



Press release: local government adopted operating and capital budgets for 2014/15 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 2014/15 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 2014/15 financial year and over the medium term period, information per category of municipality and information per province. Highlights include:

- *In aggregate, budgeted revenue for 2014/15 is R310 billion, which is expected to increase to R331.7 billion in 2015/16 and R352 billion in 2016/17.*
- *Total municipal expenditure in 2014/15 is estimated to be R336.3 billion, increasing to R355.6 billion in 2015/16 and R374 billion in 2016/17. Expenditure for 2014/15 is 19.4 per cent higher than the 2013/14 MTREF.*
- *In the 2014/15 financial year, a net deficit of R645.5 million is expected, a position that is expected to improve significantly to reflect surpluses of R1.4 billion and R1.6 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 R131 billion in 2013/14 to R142 billion in 2014/15. In 2014/15 this equates to just over half the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R84.2 billion of the aggregated operating expenditure of R273.8 billion or 30.8 per cent. Bulk purchases are expected to grow to R96.9 billion by 2016/17 representing 31.2 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 been institutionalised as part of Section 71 in-year reporting. R19.4 billion will be allocated in 2014/15 to repairs and maintenance of assets from operating expenditure. This will increase to R21.1 billion in 2015/16 and R22.9 billion in 2016/17.*

- *Capital expenditure has increased by 10.8 per cent compared to the 2013/14 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 18.6 per cent in 2014/15, 18.4 per cent in 2015/16 and 17 per cent in 2016/17.*
- *Total capital expenditure for 2014/15 is R62.5 billion and comprises R27.8 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will increase to R30.5 billion and decrease to R29 billion in the outer years of the MTREF.*
- *The 2014/15 capital budget reflects a R42.5 billion investment in new infrastructure which is 68 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R20 billion or 32 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 2014/15 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 206 municipalities managed to achieve this reconciliation last year, this year the budgets of 249 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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NOTE TO EDITORS:

- Section 24(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA) requires the Accounting Officer of a municipality to submit the municipality's adopted annual budget to National Treasury and the relevant provincial treasury once approved by the Council.
- The publication of annual municipal budgets is a continuation of efforts by the National Treasury to disseminate as much local government financial information as possible in the public domain. The information and financial data that is the subject of this publication contain national aggregated municipal budget amounts for the 2014/15, 2015/16 and 2016/17 financial years for all municipalities and are summarized in a variety of ways including analyses per municipal category and per province.
- This information is deemed to be critical for policy makers, researchers and sector specialists. It is anticipated that the dissemination of this information will assist in improving municipal accountability and will also serve as the basis for strengthening the In-year Monitoring and Reporting System (IYM)(Section 71 of the MFMA).
- In terms of the process, Municipal Managers and Chief Financial Officers are required to submit their adopted budgets and supporting schedules as well as budget related electronic returns to the National Treasury by the latest 30 October 2014. Any queries on the figures in these statements should therefore be referred to the relevant Municipal Manager or Chief Financial Officer.
- A municipal budget must be funded in terms of Section 18 of the MFMA before a municipal Council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year and cash backed surpluses of previous years. It is a common practice amongst most municipalities when preparing their annual budgets to overstate or inflate revenue projections, either to reflect a surplus or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Hence, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue and therefore finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
- This 2014 MTREF publication covers 277 municipalities.

The full list of information published:

- Aggregated/consolidated municipal 2014/15 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 2012/13.

HIGH LEVEL ANALYSIS OF THE 2014/15 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 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 2014/15 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

Table 1: Aggregated Operating and Capital budgets, 2013/14 - 2016/17

Description	Original Budget 2013/14	2014/15 Medium Term Revenue & Expenditure Framework		
		2014/15	2015/16	2016/17
R thousands				
Total Revenue	284 848 218	310 040 555	331 689 870	351 976 306
Total Expenditure	306 761 932	336 319 609	355 567 321	374 024 889
Surplus / (deficit)	(21 913 714)	(26 279 054)	(23 877 451)	(22 048 583)
FINANCING:				
External loans / borrowing	9 728 855	12 038 295	11 705 153	9 865 599
Internally generated funds ¹	11 547 221	13 595 288	13 593 816	13 825 575
Total financing	21 276 076	25 633 583	25 298 969	23 691 174
Net surplus / (deficit)	(637 638)	(645 471)	1 421 518	1 642 591

Source: National Treasury Local Government Database

2. Total revenue is estimated to be R310 billion, R331.7 billion and R352 billion while total expenditure estimates are R336.3 billion, R355.6 billion and R374 billion for each of the respective financial years of the 2014/15 Medium-term Revenue and Expenditure Framework (MTREF).
3. 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).
4. Over the MTREF period municipalities intend raising external loans (borrowing) of R33.6 billion to fund infrastructure development while contributing R41 billion through internally generated funding.
5. Purely from an operational point of view, municipalities are starting to show positive trends in that they plan for enough revenue to be generated to cover their operational expenses. In 2014/15 the operational deficit is R645.5 million which has increased to a surplus in the outer two years. This is positive as it indicates that municipalities are expecting to recover operational expenses through revenue raised.
6. 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.

Table 2: Consolidated budget summary for all municipalities for the 2014 MTREF

Description	Current year	2014/15 Medium Term Revenue & Expenditure Framework		
	2013/14 Original Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
R thousands				
Financial Performance				
Property rates	38 973 039	44 896 421	47 941 885	51 363 706
Service charges	131 035 206	141 652 526	152 485 522	164 228 390
Investment revenue	2 437 447	2 872 373	2 961 799	3 166 660
Transfers recognised - operational	51 763 065	57 345 915	62 157 714	65 817 553
Other own revenue	25 497 772	26 368 373	26 117 212	27 587 897
Total Revenue (excluding capital transfers and contributions)	249 706 529	273 135 608	291 664 132	312 164 206
Employee costs	67 591 165	73 572 208	78 298 140	83 646 167
Remuneration of councillors	3 027 663	3 299 040	3 486 383	3 764 119
Depreciation & asset impairment	19 486 278	22 946 162	24 606 537	26 346 337
Finance charges	6 661 977	7 397 716	8 074 129	8 739 716
Materials and bulk purchases	79 055 936	84 197 121	90 236 167	96 916 828
Transfers and grants	5 617 428	5 949 859	5 828 497	6 144 145
Other expenditure	68 903 719	76 418 973	79 712 762	85 051 580
Total Expenditure	250 344 167	273 781 079	290 242 614	310 608 891
Surplus/(Deficit)	(637 638)	(645 471)	1 421 518	1 555 315
Transfers recognised - capital	31 151 522	34 280 185	36 779 207	38 756 309
Contributions recognised - capital & contributed assets	253 686	67 846	(135 900)	(418 525)
Surplus/(Deficit) after capital transfers & contributions	30 767 570	33 702 560	38 064 826	39 893 099
Share of surplus/ (deficit) of associate	17 937	-	-	-
Surplus/(Deficit) for the year	30 785 507	33 702 560	38 064 826	39 893 099
Capital expenditure & funds sources				
Capital expenditure	56 417 766	62 538 530	65 324 707	63 415 998
Transfers recognised - capital	33 515 488	35 463 691	38 860 157	38 749 395
Public contributions & donations	1 626 202	1 441 256	1 165 581	1 062 705
Borrowing	9 728 855	12 038 295	11 705 153	9 865 599
Internally generated funds	11 547 221	13 595 288	13 593 816	13 738 299
Total sources of capital funds	56 417 766	62 538 530	65 324 707	63 415 998

Source: National Treasury Local Government database

7. It needs to be noted that municipalities are on the 'accrual' basis of accounting and as a result the operating statement of financial performance represents the intended billings and other revenue receipts and not actual collections (cash in the bank). The degree to which billings and other revenue translate into actual cash is highly dependent on the management of the municipal revenue value chain and credit control processes.

Aggregated operating and capital budget per municipal category

Table 3: Aggregated Operating and Capital revenue per category, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	28 633 130	152 203 193	180 836 323	34 559 540	164 909 781	199 469 321	35 917 136	176 489 625	212 406 761	35 370 584	189 914 780	225 285 364
Category B	20 019 198	82 451 347	102 470 545	19 872 550	90 927 095	110 799 646	19 930 186	97 168 929	117 099 115	18 728 828	103 780 131	122 508 959
Category C	7 765 439	15 051 988	22 817 427	8 106 439	17 298 732	25 405 171	9 477 386	18 005 578	27 482 963	9 316 585	18 469 295	27 785 881
Total	56 417 766	249 706 529	306 124 294	62 538 530	273 135 608	335 674 138	65 324 707	291 664 132	356 988 839	63 415 998	312 164 206	375 580 204
Less												
External loans / borrowing	9 728 855	-	9 728 855	12 038 295	-	12 038 295	11 705 153	-	11 705 153	9 865 599	-	9 865 599
Internally generated funds	11 547 221	-	11 547 221	13 595 288	-	13 595 288	13 593 816	-	13 593 816	13 738 299	-	13 738 299
Total revenue	35 141 690	249 706 529	284 848 218	36 904 947	273 135 608	310 040 555	40 025 738	291 664 132	331 689 870	39 812 100	312 164 206	351 976 306
% of total revenue¹												
Category A	9.4%	49.7%	59.1%	10.3%	49.1%	59.4%	10.1%	49.4%	59.5%	9.4%	50.6%	60.0%
Category B	6.5%	26.9%	33.5%	5.9%	27.1%	33.0%	5.6%	27.2%	32.8%	5.0%	27.6%	32.6%
Category C	2.5%	4.9%	7.5%	2.4%	5.2%	7.6%	2.7%	5.0%	7.7%	2.5%	4.9%	7.4%

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

8. Table 3 shows the aggregated budgeted revenue by category of municipality over the 2014 MTREF period. In aggregate, the budgeted revenue for 2014/15 has increased by 23.6 per cent from R284.8 billion in 2013/14 to R352 billion in 2016/17; operating revenue increased by 25 per cent while capital growth is 13.3 per cent when compared to 2013/14. The increase in operating revenue appears to be over optimistic given the current economic climate.
9. In the outer years of the 2014 MTREF period, aggregated growth is 7 per cent and 6.1 per cent respectively. Capital expenditure increases by 8.5 in 2015/16 and then decreases by 0.5 per cent in 2015/16, indicating some erratic capital planning in the outer years.
10. Total gross revenue raised by Category A (metros) municipalities accounts for 59.4 per cent of the total aggregated revenue in 2014/15. This increases to 60 per cent by 2016/17 indicating that the eight metros account for slightly less than two-thirds of total aggregated revenue raised by local government; this supports the notion that metros have a larger fiscal capacity (ability to raise/bill revenue) when compared to other categories of municipalities.
11. The percentage share of total aggregated revenue for Category B and C municipalities starts to decline slightly over the 2014 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 32.8 per cent of total aggregated revenue while category C (districts) municipalities contribute approximately 7.6 per cent.
12. District municipalities are primarily funded from the National fiscus and are highly grant dependent 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.
13. Table 4 shows the total budgeted expenditure by category of municipality over the 2014 MTREF period. In aggregate, budgeted municipal expenditure has grown by 9.6 per cent from R306.8 billion in 2013/14 to R336.3 billion in the 2014/15 financial year; growth in operating expenditure contributed 9.4 per cent while growth in capital expenditure is 10.8 per cent.

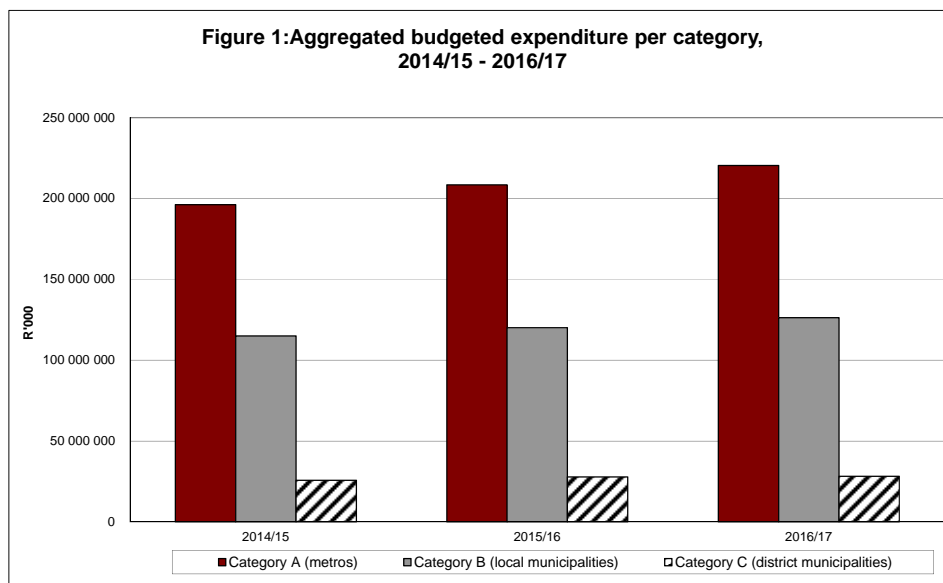
Table 4: Aggregated Operating and Capital expenditure per category, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	28 633 130	149 941 555	178 574 685	34 559 540	161 615 536	196 175 076	35 917 136	172 437 876	208 355 011	35 370 584	185 017 348	220 387 932
Category B	20 019 198	85 363 028	105 382 225	19 872 550	95 104 028	114 976 578	19 930 186	100 120 885	120 051 071	18 728 828	107 461 997	126 190 824
Category C	7 765 439	15 590 467	23 355 906	8 106 439	17 590 320	25 696 759	9 477 386	18 332 641	27 810 027	9 316 585	18 858 599	28 175 184
Total	56 417 766	250 895 050	307 312 815	62 538 530	274 309 884	336 848 414	65 324 707	290 891 401	356 216 108	63 415 998	311 337 943	374 753 941
Less												
Taxation	-	550 883	550 883	-	528 805	528 805	-	648 787	648 787	-	729 052	729 052
Total expenditure	56 417 766	250 344 167	306 761 932	62 538 530	273 781 079	336 319 609	65 324 707	290 242 614	355 567 321	63 415 998	310 608 891	374 024 889
% of total expenditure¹												
Category A	9.3%	48.8%	58.1%	10.3%	48.0%	58.2%	10.1%	48.4%	58.5%	9.4%	49.4%	58.8%
Category B	6.5%	27.8%	34.3%	5.9%	28.2%	34.1%	5.6%	28.1%	33.7%	5.0%	28.7%	33.7%
Category C	2.5%	5.1%	7.6%	2.4%	5.2%	7.6%	2.7%	5.1%	7.8%	2.5%	5.0%	7.5%

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

14. Capital budgets for Category A and C municipalities are increasing over the MTREF with metros capital spending rising from R34.6 billion in 2014/15 to R35.4 billion by 2016/17 and districts increasing from R8.1 billion to R9.3 billion over the same period. The decrease in capital infrastructure spending by Category B municipalities is concerning - decreasing from R19.9 billion to R18.7 billion over the MTREF.



15. The total expenditure budget of the eight metros as a share of the total local government budget for the 2014/15 financial year constitutes 58.2 per cent, whereas local municipalities represent 34.1 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 an estimated 58.8 per cent to total expenditure by 2016/17.
16. Aggregated capital expenditure represents 18.6 per cent in 2014/15, 18.4 per cent in 2015/16 and 17 per cent in 2016/17 of the overall budget of municipalities. The split between capital and operational expenditure remains relatively stable over the 2014 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.
17. Operating expenditure in aggregate represents 81.4 per cent in 2014/15 and increases to 81.7 per cent in 2015/16 and 83.1 per cent in 2016/17 of the overall budget of municipalities.

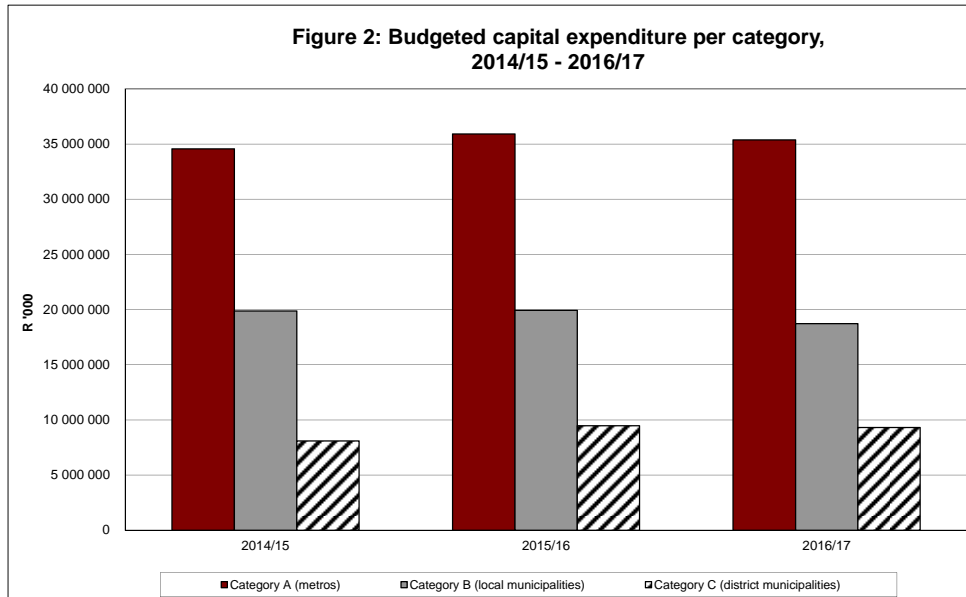
Detailed capital expenditure and funding

Table 5: Budgeted capital expenditure and funding, 2013/14 - 2016/17

R thousands	Original Budget 2013/14	2014/15 Medium Term Revenue & Expenditure Framework		
		2014/15	2015/16	2016/17
Capital Expenditure - Standard Classification				
<i>Governance and Administration</i>	5 389 660	6 206 166	4 326 682	4 132 702
<i>Community and Public Safety</i>	7 506 846	9 210 964	9 503 405	9 555 089
<i>Economic and Environmental Services</i>	17 300 928	19 063 409	20 731 234	20 457 955
<i>Trading Services</i>	25 863 231	27 787 674	30 472 013	29 011 869
Electricity	7 509 445	8 442 286	9 268 350	8 341 597
Water	10 850 824	12 281 433	14 269 865	13 766 391
Waste Water Management	6 350 792	5 582 702	5 638 666	5 677 120
Waste Management	1 152 170	1 481 253	1 295 131	1 226 761
<i>Other</i>	357 100	270 317	291 373	258 382
Total Capital Expenditure	56 417 766	62 538 530	65 324 707	63 415 998
<i>Of which</i>				
Total New Assets	39 109 700	42 523 553	45 643 608	44 463 591
Total Renewal of Existing Assets	17 308 066	20 014 977	19 681 100	18 952 407
Total Capital Expenditure	56 417 766	62 538 530	65 324 707	63 415 998
Funded by:				
National Government	31 133 642	33 137 189	36 762 049	36 664 894
Provincial Government	2 093 265	1 945 829	1 823 537	1 831 677
District Municipality	120 865	82 349	19 923	22 726
Other transfers and grants	167 716	298 324	254 648	230 098
Transfers recognised - capital	33 515 488	35 463 691	38 860 157	38 749 395
Public contributions and donations	1 626 202	1 441 256	1 165 581	1 062 705
Borrowing	9 728 855	12 038 295	11 705 153	9 865 599
Internally generated funds	11 547 221	13 595 288	13 593 816	13 738 299
Total Capital Funding	56 417 766	62 538 530	65 324 707	63 415 998
Repairs and Maintenance by Asset Class				
Infrastructure - Road Transport	2 879 463	3 811 662	4 147 025	4 291 304
Infrastructure - Electricity	2 936 975	3 741 892	4 033 044	4 398 877
Infrastructure - Water	2 164 299	2 686 612	2 929 304	3 169 804
Infrastructure - Sanitation	1 193 790	1 406 486	1 498 260	1 628 003
Infrastructure - Other	279 159	364 445	388 169	434 026
Infrastructure	9 453 687	12 011 097	12 995 802	13 922 014
Community	773 143	1 309 224	1 422 317	1 330 862
Heritage assets	147 116	248 950	260 867	276 298
Investment properties	26 629	26 820	31 675	34 024
Other assets	3 733 375	5 845 148	6 372 183	7 346 520
Total Repairs and Maintenance	14 133 951	19 441 239	21 082 843	22 909 718

Source: National Treasury Local Government Database

18. The 2014/15 capital budget reflects a R42.5 billion investment in new infrastructure which is 68 per cent of the total aggregated capital budget; 1.3 per cent less than in 2013/14. Investment in the renewal of existing assets is appropriated at R20 billion or 32 per cent of the capital budget.
19. Monthly reporting on operational repairs and maintenance figures has now been institutionalized as part of Section 71 in-year reporting framework. R19.4 billion will be allocated in 2014/15 to repairs and maintenance of assets from operating expenditure. This will increase to R21.1 billion and R22.9 billion in the two outer years of the MTREF period.



Aggregated operating and capital budget per municipality per province

20. Table 6 and 7 show the aggregated budgeted revenue and expenditure by province over the 2014 MTREF period.
21. A provincial analysis reveals that Gauteng with 12 municipalities (including three metros and two secondary cities) has the highest capital budget for 2014/15 estimated at R20.3 billion or 32.5 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 R12.2 billion or 19.4 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R8.4 billion or 13.4 per cent. This trend remains unchanged over the duration of the MTREF.
22. The national per capita spending average is estimated to be R6 507 in 2014/15. Only two provinces will exceed this national average in 2014/15, namely Gauteng at R9 731 per capita and Western Cape at R8 609 per capita. The trend line suggests increases over the MTREF reaching R7 239 per capita by 2016/17.
23. The high per capita spending in the Gauteng and Western Cape provinces are probably due to the fact that both of these provinces are home to a significant proportion of the country's economic activity – this tends to increase 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 and there are a higher proportion of affluent households.
24. It should also be noted that this calculation is based on the Census 2011.

Table 6: Aggregated Operating and Capital revenue for municipalities per provinces, 2013/1415 - 2016/17

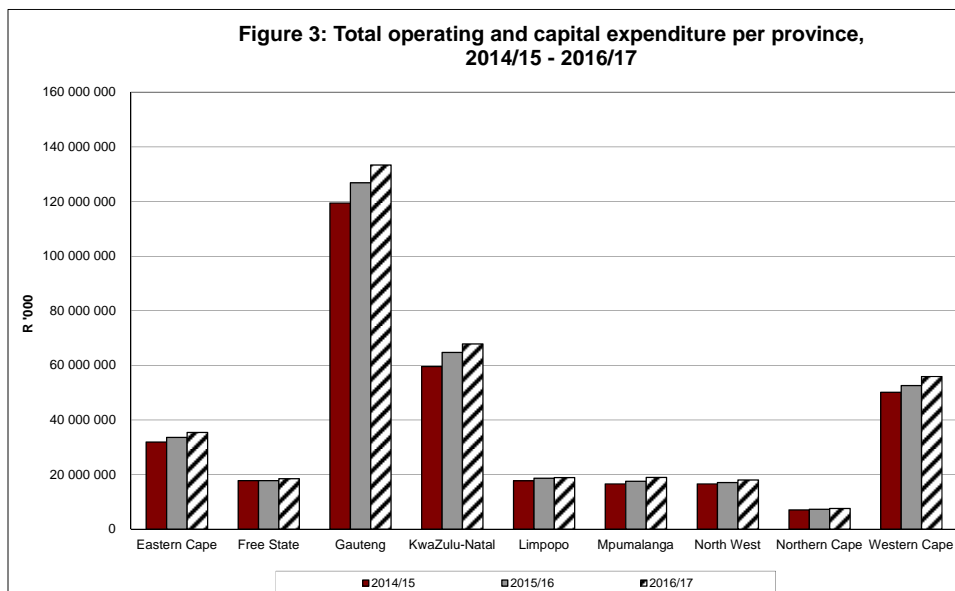
R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	5 701 780	22 110 174	27 811 954	6 235 936	25 104 509	31 340 445	6 449 417	26 344 364	32 793 781	6 734 586	28 049 111	34 783 697
Free State	2 589 748	13 837 577	16 427 325	2 798 318	14 704 060	17 502 378	2 598 952	15 053 272	17 652 223	2 339 058	15 826 127	18 165 185
Gauteng	16 260 677	94 241 121	110 501 798	20 322 740	101 773 948	122 096 688	21 600 293	108 687 803	130 288 096	20 447 448	116 725 301	137 172 749
Kw aZulu-Natal	11 886 117	43 245 023	55 131 140	12 159 418	47 002 411	59 161 829	13 838 217	50 492 132	64 330 350	13 720 918	53 659 558	67 380 476
Limpopo	4 891 792	10 709 857	15 601 649	5 517 700	12 342 134	17 859 835	5 661 215	13 583 183	19 244 398	5 596 702	13 949 833	19 546 535
Mpumalanga	2 981 370	11 404 454	14 385 824	2 689 339	12 325 973	15 015 312	3 287 787	13 099 945	16 387 732	2 689 494	14 899 935	17 589 429
North West	3 368 513	11 479 148	14 847 661	3 114 416	12 932 286	16 046 702	2 910 204	13 993 368	16 903 572	3 085 530	14 869 956	17 955 486
Northern Cape	1 254 732	4 896 737	6 151 469	1 327 217	5 749 253	7 076 470	1 257 798	6 097 507	7 355 304	1 249 359	6 394 338	7 643 698
Western Cape	7 483 037	37 782 437	45 265 474	8 373 447	41 201 034	49 574 481	7 720 825	44 312 558	52 033 383	7 552 902	47 790 047	55 342 948
Total	56 417 766	249 706 529	306 124 294	62 538 530	273 135 608	335 674 138	65 324 707	291 664 132	356 988 839	63 415 998	312 164 206	375 580 204
Less												
External loans / borrowing	9 728 855	-	9 728 855	12 038 295	-	12 038 295	11 705 153	-	11 705 153	9 865 599	-	9 865 599
Internally generated funds	11 547 221	-	11 547 221	13 595 288	-	13 595 288	13 593 816	-	13 593 816	13 738 299	-	13 738 299
Total revenue	35 141 690	249 706 529	284 848 218	36 904 947	273 135 608	310 040 555	40 025 738	291 664 132	331 689 870	39 812 100	312 164 206	351 976 306

Source: National Treasury Local Government Database

Table 7: Aggregated Operating and Capital expenditure for municipalities per provinces, 2013/14 - 2016/17

R thousand	Census 2011	2013/14			2014/15			2015/16			2016/17		
		Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 562 053	5 701 780	22 668 004	28 369 783	6 235 936	25 708 955	31 944 890	6 449 417	27 166 842	33 616 259	6 734 586	28 715 689	35 450 275
Free State	2 745 589	2 589 748	13 823 478	16 413 226	2 798 318	15 018 423	17 816 741	2 598 952	15 209 930	17 808 881	2 339 058	16 193 975	18 533 034
Gauteng	12 272 264	16 260 677	92 301 495	108 562 171	20 322 740	99 098 417	119 421 157	21 600 293	105 248 637	126 848 929	20 447 448	112 895 838	133 343 287
Kw aZulu-Natal	10 267 303	11 886 117	42 934 713	54 820 829	12 159 418	47 400 433	59 559 851	13 838 217	50 874 937	64 713 155	13 720 918	54 166 042	67 886 961
Limpopo	5 404 868	4 891 792	11 028 476	15 920 267	5 517 700	12 202 675	17 720 376	5 661 215	13 024 386	18 685 601	5 596 702	13 354 081	18 950 783
Mpumalanga	4 039 938	2 981 370	12 967 066	15 948 436	2 689 339	13 903 085	16 592 424	3 287 787	14 253 282	17 541 069	2 689 494	16 279 468	18 968 962
North West	3 509 954	3 368 513	11 511 051	14 879 565	3 114 416	13 482 587	16 597 003	2 910 204	14 170 856	17 081 061	3 085 530	14 962 772	18 048 302
Northern Cape	1 145 860	1 254 732	5 171 249	6 425 981	1 327 217	5 740 986	7 068 202	1 257 798	6 073 594	7 331 391	1 249 359	6 385 226	7 634 586
Western Cape	5 822 735	7 483 037	38 489 518	45 972 556	8 373 447	41 754 323	50 127 770	7 720 825	44 868 937	52 589 762	7 552 902	48 384 851	55 937 753
Total	51 770 564	56 417 766	250 895 050	307 312 815	62 538 530	274 309 884	336 848 414	65 324 707	290 891 401	356 216 108	63 415 998	311 337 943	374 753 941
Less													
Taxation		-	550 883	550 883	-	528 805	528 805	-	648 787	648 787	-	729 052	729 052
Total expenditure		56 417 766	250 344 167	306 761 932	62 538 530	273 781 079	336 319 609	65 324 707	290 242 614	355 567 321	63 415 998	310 608 891	374 024 889
Per capita spending													
Eastern Cape		869	3 454	4 323	950	3 918	4 868	983	4 140	5 123	1 026	4 376	5 402
Free State		943	5 035	5 978	1 019	5 470	6 489	947	5 540	6 486	852	5 898	6 750
Gauteng		1 325	7 521	8 846	1 656	8 075	9 731	1 760	8 576	10 336	1 666	9 199	10 865
Kw aZulu-Natal		1 158	4 182	5 339	1 184	4 617	5 801	1 348	4 955	6 303	1 336	5 276	6 612
Limpopo		905	2 040	2 946	1 021	2 258	3 279	1 047	2 410	3 457	1 035	2 471	3 506
Mpumalanga		738	3 210	3 948	666	3 441	4 107	814	3 528	4 342	666	4 030	4 695
North West		960	3 280	4 239	887	3 841	4 729	829	4 037	4 866	879	4 263	5 142
Northern Cape		1 095	4 513	5 608	1 158	5 010	6 168	1 098	5 300	6 398	1 090	5 572	6 663
Western Cape		1 285	6 610	7 895	1 438	7 171	8 609	1 326	7 706	9 032	1 297	8 310	9 607
Total		1 090	4 846	5 936	1 208	5 299	6 507	1 262	5 619	6 881	1 225	6 014	7 239

Source: National Treasury Local Government Database, StatsSA Census 2011



Aggregated operating and capital budget for metros

25. The aggregated budgeted revenue for all metros over the 2014/15 MTREF period is contained in Table 8. Total revenue amounts to R199.5 billion in 2014/15, R212.4 billion in 2015/16 and R225.3 billion in 2016/17, reflecting a total increase of 6.7 and 7.2 per cent in the two outer years of the MTREF.

26. 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 Johannesburg topping the list at 25.2 per cent for 2014/15 followed by the Cape Town at 17.4 per cent and eThekweni at 16.3 per cent. Two metros, namely Mangaung and Buffalo City are comparatively small with total revenue at 3.9 and 2.9 per cent respectively.

Table 8: Aggregated Operating and Capital revenue for metros, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	751 242	4 445 168	5 196 410	942 007	4 758 546	5 700 553	1 024 127	5 244 540	6 268 667	1 069 226	5 767 905	6 837 131
Cape Town	5 450 592	25 943 339	31 393 932	6 211 315	28 436 210	34 647 526	5 665 607	30 800 786	36 466 392	5 474 467	33 439 241	38 913 708
Ekurhuleni Metro	2 980 933	24 767 643	27 748 575	3 790 366	26 310 701	30 101 067	4 248 101	28 220 667	32 468 768	4 252 042	30 413 603	34 665 645
eThekweni	5 466 767	25 197 750	30 664 517	5 711 022	26 725 375	32 436 397	6 529 931	28 640 024	35 169 955	7 109 357	30 664 210	37 773 567
City Of Johannesburg	7 595 073	36 770 044	44 365 117	10 875 150	39 307 283	50 182 433	11 439 195	42 104 090	53 543 285	10 372 959	44 908 077	55 281 036
Mangaung	865 989	5 507 375	6 373 364	1 469 463	6 312 594	7 782 057	1 403 124	6 737 563	8 140 687	1 180 180	7 144 787	8 324 966
Nelson Mandela Bay	1 177 277	7 399 879	8 577 156	1 392 230	8 119 588	9 511 818	1 522 051	8 340 571	9 862 622	1 597 368	8 974 125	10 571 493
City Of Tshwane	4 345 256	22 171 995	26 517 252	4 167 987	24 939 484	29 107 471	4 085 000	26 401 384	30 486 384	4 314 986	28 602 832	32 917 818
Total	28 633 130	152 203 193	180 836 323	34 559 540	164 909 781	199 469 321	35 917 136	176 489 625	212 406 761	35 370 584	189 914 780	225 285 364
Less												
External loans / borrowing	7 284 901	-	7 284 901	9 728 929	-	9 728 929	10 010 415	-	10 010 415	8 469 101	-	8 469 101
Internally generated funds	6 561 059	-	6 561 059	8 446 805	-	8 446 805	8 943 152	-	8 943 152	9 418 960	-	9 418 960
Total revenue	14 787 170	152 203 193	166 990 363	16 383 807	164 909 781	181 293 588	16 963 569	176 489 625	193 453 194	17 482 524	189 914 780	207 397 303
% of total revenue												
Buffalo City	0.4%	2.5%	2.9%	0.5%	2.4%	2.9%	0.5%	2.5%	3.0%	0.5%	2.6%	3.0%
Cape Town	3.0%	14.3%	17.4%	3.1%	14.3%	17.4%	2.7%	14.5%	17.2%	2.4%	14.8%	17.3%
Ekurhuleni Metro	1.6%	13.7%	15.3%	1.9%	13.2%	15.1%	2.0%	13.3%	15.3%	1.9%	13.5%	15.4%
eThekweni	3.0%	13.9%	17.0%	2.9%	13.4%	16.3%	3.1%	13.5%	16.6%	3.2%	13.6%	16.8%
City Of Johannesburg	4.2%	20.3%	24.5%	5.5%	19.7%	25.2%	5.4%	19.8%	25.2%	4.6%	19.9%	24.5%
Mangaung	0.5%	3.0%	3.5%	0.7%	3.2%	3.9%	0.7%	3.2%	3.8%	0.5%	3.2%	3.7%
Nelson Mandela Bay	0.7%	4.1%	4.7%	0.7%	4.1%	4.8%	0.7%	3.9%	4.6%	0.7%	4.0%	4.7%
City Of Tshwane	2.4%	12.3%	14.7%	2.1%	12.5%	14.6%	1.9%	12.4%	14.4%	1.9%	12.7%	14.6%

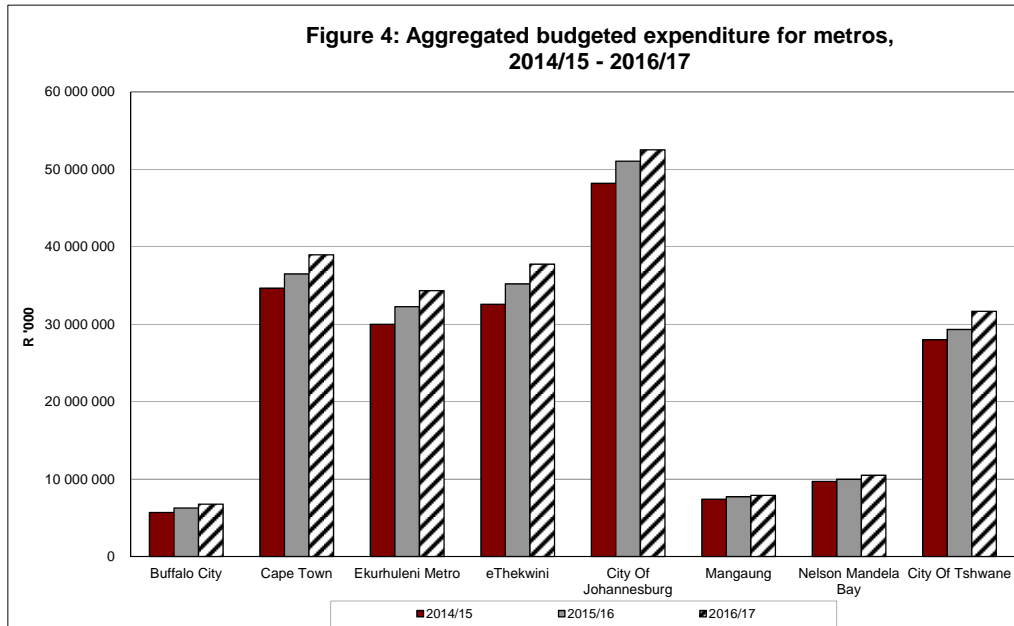
Source: National Treasury Local Government Database

27. The capital budget of the metros constitutes 55.3 per cent of the total municipal capital budget for 2014/15 and increases to 55.8 per cent of total municipal capital expenditure by 2016/17. This is about 4.5 per cent higher than the previous year and highlights the overall importance of the metros in the driving economic growth and job creation as metros are widely considered growth engines of the economy.

Table 9: Aggregated Operating and Capital expenditure for metros, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	751 242	4 514 281	5 265 524	942 007	4 746 905	5 688 913	1 024 127	5 242 997	6 267 124	1 069 226	5 698 701	6 767 927
Cape Town	5 450 592	26 144 082	31 594 675	6 211 315	28 438 211	34 649 526	5 665 607	30 821 393	36 487 000	5 474 467	33 496 372	38 970 838
Ekurhuleni Metro	2 980 933	24 633 937	27 614 870	3 790 366	26 194 817	29 985 183	4 248 101	28 033 383	32 281 483	4 252 042	30 071 966	34 324 008
eThekweni	5 466 767	24 976 074	30 442 841	5 711 022	26 853 285	32 564 307	6 529 931	28 684 601	35 214 532	7 109 357	30 639 577	37 748 934
City Of Johannesburg	7 595 073	34 511 800	42 106 873	10 875 150	37 311 926	48 187 076	11 439 195	39 623 969	51 063 164	10 372 959	42 149 187	52 522 146
Mangaung	865 989	5 368 473	6 234 462	1 469 463	5 924 047	7 393 510	1 403 124	6 328 635	7 731 759	1 180 180	6 710 036	7 890 215
Nelson Mandela Bay	1 177 277	7 620 913	8 798 190	1 392 230	8 306 387	9 698 618	1 522 051	8 460 267	9 982 318	1 597 368	8 899 249	10 496 617
City Of Tshwane	4 345 256	22 171 995	26 517 252	4 167 987	23 839 956	28 007 943	4 085 000	25 242 631	29 327 631	4 314 986	27 352 261	31 667 247
Total	28 633 130	149 941 555	178 574 685	34 559 540	161 615 536	196 175 076	35 917 136	172 437 876	208 355 011	35 370 584	185 017 348	220 387 932
Less												
Taxation	-	550 871	550 871	-	528 805	528 805	-	648 787	648 787	-	729 052	729 052
Total revenue	28 633 130	149 390 684	178 023 814	34 559 540	161 086 731	195 646 271	35 917 136	171 789 089	207 706 224	35 370 584	184 288 296	219 658 880
% of total expenditure												
Buffalo City	0.4%	2.5%	2.9%	0.5%	2.4%	2.9%	0.5%	2.5%	3.0%	0.5%	2.6%	3.1%
Cape Town	3.1%	14.6%	17.7%	3.2%	14.5%	17.7%	2.7%	14.8%	17.5%	2.5%	15.2%	17.7%
Ekurhuleni Metro	1.7%	13.8%	15.5%	1.9%	13.4%	15.3%	2.0%	13.5%	15.5%	1.9%	13.6%	15.6%
eThekweni	3.1%	14.0%	17.0%	2.9%	13.7%	16.6%	3.1%	13.8%	16.9%	3.2%	13.9%	17.1%
City Of Johannesburg	4.3%	19.3%	23.6%	5.5%	19.0%	24.6%	5.5%	19.0%	24.5%	4.7%	19.1%	23.8%
Mangaung	0.5%	3.0%	3.5%	0.7%	3.0%	3.8%	0.7%	3.0%	3.7%	0.5%	3.0%	3.6%
Nelson Mandela Bay	0.7%	4.3%	4.9%	0.7%	4.2%	4.9%	0.7%	4.1%	4.8%	0.7%	4.0%	4.8%
City Of Tshwane	2.4%	12.4%	14.8%	2.1%	12.2%	14.3%	2.0%	12.1%	14.1%	2.0%	12.4%	14.4%

Source: National Treasury Local Government Database



28. Operating expenditure by metros accounts for more than half (59 per cent in 2014/15) of total municipal operating expenditure over the 2014 MTREF.
29. Table 9 also shows that the City of Johannesburg, Cape Town and eThekweni have the largest capital budgets at 5.5, 3.2 and 2.9 per cent of the aggregated total budget for metros. They are followed by the City of Tshwane at 2.1 per cent. When Ekurhuleni Metropolitan Municipality is benchmarked against the mentioned metros their capital appropriations appear small at a mere 1.9 per cent in 2014/15 which remains at the same level through the MTREF.
30. The amount to be generated by metros through the sale (billing) of core municipal services is reflected in Table 10. The major drivers of revenue in 2014/15 are electricity (R62.7 billion), water (R17.6 billion), waste water management (R7.5 billion) and waste management (R5.4 billion). Over the MTREF, moderate increases are anticipated for electricity which is expected to grow by 8 per cent in 2015/16 and 7.5 per cent in 2016/17. 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.
31. Importantly over the MTREF this increased revenue does not directly supplement the funding of municipalities as it is offset against the increases associated with bulk purchases.

Table 10: Aggregated budgeted operating revenue for metros for functions, 2013/14 - 2016/17

	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
eThekwini	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	1 511 514	370 613	271 995	251 704
Cape Town	10 076 891	2 560 130	1 374 589	989 811
Ekurhuleni Metro	11 717 499	2 867 861	995 311	1 231 349
eThekwini	10 477 612	2 879 423	776 193	513 927
City Of Johannesburg	13 573 620	4 618 593	2 712 507	1 060 922
Mangaung	2 396 602	677 958	240 416	154 967
Nelson Mandela Bay	3 182 151	558 220	384 587	200 068
City Of Tshwane	9 714 755	3 071 955	737 535	996 597
Total revenue	62 650 644	17 604 753	7 493 133	5 399 347
2015/16				
Buffalo City	1 639 993	425 279	300 012	282 664
Cape Town	10 832 569	2 844 801	1 528 814	1 067 312
Ekurhuleni Metro	12 585 402	3 152 814	1 069 961	1 323 096
eThekwini	11 315 156	3 088 486	839 106	545 180
City Of Johannesburg	14 795 246	5 034 266	2 956 633	1 156 405
Mangaung	2 564 364	743 922	278 740	164 985
Nelson Mandela Bay	3 417 312	619 625	426 892	222 076
City Of Tshwane	10 490 995	3 351 129	795 470	1 094 420
Total revenue	67 641 038	19 260 320	8 195 628	5 856 138
2016/17				
Buffalo City	1 779 392	488 008	330 913	317 432
Cape Town	11 666 564	3 179 828	1 708 107	1 146 877
Ekurhuleni Metro	13 517 601	3 466 115	1 150 211	1 421 805
eThekwini	12 163 375	3 305 277	904 793	585 320
City Of Johannesburg	15 830 913	5 386 665	3 163 597	1 237 353
Mangaung	2 743 869	789 677	298 997	176 959
Nelson Mandela Bay	3 669 852	687 783	473 850	246 504
City Of Tshwane	11 329 357	3 652 195	857 987	1 180 415
Total revenue	72 700 922	20 955 548	8 888 454	6 312 664

Source: National Treasury Local Government Database

32. Table 11 provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R41.5 billion for the purchase of bulk electricity, with a more modest annual growth of 7.3 per cent and 7.6 per cent in the outer years of the MTREF when compared to the previous year's publication. This is well aligned to the multi-year price determination as approved by NERSA for Eskom and is in line with prescriptions of MFMA Budget Circular No. 72 issued on 17 March 2014. It is estimated that expenditure in relation to bulk purchases of electricity will be R48 billion by 2016/17.
33. 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 only 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.
34. In illustrating the above point, the increases associated with the sale of electricity in the two outer years of the MTREF are similar to the budgeted increases associated with bulk purchases.
35. 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 two-fold 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.

Table 11: Bulk purchase expenditure for metros for functions, 2013/14 - 2016/17

R thousand	Electricity				Water			
	2013/14	2014/15	2015/16	2016/17	2013/14	2014/15	2015/16	2016/17
Buffalo City	975 200	1 029 452	1 111 808	1 200 753	160 589	172 404	188 437	205 962
Cape Town	6 545 300	6 678 300	7 205 956	7 781 805	353 581	371 711	404 273	444 073
Ekurhuleni Metro	7 291 216	7 623 482	8 029 672	8 539 570	1 923 870	2 153 920	2 369 302	2 606 221
eThekweni	6 590 747	6 973 528	7 531 410	8 133 923	1 454 737	1 546 732	1 670 470	1 804 108
City Of Johannesburg	9 248 990	9 124 840	9 782 741	10 506 664	1 814 354	2 011 818	2 140 454	2 290 967
Mangaung	1 250 000	1 350 000	1 458 000	1 574 640	352 367	394 580	424 346	455 385
Nelson Mandela Bay	2 209 872	2 294 035	2 478 874	2 678 610	82 252	92 948	104 213	116 861
City Of Tshwane	6 079 638	6 457 148	6 974 158	7 532 577	1 476 220	1 672 122	1 825 988	1 993 255
Total expenditure	40 190 962	41 530 785	44 572 618	47 948 542	7 617 969	8 416 235	9 127 484	9 916 833

Source: National Treasury Local Government Database

36. Expenditure on bulk water amounts to R8.4 billion in 2014/15 and increases by 8.5 per cent in 2015/16 to R9.1 billion and 8.6 per cent in 2016/17 to R9.9 billion.

Aggregated operating and capital budget for secondary cities

37. Tables 12 and 13 depict the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2014 MTREF period.
38. The total budgeted revenue for secondary cities amounts to R42.1 billion in 2014/15 and increases to R48.1 billion by 2016/17.
39. The total expenditure budget of secondary cities amounts to R46.4 billion in 2014/15, R48.6 billion in 2015/16, and R51.5 billion in 2016/17 representing a growth of 4.9 per cent and 6 per cent in the two outer years of the MTREF, therefore one can conclude that they are budgeting for a deficit.
40. The growth in operating expenditure is expected to increase by 5.3 per cent in 2015/16 and by 7.2 per cent in 2016/17. Although municipalities are attempting to buffer the impact of the economic downturn through identifying operational expenditure efficiencies, these increases seem low when considering the cost drivers applicable to local government such as remuneration, bulk and material purchases.
41. Spending on capital by secondary cities over the MTREF is expected to remain constant over the MTREF at approximately R6.7 billion. This could be an indication that insufficient provision has been made for the eradication of backlogs and that own funding of the capital program from operational surpluses is not available.

Table 12: Aggregated Operating and Capital revenue for secondary cities, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	6 455 922	34 179 394	40 635 315	6 670 165	38 200 672	44 870 837	6 830 602	40 700 419	47 531 021	6 727 505	43 586 106	50 313 611
Matjhabeng	212 482	1 687 706	1 900 188	156 246	1 797 826	1 954 072	118 586	1 890 147	2 008 733	121 133	2 050 458	2 171 591
Emfuleni	326 104	4 341 394	4 667 498	408 425	4 708 536	5 116 961	711 960	5 036 743	5 748 703	603 935	5 359 761	5 963 697
Mogale City	220 582	1 858 064	2 078 645	483 996	2 001 308	2 485 304	633 302	2 140 667	2 773 969	493 628	2 297 080	2 790 708
Msunduzi	443 158	3 291 484	3 734 641	597 754	3 570 334	4 168 088	792 599	3 807 084	4 599 683	665 980	4 052 623	4 718 603
New castle	409 229	1 414 350	1 823 579	444 229	1 526 362	1 970 591	477 270	1 631 532	2 108 802	300 300	1 728 226	2 028 526
uMhlatuze	338 714	1 997 756	2 336 470	419 862	2 370 559	2 790 421	308 879	2 558 251	2 867 129	320 907	2 764 176	3 085 082
Polokwane	504 007	1 969 533	2 473 540	518 749	2 228 099	2 746 848	516 035	2 384 628	2 900 663	525 561	2 553 195	3 078 756
Govan Mbeki	254 288	1 367 316	1 621 604	141 993	1 592 998	1 734 991	65 416	1 478 258	1 543 674	68 598	1 569 375	1 637 973
Emalahleni (Mp)	164 633	1 698 548	1 863 181	159 916	1 921 545	2 081 461	127 108	2 085 848	2 212 956	200 480	2 261 075	2 461 555
Steve Tshwete	269 476	1 141 136	1 410 612	187 899	1 303 203	1 491 103	236 185	1 318 671	1 554 856	284 081	1 429 957	1 714 038
Mbombela	575 919	1 611 452	2 187 371	522 517	1 728 151	2 250 669	458 580	1 915 059	2 373 639	554 115	2 097 245	2 651 359
Sol Plaatje	238 867	1 510 719	1 749 586	131 183	1 648 409	1 779 592	93 939	1 740 738	1 834 677	84 156	1 848 652	1 932 807
Madibeng	221 956	1 219 454	1 441 410	265 678	1 394 012	1 659 690	288 328	1 534 394	1 822 722	293 265	1 643 239	1 936 504
Rustenburg	1 363 579	2 795 593	4 159 172	1 085 040	3 599 712	4 684 752	869 651	3 873 756	4 743 407	1 002 184	4 169 528	5 171 712
Tlokweng	126 145	960 954	1 087 099	200 569	1 068 722	1 269 291	170 455	1 159 650	1 330 105	199 347	1 271 048	1 470 395
City Of Matlosana	148 335	1 796 036	1 944 371	114 856	2 015 105	2 129 961	105 348	2 119 548	2 224 896	116 019	2 236 702	2 352 721
Drakenstein	187 360	1 389 932	1 577 292	284 821	1 511 798	1 796 620	280 076	1 621 353	1 901 429	281 645	1 753 819	2 035 464
Stellenbosch	200 066	1 002 529	1 202 594	294 188	1 056 998	1 351 186	310 455	1 174 505	1 484 960	369 201	1 236 862	1 606 063
George	251 024	1 125 437	1 376 461	252 243	1 156 995	1 409 238	266 431	1 229 587	1 496 018	242 972	1 263 086	1 506 058
Less												
External loans / borrowing	1 082 766	-	1 082 766	1 548 053	-	1 548 053	1 129 626	-	1 129 626	890 533	-	890 533
Internally generated funds	1 653 535	-	1 653 535	1 215 374	-	1 215 374	1 451 617	-	1 451 617	1 342 952	-	1 342 952
Total revenue	3 719 620	34 179 394	37 899 014	3 906 737	38 200 672	42 107 409	4 249 360	40 700 419	44 949 778	4 494 020	43 586 106	48 080 126

Source: National Treasury Local Government Database

Table 13: Aggregated Operating and Capital expenditure for secondary cities, 2013/14 - 2016/17

R thousand	2013/14			2014/15			2015/16			2016/17		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Top 19 Municipalities	6 455 922	34 777 858	41 233 780	6 670 165	39 689 689	46 359 854	6 830 602	41 787 305	48 617 908	6 727 505	44 784 011	51 511 516
Matjhabeng	212 482	1 509 381	1 721 863	156 246	1 954 072	2 110 318	118 586	2 009 147	2 127 733	121 133	2 289 757	2 410 890
Emfuleni	326 104	4 196 423	4 522 527	408 425	4 566 121	4 974 546	711 960	4 721 015	5 432 975	603 935	5 193 062	5 796 997
Mogale City	220 582	2 101 634	2 322 216	483 996	2 370 408	2 854 404	633 302	2 515 936	3 149 238	493 628	2 673 584	3 167 212
Msunduzi	443 158	3 224 898	3 668 055	597 754	3 500 014	4 097 768	792 599	3 731 258	4 523 857	665 980	4 000 438	4 666 418
New castle	409 229	1 503 460	1 912 689	444 229	1 858 469	2 302 698	477 270	1 897 742	2 375 012	300 300	1 968 403	2 268 703
uMhlatuze	338 714	1 989 414	2 328 128	419 862	2 363 247	2 783 109	308 879	2 535 196	2 844 075	320 907	2 739 449	3 060 356
Polokwane	504 007	1 944 707	2 448 714	518 749	2 145 711	2 664 460	516 035	2 261 283	2 777 318	525 561	2 376 303	2 901 864
Govan Mbeki	254 288	1 607 693	1 861 981	141 993	1 833 009	1 975 002	65 416	1 834 517	1 899 933	68 598	1 963 014	2 031 612
Emalahleni (Mp)	164 633	1 716 628	1 881 261	159 916	1 921 544	2 081 461	127 108	2 085 848	2 212 956	200 480	2 261 077	2 461 557
Steve Tshwete	269 476	1 210 473	1 479 948	187 899	1 352 386	1 540 285	236 185	1 378 009	1 614 194	284 081	1 507 636	1 791 717
Mbombela	575 919	1 849 620	2 425 539	522 517	1 918 454	2 440 971	458 580	2 042 260	2 500 840	554 115	2 182 058	2 736 173
Sol Plaatje	238 867	1 495 603	1 734 471	131 183	1 632 584	1 763 766	93 939	1 729 687	1 823 626	84 156	1 840 250	1 924 406
Madibeng	221 956	1 203 146	1 425 102	265 678	1 393 932	1 659 610	288 328	1 534 244	1 822 573	293 265	1 642 939	1 936 203
Rustenburg	1 363 579	2 773 724	4 137 303	1 085 040	3 561 324	4 646 364	869 651	3 730 173	4 599 823	1 002 184	3 913 240	4 915 424
Tlokweng	126 145	1 035 384	1 161 529	200 569	1 301 809	1 502 378	170 455	1 389 671	1 560 126	199 347	1 470 761	1 670 108
City Of Matlosana	148 335	1 789 390	1 937 725	114 856	2 119 885	2 234 741	105 348	2 195 253	2 300 601	116 019	2 343 415	2 459 435
Drakenstein	187 360	1 451 396	1 638 756	284 821	1 559 514	1 844 335	280 076	1 665 850	1 945 926	281 645	1 797 886	2 079 531
Stellenbosch	200 066	1 000 961	1 201 026	294 188	1 121 212	1 415 400	310 455	1 245 212	1 555 667	369 201	1 309 504	1 678 705
George	251 024	1 173 924	1 424 948	252 243	1 215 996	1 468 239	266 431	1 285 005	1 551 436	242 972	1 311 235	1 554 207
Less												
Taxation	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	6 455 922	34 777 858	41 233 780	6 670 165	39 689 689	46 359 854	6 830 602	41 787 305	48 617 908	6 727 505	44 784 011	51 511 516

Source: National Treasury Local Government Database

42. Secondary cities that have allocated the least of their aggregated budget to their capital budgets are Matjhabeng, Sol Plaatje, Emfuleni, Emalahleni (MP), Govan Mbeki and City of Matlosana. All six municipalities have allocated less than 9 per cent of their budgets to capital projects. When compare to the 2013 MTREF, the number of municipalities with a low capital budget proportion, has doubled from three to six.
43. Over the medium term, the total budgets of the secondary cities exhibit some stability with an average growth of 11.1 per cent over the outer years of the MTREF period.

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

44. Table 14 below provides a comparison between the preliminary outcome for the 2013/14 financial year concluded on 30 June 2014 as published in the Section 71 Quarter 4 publication which was released on 29 August 2014, the adopted budget for the 2014/15 financial year and the average growth in municipal budgets over the 2014 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2014/15

R thousands	2013/14			2014/15	2015/16	2016/17	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2013/14-2014/15	2013/14-2016/17
Operating Revenue								
Property rates	38 973 039	39 486 460	41 301 179	44 896 421	47 941 885	51 363 706	8.7%	7.5%
Service charges	131 035 206	129 631 030	125 183 534	141 652 526	152 485 522	164 228 390	13.2%	9.5%
Other own revenue	79 698 284	80 991 987	78 023 033	86 586 661	91 236 726	96 572 110	11.0%	7.4%
Total Revenue	249 706 529	250 109 478	244 507 746	273 135 608	291 664 132	312 164 206	11.7%	8.5%
Operating Expenditure								
Employee related costs	70 618 828	70 195 342	68 961 904	75 276 614	80 005 245	85 361 503	9.2%	7.4%
Bad and doubtful debt	10 513 191	10 680 050	8 434 835	11 540 212	12 103 364	13 244 471	36.8%	16.2%
Bulk purchases	73 295 222	72 922 902	70 055 532	77 618 086	83 212 146	89 341 621	10.8%	8.4%
Other expenditure	95 916 925	99 525 273	86 482 818	109 346 167	114 921 860	122 661 296	26.4%	12.4%
Total Expenditure	250 344 167	253 323 567	233 935 089	273 781 079	290 242 614	310 608 891	17.0%	9.9%
Operating Surplus/(Deficit)	(637 638)	(3 214 090)	10 572 658	(645 471)	1 421 518	1 555 315	(106.1%)	(47.2%)
Capital Funding								
External loans	9 698 754	9 731 752	7 571 616	12 022 850	11 691 265	9 856 494	58.8%	9.2%
Internal contributions	8 312 135	8 290 053	5 887 876	9 805 506	10 127 671	10 228 334	66.5%	20.2%
Transfers and subsidies	33 515 488	38 261 534	31 203 657	35 463 691	38 860 157	38 749 395	13.7%	7.5%
Other	4 891 388	5 582 933	3 267 265	5 246 483	4 645 614	4 581 774	60.6%	11.9%
Total funding	56 417 766	61 866 271	47 930 413	62 538 530	65 324 707	63 415 998	30.5%	9.8%
Capital Expenditure								
Water	17 817 053	19 583 830	15 291 719	18 571 866	21 161 212	20 440 323	21.5%	10.2%
Electricity	7 267 301	7 135 086	5 578 971	8 128 516	9 203 074	8 315 513	45.7%	14.2%
Housing	1 962 908	2 086 295	1 282 618	785 770	809 422	855 165	(38.7%)	(12.6%)
Roads, pavements, bridges and storm water	12 382 176	14 488 447	10 477 095	13 159 450	14 668 546	14 698 337	25.6%	11.9%
Other	16 988 328	18 572 613	15 301 419	21 892 929	19 482 454	19 106 659	43.1%	7.7%
Total expenditure	56 417 766	61 866 271	47 931 822	62 538 530	65 324 707	63 415 998	30.5%	9.8%

Source: National Treasury Local Government Database

45. As seen in the above table, operating expenditure increases in total by 17 per cent between the preliminary outcome for 2013/14 and the MTREF budget for 2014/15 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.
46. Compared to the preliminary outcomes of 2013/14, an increase of 9.2 per cent is expected for salaries, wages and allowances and 10.8 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 in areas such as overtime and travelling allowances.
47. Bad and doubtful debt is expected to increase by 36.8 per cent which is 4.6 per cent higher than the 32.2 per cent increase in the 2013 MTREF. This is extremely concerning as municipalities are providing for higher levels of default debtors raising questions around the efficiency of the management of the entire revenue value chain.
48. The increase in debt impairment 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 going forward.
49. The significant increase in doubtful debt further raises questions over the credibility of the appropriated internal funding of the capital budget. While municipalities have provided for the revenue through billings on the operating statement of financial performance there appears to

be a high probability that the billings will not be collected as planned directly implying that the funding will not be available to fund the capital budget.

50. There is an average increase of 9.9 per cent over the MTREF in the total operating expenditure with the highest increase of 16.2 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 2013/14 of R8.4 billion compared to the original for the same year of R10.5 billion, a difference of R2.1 billion; it is suspected that the budget appropriation for 2014/15 is overstated and subsequently distorting the percentage growth.
51. Provisions in respect of bulk purchases are also expected to increase significantly by 8.4 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
52. In respect of operating revenue items, the increase in service charges shows the most notable growth at 9.5 per cent over the MTREF largely due to the increases in the electricity tariffs.
53. Capital budgets grow significantly by 30.5 per cent in 2014/15 compared to 2013/14. 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. The increase of 66.5 per cent in internal contributions for the funding of the capital budget indicates the municipalities are increasingly relying on operation surpluses to fund their capital programs. This is a concern as the overall figures in the 2014 MTREF suggest an initial deficit and then very small surpluses.
54. Grants and subsidies show an increase of 13.7 per cent when compared to the preliminary outcomes for 2013/14. Given the net operating deficit for 2014/15 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.
55. Over the MTREF period the average growth is decreasing to an estimated 9.8 per cent, indicating a lack of multi-year capital project planning.

Changes to Baseline

56. Table 15 below highlights the extent to which municipalities have allocated additional resources in the 2014 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 2014/15 forward estimates.

Table 15: Changes to baseline for 2014 MTREF

	2014/15			2015/16			2016/17 2014/15 Draft Medium term estimates	% change to		% share of total	
	2013/14 Medium term estimates	2014/15 Draft Medium term estimates	Changes to baseline	2013/14 Medium term estimates	2014/15 Draft Medium term estimates	Changes to baseline		2014/15	2015/16	2014/15	2015/16
R thousands											
Operating Revenue											
Property rates	41 764 042	44 896 421	3 132 379	44 825 377	47 941 885	3 116 507	51 363 706	7.5%	7.0%	38.8%	71.3%
Service charges	141 291 391	141 652 526	361 135	153 066 462	152 485 522	(580 940)	164 228 390	0.3%	(0.4%)	4.5%	(13.3%)
Other own revenue	82 005 579	86 586 661	4 581 083	89 401 719	91 236 726	1 835 007	96 572 110	5.6%	2.1%	56.7%	42.0%
Total Revenue	265 061 012	273 135 608	8 074 596	287 293 558	291 664 132	4 370 574	312 164 206	3.0%	1.5%	100.0%	100.0%
Operating Expenditure											
Employee related costs	72 798 052	75 276 614	2 478 562	77 532 427	80 005 245	2 472 818	85 361 503	3.4%	3.2%	23.1%	29.4%
Bad and doubtful debt	10 728 374	11 540 212	811 837	11 281 302	12 103 364	822 061	13 244 471	7.6%	7.3%	7.6%	9.8%
Bulk purchases	78 989 982	77 618 086	(1 371 896)	85 590 523	83 212 146	(2 378 378)	89 341 621	(1.7%)	(2.8%)	(12.8%)	(28.2%)
Other expenditure	101 075 701	109 874 972	8 799 271	108 065 725	115 570 647	7 504 922	123 390 348	8.7%	6.9%	82.1%	89.1%
Total Expenditure	263 592 109	274 309 884	10 717 774	282 469 978	290 891 401	8 421 423	311 337 943	4.1%	3.0%	100.0%	100.0%
Operating Surplus/(Deficit)	1 468 902	(1 174 276)	(2 643 178)	4 823 580	772 731	(4 050 849)	826 263				
Capital Funding											
External loans	9 729 178	12 022 850	2 293 672	10 212 074	11 691 265	1 479 192	9 856 494	23.6%	14.5%	58.6%	54.4%
Internal contributions	10 245 949	9 805 506	(440 443)	10 745 474	10 127 671	(617 802)	10 228 334	(4.3%)	(5.7%)	(11.3%)	(22.7%)
Transfers and subsidies	34 208 834	35 463 691	1 254 857	36 795 498	38 860 157	2 064 659	38 749 395	3.7%	5.6%	32.1%	75.9%
Other	4 442 914	5 246 483	803 569	4 851 602	4 645 614	(205 988)	4 581 774	18.1%	(4.2%)	20.5%	(7.6%)
Total funding	58 626 876	62 538 530	3 911 655	62 604 647	65 324 707	2 720 061	63 415 998	6.7%	4.3%	100.0%	100.0%
Capital Expenditure											
Water	18 360 446	18 571 866	211 420	20 571 593	21 161 212	589 620	20 440 323	1.2%	2.9%	5.4%	21.7%
Electricity	8 287 530	8 128 516	(159 014)	8 920 165	9 203 074	282 909	8 315 513	(1.9%)	3.2%	(4.1%)	10.4%
Housing	1 761 803	785 770	(976 033)	1 730 967	809 422	(921 545)	855 165	(55.4%)	(53.2%)	(25.0%)	(33.9%)
Roads, pavements, bridges and storm water	12 793 421	13 159 450	366 029	13 977 781	14 668 546	690 765	14 698 337	2.9%	4.9%	9.4%	25.4%
Other	17 423 676	21 892 929	4 469 253	17 404 142	19 482 454	2 078 313	19 106 659	25.7%	11.9%	114.3%	76.4%
Total expenditure	58 626 876	62 538 530	3 911 654	62 604 647	65 324 707	2 720 061	63 415 998	6.7%	4.3%	100.0%	100.0%

Source: National Treasury Local Government Database

57. Compared to the 2013/14 MTREF forecast, budgeted operating revenue for 2014/15 has increased by R8.1 billion and operating expenditure by R10.1 billion. An additional R3.9 billion was allocated to capital expenditure in the 2014/15 financial year.
58. For the 2015/16 financial year, the operating revenue will increase by R4.4 billion and operating expenditure increase by R8.4 billion. An additional R2.7 billion will be set aside for capital expenditure.
59. Against operating expenditure, bulk purchases can be observed as having a negative change to baseline at 1.7 per cent decrease in the 2014/15 financial year and at 2.8 per cent decrease in the 2015/16 year. This concerning as the bulk purchase of electricity and water is expected to increase. It may also indicate that the municipalities are expecting to sell less water and electricity as consumers are tightening the belts.
60. The largest change to baseline in respect of operating revenue for the 2014/15 financial year can be observed in the category "Property Rates" where an increase of 7.5 per cent is anticipated. This could be due to revaluation of properties or an increase in property rates.
61. The capital expenditure baseline in the 2014/15 financial year is related to an anticipated increase of 6.7 per cent. There is a massive decrease of 55.4 per cent in the capital expenditure for Housing reflecting the uncertainty of the process for accreditation of this function to metros.
62. A notable increase is observed in "Other" which shows an increase of 25.7 per cent in 2014/15. The latter may be a classification error.
63. From a funding perspective, the increased capital expenditure will be supported by an increase in external loans of 23.6 per cent. 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.

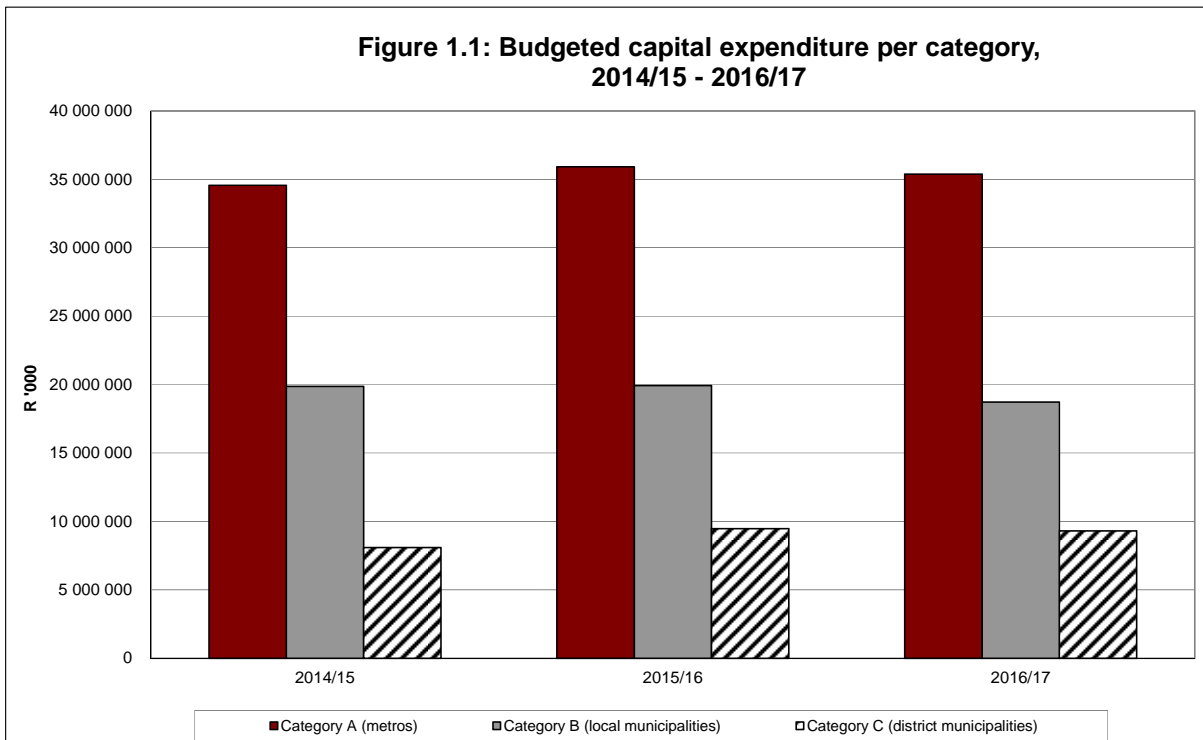
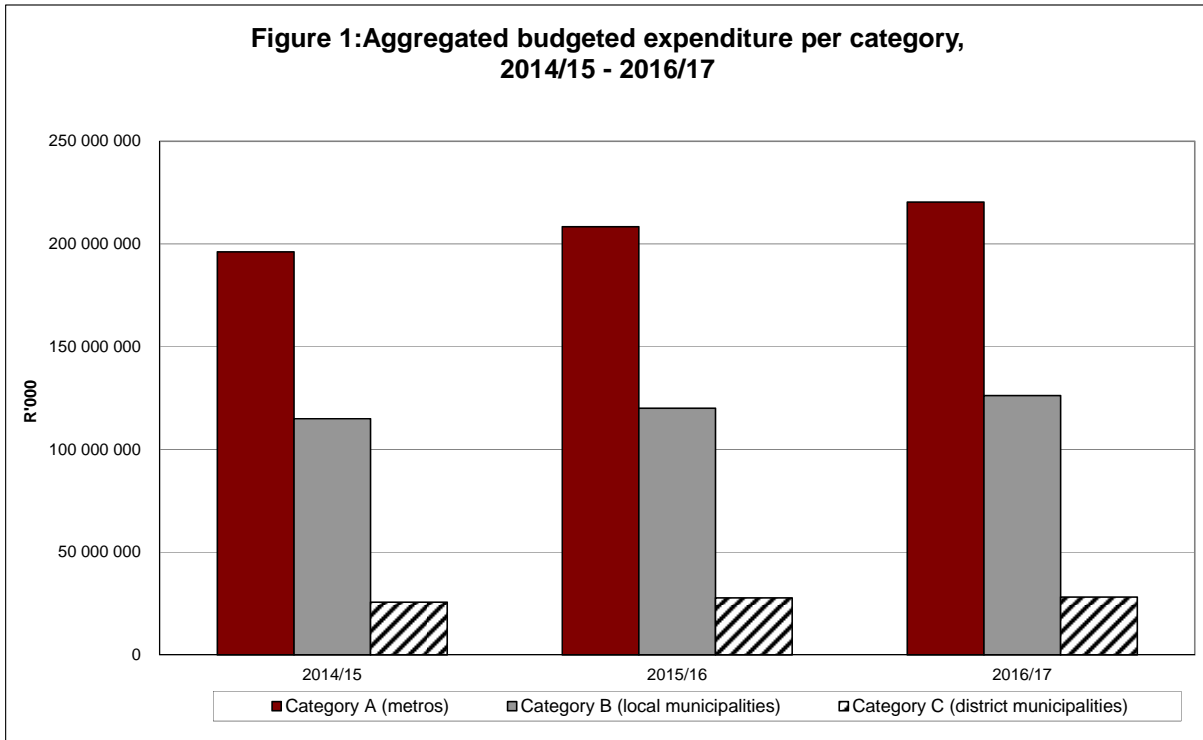


Figure 1.2: Budgeted operating expenditure per category, 2014/15 - 2016/17

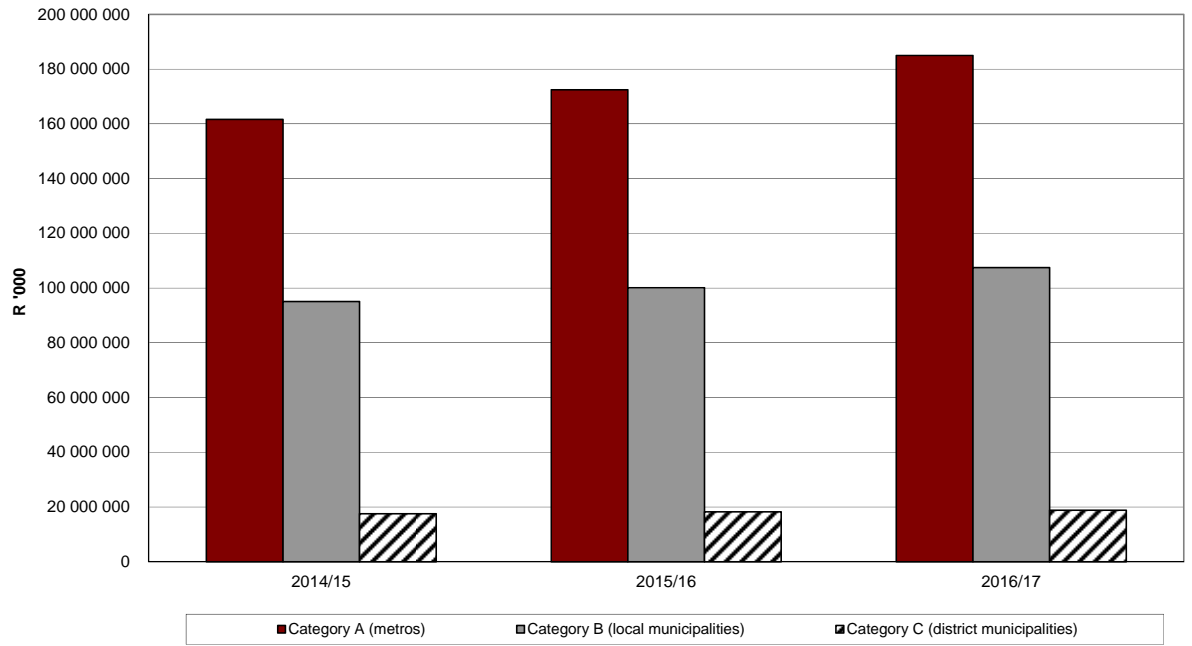


Figure 2: Total operating and capital expenditure per province, 2014/15 - 2016/17

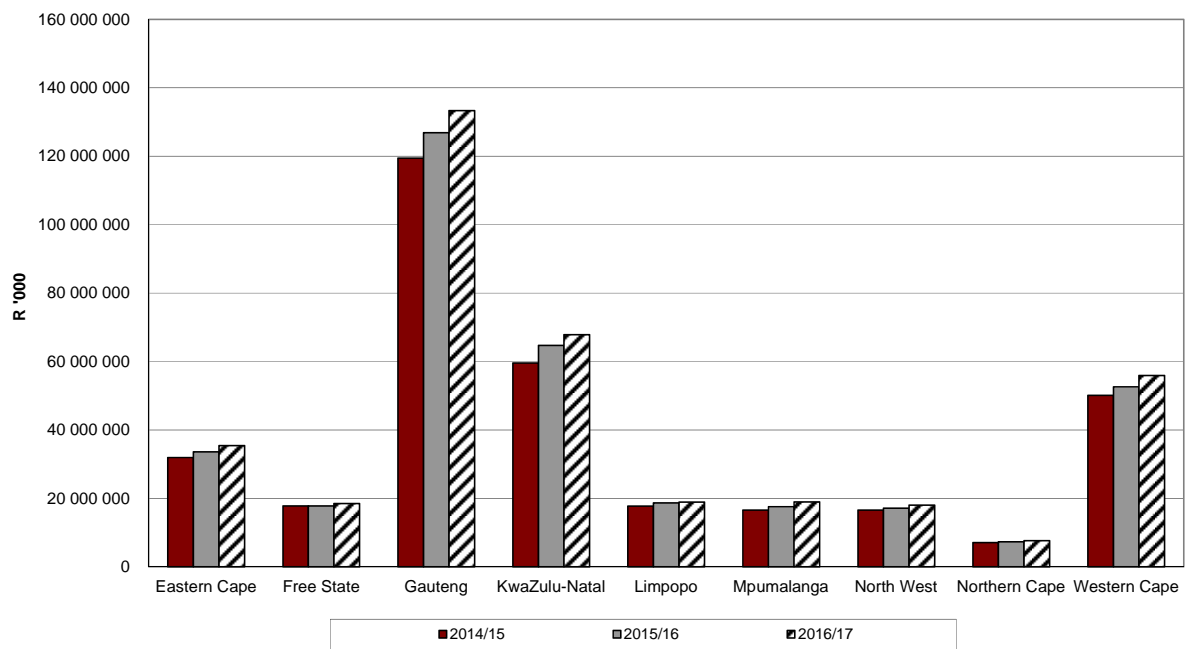


Figure 2.1: Budgeted capital expenditure per province, 2014/15 - 2016/17

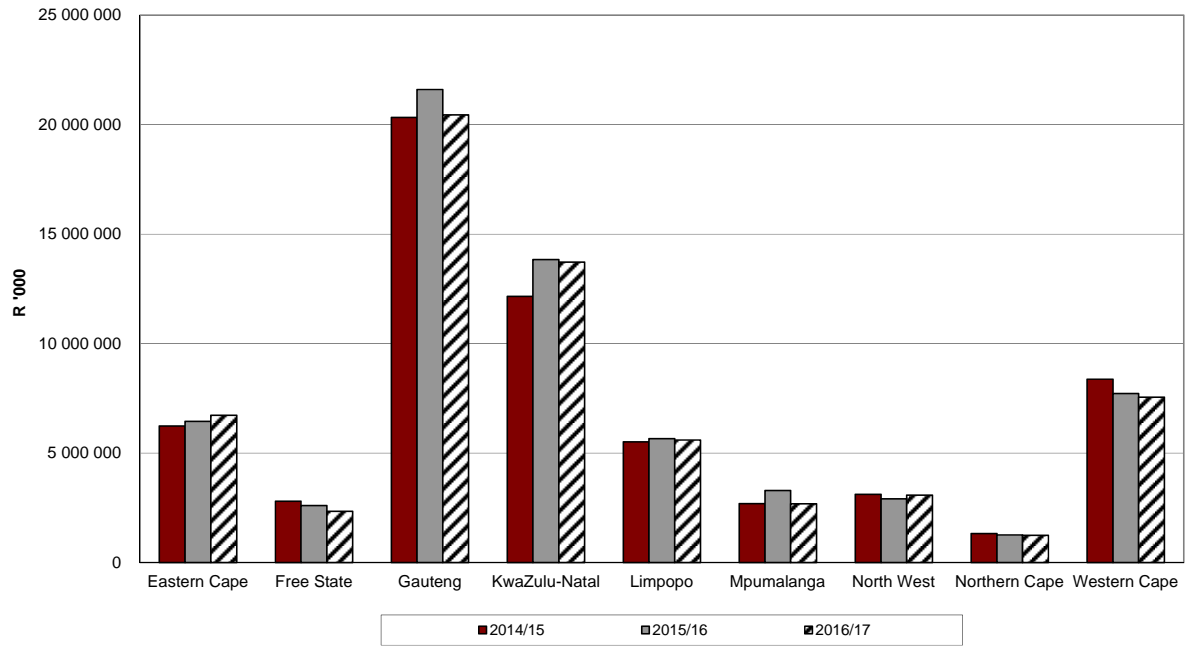


Figure 2.2: Budgeted operating expenditure per province, 2014/15 - 2016/17

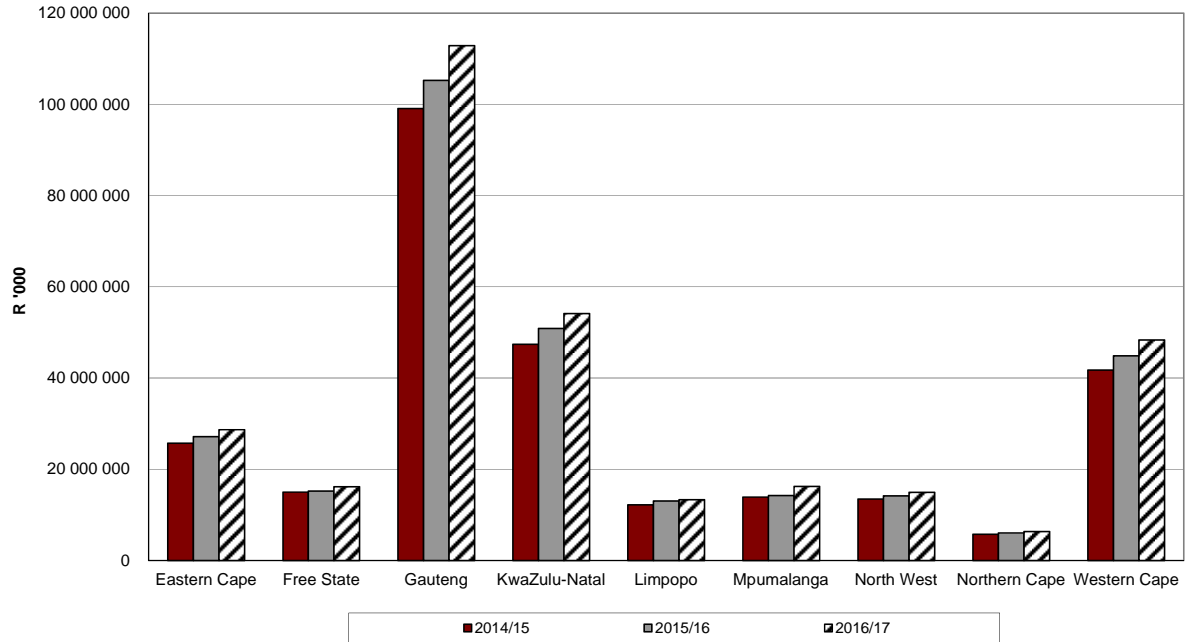


Figure 3: Aggregated budgeted expenditure for metros, 2014/15 - 2016/17

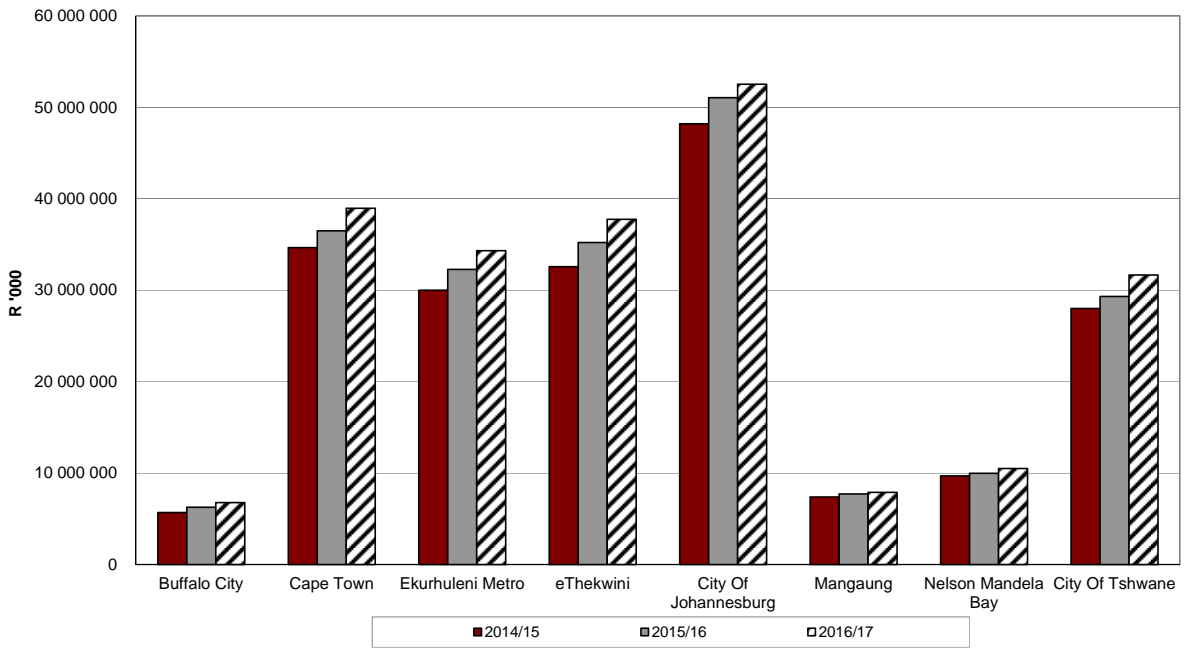


Figure 3.1: Budgeted capital expenditure per metro, 2014/15 - 2016/17

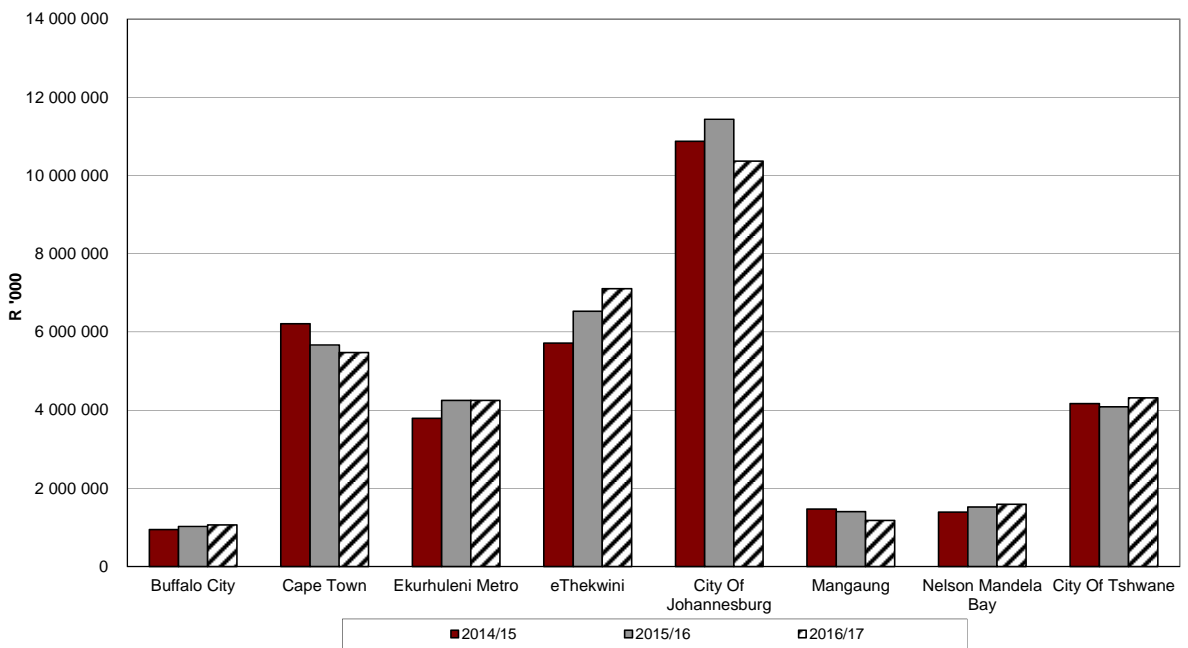
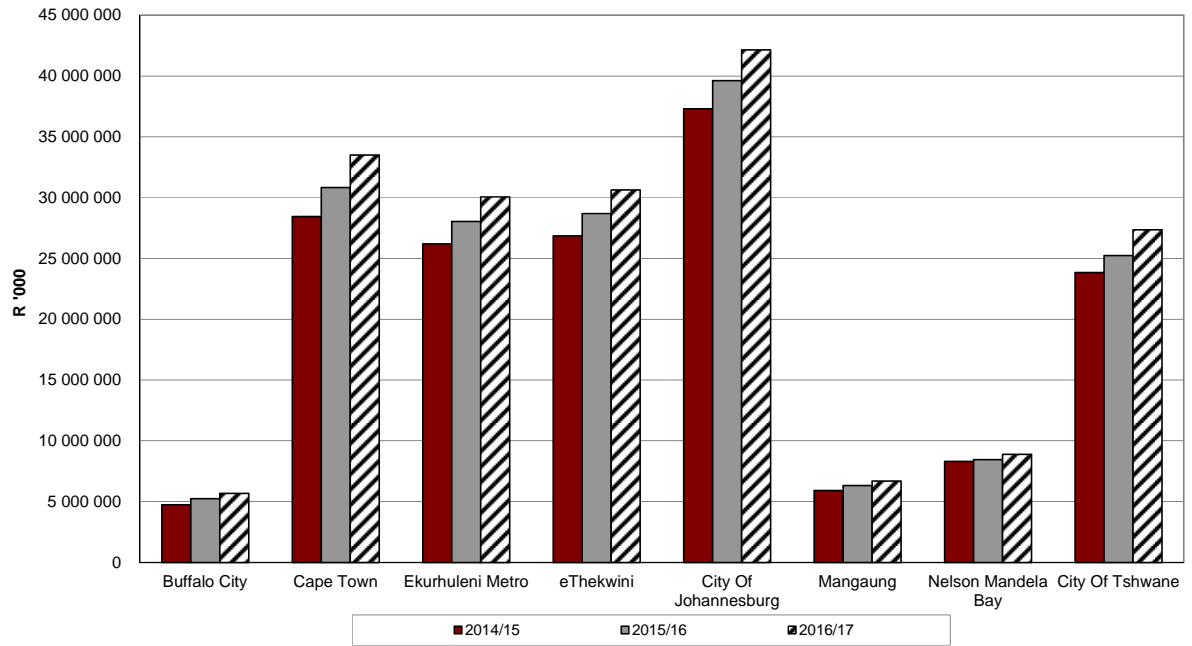
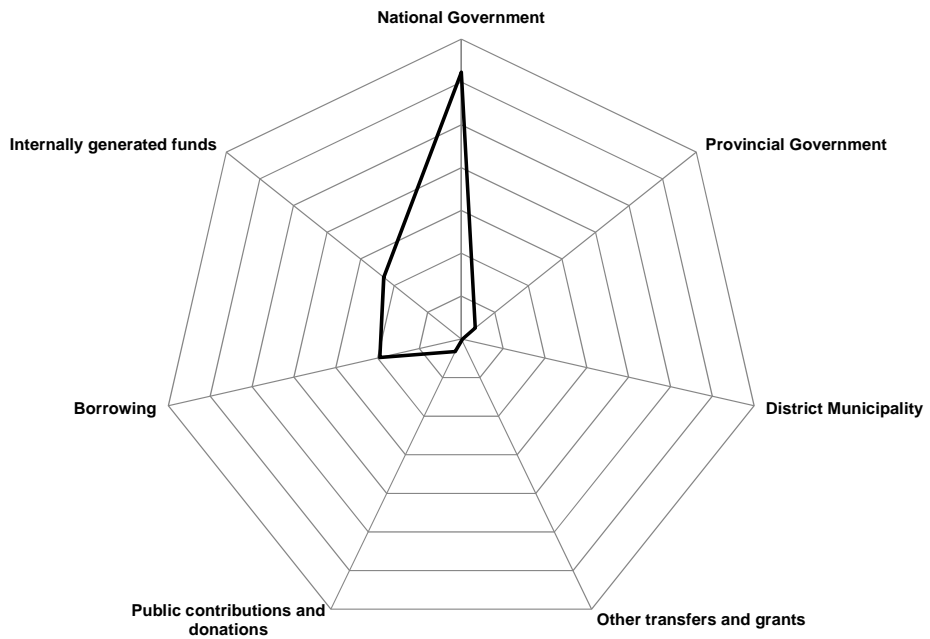


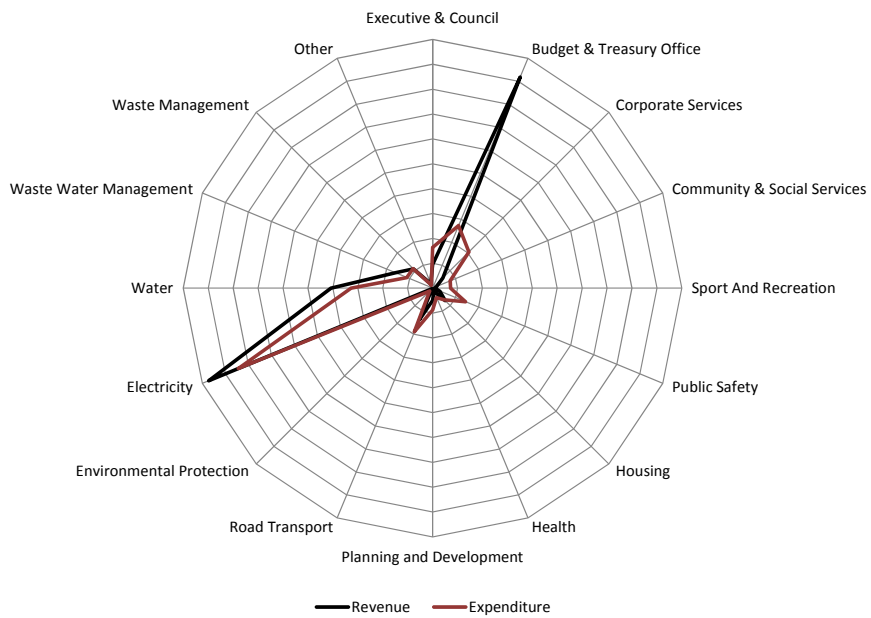
Figure 3.2: Budgeted operating expenditure per metro, 2014/15 - 2016/17



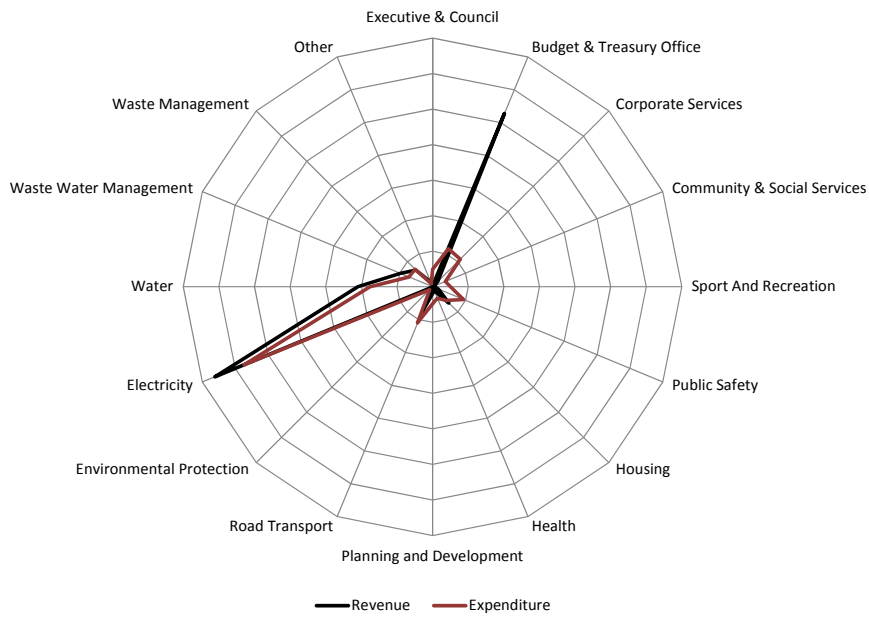
Capital funding contributions, 2014/15



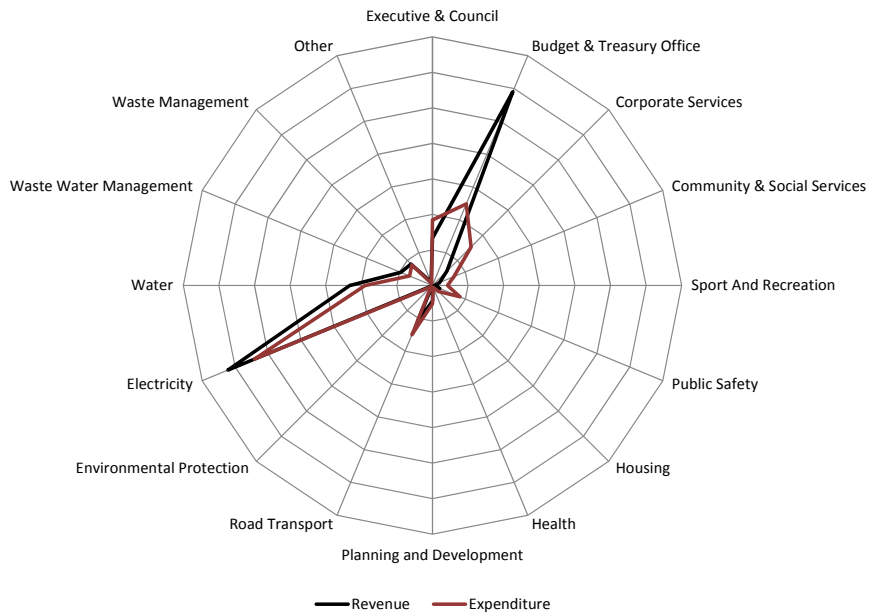
Aggregated operating revenue and expenditure by standard classification, 2014/15



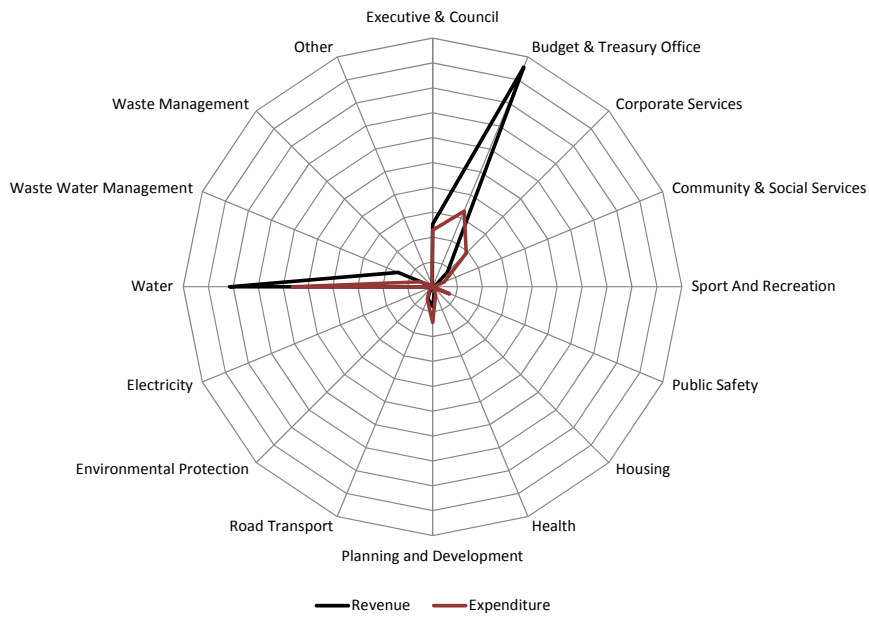
**Category A operating revenue and expenditure
by standard classification, 2014/15**



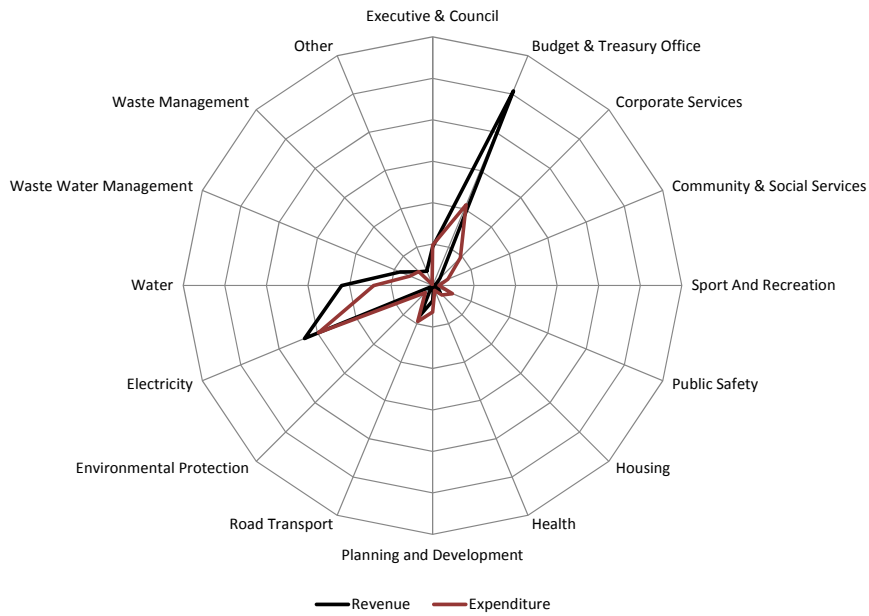
**Category B operating revenue and expenditure
by standard classification, 2014/15**



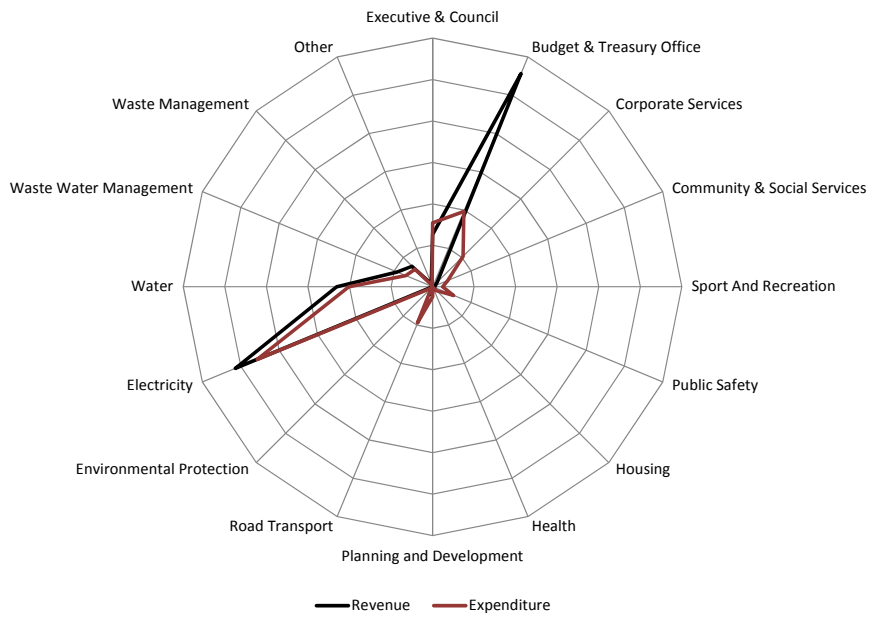
**Category C operating revenue and expenditure
by standard classification, 2014/15**



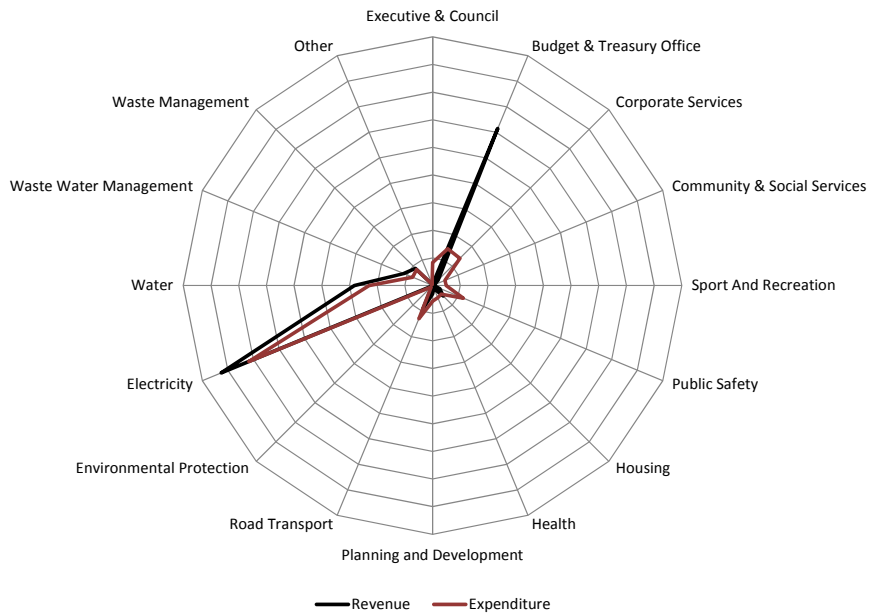
**Eastern Cape operating revenue and expenditure
by standard classification, 2014/15**



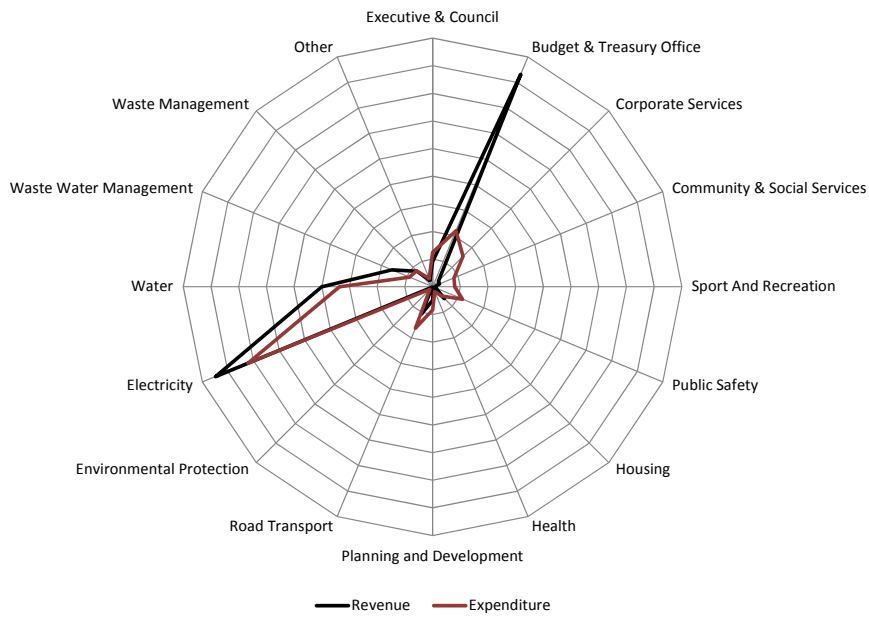
**Free State operating revenue and expenditure
by standard classification, 2014/15**



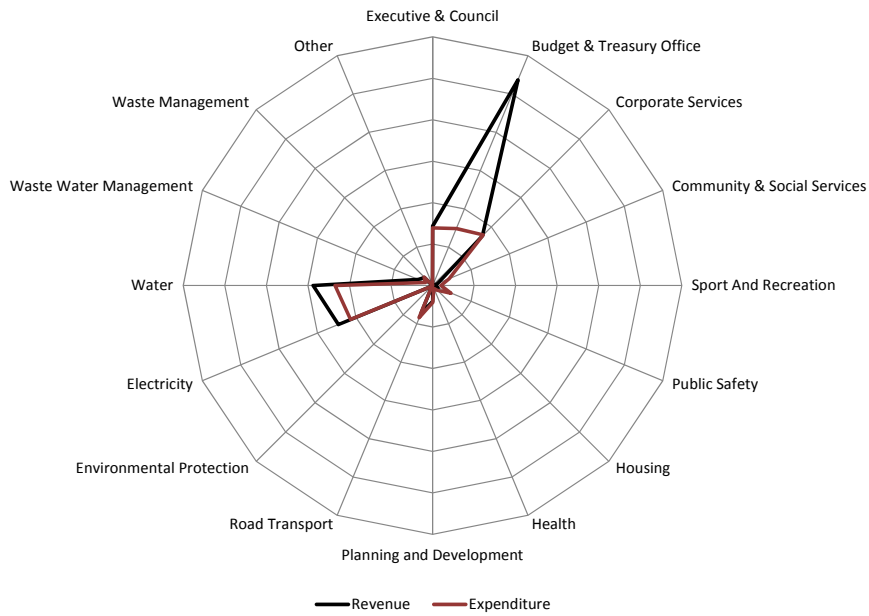
**Gauteng operating revenue and expenditure
by standard classification, 2014/15**



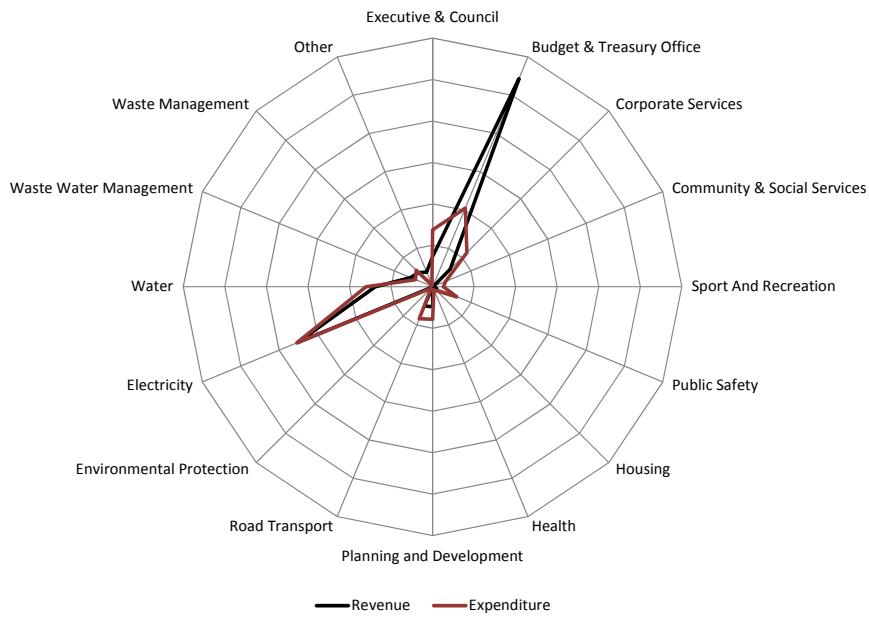
**KwaZulu-Natal operating revenue and expenditure
by standard classification, 2014/15**



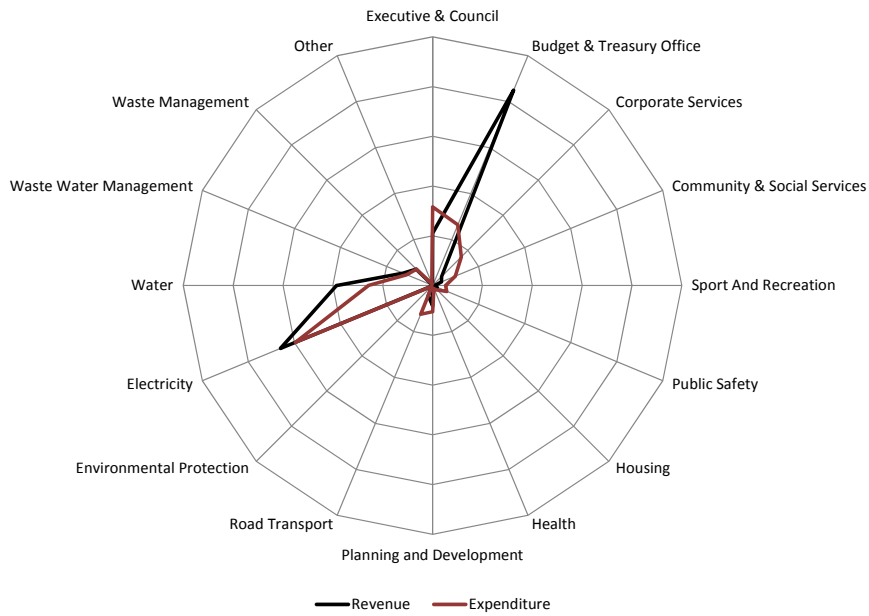
**Limpopo operating revenue and expenditure
by standard classification, 2014/15**



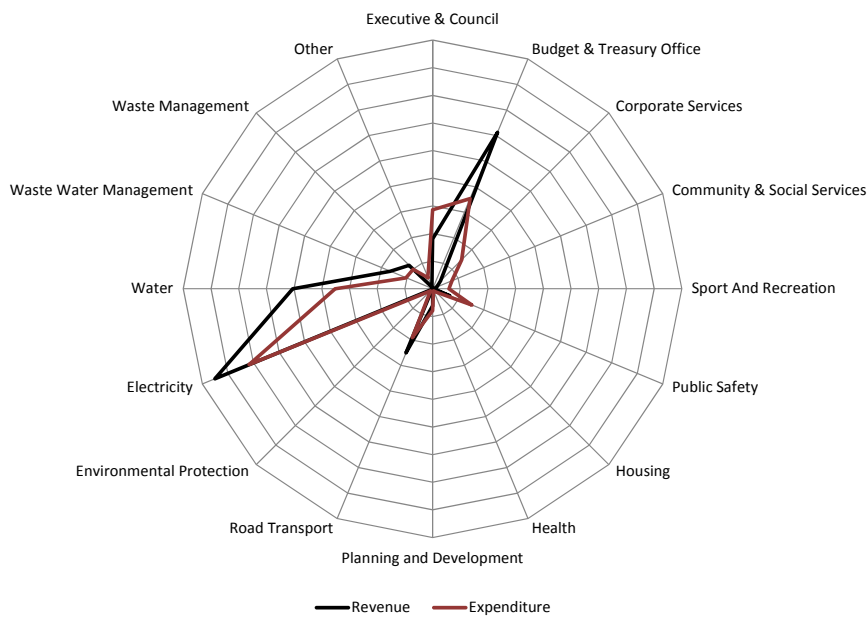
**Mpumalanga operating revenue and expenditure
by standard classification, 2014/15**



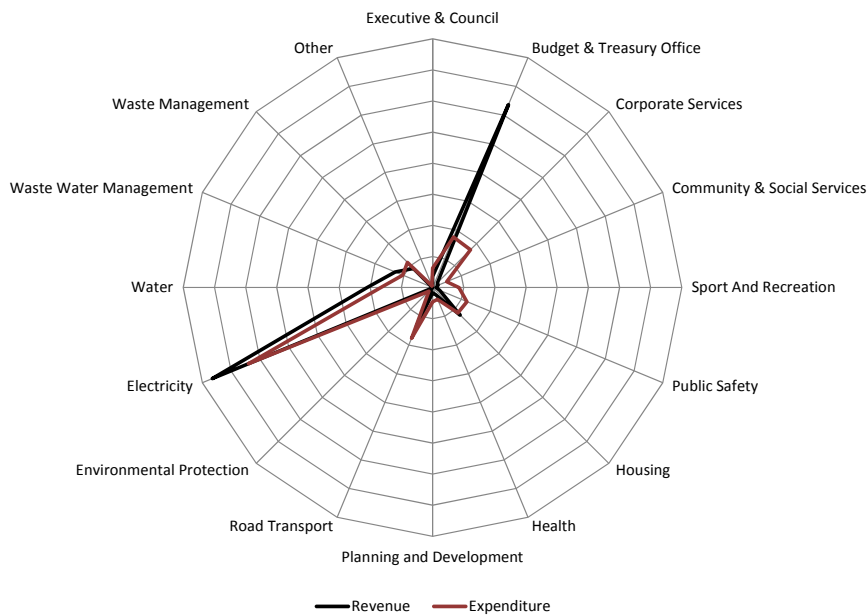
**Northern Cape operating revenue and expenditure
by standard classification, 2014/15**



North West operating revenue and expenditure by standard classification, 2014/15



Western Cape operating revenue and expenditure by standard classification, 2014/15



Planned capital expenditure, 2014/15

