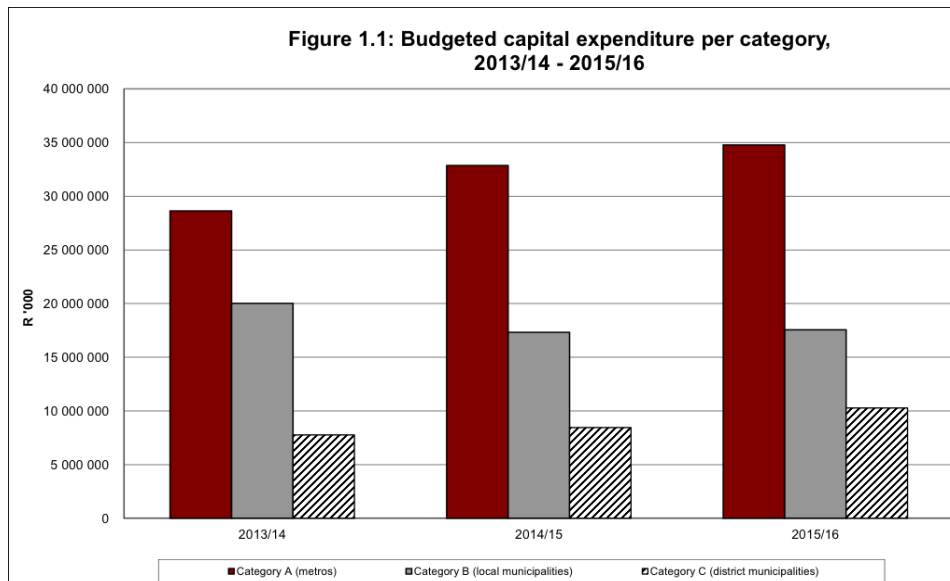
Detailed capital expenditure and funding

4. Budgeted capital expenditure and funding, 2013/14 - 2015/16

R thousands	Budget Year 2013/14	Budget Year 2014/15	Budget Year 2015/16
Capital Expenditure - Standard Classification			
<i>Governance and Administration</i>	5 389 660	5 650 436	4 833 164
<i>Community and Public Safety</i>	7 506 846	7 749 211	8 276 581
<i>Economic and Environmental Services</i>	17 300 928	17 856 277	19 490 796
<i>Trading Services</i>	25 863 231	27 163 301	29 733 481
Electricity	7 509 445	8 268 461	8 954 440
Water	10 850 824	11 732 804	13 712 962
Waste Water Management	6 350 792	6 048 283	5 987 187
Waste Management	1 152 170	1 113 753	1 078 893
Other	357 100	207 650	270 624
Total Capital Expenditure	56 417 766	58 626 876	62 604 647
<i>Of which</i>			
Total New Assets	39 109 700	40 960 677	44 074 768
Total Renewal of Existing Assets	17 308 066	17 666 199	18 529 878
Total Capital Expenditure	56 417 766	58 626 876	62 604 647
Funded by:			
National Government	31 133 642	32 588 947	34 924 228
Provincial Government	2 093 265	1 467 453	1 677 305
District Municipality	120 865	80 344	104 743
Other transfers and grants	167 716	72 091	89 222
Transfers recognised - capital	33 515 488	34 208 834	36 795 498
Public contributions and donations	1 626 202	1 674 476	1 765 140
Borrowing	9 728 855	9 734 978	10 218 434
Internally generated funds	11 547 221	13 008 587	13 825 575
Total Capital Funding	56 417 766	58 626 876	62 604 647
Repairs and Maintenance by Asset Class			
Infrastructure - Road Transport	2 879 463	3 118 855	3 434 508
Infrastructure - Electricity	2 936 975	3 195 523	3 462 330
Infrastructure - Water	2 164 299	2 341 181	2 574 819
Infrastructure - Sanitation	1 193 790	1 277 333	1 369 894
Infrastructure - Other	279 159	289 817	313 982
Infrastructure	9 453 687	10 222 709	11 155 532
Community	773 143	836 487	950 965
Heritage assets	147 116	155 035	163 299
Investment properties	26 629	28 755	31 053
Other assets	3 733 375	3 860 223	4 070 057
Total Repairs and Maintenance	14 133 951	15 103 209	16 370 906

Source: National Treasury Local Government Database

16. The 2013/14 capital budget reflects a R39.1 billion investment in new infrastructure which is 69.3 per cent of the total aggregated capital budget; 5.9 per cent less than 2012/13. Investment in the renewal of existing assets is appropriated at R17.3 billion or 30.7 per cent of the capital budget.
17. Reporting on operational repairs and maintenance figures has now been institutionalized as part of Section 71 in-year reporting. R14.1 billion will be allocated in 2013/14 to repairs and maintenance of assets from operating expenditure. This will increase to R15.1 billion and R16.4 billion in the two outer years of the MTREF period.



Aggregated operating and capital budget per municipality per province

18. Table 5 and 6 show the aggregated budgeted revenue and expenditure by province over the 2013 MTREF period.
19. A provincial analysis reveals that Gauteng with 12 municipalities (including three metros and two secondary cities) has the highest capital budget for 2013/14 estimated at R16.3 billion or 28.9 per cent of the total municipal capital budgets. This is followed by KwaZulu-Natal with 61 municipalities (including one metro and three secondary cities) at an estimated R11.9 billion or 21.1 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R7.5 billion or 13.3 per cent. This trend remains unchanged over the duration of the MTREF. The Eastern Cape, which is predominantly rural but with two metros, is ranked fourth in terms of capital expenditure with capital appropriations of R5.7 billion in 2013/14.
20. The national per capita spending average is estimated to be R5 936 in 2013/14. Only two provinces will exceed this national average in 2013/14, namely Gauteng at R8 846 per capita and Western Cape at R7 895 per capita. The trend line suggests increases over the MTREF reaching R6 679 per capita by 2015/16.
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, 2013/14 - 2015/16

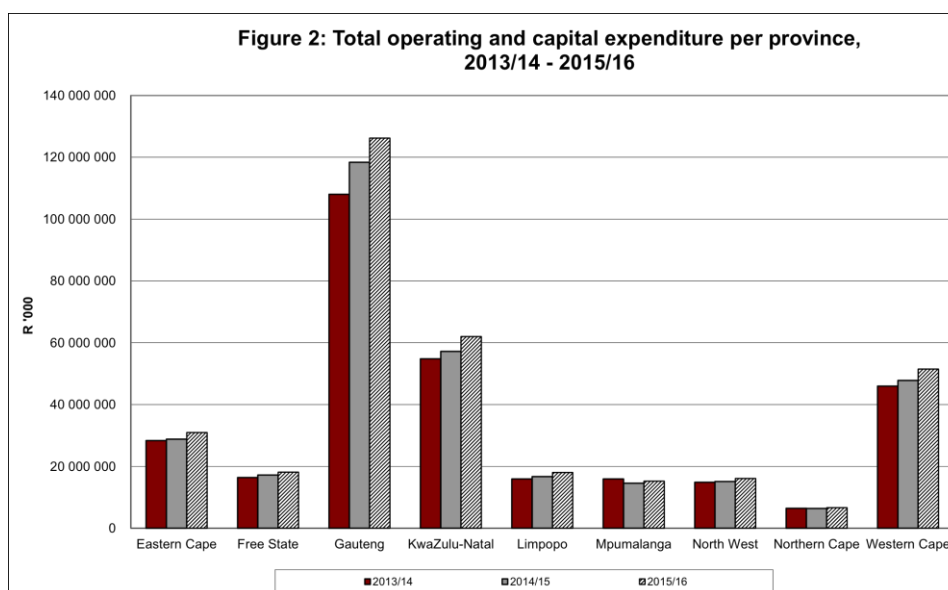
R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	5 701 780	22 110 174	27 811 954	5 610 200	23 146 285	28 756 485	6 251 878	25 081 664	31 333 542
Free State	2 589 748	13 837 577	16 427 325	2 312 867	15 037 410	17 350 277	2 206 728	16 133 976	18 340 704
Gauteng	16 260 677	94 241 121	110 501 798	20 311 961	101 118 372	121 430 333	20 890 405	109 402 061	130 292 466
Kw aZulu-Natal	11 886 117	43 245 023	55 131 140	11 256 578	46 485 769	57 742 347	12 937 630	50 279 495	63 217 125
Limpopo	4 891 792	10 709 857	15 601 649	5 051 411	11 438 589	16 490 000	5 735 474	12 695 531	18 431 005
Mpumalanga	2 981 370	11 404 454	14 385 824	3 114 003	10 448 437	13 562 441	3 130 254	11 437 969	14 568 223
North West	3 368 513	11 479 148	14 847 661	2 992 439	12 085 392	15 077 830	3 278 301	13 092 354	16 370 655
Northern Cape	1 254 732	4 896 737	6 151 469	1 007 502	5 143 230	6 150 733	936 473	5 482 417	6 418 890
Western Cape	7 483 037	37 782 437	45 265 474	6 969 914	40 157 527	47 127 441	7 237 503	43 688 091	50 925 594
Total	56 417 766	249 706 529	306 124 294	58 626 876	265 061 012	323 687 887	62 604 647	287 293 558	349 898 205
Less									
External loans / borrowing	9 728 855	-	9 728 855	9 734 978	-	9 734 978	10 218 434	-	10 218 434
Internally generated funds	11 547 221	-	11 547 221	13 008 587	-	13 008 587	13 825 575	-	13 825 575
Total revenue	35 141 690	249 706 529	284 848 218	35 883 310	265 061 012	300 944 322	38 560 638	287 293 558	325 854 196

Source: National Treasury Local Government Database

6. Aggregated Operating and Capital expenditure for municipalities per provinces, 2013/14 - 2015/16

R thousand	Census 2011	2013/14			2014/15			2015/16		
		Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 562 053	5 701 780	22 668 004	28 369 783	5 610 200	23 219 963	28 830 163	6 251 878	24 740 733	30 992 610
Free State	2 745 589	2 589 748	13 823 478	16 413 226	2 312 867	14 896 215	17 209 082	2 206 728	15 963 619	18 170 347
Gauteng	12 272 264	16 260 677	92 301 495	108 562 171	20 311 961	98 654 629	118 966 589	20 890 405	106 042 609	126 933 014
Kw aZulu-Natal	10 267 303	11 886 117	42 934 713	54 820 829	11 256 578	45 963 281	57 219 860	12 937 630	49 096 112	62 033 742
Limpopo	5 404 868	4 891 792	11 028 476	15 920 267	5 051 411	11 651 010	16 702 421	5 735 474	12 327 964	18 063 438
Mpumalanga	4 039 938	2 981 370	12 967 066	15 948 436	3 114 003	11 431 022	14 545 025	3 130 254	12 139 841	15 270 095
North West	3 509 954	3 368 513	11 511 051	14 879 565	2 992 439	12 131 646	15 124 085	3 278 301	12 852 533	16 130 834
Northern Cape	1 145 860	1 254 732	5 171 249	6 425 981	1 007 502	5 402 795	6 410 298	936 473	5 755 810	6 692 284
Western Cape	5 822 735	7 483 037	38 489 518	45 972 556	6 969 914	40 841 152	47 811 066	7 237 503	44 269 354	51 506 857
Total	51 770 564	56 417 766	250 895 050	307 312 815	58 626 876	264 191 714	322 818 590	62 604 647	283 188 576	345 793 223
Less										
Taxation		-	550 883	550 883	-	599 605	599 605	-	718 598	718 598
Total expenditure		56 417 766	250 344 167	306 761 932	58 626 876	263 592 109	322 218 985	62 604 647	282 469 978	345 074 624
Per capita spending										
Eastern Cape		869	3 454	4 323	855	3539	4393	953	3 770	4 723
Free State		943	5 035	5 978	842	5426	6268	804	5 814	6 618
Gauteng		1 325	7 521	8 846	1655	8039	9694	1 702	8 641	10 343
Kw aZulu-Natal		1 158	4 182	5 339	1096	4477	5573	1 260	4 782	6 042
Limpopo		905	2 040	2 946	935	2156	3090	1 061	2 281	3 342
Mpumalanga		738	3 210	3 948	771	2830	3600	775	3 005	3 780
North West		960	3 280	4 239	853	3456	4309	934	3 662	4 596
Northern Cape		1 095	4 513	5 608	879	4715	5594	817	5 023	5 840
Western Cape		1 285	6 610	7 895	1197	7014	8211	1 243	7 603	8 846
Total		1 090	4 846	5 936	1132	5103	6236	1 209	5 470	6 679

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 2013/14 MTREF period is contained in Table 7. Total revenue amounts to R180.8 billion in 2013/14, R196.9 billion in 2014/15 and R212.4 billion in 2015/16, reflecting a total increase of 7.8 and 8.2 per cent in the two outer years of the MTREF.
23. The table also shows each metro's revenue budget as a percentage of the aggregated budget of all metros. The revenue comparison reflects the size of each metro relative to others. This generally remains stable over the MTREF with the City of Johannesburg topping the list at 24.5 per cent for 2013/14 followed by the Cape Town at 17.4 per cent and eThekweni at 17.0 per cent. The two new metros, namely Mangaung and Buffalo City are comparatively small with total revenue at 3.5 and 2.9 per cent respectively.

7. Aggregated Operating and Capital revenue for metros, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	751 242	4 445 168	5 196 410	796 694	4 714 682	5 511 376	897 179	5 093 338	5 990 516
Cape Town	5 450 592	25 943 339	31 393 932	5 177 472	28 042 389	33 219 860	5 492 034	30 682 623	36 174 657
Ekurhuleni Metro	2 980 933	24 767 643	27 748 575	3 119 799	26 580 684	29 700 483	3 368 826	28 613 238	31 982 064
eThekweni	5 466 767	25 197 750	30 664 517	5 795 074	27 123 541	32 918 615	6 469 880	29 059 599	35 529 479
City Of Johannesburg	7 595 073	36 770 044	44 365 117	11 034 462	39 285 945	50 320 407	11 488 301	42 385 068	53 873 369
Mangaung	865 989	5 507 375	6 373 364	955 250	6 287 396	7 242 646	1 019 088	6 880 738	7 899 825
Nelson Mandela Bay	1 177 277	7 399 879	8 577 156	1 357 965	7 868 710	9 226 675	1 478 686	8 508 662	9 987 348
City Of Tshwane	4 345 256	22 171 995	26 517 252	4 621 576	24 140 804	28 762 380	4 553 132	26 408 478	30 961 610
Total	28 633 130	152 203 193	180 836 323	32 858 291	164 044 151	196 902 442	34 767 126	177 631 743	212 398 869
Less									
External loans / borrowing	7 284 901	-	7 284 901	8 255 891	-	8 255 891	8 828 686	-	8 828 686
Internally generated funds	6 561 059	-	6 561 059	8 453 434	-	8 453 434	8 951 374	-	8 951 374
Total revenue	14 787 170	152 203 193	166 990 363	16 148 967	164 044 151	180 193 117	16 987 066	177 631 743	194 618 809
% of total expenditure									
Buffalo City	0.4%	2.5%	2.9%	0.4%	2.4%	2.8%	0.4%	2.4%	2.8%
Cape Town	3.0%	14.3%	17.4%	2.6%	14.2%	16.9%	2.6%	14.4%	17.0%
Ekurhuleni Metro	1.6%	13.7%	15.3%	1.6%	13.5%	15.1%	1.6%	13.5%	15.1%
eThekweni	3.0%	13.9%	17.0%	2.9%	13.8%	16.7%	3.0%	13.7%	16.7%
City Of Johannesburg	4.2%	20.3%	24.5%	5.6%	20.0%	25.6%	5.4%	20.0%	25.4%
Mangaung	0.5%	3.0%	3.5%	0.5%	3.2%	3.7%	0.5%	3.2%	3.7%
Nelson Mandela Bay	0.7%	4.1%	4.7%	0.7%	4.0%	4.7%	0.7%	4.0%	4.7%
City Of Tshwane	2.4%	12.3%	14.7%	2.3%	12.3%	14.6%	2.1%	12.4%	14.6%

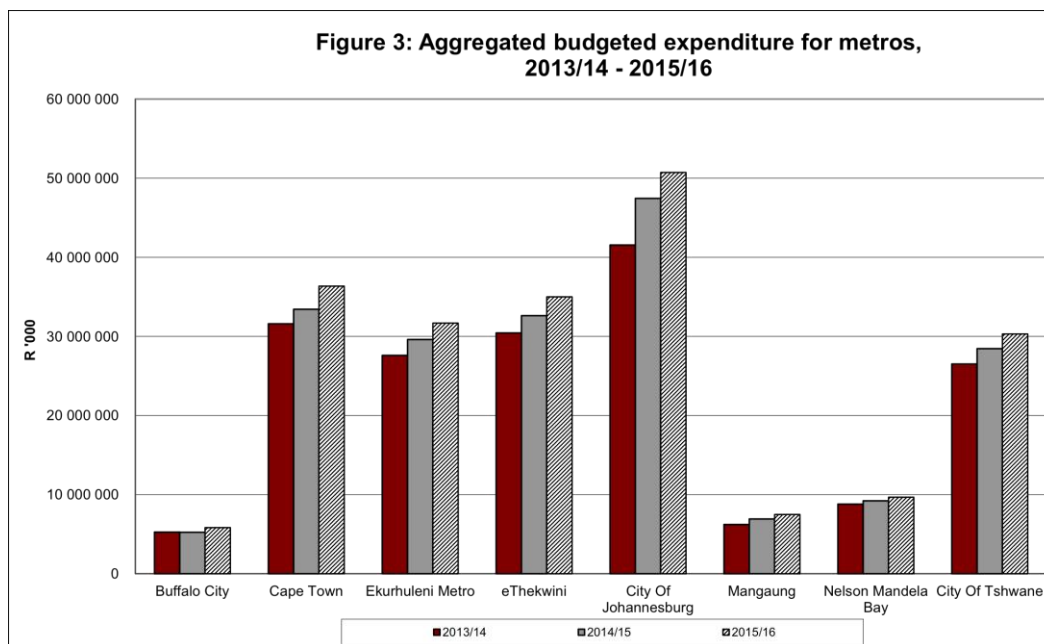
Source: National Treasury Local Government Database

24. The capital budget of the metros constitutes 50.8 per cent of the total municipal capital budget for 2013/14 and increases to 55.5 per cent of total municipal capital expenditure by 2015/16. This is about 2 per cent higher than the previous year.

8. Aggregated Operating and Capital expenditure for metros, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	751 242	4 514 281	5 265 524	796 694	4 458 983	5 255 677	897 179	4 930 004	5 827 183
Cape Town	5 450 592	26 144 082	31 594 675	5 177 472	28 254 520	33 431 992	5 492 034	30 866 359	36 358 393
Ekurhuleni Metro	2 980 933	24 633 937	27 614 870	3 119 799	26 482 750	29 602 549	3 368 826	28 319 099	31 687 925
eThekwini	5 466 767	24 976 074	30 442 841	5 795 074	26 833 705	32 628 779	6 469 880	28 531 354	35 001 234
City Of Johannesburg	7 595 073	34 511 800	42 106 873	11 034 462	37 009 628	48 044 090	11 488 301	39 948 741	51 437 042
Mangaung	865 989	5 368 473	6 234 462	955 250	5 977 670	6 932 921	1 019 088	6 480 178	7 499 266
Nelson Mandela Bay	1 177 277	7 620 913	8 798 190	1 357 965	7 857 588	9 215 553	1 478 686	8 202 355	9 681 042
City Of Tshwane	4 345 256	22 171 995	26 517 252	4 621 576	23 840 902	28 462 478	4 553 132	25 761 902	30 315 034
Total	28 633 130	149 941 555	178 574 685	32 858 291	160 715 746	193 574 038	34 767 126	173 039 993	207 807 119
Less									
Taxation	-	550 871	550 871	-	599 592	599 592	-	718 585	718 585
Total revenue	28 633 130	149 390 684	178 023 814	32 858 291	160 116 154	192 974 446	34 767 126	172 321 408	207 088 534
% of total expenditure									
Buffalo City	0.4%	2.5%	2.9%	0.4%	2.3%	2.7%	0.4%	2.4%	2.8%
Cape Town	3.1%	14.6%	17.7%	2.7%	14.6%	17.3%	2.6%	14.9%	17.5%
Ekurhuleni Metro	1.7%	13.8%	15.5%	1.6%	13.7%	15.3%	1.6%	13.6%	15.2%
eThekwini	3.1%	14.0%	17.0%	3.0%	13.9%	16.9%	3.1%	13.7%	16.8%
City Of Johannesburg	4.3%	19.3%	23.6%	5.7%	19.1%	24.8%	5.5%	19.2%	24.8%
Mangaung	0.5%	3.0%	3.5%	0.5%	3.1%	3.6%	0.5%	3.1%	3.6%
Nelson Mandela Bay	0.7%	4.3%	4.9%	0.7%	4.1%	4.8%	0.7%	3.9%	4.7%
City Of Tshwane	2.4%	12.4%	14.8%	2.4%	12.3%	14.7%	2.2%	12.4%	14.6%

Source: National Treasury Local Government Database



25. Operating expenditure by metros accounts for more than half (59.9 per cent in 2013/14) of total municipal operating expenditure over the 2013 MTREF.
26. Table 8 also shows that the City of Johannesburg, Cape Town and eThekwini have the largest capital budgets at 4.3, 3.1 and 3.1 per cent of the aggregated capital budget for metros. They are followed by the City of Tshwane at 2.4 per cent. When Ekurhuleni Metropolitan Municipality is benchmarked against the mentioned metros their capital appropriations appear small at a mere 1.7 per cent in 2013/14 decreasing to 1.6 per cent by 2015/16.
27. Relative to other metros, the sizes of the capital budget of the City of Johannesburg might appear to be over-ambitious. As most of their capital funding is dependent on internally generated funds, the successful execution of the capital budget relies heavily on the collection rate and revenue management of the metro.

28. The amount to be generated by metros through the sale (billing) of core municipal services is reflected in Table 9. The major drivers of revenue in 2013/14 are electricity (R60.1 billion), water (R16.1 billion), waste water management (R6.7 billion) and waste management (R4.8 billion). Over the MTREF, moderate increases are anticipated for electricity which is illustrated by the 9.2 per cent growth in 2014/15 and 8.8 per cent in 2015/16. These increases in revenue are 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, 2013/14 - 2015/16

	Electricity	Water	Waste Water Management	Waste Management
R thousand				
2013/14				
Buffalo City	1 411 111	309 154	225 407	223 880
Cape Town	9 673 063	2 362 264	1 279 528	947 388
Ekurhuleni Metro	11 499 685	2 574 470	862 863	1 147 822
eThekweni	10 065 627	2 824 683	731 192	461 541
City Of Johannesburg	13 276 206	4 241 132	2 490 824	986 904
Mangaung	2 102 657	589 873	143 043	97 396
Nelson Mandela Bay	3 070 366	498 414	343 381	177 067
City Of Tshwane	9 012 286	2 739 884	660 035	779 340
Total revenue	60 111 000	16 139 874	6 736 274	4 821 338
2014/15				
Buffalo City	1 552 221	355 373	249 075	251 865
Cape Town	10 632 429	2 610 483	1 413 332	1 016 304
Ekurhuleni Metro	12 418 145	2 831 917	927 578	1 269 866
eThekweni	10 979 579	3 049 913	797 826	487 685
City Of Johannesburg	14 453 158	4 526 152	2 658 216	1 052 095
Mangaung	2 611 356	649 804	156 071	106 294
Nelson Mandela Bay	3 285 292	563 208	388 021	198 385
City Of Tshwane	9 703 805	3 012 161	723 714	966 794
Total revenue	65 635 985	17 599 011	7 313 833	5 349 288
2015/16				
Buffalo City	1 707 443	407 791	274 730	282 845
Cape Town	11 616 822	2 895 048	1 566 794	1 112 677
Ekurhuleni Metro	13 409 895	3 115 109	997 149	1 377 631
eThekweni	11 921 328	3 255 257	866 363	518 119
City Of Johannesburg	15 834 268	4 813 682	2 827 083	1 120 922
Mangaung	2 932 121	715 824	170 286	116 006
Nelson Mandela Bay	3 515 262	636 425	438 464	220 268
City Of Tshwane	10 464 818	3 308 067	780 176	1 059 277
Total revenue	71 401 957	19 147 202	7 921 045	5 807 745

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 R40.2 billion for the purchase of bulk electricity, with a more modest annual growth than the previous publication of 9.3 per cent and 8.5 per cent in the outer years of the MTREF; this is well aligned to the multi-year price determination as approved by NERSA for Eskom. It is estimated that expenditure on the bulk purchases of electricity will exceed R47 billion by 2015/16.
31. When comparing the revenue from the sale of and the expenditure incurred on the purchases of bulk electricity, 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, 2013/14 - 2015/16

R thousand	Electricity			Water		
	2013/14	2014/15	2015/16	2013/14	2014/15	2015/16
Buffalo City	975 200	1 053 216	1 137 473	160 589	176 808	194 312
Cape Town	6 545 300	7 151 868	7 762 007	353 581	393 631	449 988
Ekurhuleni Metro	7 291 216	7 874 513	8 504 474	1 923 870	2 116 257	2 327 883
eThekweni	6 590 747	7 189 186	7 841 965	1 454 737	1 549 295	1 649 999
City Of Johannesburg	9 248 990	10 084 846	10 880 174	1 814 354	1 946 765	2 094 885
Mangaung	1 250 000	1 630 000	1 887 992	352 367	396 660	436 326
Nelson Mandela Bay	2 209 872	2 371 192	2 544 289	82 252	92 122	103 176
City Of Tshwane	6 079 638	6 568 872	7 095 688	1 476 220	1 625 899	1 789 913
Total expenditure	40 190 962	43 923 694	47 654 062	7 617 969	8 297 437	9 046 482

Source: National Treasury Local Government Database

35. Expenditure on bulk water amounts to R7.6 billion in 2013/14 and increases by 8.9 per cent in 2014/15 to R8.3 billion and 9 per cent in 2015/16 to R9 billion.

Aggregated operating and capital budget for secondary cities

36. Tables 11 and 12 show the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2013/14 MTREF period.
37. The total budgeted revenue for secondary cities amounts to R40.6 billion in 2013/14, increasing to R43.4 billion by 2015/16.
38. The total budget expenditure of secondary cities amounts to R41.2 billion in 2013/14, R40.8 billion in 2014/15, and R43.3 billion in 2015/16, representing a growth of -0.9 per cent and 6.1 per cent in the two outer years of the MTREF. The inconsistent increases associated with the two outer years could be a further indication of poor multi-year budgeting. These figures are however distorted by Emalaheni (MP) which failed to prepare a multi-year operational budget.
39. The impact of poor multi-year budgeting is also noticed in the growth in operating expenditure which is expected to increase by only 0.5 per cent in 2014/15 and by 7 per cent in 2015/16. Although municipalities are attempting to buffer the impact of the economic downturn through identifying operational expenditure efficiencies, these increases, especially that of the 2014/15 year, seem unrealistic when considering the cost drivers applicable to local government such as remuneration and bulk and material purchases.
40. Spending on capital by secondary cities over the MTREF is expected to decline from R6.5 billion to R5.9 billion by 2015/16, partly due to poor multi-year budgeting practices, insufficient provision for the eradication of backlogs, and insufficient own funding of the capital program.

11. Aggregated Operating and Capital revenue for secondary cities, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	6 455 922	34 179 394	40 635 315	5 906 418	34 744 666	40 651 084	5 942 601	37 491 684	43 434 285
Matjhabeng FS184	212 482	1 687 706	1 900 188	178 246	1 779 115	1 957 361	102 686	1 925 907	2 028 593
Emsfuleni GT421	326 104	4 341 394	4 667 498	480 361	4 691 620	5 171 981	511 913	5 098 044	5 609 957
Mogale City GT481	220 582	1 858 064	2 078 645	318 601	2 032 664	2 351 264	312 027	2 220 376	2 532 404
Msunduzi KZN225	443 158	3 291 484	3 734 641	264 271	3 545 103	3 809 374	252 390	3 814 104	4 066 494
New castle KZN252	409 229	1 414 350	1 823 579	417 279	1 499 845	1 917 124	223 650	1 597 865	1 821 515
uMhlathuze KZN282	338 714	1 997 756	2 336 470	217 713	2 188 903	2 406 616	233 711	2 337 285	2 570 996
Polokwane LIM354	504 007	1 969 533	2 473 540	363 785	2 063 342	2 427 127	460 170	2 249 750	2 709 920
Govan Mbeki MP307	254 288	1 367 316	1 621 604	208 502	1 455 751	1 664 253	193 037	1 542 844	1 735 882
Emalahleni (Mp) MP312	164 633	1 698 548	1 863 181	179 302	-	179 302	203 776	-	203 776
Steve Tshwete MP313	269 476	1 141 136	1 410 612	269 725	1 244 801	1 514 526	302 560	1 345 127	1 647 687
Mbombela MP322	575 919	1 611 452	2 187 371	610 222	1 808 533	2 418 754	630 742	2 088 503	2 719 245
Sol Plaatje NC091	238 867	1 510 719	1 749 586	114 265	1 612 332	1 726 597	133 234	1 715 210	1 848 443
Madibeng NW372	221 956	1 219 454	1 441 410	251 378	1 392 940	1 644 318	279 911	1 548 543	1 828 454
Rustenburg NW373	1 363 579	2 795 593	4 159 172	1 132 400	2 912 220	4 044 620	1 140 754	3 087 342	4 228 096
Tlokweng NW402	126 145	960 954	1 087 099	135 445	1 034 875	1 170 320	165 461	1 111 210	1 276 671
City Of Matlosana NW403	148 335	1 796 036	1 944 371	112 831	1 874 018	1 986 849	112 345	1 958 833	2 071 178
Drakenstein WC023	187 360	1 389 932	1 577 292	205 142	1 483 174	1 688 316	220 549	1 594 224	1 814 774
Stellenbosch WC024	200 066	1 002 529	1 202 594	231 777	1 054 925	1 286 701	249 354	1 138 087	1 387 441
George WC044	251 024	1 125 437	1 376 461	215 174	1 070 506	1 285 680	214 331	1 118 429	1 332 760
<i>Less</i>									
External loans / borrowing	1 082 766	-	1 082 766	1 095 863	-	1 095 863	875 957	-	875 957
Internally generated funds	1 653 535	-	1 653 535	1 354 446	-	1 354 446	1 441 093	-	1 441 093
Total revenue	3 719 620	34 179 394	37 899 014	3 456 109	34 744 666	38 200 775	3 625 551	37 491 684	41 117 235

Source: National Treasury Local Government Database

12. Aggregated Operating and Capital expenditure for secondary cities, 2013/14 - 2015/16

R thousand	2013/14			2014/15			2015/16		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	6 455 922	34 777 858	41 233 780	5 906 418	34 939 791	40 846 209	5 942 601	37 391 592	43 334 194
Matjhabeng	212 482	1 509 381	1 721 863	178 246	1 578 328	1 756 574	102 686	1 709 717	1 812 403
Emsfuleni	326 104	4 196 423	4 522 527	480 361	4 413 605	4 893 965	511 913	4 793 317	5 305 230
Mogale City	220 582	2 101 634	2 322 216	318 601	2 224 659	2 543 260	312 027	2 360 694	2 672 721
Msunduzi	443 158	3 224 898	3 668 055	264 271	3 480 546	3 744 817	252 390	3 764 103	4 016 493
New castle	409 229	1 503 460	1 912 689	417 279	1 575 036	1 992 315	223 650	1 663 138	1 886 788
uMhlathuze	338 714	1 989 414	2 328 128	217 713	2 161 056	2 378 769	233 711	2 312 858	2 546 569
Polokwane	504 007	1 944 707	2 448 714	363 785	2 001 145	2 364 930	460 170	2 124 081	2 584 251
Govan Mbeki	254 288	1 607 693	1 861 981	208 502	1 647 662	1 856 164	193 037	1 713 935	1 906 972
Emalahleni (Mp)	164 633	1 716 628	1 881 261	179 302	-	179 302	203 776	-	203 776
Steve Tshwete	269 476	1 210 473	1 479 948	269 725	1 293 387	1 563 112	302 560	1 393 434	1 695 994
Mbombela	575 919	1 849 620	2 425 539	610 222	2 045 777	2 655 999	630 742	2 259 828	2 890 570
Sol Plaatje	238 867	1 495 603	1 734 471	114 265	1 595 674	1 709 939	133 234	1 701 249	1 834 482
Madibeng	221 956	1 203 146	1 425 102	251 378	1 375 544	1 626 922	279 911	1 530 298	1 810 209
Rustenburg	1 363 579	2 773 724	4 137 303	1 132 400	2 865 044	3 997 444	1 140 754	3 024 181	4 164 935
Tlokweng	126 145	1 035 384	1 161 529	135 445	1 108 512	1 243 958	165 461	1 165 224	1 330 685
City Of Matlosana	148 335	1 789 390	1 937 725	112 831	1 869 537	1 982 368	112 345	1 945 552	2 057 897
Drakenstein	187 360	1 451 396	1 638 756	205 142	1 536 950	1 742 092	220 549	1 637 372	1 857 921
Stellenbosch	200 066	1 000 961	1 201 026	231 777	1 050 939	1 282 716	249 354	1 136 895	1 386 249
George	251 024	1 173 924	1 424 948	215 174	1 116 389	1 331 563	214 331	1 155 716	1 370 047
<i>Less</i>									
Taxation	-	-	-	-	-	-	-	-	-
Total revenue	6 455 922	34 777 858	41 233 780	5 906 418	34 939 791	40 846 209	5 942 601	37 391 592	43 334 194

Source: National Treasury Local Government Database

41. Among secondary cities, Emsfuleni, Emalahleni (MP) 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 5.1 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

24. Table 13 below provides a comparison between the preliminary outcome for the 2012/13 financial year concluded on 30 June 2013 as published in the Section 71 Quarter 4 publication which was released on 29 August 2013, the adopted budget for the 2013/14 financial year and the average growth in municipal budgets over the 2013 MTREF period.

13: Growth in municipal budgets compared to S71 Preliminary Outcome for 2013/14

R thousands	2012/13			2013/14	2014/15	2015/16	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2012/13- 2013/14	2012/13- 2015/16
Operating Revenue								
Property rates	38 330 868	38 456 261	39 218 506	38 973 039	41 764 042	44 825 377	(0.6%)	4.6%
Service charges	118 626 811	118 313 947	113 175 504	131 035 206	141 291 391	153 066 462	15.8%	10.6%
Other own revenue	72 062 763	75 384 671	71 236 973	79 698 284	82 005 579	89 401 719	11.9%	7.9%
Total Revenue	229 020 442	232 154 878	223 630 983	249 706 529	265 061 012	287 293 558	11.7%	8.7%
Operating Expenditure								
Employee related costs	62 869 239	62 775 710	59 341 078	68 593 351	72 798 052	77 532 427	15.6%	9.3%
Bad and doubtful debt	10 452 247	9 852 134	7 954 184	10 513 191	10 728 374	11 281 302	32.2%	12.4%
Bulk purchases	69 153 310	68 538 049	65 006 984	73 295 222	78 989 982	85 590 523	12.7%	9.6%
Other expenditure	87 380 382	92 772 927	79 121 718	97 942 403	101 075 701	108 065 725	23.8%	11.0%
Total Expenditure	229 855 178	233 938 820	211 423 964	250 344 167	263 592 109	282 469 978	18.4%	10.1%
Operating Surplus/(Deficit)	(834 736)	(1 783 942)	12 207 019	(637 638)	1 468 903	4 823 580	(105.2%)	(26.6%)
Capital Funding								
External loans	9 611 671	9 247 361	6 488 813	9 698 754	9 729 178	10 212 074	49.5%	16.3%
Internal contributions	4 357 247	5 859 583	4 582 776	8 312 135	10 245 949	10 745 474	81.4%	32.9%
Transfers and subsidies	33 042 317	34 942 253	27 633 642	33 515 488	34 208 834	36 795 498	21.3%	10.0%
Other	4 779 501	4 313 927	2 940 611	4 891 388	4 442 914	4 851 602	66.3%	18.2%
Total funding	51 790 736	54 363 124	41 645 841	56 417 766	58 626 876	62 604 647	35.5%	14.6%
Capital Expenditure								
Water	16 820 422	16 965 377	12 532 843	17 817 053	18 360 446	20 571 593	42.2%	18.0%
Electricity	5 920 854	6 452 868	5 507 375	7 267 301	8 287 530	8 920 165	32.0%	17.4%
Housing	1 820 961	1 470 731	1 594 594	1 962 908	1 761 803	1 730 967	23.1%	2.8%
Roads, pavements, bridges and storm water	11 955 278	13 176 168	9 875 300	12 382 176	12 793 421	13 977 781	25.4%	12.3%
Other	15 273 222	16 297 980	12 168 800	16 988 328	17 423 676	17 404 142	39.6%	12.7%
Total expenditure	51 790 736	54 363 124	41 678 912	56 417 766	58 626 876	62 604 647	35.4%	14.5%

Source: National Treasury Local Government Database

43. As seen in the above table, operating expenditure increases in total by 18.4 per cent between the preliminary outcome for 2012/13 and the budget for 2013/14 compared to operating revenue of 11.7 per cent. Increasing operating expenditure at a rate higher than revenue is a concern and is considered unsustainable.
44. Compared to the preliminary outcomes of 2012/13 an increase of 15.6 per cent is expected for salaries, wages and allowances and 12.7 per cent in respect of bulk purchases. Increases in bulk purchases are largely attributed to the significant increase in the price of bulk electricity. The high increases associated with remuneration related expenditure is an area that municipalities will have to address by identifying cost efficiencies such as overtime and travelling allowances.
45. There is an average increase of 10.1 per cent over the MTREF in the total operating expenditure with the highest increase of 12.4 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 2012/13 of R8 billion compared to the original for the same year of

R10.5 billion, a difference of R2.5 billion; it is suspected that the budget appropriation for 2013/14 is overstated and subsequently distorting the percentage growth.

46. 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.
47. The increase in debt impairment is a concern as it suggests that municipalities are expecting to collect less revenue and bad debts are expected to increase. The efforts of municipalities to collect outstanding revenue will need to be carefully monitored and managed.
48. In respect of operating revenue items, the increase in service charges shows the most notable growth at 10.6 per cent over the MTREF largely due to the increases in the electricity tariffs.
49. Capital budgets grow significantly by 35.4 per cent in 2013/14 compared to 2012/13. Given the persistent trends in under-spending of capital implementation, capital projects will have to be properly and effectively managed to ensure implementation as planned.
50. Capital grants and subsidies show an increase of 21.3 per cent when compared to the preliminary outcomes for 2012/13.
51. The biggest increase is noted in internal contributions at 81.4 per cent. Given the net operating deficit for 2013/14 and significant increase in the provision of doubtful debt, it seems highly unlikely that the municipalities will be able to fund their capital projects from internally generated funding as planned.
52. The largest year-on-year decrease in capital expenditure is observed in spending on water which is expected to increase by 42.2 per cent when compared to the 2012/13 adopted budget. Electricity shows an increase of 32 per cent.
53. Over the MTREF period the average growth is slowing down to an estimated 14.6 per cent, indicating a lack of multi-year capital project planning.

Changes to Baseline

54. Table 14 below highlights the extent to which municipalities have allocated additional resources in the 2013 MTREF and demonstrates at an aggregate level how municipalities have reprioritised items within their budgets. The table also compares the changes to the baseline against the 2013/14 forward estimates.

14: Changes to baseline for 2013 MTREF

R thousands	2013/14			2014/15			2015/16	% change to		% share of total	
	2012/13 Medium term estimates	2013/14 Draft Medium term estimates	Changes to baseline	2012/13 Medium term estimates	2013/14 Draft Medium term estimates	Changes to baseline	2013/14 Draft Medium term estimates	2013/14	2014/15	2013/14	2014/15
Operating Revenue											
Property rates	41 125 706	38 973 039	(2 152 667)	44 222 473	41 764 042	(2 458 431)	44 825 377	(5.2%)	(5.6%)	(139.4%)	30.9%
Service charges	133 459 416	131 035 206	(2 424 210)	150 968 012	141 291 391	(9 676 622)	153 066 462	(1.8%)	(6.4%)	(157.0%)	121.5%
Other own revenue	73 577 504	79 698 284	6 120 779	77 837 163	82 005 579	4 168 416	89 401 719	8.3%	5.4%	396.4%	(52.3%)
Total Revenue	248 162 626	249 706 529	1 543 903	273 027 648	265 061 012	(7 966 637)	287 293 558	0.6%	(2.9%)	100.0%	100.0%
Operating Expenditure											
Employee related costs	66 690 722	68 593 351	1 902 628	71 455 927	72 798 052	1 342 125	77 532 427	2.9%	1.9%	52.6%	(19.4%)
Bad and doubtful debt	10 840 622	10 513 191	(327 431)	11 965 826	10 728 374	(1 237 452)	11 281 302	(3.0%)	(10.3%)	(9.1%)	17.9%
Bulk purchases	79 586 104	73 295 222	(6 290 882)	91 940 124	78 989 982	(12 950 142)	85 590 523	(7.9%)	(14.1%)	(174.0%)	187.4%
Other expenditure	89 611 133	97 942 403	8 331 270	95 140 013	101 075 701	5 935 688	108 065 725	9.3%	6.2%	230.4%	(85.9%)
Total Expenditure	246 728 581	250 344 167	3 615 586	270 501 890	263 592 109	(6 909 781)	282 469 978	1.5%	(2.6%)	100.0%	100.0%
Operating Surplus/(Deficit)	1 434 045	(637 638)	(2 071 683)	2 525 759	1 468 903	(1 056 856)	4 823 580				
Capital Funding											
External loans	8 261 643	9 698 754	3 987 637	9 332 932	9 729 178	5 415 900	10 212 074	48.3%	58.0%	43.7%	74.2%
Internal contributions	4 324 498	8 312 135	(133 813)	4 830 049	10 245 949	(670 562)	10 745 474	(3.1%)	(13.9%)	(1.5%)	(9.2%)
Transfers and subsidies	33 649 301	33 515 488	(5 237)	34 879 396	34 208 834	(1 293 283)	36 795 498	(0.0%)	(3.7%)	(0.1%)	(17.7%)
Other	4 896 625	4 891 388	5 285 698	5 736 197	4 442 914	3 848 301	4 851 602	107.9%	67.1%	57.9%	52.7%
Total funding	51 132 068	56 417 766	9 134 285	54 778 574	58 626 876	7 300 357	62 604 647	17.9%	13.3%	100.0%	100.0%
Capital Expenditure											
Water	18 075 244	17 817 053	992 741	19 153 093	18 360 446	749 588	20 571 593	5.5%	3.9%	9.2%	8.8%
Electricity	6 274 559	7 267 301	(112 404)	7 537 941	8 287 530	(1 266 419)	8 920 165	(1.8%)	(16.8%)	(1.0%)	(14.9%)
Housing	2 075 312	1 962 908	863 524	3 028 222	1 761 803	343 894	1 730 967	41.6%	11.4%	8.0%	4.1%
Roads, pavements, bridges and storm water	11 518 652	12 382 176	3 800 028	12 449 528	12 793 421	4 813 885	13 977 781	33.0%	38.7%	35.1%	56.7%
Other	13 188 300	16 988 328	5 285 698	12 609 790	17 423 676	3 848 301	17 404 142	40.1%	30.5%	48.8%	45.3%
Total expenditure	51 132 068	56 417 766	10 829 588	54 778 574	58 626 876	8 489 250	62 604 647	21.2%	15.5%	100.0%	100.0%

Source: National Treasury/Local Government Database

55. Budgeted operating revenue for 2013/14 has increased by a modest R1.5 billion and operating expenditure by R3.6 billion. An additional R9.1 billion was allocated to capital expenditure in the 2013/14 financial year compared to the 2012/13 MTREF forecast.
56. For the 2014/15 financial year, the operating revenue will decrease by R8 billion and operating expenditure by R7 billion. An additional R8.5 billion will be set aside for capital expenditure.
57. Against operating expenditure, bulk purchases have the decrease of 7.9 per cent in the baseline in the 2013/14 financial year and a 14.1 per cent decrease for 2014/15 year.
58. The largest change to the baseline for operating revenue for the 2013/14 financial year is accounted for by an increase of 8.3 per cent in "Other revenue". However, it is important to note that "Other revenue" combines a number of smaller revenue items which have been consolidated.
59. The largest change to the capital expenditure baseline in the 2013/14 financial year is related to an anticipated increase of 41.6 per cent in housing infrastructure spending (compared to the decrease of 54.3 per cent in 2012/13). This pendulum swing is related to the change of the grant framework and accreditation of certain municipalities for the delivery of housing.
60. A notable increase of 33 per cent is also observed in the capital expenditure category, "Roads, pavements, bridges and storm water", and "Other" which shows an increase of 40.1 per cent in 2013/14. The latter may be a classification error.
61. From a funding perspective, the increased capital expenditure will be supported by an increase of 48.3 per cent in external loans. The ability of municipalities to repay their existing loans and their ability to procure additional loans to fund their capital projects is doubtful,

indicating that the item “External loans” may just be used as a balancing figure for the capital budget and may not be realized.

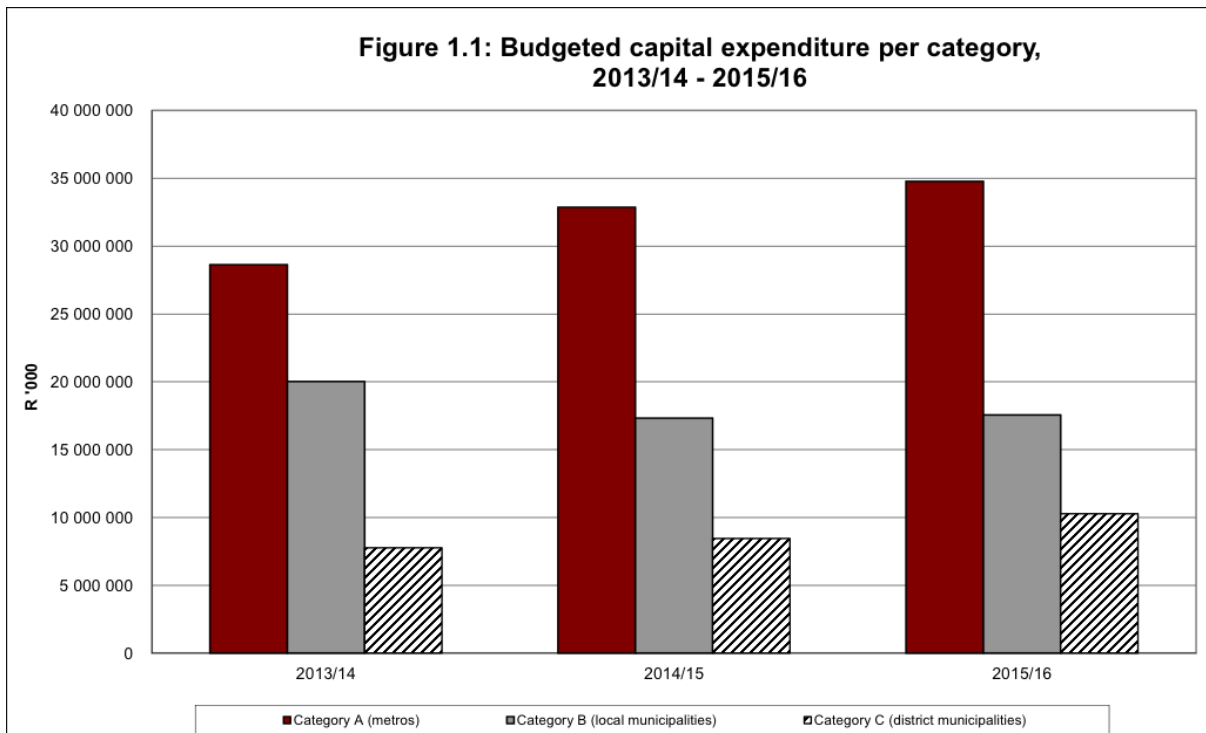
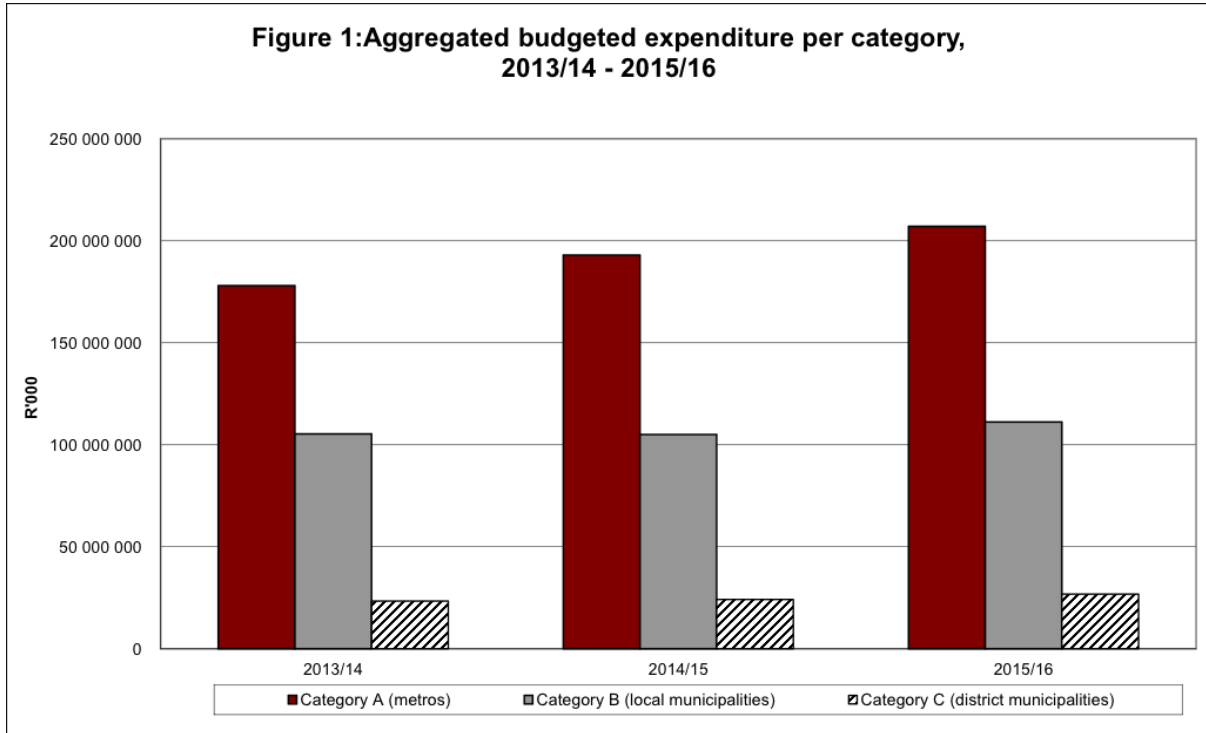


Figure 1.2: Budgeted operating expenditure per category, 2013/14 - 2015/16

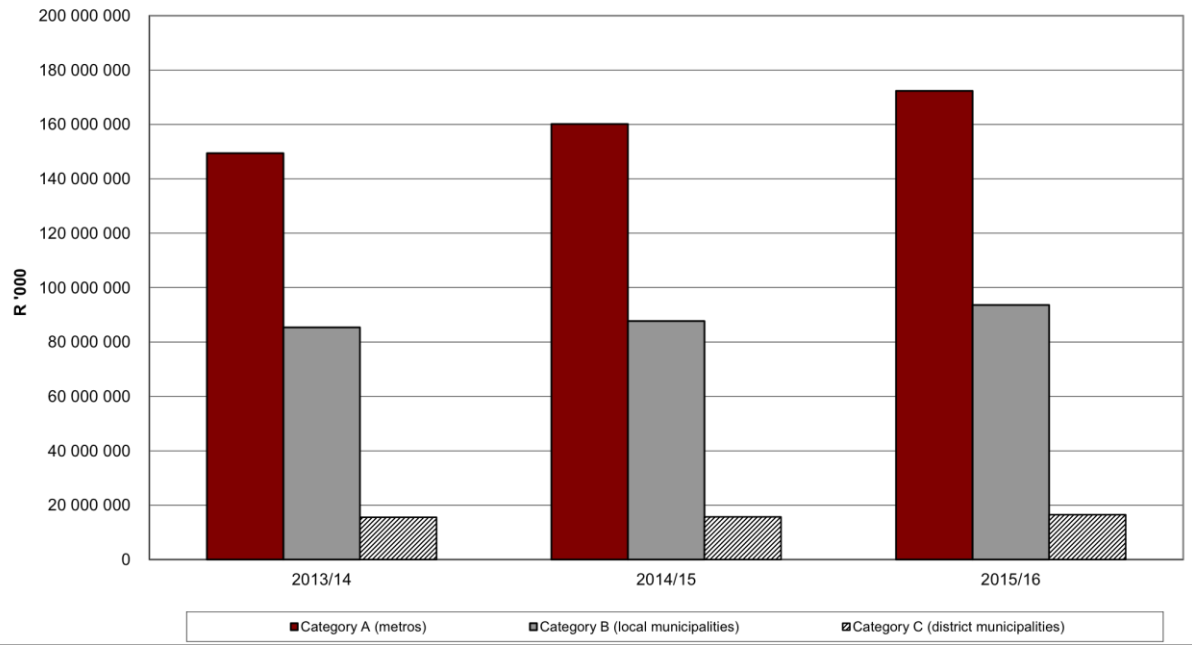


Figure 2: Total operating and capital expenditure per province, 2013/14 - 2015/16

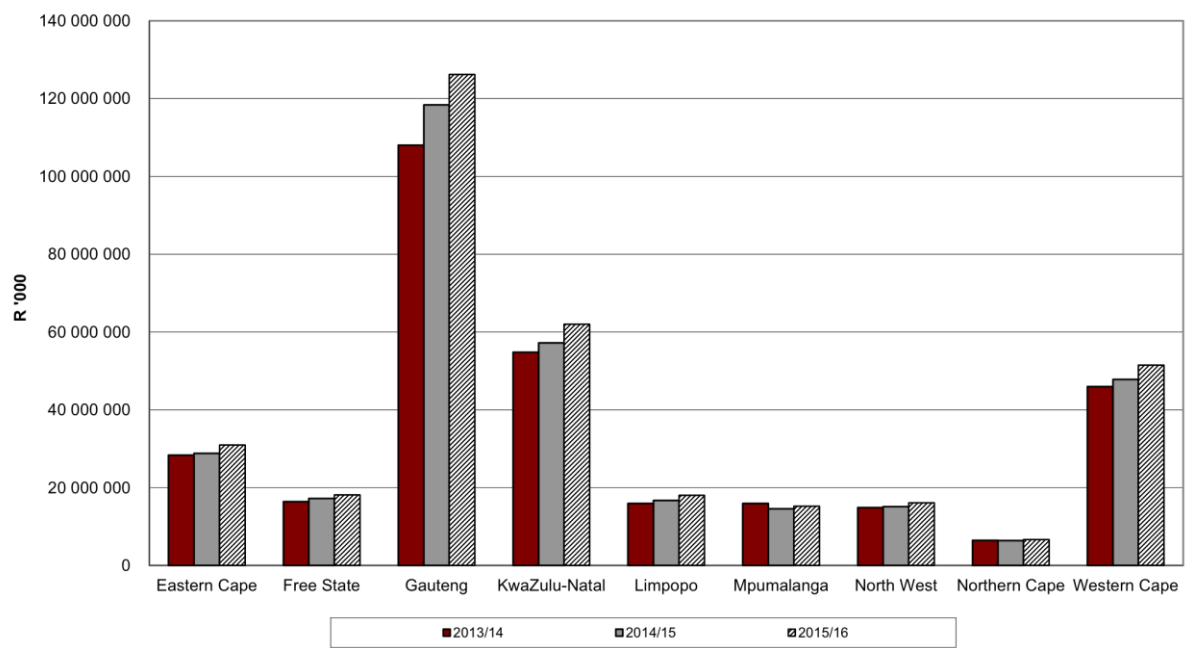


Figure 2.1: Budgeted capital expenditure per province, 2013/14 - 2015/16

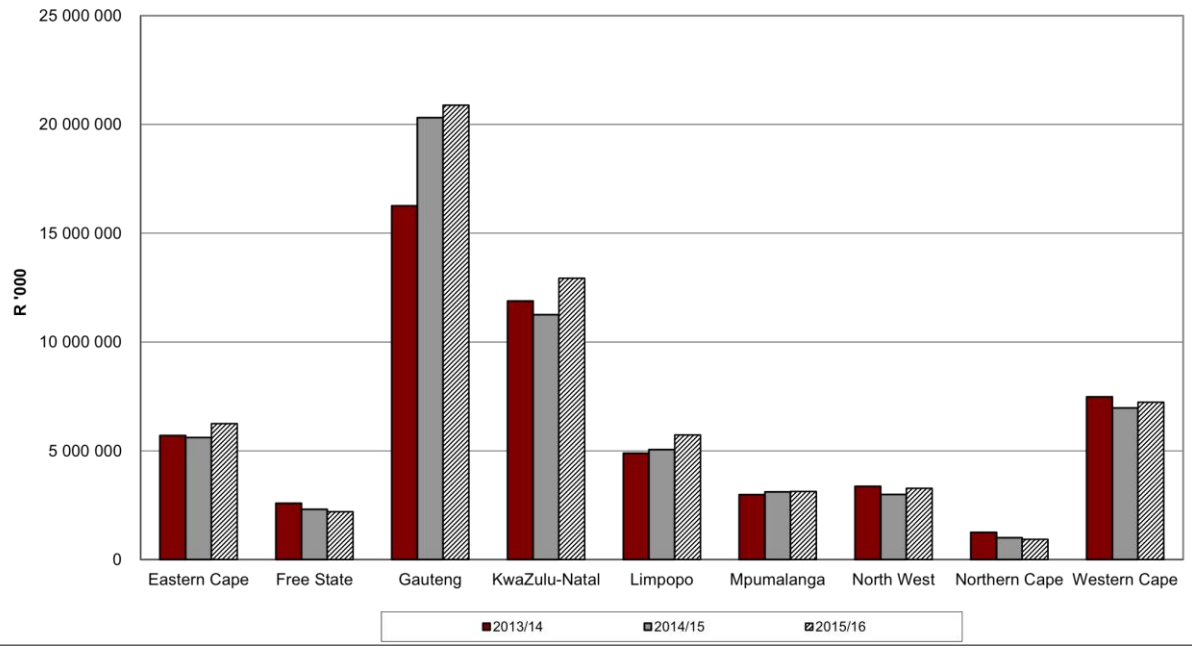


Figure 2.2: Budgeted operating expenditure per province, 2013/14 - 2015/16

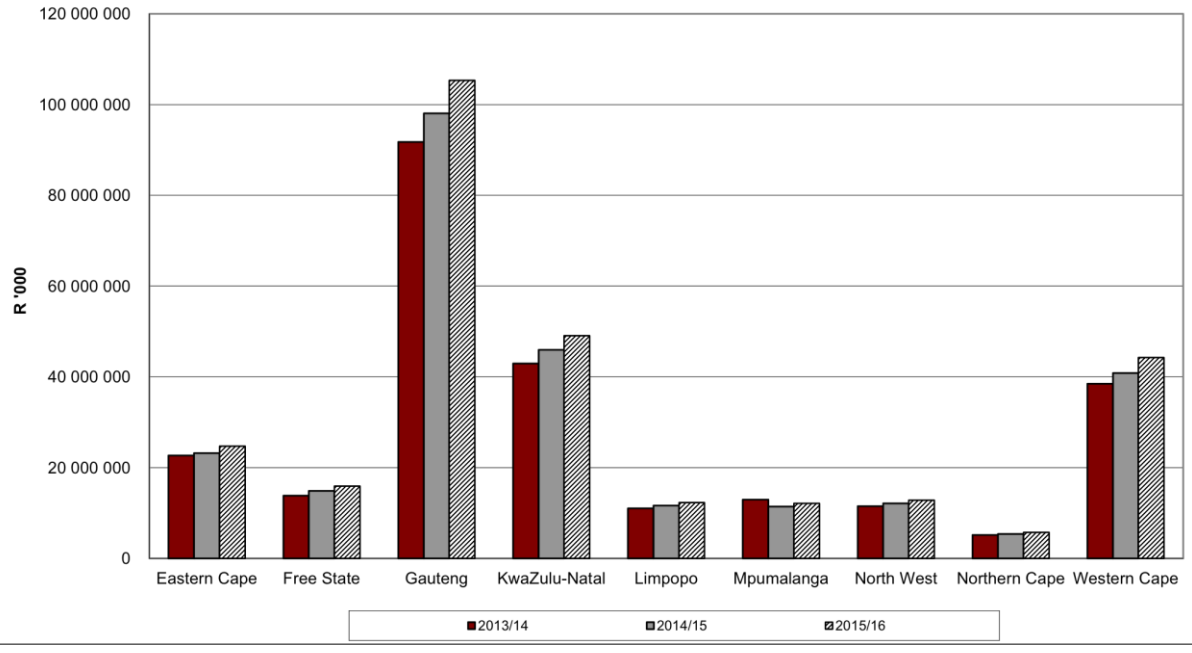


Figure 3: Aggregated budgeted expenditure for metros, 2013/14 - 2015/16

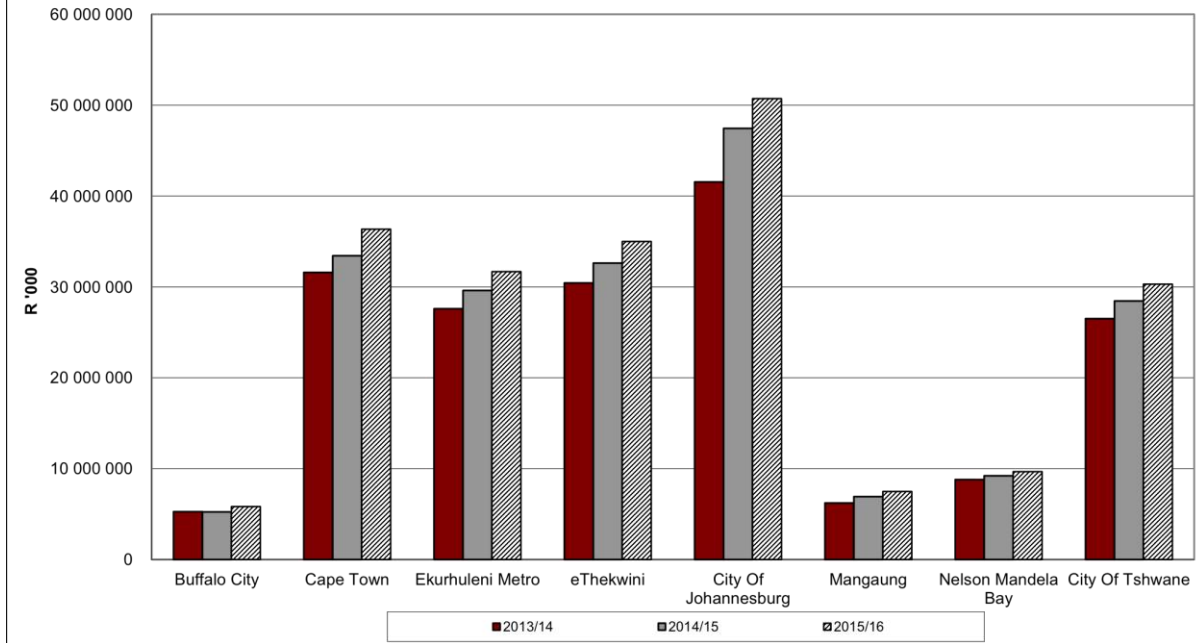


Figure 3.1: Budgeted capital expenditure per metro, 2013/14 - 2015/16

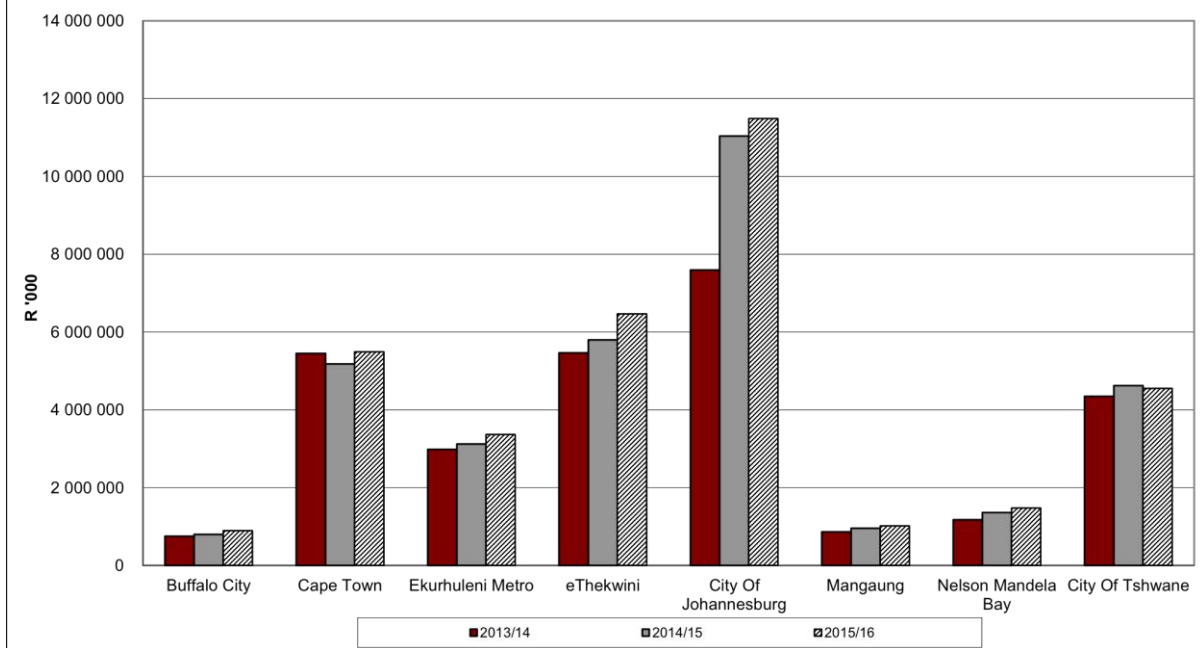
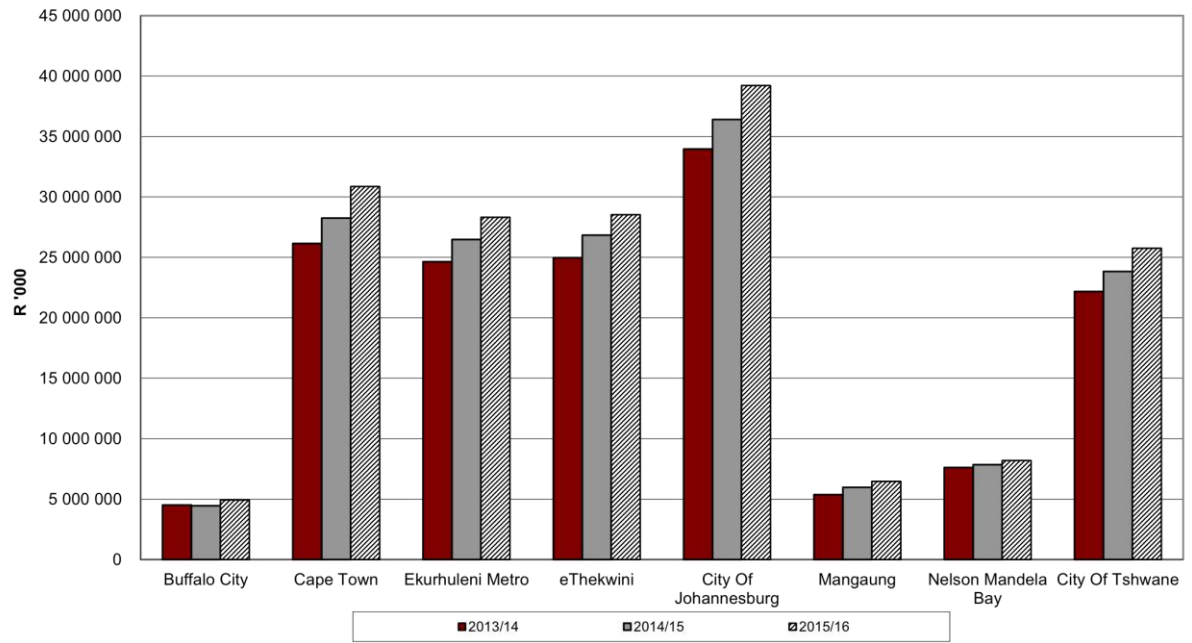
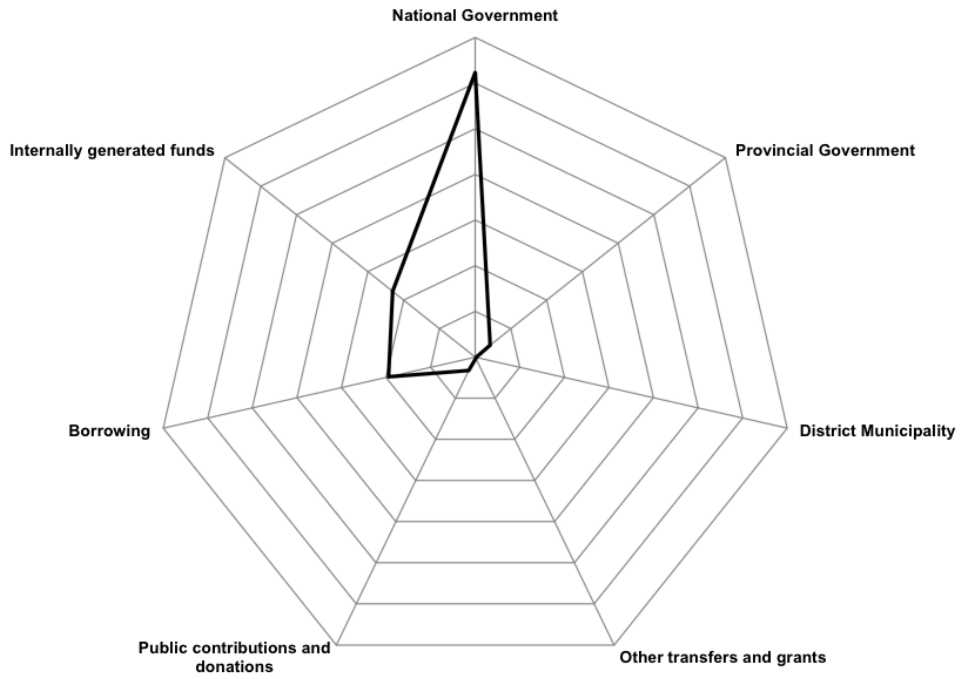


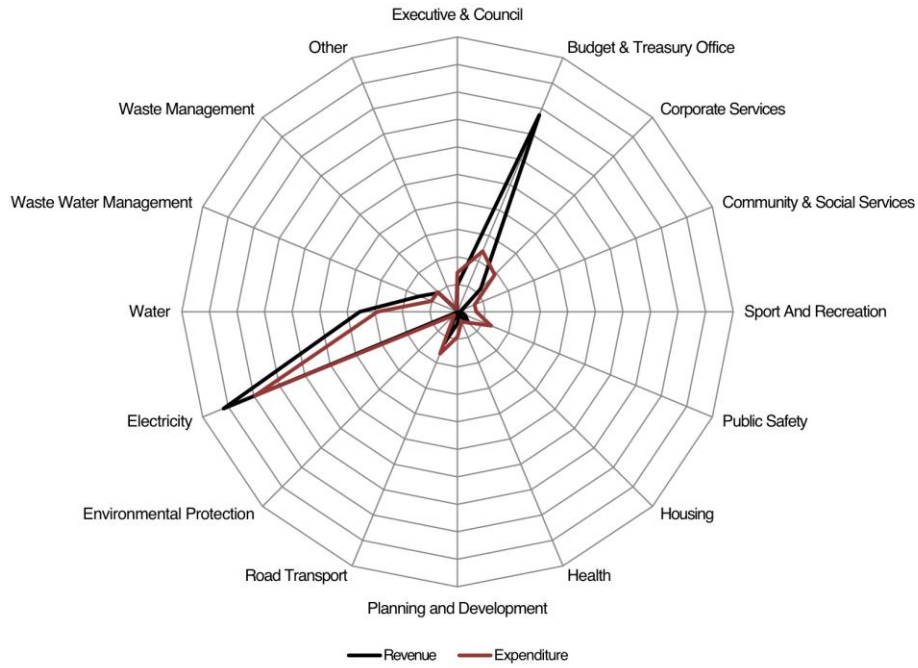
Figure 3.2: Budgeted operating expenditure per metro, 2013/14 - 2015/16



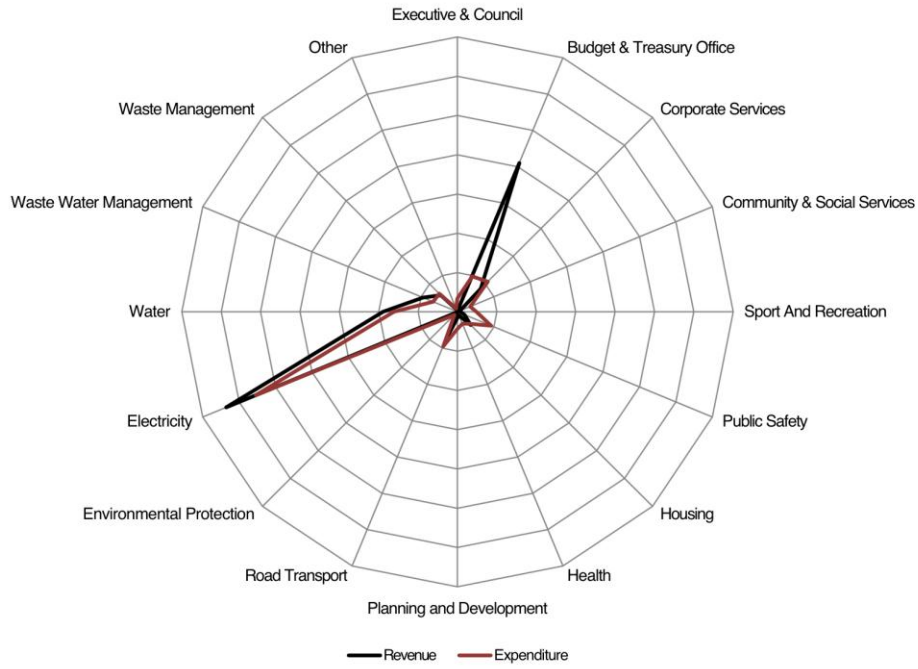
Capital funding contributions, 2013/14



Aggregated operating revenue and expenditure by standard classification, 2013/14



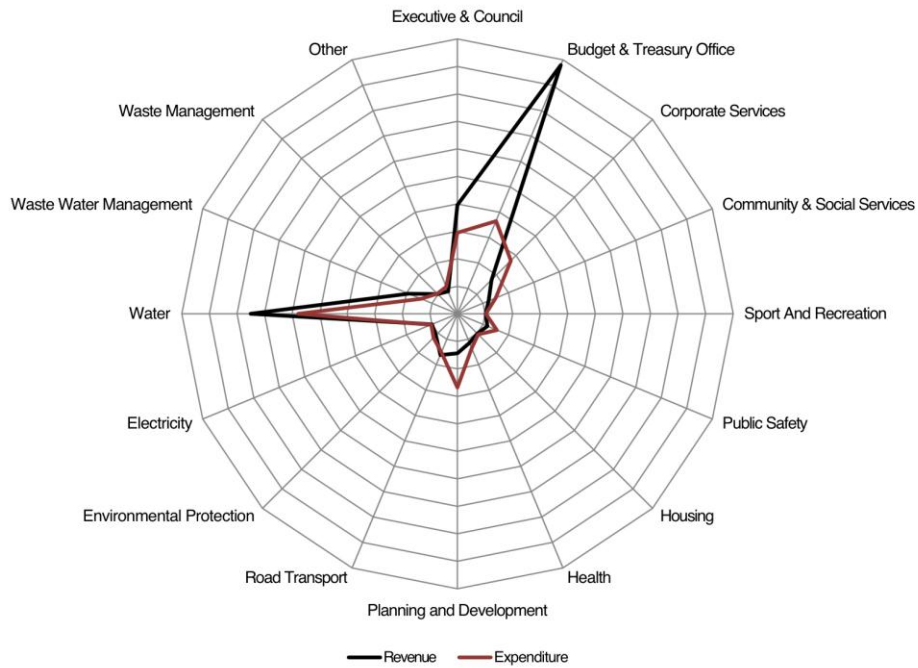
**Category A operating revenue and expenditure
by standard classification, 2013/14**



**Category B operating revenue and expenditure
by standard classification, 2013/14**



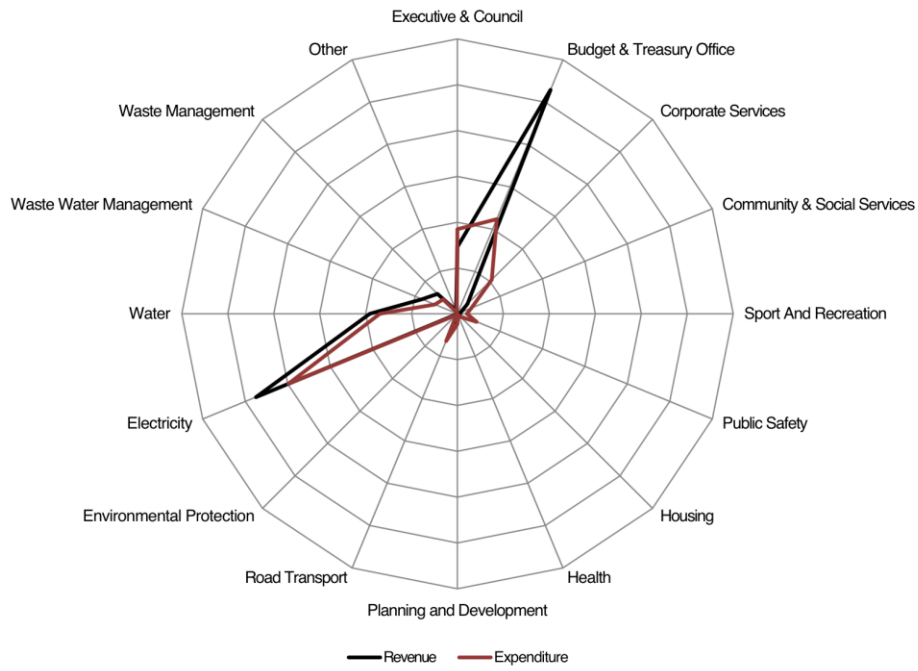
**Category C operating revenue and expenditure
by standard classification, 2013/14**



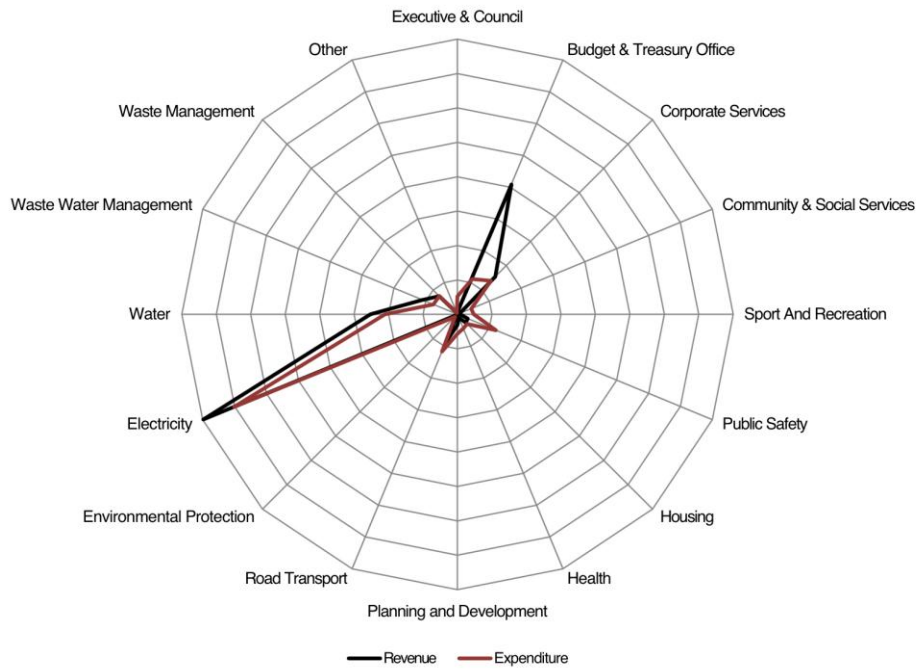
**Eastern Cape operating revenue and expenditure
by standard classification, 2013/14**



Free State operating revenue and expenditure by standard classification, 2013/14



Gauteng operating revenue and expenditure by standard classification, 2013/14



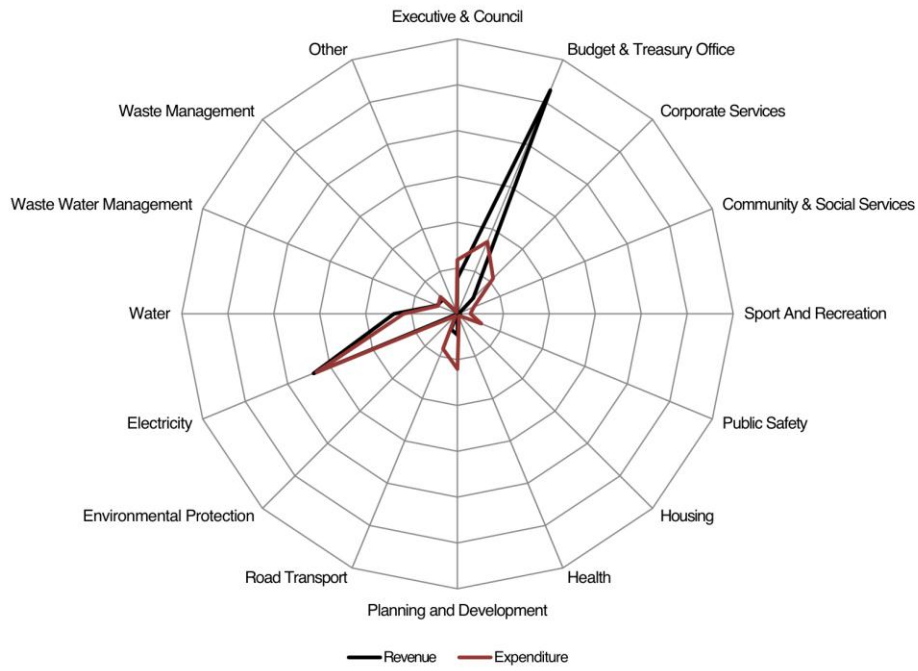
**KwaZulu-Natal operating revenue and expenditure
by standard classification, 2013/14**



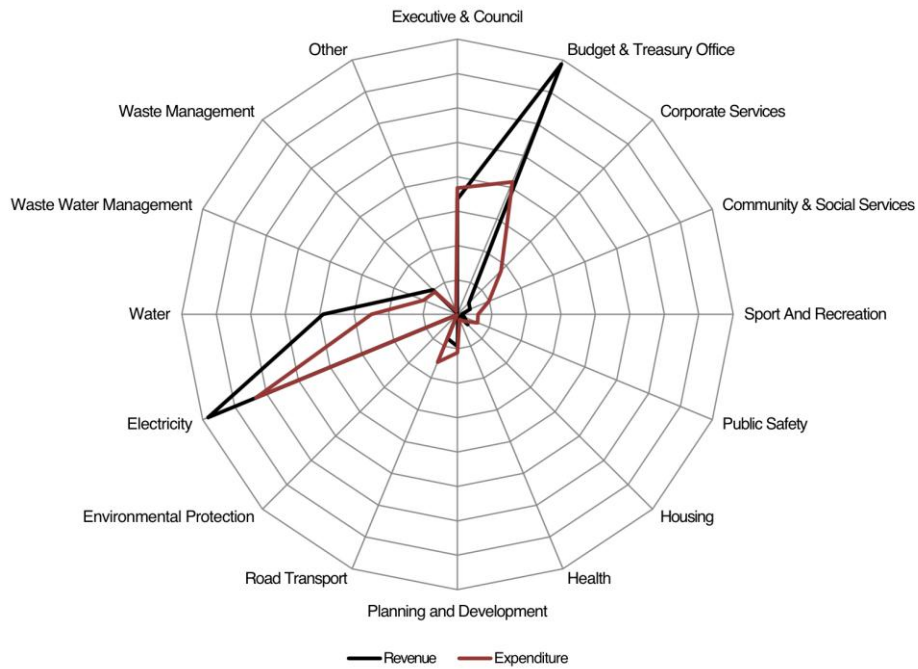
**Limpopo operating revenue and expenditure
by standard classification, 2013/14**



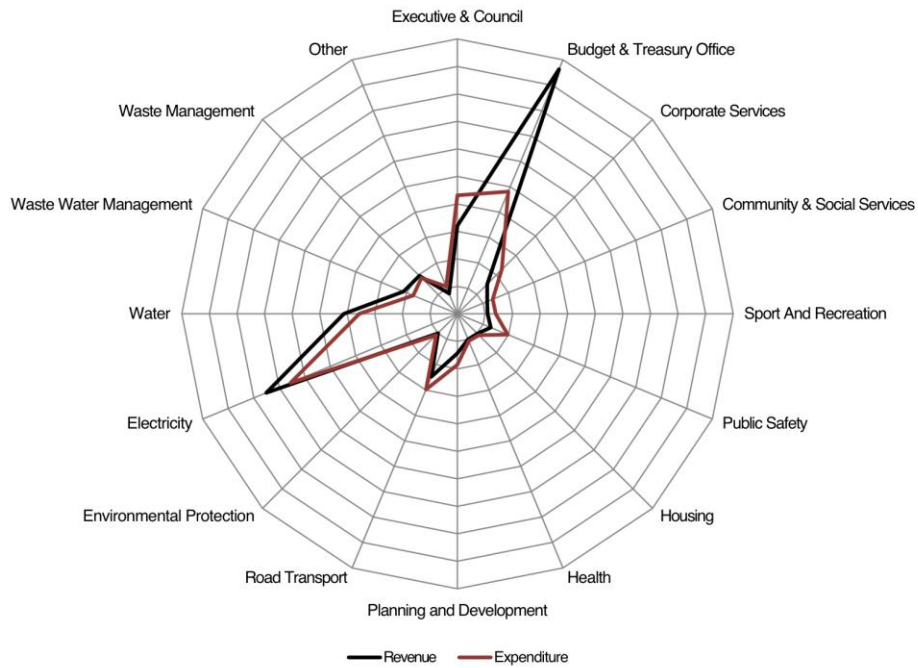
Mpumalanga operating revenue and expenditure by standard classification, 2013/14



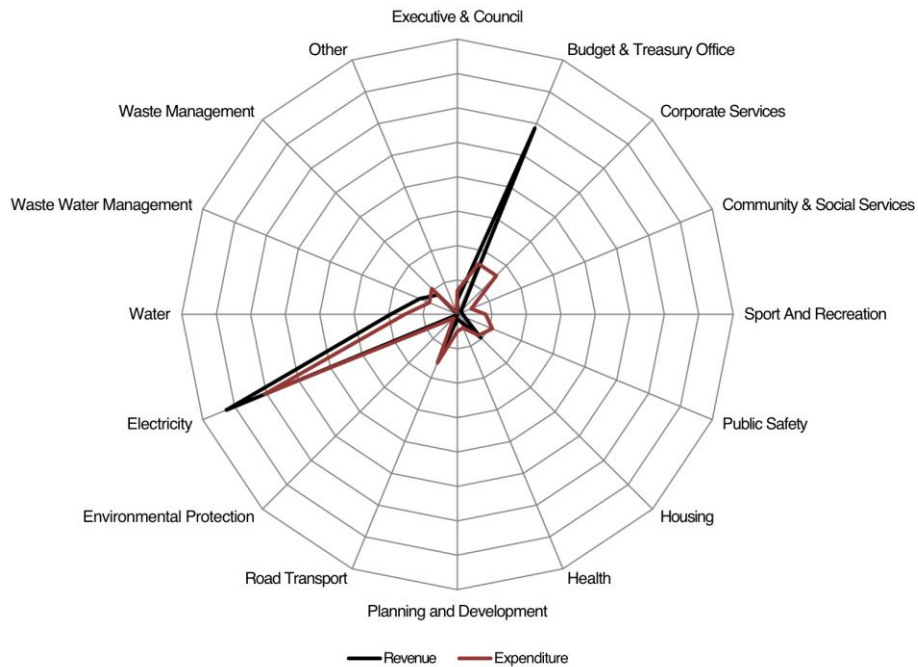
Northern Cape operating revenue and expenditure by standard classification, 2013/14



North West operating revenue and expenditure by standard classification, 2013/14



Western Cape operating revenue and expenditure by standard classification, 2013/14



Planned capital expenditure, 2013/14

