



MEDIA STATEMENT

LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2016/17 MTREF

The National Treasury has today published, on its website the operating and capital budgets of 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 2016/17 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 2016/17 financial year and over the medium term period, information per category of municipality and information per province. Highlights include:

- *In aggregate, budgeted revenue for 2016/17 is R365 billion, which is expected to increase to R388 billion in 2017/18 and R417 billion in 2018/19.*
- *Total municipal expenditure in 2016/17 is estimated to be R394 billion, increasing to R414 billion in 2017/18 and R440 billion in 2018/19. Expenditure for 2016/17 is 5.6 per cent higher than the 2015/16 MTREF.*
- *In the 2016/17 financial year, a net deficit of R1.1 billion is expected, a position that remains in deficit of R541 million in 2017/18 and becomes a surplus of R2.2 billion in 2018/19.*
- *Municipal operating expenditure on the trading services consisting of water, electricity, waste water management and waste management is budgeted to increase from R155 billion in 2015/16 to R166 billion in 2016/17. In 2016/17 this equates to just over half the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R94.4 billion of the aggregated operating expenditure of R324.7 billion or 29 per cent. Bulk purchases are expected to grow to R112 billion by 2018/19 representing 30.2 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. R24.3 billion will be allocated in 2016/17 to repairs and maintenance of assets from operating expenditure. This will increase to R25.8 billion in 2017/18 and R27.7 billion in 2018/19.*
- *Capital expenditure has increased by 3.8 per cent compared to the 2015/16 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 17.6 per cent in 2016/17, 16.4 per cent in 2017/18 and 15.7 per cent in 2018/19.*
- *Total capital expenditure for 2016/17 is R69.4 billion and comprises R32.3 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will decrease to R31.6 billion and increase to R32.5 billion in the outer years of the MTREF.*
- *The 2016/17 capital budget reflects a R49.3 billion investment in new infrastructure which is 71 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R20.1 billion or 29 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 2016/17 MTREF budgets in the prescribed A1 Schedules as per the regulations.

254 of the 257 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 216 of 278 municipalities managed to achieve this reconciliation last year, for the 2016/17 MTREF 231 of 257 (90 per cent) 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 2016/17, 2017/18 and 2018/19 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 31 October 2016. 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.
- When comparing 2015/16 adopted budget figures to the 2016/17 MTREF, it needs to be noted that the 2015/16 consolidation is based on the 2011 municipal demarcation (278 municipalities) while the 2016 MTREF is based on the 2016 municipal demarcation (257 municipalities).
- The re-demarcation of municipalities after the local government elections on 3 August 2016 destabilised reporting as the affected municipalities struggled to produce credible IDPs and budgets for the newly demarcated municipalities. This will affect reporting throughout the rest of 2016/17 as publications will be based on the verified audit and budget figures as locked in the local government database.
- This 2016/17 MTREF publication covers 254 municipalities.

The full list of information published:

- Aggregated/consolidated municipal 2016/17 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 2014/15.

HIGH LEVEL ANALYSIS OF THE 2016/17 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 2016/17 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

Table 1: Aggregated Operating and Capital budgets, 2015/16 - 2018/19

Description	Original Budget 2015/16 ³	2016/17 Medium Term Revenue & Expenditure Framework ⁴		
		2016/17	2017/18	2018/19
R thousands				
Total Revenue	345 072 166	364 575 146	387 631 609	416 707 275
Total Expenditure	373 009 932	394 075 960	413 622 331	440 136 470
Surplus / (deficit)	(27 937 766)	(29 500 814)	(25 990 722)	(23 429 195)
FINANCING:				
External loans / borrowing	12 155 568	12 015 730	11 534 699	11 846 015
Internally generated funds ²	13 898 546	16 366 651	13 914 557	13 767 145
Total financing	26 054 114	28 382 381	25 449 256	25 613 160
Net surplus / (deficit)	(1 883 652)	(1 118 433)	(541 466)	2 183 965

¹Includes Taxation

² Internally generated funds appear to be overstated. External loans and internally generated funds are the municipality's own contribution to capital revenue.

³2011 Municipal Demarcation (278 municipalities)

⁴2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

- Total revenue is estimated to be R365 billion, R388 billion and R417 billion while total expenditure estimates are R394 billion, R414 billion and R440 billion for each of the respective financial years of the 2016/17 Medium-term Revenue and Expenditure Framework (MTREF).
- External loans (borrowing) and internally generated funds have been excluded from total revenue in the table above. 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 raise external loans (borrowing) of R35.4 billion to fund infrastructure development while contributing R44 billion through internally generated funding to infrastructure development.
- It appears as if municipalities will not generate enough revenue to cover their operational expenses in 2016/17. The operational deficit is R1.1 billion which has decreased to R541.5 million in 2017/18 but is estimated to become a surplus of R2.2 million in 2018/19.

Table 2: Consolidated budget summary for all municipalities for the 2016 MTREF

Description	Current year	2016/17 Medium Term Revenue & Expenditure Framework ²		
	2015/16 ¹	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19
R thousands	Original Budget	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19
<u>Financial Performance</u>				
Property rates	47 921 735	52 073 733	55 463 403	59 002 453
Service charges	157 725 950	166 606 944	181 695 221	198 510 493
Investment revenue	3 298 261	3 778 302	3 944 529	4 112 554
Transfers recognised - operational	64 582 003	68 364 165	71 544 243	76 852 934
Other own revenue	30 726 112	32 709 218	32 662 976	34 610 238
Total Revenue (excluding capital transfers and contributions)	304 254 061	323 532 361	345 310 372	373 088 672
Employee costs	81 360 627	88 363 545	94 677 155	101 373 310
Remuneration of councillors	3 549 531	3 762 311	3 996 550	4 218 619
Depreciation & asset impairment	24 799 984	26 599 121	28 481 408	30 234 962
Finance charges	8 189 285	8 428 320	9 206 905	9 918 737
Materials and bulk purchases	95 903 070	102 280 834	111 042 821	120 993 268
Transfers and grants	6 673 206	6 146 331	5 622 993	5 885 863
Other expenditure	85 662 010	89 070 333	92 824 006	98 279 948
Total Expenditure	306 137 714	324 650 794	345 851 838	370 904 707
Surplus/(Deficit)	(1 883 652)	(1 118 433)	(541 466)	2 183 965
Transfers recognised - capital	37 919 363	38 340 079	39 993 652	41 793 756
Contributions recognised - capital & contributed assets	63 636	336 333	405 190	431 677
Surplus/(Deficit) after capital transfers & contributions	36 099 347	37 557 979	39 857 376	44 409 398
Share of surplus/ (deficit) of associate	-	-	(0)	(0)
Surplus/(Deficit) for the year	36 099 347	37 557 979	39 857 376	44 409 398
<u>Capital expenditure & funds sources</u>				
Capital expenditure	66 872 219	69 425 165	67 770 493	69 231 763
Transfers recognised - capital	39 678 480	40 086 891	41 349 772	42 784 244
Public contributions & donations	1 139 625	955 894	971 465	834 360
Borrowing	12 155 568	12 015 730	11 534 699	11 846 015
Internally generated funds	13 898 546	16 366 651	13 914 557	13 767 145
Total sources of capital funds	66 872 219	69 425 165	67 770 493	69 231 763

¹2011 Municipal Demarcation (278 municipalities)²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government database

6. 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, 2015/16 - 2018/19

R thousand	2015/16 ²			2016/17 ²			2017/18 ²			2018/19 ²		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	34 734 483	182 142 655	216 877 138	37 419 702	196 636 987	234 056 690	36 812 517	211 576 502	248 389 020	38 124 597	230 133 940	268 258 537
Category B	22 097 784	103 902 288	126 000 072	21 758 136	107 676 448	129 434 584	20 771 327	114 494 208	135 265 535	20 330 674	122 566 843	142 897 516
Category C	10 039 952	18 209 118	28 249 069	10 247 327	19 218 926	29 466 253	10 186 649	19 239 661	29 426 310	10 776 493	20 387 890	31 164 383
Total	66 872 219	304 254 061	371 126 280	69 425 165	323 532 361	392 957 526	67 770 493	345 310 372	413 080 865	69 231 763	373 088 672	442 320 435
Less												
External loans / borrowing	12 155 568	-	12 155 568	12 015 730	-	12 015 730	11 534 699	-	11 534 699	11 846 015	-	11 846 015
Internally generated funds	13 898 546	-	13 898 546	16 366 651	-	16 366 651	13 914 557	-	13 914 557	13 767 145	-	13 767 145
Total revenue	40 818 105	304 254 061	345 072 166	41 042 785	323 532 361	364 575 146	42 321 237	345 310 372	387 631 609	43 618 603	373 088 672	416 707 275
% of total revenue¹												
Category A	9.4%	49.7%	59.1%	9.5%	50.0%	59.6%	8.9%	51.2%	60.1%	8.6%	52.0%	60.6%
Category B	6.5%	26.9%	33.5%	5.5%	27.4%	32.9%	5.0%	27.7%	32.7%	4.6%	27.7%	32.3%
Category C	2.5%	4.9%	7.5%	2.6%	4.9%	7.5%	2.5%	4.7%	7.1%	2.4%	4.6%	7.0%

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

²2011 Municipal Demarcation (278 municipalities)

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

7. Table 3 above shows the aggregated budgeted revenue by category of municipality over the 2016/17 MTREF period. In aggregate, the budgeted revenue for 2016/17 has increased by 19.7 per cent from R345 billion in 2015/16 to R416.7 billion in 2018/19 and operating revenue increased by 22.6 per cent while capital growth is 6.9 per cent when compared to 2015/16. The increase in operating revenue appears to be over optimistic given the current economic climate and the actual collection rate realized by municipalities.
8. In the outer years of the 2016/17 MTREF period, aggregated growth is 6.1 per cent and 7.2 per cent respectively. Capital revenue shows a steady increase of 3.1 per cent in the outer years.
9. Total gross revenue raised by Category A (metros) municipalities accounts for 59.6 per cent of the total aggregated revenue in 2016/17. This increases to 60.6 per cent by 2018/19 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.
10. The percentage share of total aggregated revenue for Category B and C municipalities starts to decline slightly over the 2016/17 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 32.5 per cent of total aggregated revenue while Category C (districts) municipalities contribute approximately 7.2 per cent.
11. 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.
12. Table 4 below shows the total budgeted expenditure by category of municipality over the 2016/17 MTREF period. In aggregate, budgeted municipal expenditure has grown by 18 per cent from R373 billion in 2015/16 to R440.1 billion in the 2018/19 financial year with growth in operating expenditure contributing 21.2 per cent and growth in capital expenditure is 3.5 per cent.

Table 4: Aggregated Operating and Capital expenditure per category, 2015/16 - 2018/19

R thousand	2015/16 ²			2016/17 ³			2017/18 ³			2018/19 ³		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	34 734 483	180 259 042	214 993 525	37 419 702	193 832 616	231 252 318	36 812 517	208 067 544	244 880 061	38 124 597	225 049 274	263 173 871
Category B	22 097 784	107 258 002	129 355 786	21 758 136	112 061 462	133 819 598	20 771 327	118 486 764	139 258 090	20 330 674	125 701 420	146 032 094
Category C	10 039 952	19 122 807	29 162 759	10 247 327	19 173 160	29 420 486	10 186 649	19 849 866	30 036 515	10 776 493	20 923 279	31 699 771
Total	66 872 219	306 639 851	373 512 069	69 425 165	325 067 237	394 492 403	67 770 493	346 404 174	414 174 667	69 231 763	371 673 973	440 905 736
Less												
Taxation	-	502 137	502 137	-	416 443	416 443	-	552 336	552 336	-	769 266	769 266
Total expenditure	66 872 219	306 137 714	373 009 932	69 425 165	324 650 794	394 075 960	67 770 493	345 851 838	413 622 331	69 231 763	370 904 707	440 136 470
% of total expenditure¹												
Category A	9.3%	48.3%	57.6%	9.5%	49.1%	58.6%	8.9%	50.2%	59.1%	8.6%	51.0%	59.7%
Category B	5.9%	28.7%	34.6%	5.5%	28.4%	33.9%	5.0%	28.6%	33.6%	4.6%	28.5%	33.1%
Category C	2.7%	5.1%	7.8%	2.6%	4.9%	7.5%	2.5%	4.8%	7.3%	2.4%	4.7%	7.2%

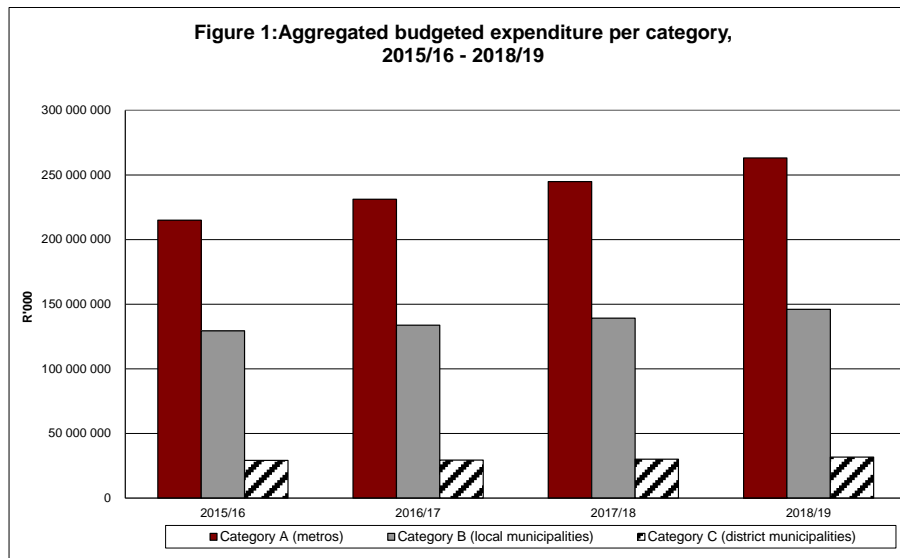
¹Percentage calculations in per category tables are based on total revenue and expenditure (including external loans and internally generated funds).

²2011 Municipal Demarcation (278 municipalities)

³2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

- Capital budgets for Category A municipalities decreases in 2017/18 but increasing over the MTREF, with the capital spending of the metros rising from R37.4 billion in 2016/17 to R38.1 billion by 2018/19. The steady decrease in capital infrastructure spending by Category B municipalities is concerning while Category C municipalities show the same trend as the metros.



- The total expenditure budget of the eight metros as a share of the total local government budget for the 2016/17 financial year constitutes 58.6 per cent, whereas local municipalities represent 33.9 per cent. District municipalities represent only 7.5 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing an estimated 59.7 per cent to total expenditure by 2018/19.
- The contribution of capital expenditure to the total expenditure remains between 15 and 18 per cent with 17.9 per cent in 2015/16, 17.6 per cent in 2016/17, 16.4 per cent in 2017/18 to 15.7 per cent in 2018/19. This performance is well within the National Treasury norm of between 10 and 20 per cent and suggests that in general municipalities are improving on their ability to plan for a longer term, be that at a slow pace.
- Operating expenditure in aggregate represents 82.4 per cent in 2016/17, increases to 83.6 per cent in 2017/18 and 84.3 per cent in 2018/19 of the overall budget of municipalities. The minor increases in operating expenditure for the outer years of the MTREF do not 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

Table 5: Budgeted capital expenditure and funding, 2015/16 - 2018/19

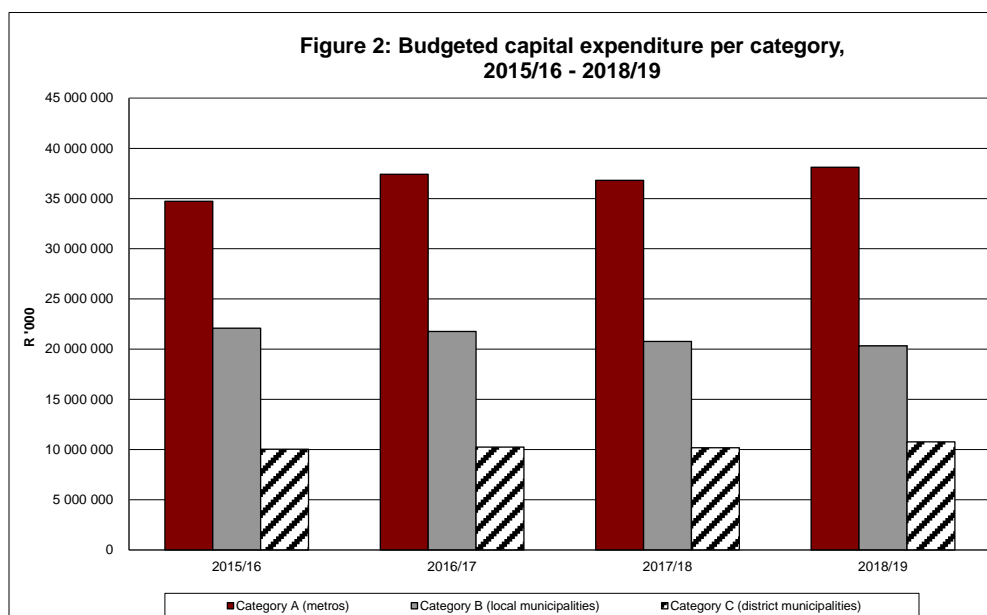
R thousands	Original Budget	2016/17 Medium Term Revenue & Expenditure Framework ²		
	2015/16 ¹	2016/17	2017/18	2018/19
Capital Expenditure - Standard Classification				
<i>Governance and Administration</i>	6 104 758	6 279 067	5 237 520	4 844 290
Executive & Council	1 969 832	1 974 985	1 963 533	2 002 203
Budget & Treasury Office	923 205	954 496	923 494	796 500
Corporate Services	3 211 721	3 349 587	2 350 493	2 045 586
<i>Community and Public Safety</i>	9 697 014	9 674 316	9 826 782	10 091 749
Community & Social Services	1 806 952	1 782 539	1 814 380	1 862 230
Sport And Recreation	1 439 880	1 349 126	1 091 991	890 125
Public Safety	1 062 275	1 002 044	1 016 626	965 927
Housing	4 992 355	5 216 981	5 570 206	5 997 061
Health	395 552	323 626	333 579	376 406
<i>Economic and Environmental Services</i>	20 174 768	20 528 124	20 653 219	21 487 495
Planning and Development	3 209 649	3 804 947	3 577 351	3 943 047
Road Transport	16 835 164	16 570 227	16 953 241	17 364 392
Environmental Protection	129 955	152 950	122 627	180 056
<i>Trading Services</i>	30 533 353	32 292 684	31 646 752	32 460 590
Electricity	8 118 942	8 781 703	6 951 602	7 122 002
Water	14 529 670	15 787 664	16 744 804	17 451 535
Waste Water Management	6 717 307	6 337 382	6 415 304	6 240 504
Waste Management	1 167 434	1 385 935	1 535 042	1 646 548
<i>Other</i>	362 326	650 975	406 220	347 639
Total Capital Expenditure	66 872 219	69 425 165	67 770 493	69 231 763
<i>Of which</i>				
Total New Assets	41 827 756	49 315 250	48 358 790	49 366 433
Total Renew al of Existing Assets	25 044 463	20 109 915	19 411 703	19 865 330
Total Capital Expenditure	66 872 219	69 425 165	67 770 493	69 231 763
<i>Percentage of total capital expenditure</i>				
New assets	62.5%	71.0%	71.4%	71.3%
Renew al of existing assets	37.5%	29.0%	28.6%	28.7%
Funded by:				
National Government	36 897 092	37 624 866	39 481 356	41 143 498
Provincial Government	2 127 398	2 145 613	1 634 285	1 460 390
District Municipality	69 783	97 423	67 128	57 589
Other transfers and grants	584 207	218 990	167 003	122 767
Transfers recognised - capital	39 678 480	40 086 891	41 349 772	42 784 244
Public contributions and donations	1 139 625	955 894	971 465	834 360
Borrow ing	12 155 568	12 015 730	11 534 699	11 846 015
Internally generated funds	13 898 546	16 366 651	13 914 557	13 767 145
Total Capital Funding	66 872 219	69 425 165	67 770 493	69 231 763
Repairs and Maintenance by Asset Class				
Infrastructure - Road Transport	4 408 961	4 918 158	5 212 765	5 573 070
Infrastructure - Electricity	4 535 894	4 901 520	5 130 013	5 647 180
Infrastructure - Water	3 065 897	3 204 841	3 567 934	3 809 191
Infrastructure - Sanitation	1 761 309	2 179 951	2 325 128	2 501 696
Infrastructure - Other	696 254	1 077 366	1 129 355	1 215 426
Infrastructure	14 468 315	16 281 836	17 365 195	18 746 564
Community	1 425 410	1 930 970	2 023 350	2 107 386
Heritage assets	254 904	254 605	270 656	295 939
Investment properties	42 008	34 056	37 310	40 886
Other assets	6 884 800	5 757 610	6 066 439	6 556 682
Total Repairs and Maintenance	23 075 437	24 259 077	25 762 950	27 747 458

¹2011 Municipal Demarcation (278 municipalities)

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

17. The 2016/17 capital budget reflects a R49.3 billion investment in new infrastructure which is 71 per cent of the total aggregated capital budget; 8.5 per cent more than in 2015/16. Investment in the renewal of existing assets is appropriated at R20.1 billion or 29 per cent of the capital budget, significantly lower than the previous year and remains consistently below the 60:40 ratio prescribed between new and renewal capital expenditure.
18. Monthly reporting on operational repairs and maintenance figures has now been institutionalised as part of Section 71 in-year reporting framework. R24.3 billion of operating expenditure will be allocated in 2016/17 to the repairs and maintenance of assets. This will increase to R25.8 billion and R27.7 billion in the two outer years of the MTREF period.



Aggregated operating and capital budget per municipality per province

19. Table 6 and 7 show the aggregated budgeted revenue and expenditure by province over the 2016/17 MTREF period.
20. A provincial analysis reveals that Gauteng with 11 municipalities (including three metros and two secondary cities) has the highest capital budget for 2016/17 estimated at R20.5 billion or 29.5 per cent of the total municipal capital budget. This is followed by KwaZulu-Natal with 54 municipalities (including one metro and three secondary cities) at an estimated R13.8 billion or 19.9 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R9.7 billion or 13.9 per cent. This trend remains unchanged over the duration of the MTREF.
21. The national per capita spending average is estimated to be R7 620 in 2016/17. Only two provinces will exceed this national average in 2016/17, namely Gauteng at R11 487 and Western Cape at R10 492 per capita. The trend line suggests increases over the MTREF reaching R8 517 per capita by 2018/19.
22. 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 be higher in those provinces where service delivery backlogs are the lowest and there are a higher proportion of affluent households.
23. It should also be noted that this calculation is based on the Census 2011 as the results of the Community Survey conducted in 2016 has not yet been released.

Aggregated operating and capital budget for metros

24. The aggregated budgeted revenue for all metros over the 2016/17 MTREF period is contained in Table 8. Total revenue increased from R198.2 billion in 2015/16 to R212.5 billion in 2016/17, R228.8 billion in 2017/18 and R248.2 billion in 2018/19, reflecting a total increase of 7.7 and 8.5 per cent in the two outer years of the MTREF.
25. 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 constant over the MTREF with the City of Johannesburg topping the list at 23.8 per cent for 2016/17 followed by the Cape Town at 17.6 per cent and eThekweni at 16.2 per cent. Two metros, namely Mangaung and Buffalo City are comparatively small with total revenue at 3.6 and 3.2 per cent respectively.

Table 8: Aggregated Operating and Capital revenue for metros, 2015/16 - 2018/19

R thousand	2015/16 ²			2016/17 ²			2017/18 ³			2018/19 ³		
	Capital	Operating ¹	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 275 354	5 719 607	6 994 962	1 558 134	5 907 039	7 465 173	1 720 823	6 381 910	8 102 733	1 777 999	6 997 588	8 775 587
Cape Town	5 780 819	31 723 843	37 504 662	6 774 256	34 520 879	41 295 135	5 556 200	37 890 981	43 447 181	5 926 157	41 892 264	47 818 421
Ekurhuleni Metro	4 471 563	29 454 839	33 926 402	5 130 961	32 378 969	37 509 931	5 874 426	35 220 372	41 094 799	6 269 280	38 472 283	44 741 563
eThekweni	6 046 926	29 534 286	35 581 212	6 725 067	31 267 560	37 992 627	7 111 265	33 566 911	40 678 176	7 223 751	36 068 592	43 292 343
City Of Johannesburg	9 896 853	43 788 546	53 685 399	9 543 581	46 175 187	55 718 768	9 541 511	49 647 962	59 189 473	9 552 870	54 012 293	63 565 163
Mangaung	1 793 891	6 740 247	8 534 138	1 806 094	6 641 627	8 447 721	1 594 693	6 869 012	8 463 705	1 605 043	7 266 972	8 872 016
Nelson Mandela Bay	1 612 510	8 885 456	10 497 966	1 416 400	9 535 857	10 952 257	1 709 535	10 305 568	12 015 103	1 781 987	11 150 093	12 932 080
City Of Tshwane	3 856 566	26 295 831	30 152 398	4 465 209	30 209 869	34 675 078	3 704 064	31 693 785	35 397 850	3 987 510	34 273 855	38 261 365
Total	34 734 483	182 142 655	216 877 138	37 419 702	196 636 987	234 056 690	36 812 517	211 576 502	248 389 020	38 124 597	230 133 940	268 258 537
Less												
External loans / borrowing	10 264 401	-	10 264 401	10 055 854	-	10 055 854	10 036 866	-	10 036 866	10 580 704	-	10 580 704
Internally generated funds	8 380 835	-	8 380 835	11 523 863	-	11 523 863	9 545 788	-	9 545 788	9 446 730	-	9 446 730
Total revenue	16 089 247	182 142 655	198 231 902	15 839 986	196 636 987	212 476 973	17 229 863	211 576 502	228 806 365	18 097 163	230 133 940	248 231 103
% of total revenue												
Buffalo City	0.6%	2.6%	3.2%	0.7%	2.5%	3.2%	0.7%	2.6%	3.3%	0.7%	2.6%	3.3%
Cape Town	2.7%	14.6%	17.3%	2.9%	14.7%	17.6%	2.2%	15.3%	17.5%	2.2%	15.6%	17.8%
Ekurhuleni Metro	2.1%	13.6%	15.6%	2.2%	13.8%	16.0%	2.4%	14.2%	16.5%	2.3%	14.3%	16.7%
eThekweni	2.8%	13.6%	16.4%	2.9%	13.4%	16.2%	2.9%	13.5%	16.4%	2.7%	13.4%	16.1%
City Of Johannesburg	4.6%	20.2%	24.8%	4.1%	19.7%	23.8%	3.8%	20.0%	23.8%	3.6%	20.1%	23.7%
Mangaung	0.8%	3.1%	3.9%	0.8%	2.8%	3.6%	0.6%	2.8%	3.4%	0.6%	2.7%	3.3%
Nelson Mandela Bay	0.7%	4.1%	4.8%	0.6%	4.1%	4.7%	0.7%	4.1%	4.8%	0.7%	4.2%	4.8%
City Of Tshwane	1.8%	12.1%	13.9%	1.9%	12.9%	14.8%	1.5%	12.8%	14.3%	1.5%	12.8%	14.3%

¹ Operating revenue excluding capital transfers

²2011 Municipal Demarcation (278 municipalities)

³2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

26. The capital budget of the metros constitutes 53.9 per cent of the total municipal capital budget for 2016/17 and increases to 55.1 per cent of total municipal capital expenditure by 2018/19. This is about 2 per cent higher than the previous year but still highlights the overall importance of the metros in driving economic growth and job creation as metros are widely considered growth engines of the economy.

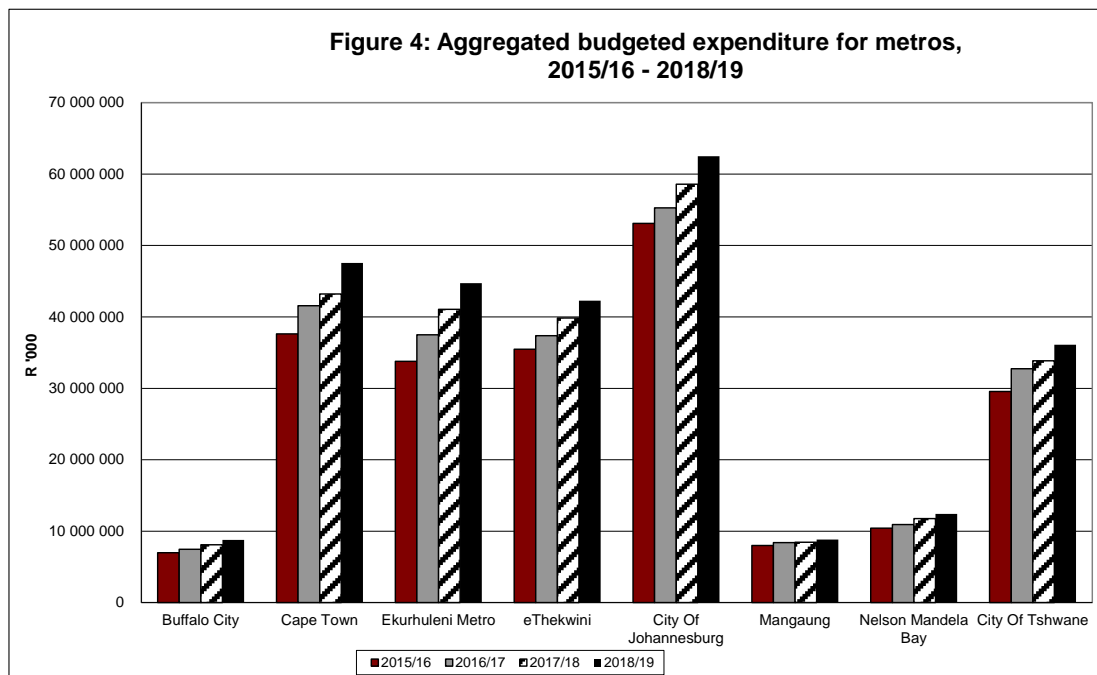
Table 9: Aggregated Operating and Capital expenditure for metros, 2015/16 - 2018/19

R thousand	2015/16 ¹			2016/17 ²			2017/18 ²			2018/19 ²		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 275 354	5 718 685	6 994 040	1 558 134	5 905 961	7 464 095	1 720 823	6 380 242	8 101 065	1 777 999	6 994 832	8 772 831
Cape Town	5 780 819	31 849 422	37 630 241	6 774 256	34 796 423	41 570 679	5 556 200	37 658 442	43 214 642	5 926 157	41 620 703	47 546 860
Ekurhuleni Metro	4 471 563	29 321 872	33 793 435	5 130 961	32 378 197	37 509 158	5 874 426	35 188 185	41 062 612	6 269 280	38 466 789	44 736 069
eThekwini	6 046 926	29 436 059	35 482 985	6 725 067	30 646 274	37 371 341	7 111 265	32 738 620	39 849 885	7 223 751	35 045 686	42 269 437
City Of Johannesburg	9 896 853	43 195 323	53 092 176	9 543 581	45 722 359	55 265 940	9 541 511	49 031 705	58 573 217	9 552 870	52 942 753	62 495 623
Mangaung	1 793 891	6 206 926	8 000 816	1 806 094	6 598 468	8 404 562	1 594 693	6 861 955	8 456 648	1 605 043	7 219 294	8 824 337
Nelson Mandela Bay	1 612 510	8 819 839	10 432 349	1 416 400	9 503 483	10 919 883	1 709 535	10 061 073	11 770 608	1 781 987	10 639 505	12 421 492
City Of Tshwane	3 856 566	25 710 916	29 567 483	4 465 209	28 281 450	32 746 659	3 704 064	30 147 320	33 851 384	3 987 510	32 119 712	36 107 221
Total	34 734 483	180 259 042	214 993 525	37 419 702	193 832 616	231 252 318	36 812 517	208 067 544	244 880 061	38 124 597	225 049 274	263 173 871
Less												
Taxation	-	502 137	502 137	-	416 443	416 443	-	552 336	552 336	-	769 266	769 266
Total revenue	34 734 483	179 756 905	214 491 388	37 419 702	193 416 173	230 835 875	36 812 517	207 515 208	244 327 725	38 124 597	224 280 008	262 404 605
% of total expenditure												
Buffalo City	0.6%	2.7%	3.3%	0.7%	2.6%	3.2%	0.7%	2.6%	3.3%	0.7%	2.7%	3.3%
Cape Town	2.7%	14.8%	17.5%	2.9%	15.0%	18.0%	2.3%	15.4%	17.6%	2.3%	15.8%	18.1%
Ekurhuleni Metro	2.1%	13.6%	15.7%	2.2%	14.0%	16.2%	2.4%	14.4%	16.8%	2.4%	14.6%	17.0%
eThekwini	2.8%	13.7%	16.5%	2.9%	13.3%	16.2%	2.9%	13.4%	16.3%	2.7%	13.3%	16.1%
City Of Johannesburg	4.6%	20.1%	24.7%	4.1%	19.8%	23.9%	3.9%	20.0%	23.9%	3.6%	20.1%	23.7%
Mangaung	0.8%	2.9%	3.7%	0.8%	2.9%	3.6%	0.7%	2.8%	3.5%	0.6%	2.7%	3.4%
Nelson Mandela Bay	0.8%	4.1%	4.9%	0.6%	4.1%	4.7%	0.7%	4.1%	4.8%	0.7%	4.0%	4.7%
City Of Tshwane	1.8%	12.0%	13.8%	1.9%	12.2%	14.2%	1.5%	12.3%	13.8%	1.5%	12.2%	13.7%

¹2011 Municipal Demarcation (278 municipalities)

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database



27. Operating expenditure by metros accounts for more than half (59.6 per cent in 2016/17) of total municipal operating expenditure over the 2016/17 MTREF.
28. Table 9 also shows that the City of Johannesburg, Cape Town and eThekwini have the largest capital budgets at 4.1, 2.9 and 2.9 per cent of the aggregated total budget for metros. They are followed by the Ekurhuleni Metro at 2.2 per cent. When the City of Tshwane is benchmarked against the mentioned metros, its capital budget is a mere 1.9 per cent in 2016/17 and decreases to 1.5 per cent over the MTREF.
29. The amount to be generated by metros through the sale (billing) of core municipal services is reflected in Table 10 below. The major drivers of revenue in 2016/17 are electricity (R72.4 billion), water (R22.3 billion), waste water management (R9.5 billion) and waste management (R6.5 billion). Over the MTREF, moderate increases are anticipated for electricity which is expected to grow by 10 per cent in 2017/18 and 10.3 per cent in 2018/19. 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.

30. 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, 2015/16 - 2018/19

R thousand	Electricity	Water	Waste Water Management	Waste Management
2015/16¹				
Buffalo City	1 658 671	411 381	314 571	286 063
Cape Town	11 137 790	2 762 941	1 500 948	1 097 141
Ekurhuleni Metro	13 153 808	3 437 870	1 189 748	1 364 937
eThekweni	11 778 524	3 279 627	855 076	550 024
City Of Johannesburg	15 015 735	5 121 389	3 239 755	1 263 088
Mangaung	2 411 023	876 185	235 259	93 138
Nelson Mandela Bay	3 519 222	639 699	436 338	222 076
City Of Tshwane	10 518 071	3 457 067	789 592	1 148 974
Total revenue	69 192 844	19 986 158	8 561 286	6 025 441
2016/17²				
Buffalo City	1 815 256	444 291	339 107	308 375
Cape Town	11 807 918	3 066 664	1 628 277	1 232 929
Ekurhuleni Metro	13 458 637	4 260 889	1 646 274	1 486 709
eThekweni	12 576 060	3 301 439	807 742	572 621
City Of Johannesburg	15 046 932	5 785 951	3 425 653	1 364 135
Mangaung	2 467 426	715 698	244 712	100 097
Nelson Mandela Bay	3 736 584	612 076	478 263	161 097
City Of Tshwane	11 445 635	4 075 549	937 495	1 261 245
Total revenue	72 354 448	22 262 558	9 507 522	6 487 206
2017/18²				
Buffalo City	1 953 942	479 346	364 540	331 504
Cape Town	13 541 320	3 401 214	1 807 387	1 334 930
Ekurhuleni Metro	14 794 160	4 747 445	1 798 663	1 599 903
eThekweni	13 570 766	3 613 211	868 594	611 762
City Of Johannesburg	16 703 995	6 399 235	3 788 772	1 475 994
Mangaung	2 559 518	767 694	260 092	106 251
Nelson Mandela Bay	4 019 844	688 113	521 306	175 601
City Of Tshwane	12 416 549	4 527 815	1 039 968	1 374 073
Total revenue	79 560 094	24 624 073	10 449 322	7 010 016
2018/19²				
Buffalo City	2 103 223	517 310	390 787	355 372
Cape Town	15 626 682	3 772 397	2 006 200	1 439 455
Ekurhuleni Metro	16 261 290	5 217 258	1 954 715	1 722 352
eThekweni	14 653 578	3 954 481	933 514	653 627
City Of Johannesburg	18 798 274	7 071 128	4 186 593	1 597 026
Mangaung	2 653 203	827 217	277 633	113 085
Nelson Mandela Bay	4 324 466	774 975	568 224	191 410
City Of Tshwane	13 346 340	4 986 312	1 143 374	1 483 453
Total revenue	87 767 056	27 121 079	11 461 040	7 555 781

¹2011 Municipal Demarcation (278 municipalities)

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

31. Table 11 above provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R49.9 billion for the purchase of bulk electricity, with an annual growth of 9.5 per cent and 9.9 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 slightly more than the 9.4 per cent prescribed in the Budget Circular No 79 issued on 7 March 2016. It is estimated that expenditure in relation to bulk purchases of electricity will be R60.1 billion by 2018/19.
32. 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.

33. 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. There is a small margin of about 1 per cent between the estimate revenue and the bulk purchases, indicating that the collection rate must be almost 100 per cent to absorb the increase in bulk costs.
34. The net profit on the sale of electricity and water are important revenue sources for metros. This profit margin has been under significant pressure due to the rapid and significant increase in the bulk price of electricity and water resulting in affordability challenges. Municipalities are experiencing a two-fold impact of the high electricity and water tariff 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, 2015/16 - 2018/19

R thousand	Electricity				Water			
	2015/16 ¹	2016/17 ²	2017/18 ²	2018/19 ²	2015/16 ¹	2016/17 ²	2017/18 ²	2018/19 ²
Buffalo City	1 190 815	1 316 772	1 420 270	1 531 903	186 196	204 816	225 297	247 827
Cape Town	7 597 800	8 095 800	9 223 280	10 646 220	369 736	419 380	472 446	516 781
Ekurhuleni Metro	8 709 055	9 084 096	10 174 187	11 395 090	2 548 725	2 778 539	3 056 393	3 300 905
eThekweni	7 969 552	8 479 903	9 158 295	9 890 959	1 791 213	1 936 669	2 149 702	2 386 169
City Of Johannesburg	10 599 183	11 144 331	11 914 008	12 919 475	2 328 106	2 507 328	2 672 812	2 846 544
Mangaung	1 277 841	1 413 137	1 477 552	1 553 879	450 573	434 003	454 203	475 293
Nelson Mandela Bay	2 638 068	2 871 221	3 144 045	3 391 166	104 101	119 875	134 266	150 384
City Of Tshwane	6 804 972	7 495 422	8 132 114	8 741 714	1 990 146	2 461 188	2 726 456	2 996 032
Total expenditure	46 787 286	49 900 681	54 643 751	60 070 406	9 768 795	10 861 798	11 891 575	12 919 935

¹2011 Municipal Demarcation (278 municipalities)

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

35. Expenditure on bulk water amounts to R10.9 billion in 2016/17 and increases by 9.5 per cent in 2017/18 to R11.9 billion and a further 8.6 per cent in 2018/19 to R12.9 billion.

Aggregated operating and capital budget for secondary cities

36. Tables 12 and 13 below depict the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2016 MTREF period.
37. The total budgeted revenue for secondary cities amounts to R49.6 billion in 2016/17 and increases to R56.6 billion by 2018/19.
38. The total expenditure budget of secondary cities amounts to R53.2 billion in 2016/17, R56 billion in 2017/18, and R59.2 billion in 2018/19 representing a growth of 5.1 per cent and 5.7 per cent in the two outer years of the MTREF. Therefore one can conclude that they are budgeting for a deficit.
39. The growth in operating expenditure is expected to increase by 6.4 per cent in 2017/18 and by 6.2 per cent in 2018/19. 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.
40. Spending on capital by secondary cities over the MTREF is decreasing over the MTREF from R7.1 billion in 2016/17 to R6.9 billion in 2017/18 and R7.1 billion in 2018/19. 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. It needs to be

Growth in Aggregated Operating and Capital Budgets compared to the 2015/16 Budgets

43. Table 14 below provides a comparison between the preliminary outcome for the 2015/16 financial year concluded on 30 June 2016 as published in the Section 71 Quarter 4 publication which was released on 9 September 2016, the adopted budget for the 2016/17 financial year and the average growth in municipal budgets over the 2016 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2015/16

R thousands	2015/16 ^a			2016/17	2017/18	2018/19	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates ^d			2015/16-2016/17	2015/16-2018/19
Operating Revenue¹								
Property rates	47 921 735	47 875 397	45 323 276	52 073 733	55 463 403	59 002 453	14.9%	9.2%
Service charges	157 725 950	156 231 401	135 271 716	166 606 944	181 695 221	198 510 493	23.2%	13.6%
Other own revenue	98 606 377	100 799 064	89 679 047	104 851 684	108 151 748	115 575 726	16.9%	8.8%
Total Revenue	304 254 061	304 905 862	270 274 038	323 532 361	345 310 372	373 088 672	19.7%	11.3%
Operating Expenditure								
Employee related costs	83 059 517	81 578 167	71 683 656	88 884 660	95 220 726	101 954 116	24.0%	12.5%
Bad and doubtful debt	15 150 269	15 470 537	9 891 652	17 210 388	18 114 143	19 137 747	74.0%	24.6%
Bulk purchases	88 798 027	87 961 871	73 541 432	94 438 508	102 761 082	112 027 223	28.4%	15.1%
Other expenditure	119 632 038	125 508 319	93 634 282	124 533 681	130 308 223	138 554 887	33.0%	14.0%
Total Expenditure²	306 639 851	310 518 894	248 751 021	325 067 237	346 404 174	371 673 973	30.7%	14.3%
Operating Surplus/(Deficit)	(2 385 789)	(5 613 032)	21 523 018	(1 534 876)	(1 093 802)	1 414 699	(107.1%)	(59.6%)
Capital Funding								
External loans	12 121 271	11 634 646	5 748 075	11 911 806	11 462 959	11 819 995	107.2%	27.2%
Internal contributions	9 214 327	9 356 284	5 701 040	11 106 533	10 254 874	9 972 501	94.8%	20.5%
Transfers and subsidies	39 678 480	40 455 397	26 733 446	40 086 891	41 349 772	42 784 244	50.0%	17.0%
Other	5 858 140	6 365 071	3 428 638	6 319 936	4 702 889	4 655 024	84.3%	10.7%
Total funding	66 872 219	67 811 398	41 611 199	69 425 165	67 770 493	69 231 763	66.8%	18.5%
Capital Expenditure								
Water	20 125 595	20 222 580	12 970 269	22 054 268	23 752 820	24 120 614	70.0%	23.0%
Electricity	8 234 453	7 894 137	4 828 759	8 697 860	7 032 039	7 263 068	80.1%	14.6%
Housing	1 685 705	2 143 260	1 186 863	1 738 043	1 643 584	1 546 888	46.4%	9.2%
Roads, pavements, bridges and storm water	13 586 071	14 517 789	9 367 272	13 570 722	13 634 175	13 872 962	44.9%	14.0%
Other	23 240 394	23 069 870	13 270 477	23 364 273	21 707 875	22 428 231	76.1%	19.1%
Total expenditure	66 872 219	67 847 635	41 623 639	69 425 165	67 770 493	69 231 763	66.8%	18.5%

¹Excluding capital transfers and contributions

²Includes Taxation

³2011 Municipal Demarcation (278 municipalities)

⁴2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

44. As seen in the above table, operating expenditure increases in total by 30.7 per cent when the preliminary outcome for 2015/16 and the MTREF budget for 2016/17 are compared to the operating revenue of 19.7 per cent. Increasing operating expenditure that exceeds revenue is a concern and is considered unsustainable.
45. Compared to the preliminary outcomes of 2015/16, salaries, wages and allowances will increase of 24 per cent and bulk purchases by 28.4 per cent. 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 as a result of Bargaining Council resolutions will have to be addressed through cost efficiencies in areas such as overtime and travelling allowances.
46. Bad and doubtful debt is expected to increase by 74 per cent which is 18.4 per cent higher than the 55.4 per cent increase in the 2015/16 MTREF. This is extremely concerning as municipalities are providing for higher levels of defaulting debtors which raises questions around the efficiency of the management of the entire revenue value chain and the affordability of service charges.

47. 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.
48. 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.
49. There is an average increase of 14.3 per cent over the last two years of the MTREF in the total operating expenditure with the highest increase of 24.6 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 2015/16 of R9.9 billion compared to the original for the same year of R15.2 billion, a difference of R5.3 billion. It is suspected that the budget appropriation for 2015/16 is overstated and subsequently distorting the percentage growth.
50. Provisions in respect of bulk purchases are also expected to increase significantly by 15.1 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
51. In respect of operating revenue items, the increase in service charges shows the most notable growth at 13.6 per cent over the MTREF largely due to the increases in the electricity tariffs.
52. Capital budgets grow significantly by 66.8 per cent in 2016/17, significantly more than the 25.6 per cent growth in 2015/16. Given the persistent trends in under-spending of capital budgets, capital projects will have to be properly and effectively managed to ensure implementation as planned. The increase of 94.8 per cent in internal contributions for the funding of the capital budget indicates the municipalities are totally unrealistic in the estimation of operation surpluses to fund their capital programs. Of concern however is the growth in "Other" funding which is 84.3 per cent. It is expected that this may be miss classification of funds but could also be as a result of our grouping of a number of items to articulate the big spending items.
53. Grants and subsidies show an increase of 50 per cent when compared to the preliminary outcomes for 2015/16.
54. Over the MTREF period the average capital expenditure growth is increasing to an estimated 18.5 per cent.

Changes to Baseline

55. Table 15 below highlights the extent to which municipalities have allocated additional resources in the 2016/17 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 2016/17 forward estimates.

Table 15: Changes to baseline for 2016 MTREF

	2016/17			2017/18			2018/19	% change to baseline		% share of total change to baseline	
	2015/16 Medium term estimates ³	2016/17 Draft Medium term estimates ⁴	Changes to baseline	2015/16 Medium term estimates ³	2016/17 Draft Medium term estimates ⁴	Changes to baseline	2016/17 Draft Medium term estimates ⁴	2016/17	2017/18	2016/17	2017/18
R thousands											
Operating Revenue¹											
Property rates	49 987 136	52 073 733	2 086 598	53 755 925	55 463 403	1 707 478	59 002 453	4.2%	3.2%	23.7%	30.6%
Service charges	167 728 431	166 606 944	(1 121 487)	183 936 734	181 695 221	(2 241 512)	198 510 493	(0.7%)	(1.2%)	(12.7%)	(40.2%)
Other own revenue	97 019 049	104 851 684	7 832 634	102 046 047	108 151 748	6 105 701	115 575 726	8.1%	6.0%	89.0%	109.6%
Total Revenue	314 734 616	323 532 361	8 797 745	339 738 705	345 310 372	5 571 666	373 088 672	2.8%	1.6%	100.0%	100.0%
Operating Expenditure											
Employee related costs	85 435 527	88 884 660	3 449 133	91 121 061	95 220 726	4 099 664	101 954 116	4.0%	4.5%	40.3%	72.3%
Bad and doubtful debt	16 096 672	17 210 388	1 113 716	16 973 948	18 114 143	1 140 194	19 137 747	6.9%	6.7%	13.0%	20.1%
Bulk purchases	95 050 679	94 438 508	(612 171)	105 126 175	102 761 082	(2 365 093)	112 027 223	(0.6%)	(2.2%)	(7.1%)	(41.7%)
Other expenditure	119 921 751	124 533 681	4 611 930	127 514 444	130 308 223	2 793 779	138 554 887	3.8%	2.2%	53.9%	49.3%
Total Expenditure²	316 504 628	325 067 237	8 562 609	340 735 628	346 404 174	5 668 545	371 673 973	2.7%	1.7%	100.0%	100.0%
Operating Surplus/(Deficit)	(1 770 012)	(1 534 876)	235 136	(996 923)	(1 093 802)	(96 879)	1 414 699				
Capital Funding											
External loans	11 303 617	11 911 806	608 189	11 251 335	11 462 959	211 624	11 819 995	5.4%	1.9%	11.3%	4.2%
Internal contributions	9 862 041	11 106 533	1 244 491	8 517 658	10 254 874	1 737 216	9 972 501	12.6%	20.4%	23.1%	34.5%
Transfers and subsidies	38 519 683	40 086 891	1 567 208	38 848 018	41 349 772	2 501 753	42 784 244	4.1%	6.4%	29.1%	49.7%
Other	4 355 211	6 319 936	1 964 725	4 115 836	4 702 889	587 052	4 655 024	45.1%	14.3%	36.5%	11.7%
Total funding	64 040 552	69 425 165	5 384 613	62 732 847	67 770 493	5 037 646	69 231 763	8.4%	8.0%	100.0%	100.0%
Capital Expenditure											
Water	20 497 924	22 054 268	1 556 344	20 204 371	23 752 820	3 548 449	24 120 614	7.6%	17.6%	28.9%	70.4%
Electricity	8 068 382	8 697 860	629 479	7 860 439	7 032 039	(828 399)	7 263 068	7.8%	(10.5%)	11.7%	(16.4%)
Housing	1 503 122	1 738 043	234 921	1 446 032	1 643 584	197 552	1 546 888	15.6%	13.7%	4.4%	3.9%
Roads, pavements, bridges and storm water	12 597 811	13 570 722	972 911	12 186 184	13 634 175	1 447 991	13 872 962	7.7%	11.9%	18.1%	28.7%
Other	21 373 313	23 364 273	1 990 960	21 035 821	21 707 875	672 054	22 428 231	9.3%	3.2%	37.0%	13.3%
Total expenditure	64 040 552	69 425 165	5 384 613	62 732 847	67 770 493	5 037 646	69 231 763	8.4%	8.0%	100.0%	100.0%

¹Excluding capital transfers and contributions

²Includes Taxation

³2011 Municipal Demarcation (278 municipalities)

⁴2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

56. Compared to the 2015/16 MTREF forecast, budgeted operating revenue for 2016/17 has increased by R8.8 billion and operating expenditure by R8.6 billion. An additional R5.4 billion was allocated to capital expenditure in the 2016/17 financial year.
57. For the 2017/18 financial year, the operating revenue will increase by R5.6 billion and operating expenditure by R5.7 billion. An additional R5 billion will be set aside for capital expenditure.
58. Against operating expenditure, bulk purchases can be observed as decreasing by 0.6 per cent to the baseline in the 2016/17 financial year and by 2.2 per cent in the 2017/18 year. This is concerning as the bulk purchase cost of electricity and water are expected to increase by 9.4 per cent. It may also indicate that the municipalities are expecting to sell less water and electricity as consumers are tightening their belts.
59. The largest change to the baseline in respect of operating revenue for the 2016/17 financial year can be observed in the category "Other own revenue" where an increase of 8.1 per cent is anticipated. It could be as a result of our grouping of a number of items to articulate the rest of the spending items.
60. The capital expenditure baseline in the 2016/17 financial year is related to an anticipated increase of 8.4 per cent.
61. From a funding perspective, the increased capital expenditure will be supported by an increase in "Other" funding of 45.1 per cent. The internal contributions have increased by 12.6 per cent and does not correspond with the deficit budgets over the 2016/17 MTREF.

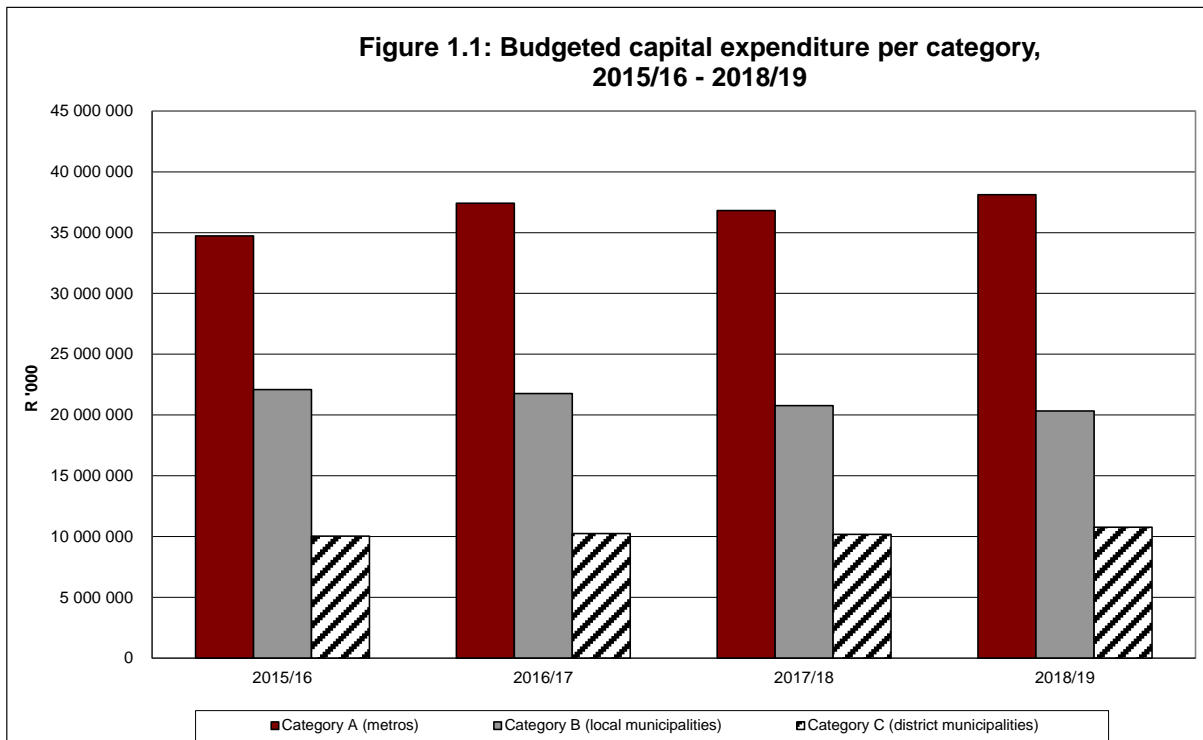
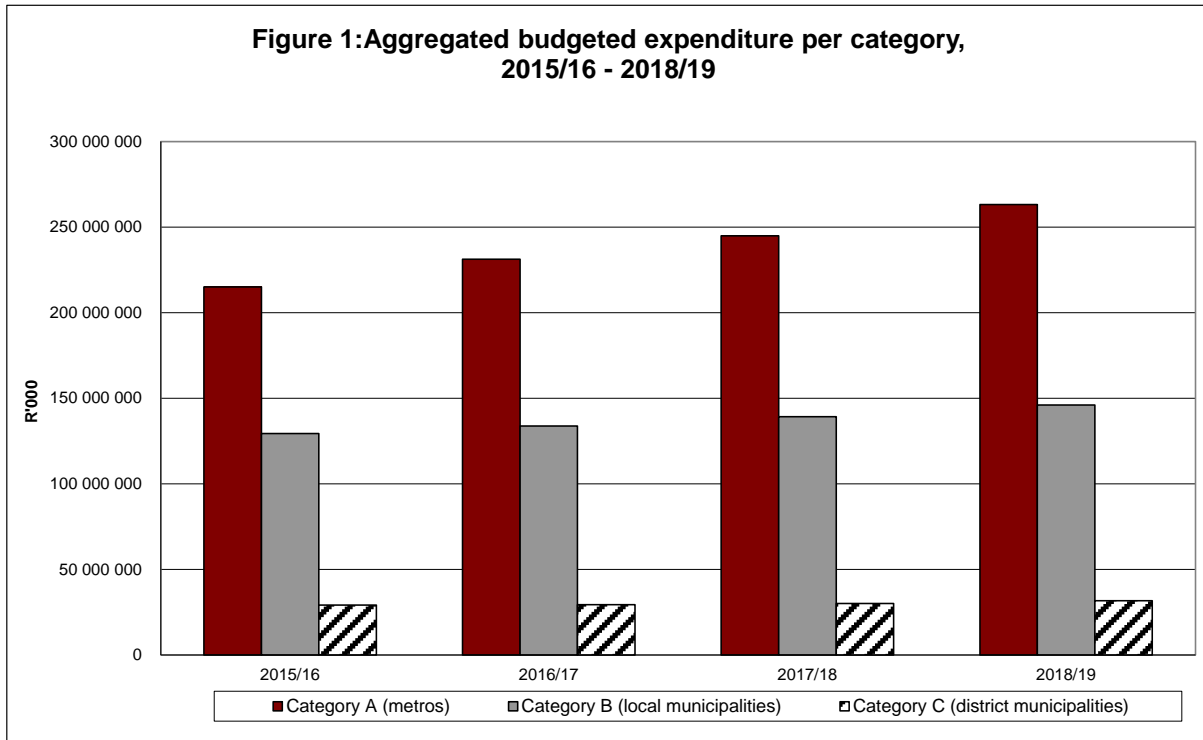


Figure 1.2: Budgeted operating expenditure per category, 2015/16 - 2018/19

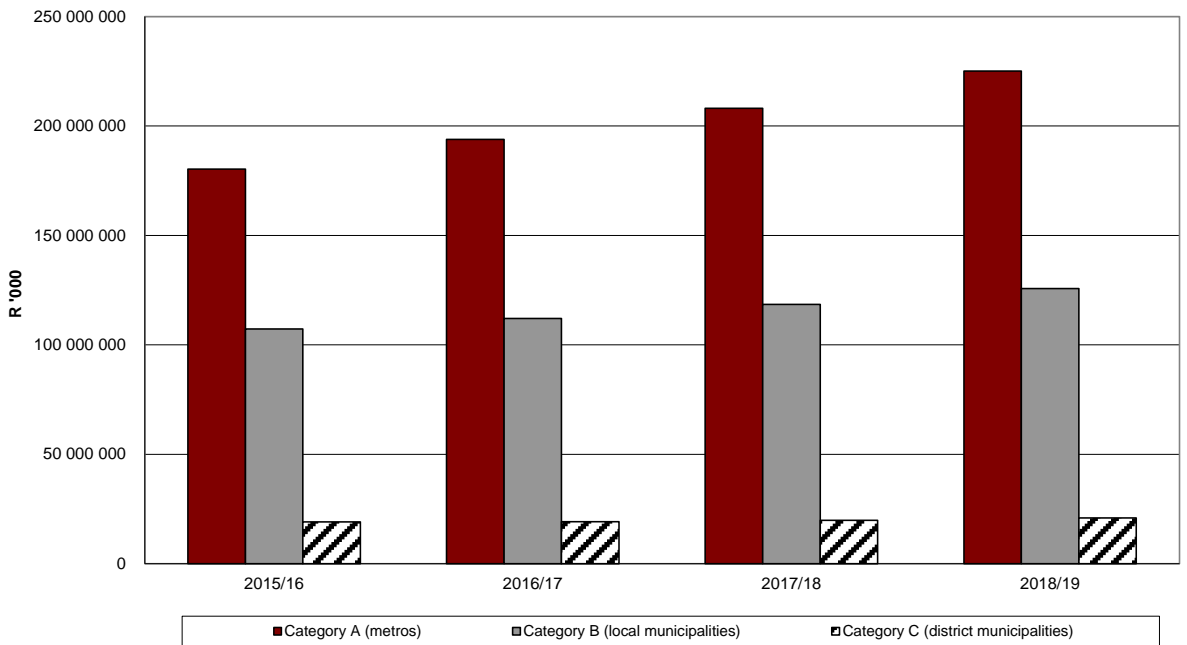


Figure 2: Total operating and capital expenditure per province, 2016/17 - 2018/19

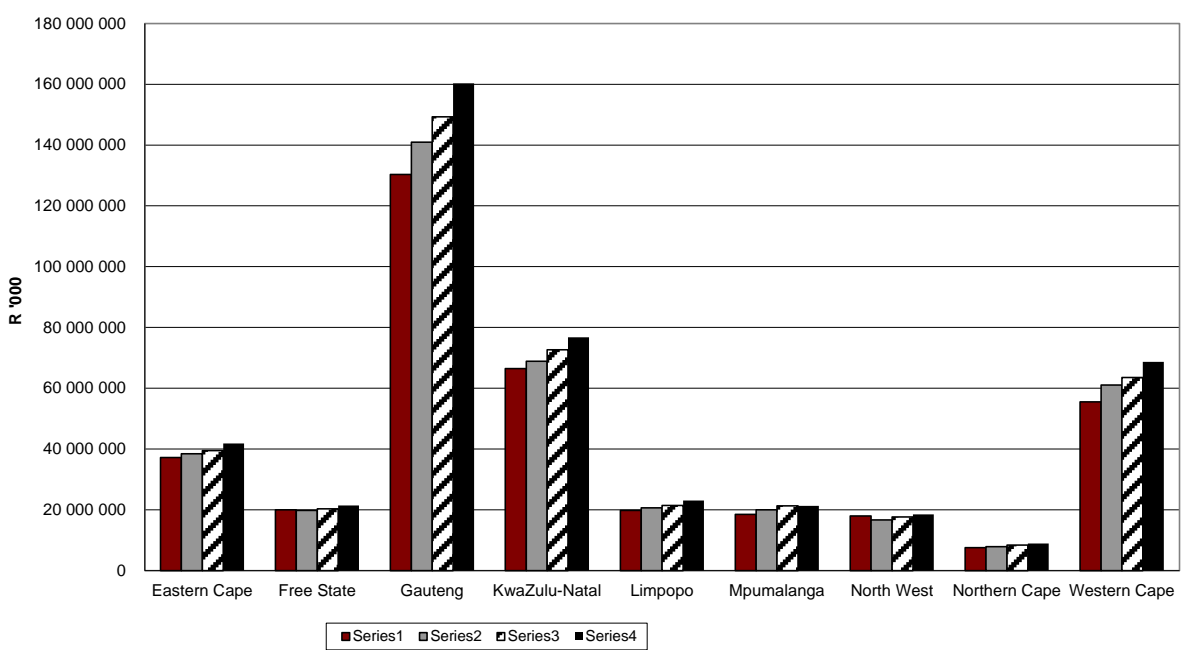


Figure 2.1: Budgeted capital expenditure per province, 2015/16 - 2018/19

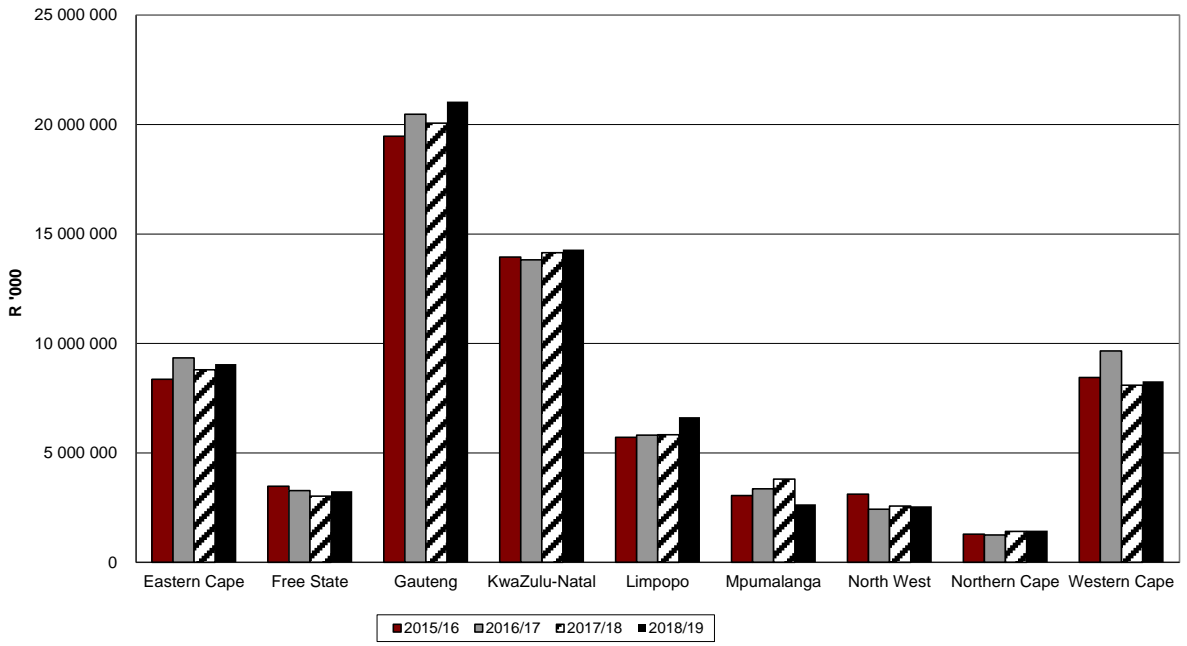


Figure 2.2: Budgeted operating expenditure per province, 2015/16 - 2018/19

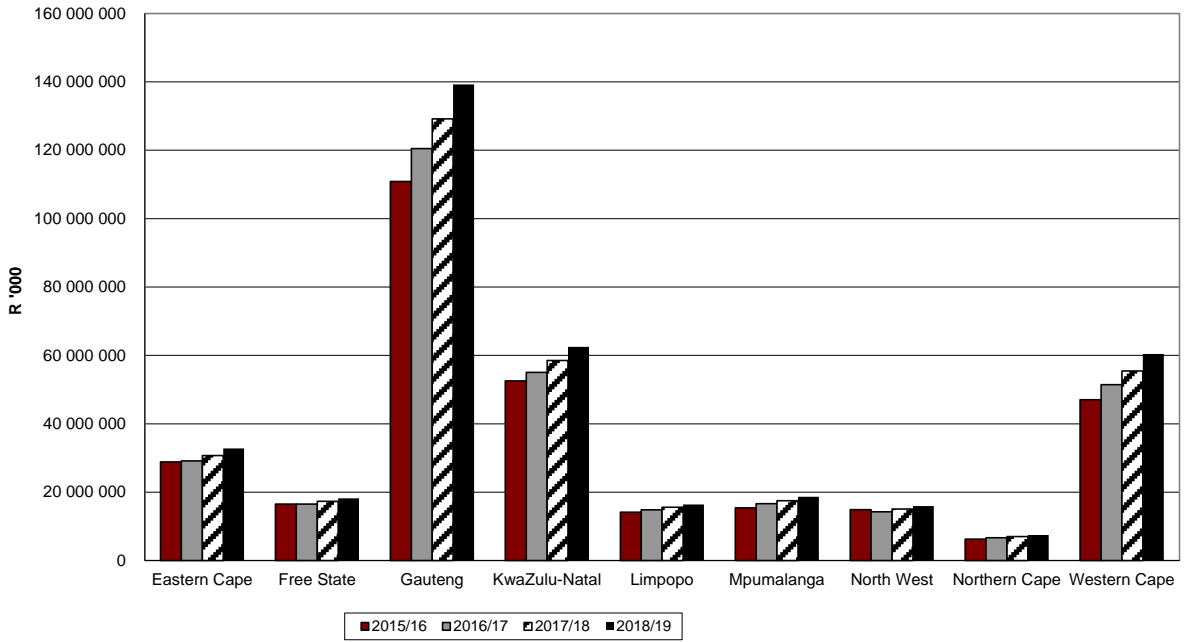


Figure 3: Aggregated budgeted expenditure for metros, 2015/16 - 2018/19

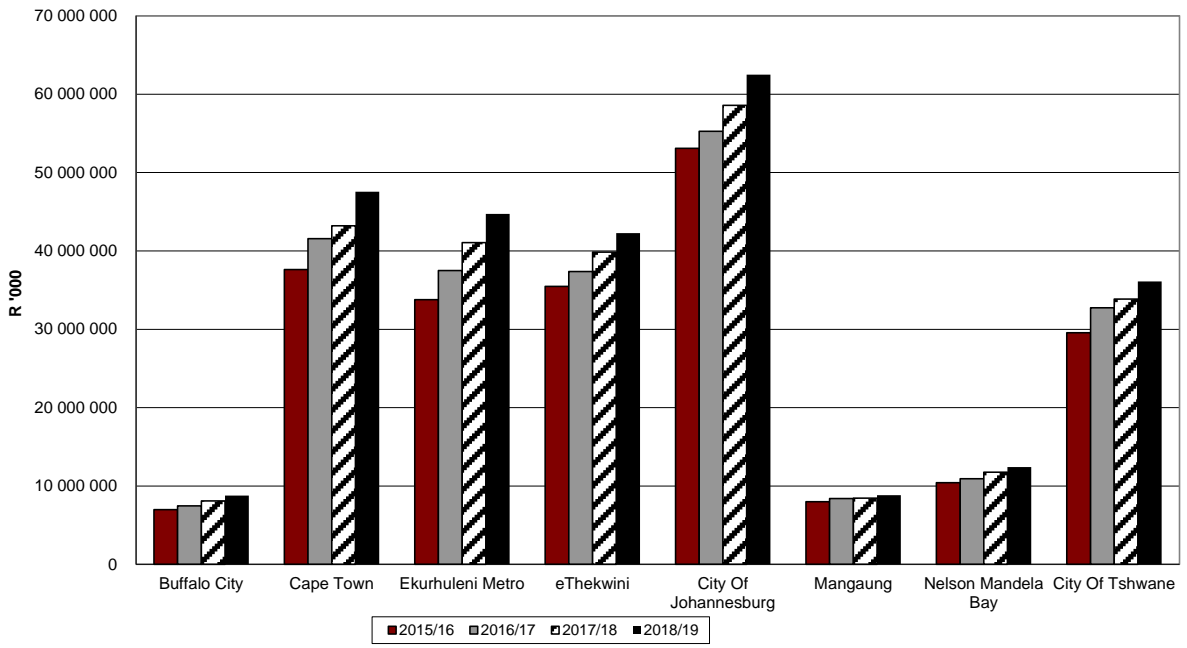


Figure 3.1: Budgeted capital expenditure per metro, 2015/16 - 2018/19

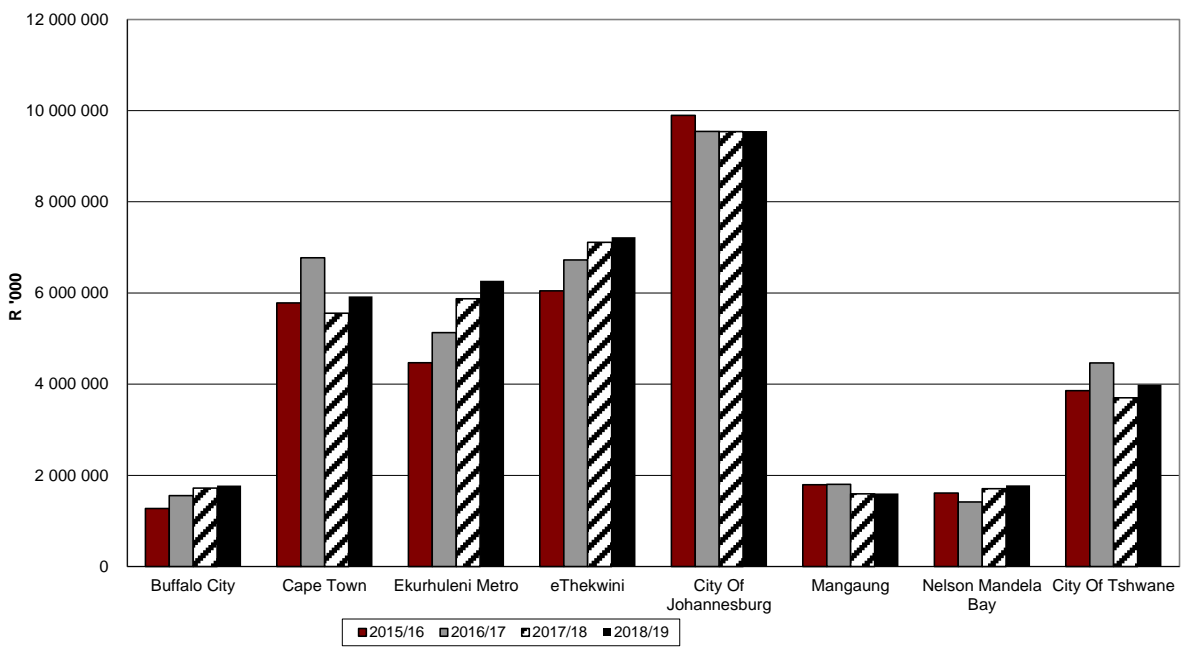
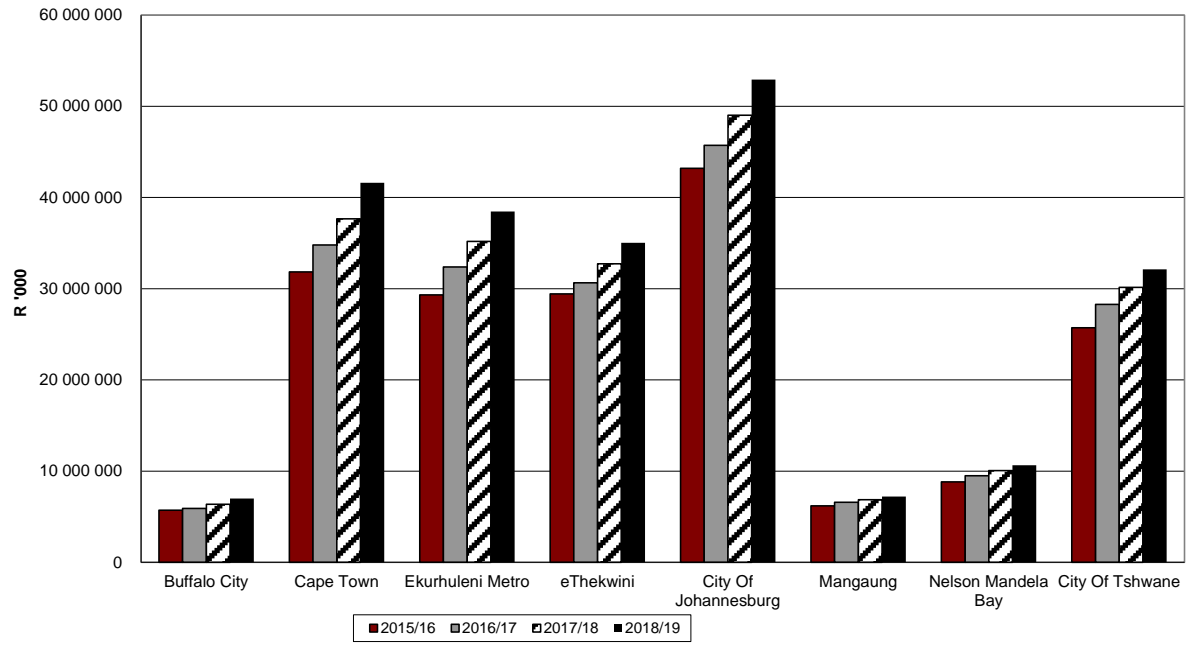
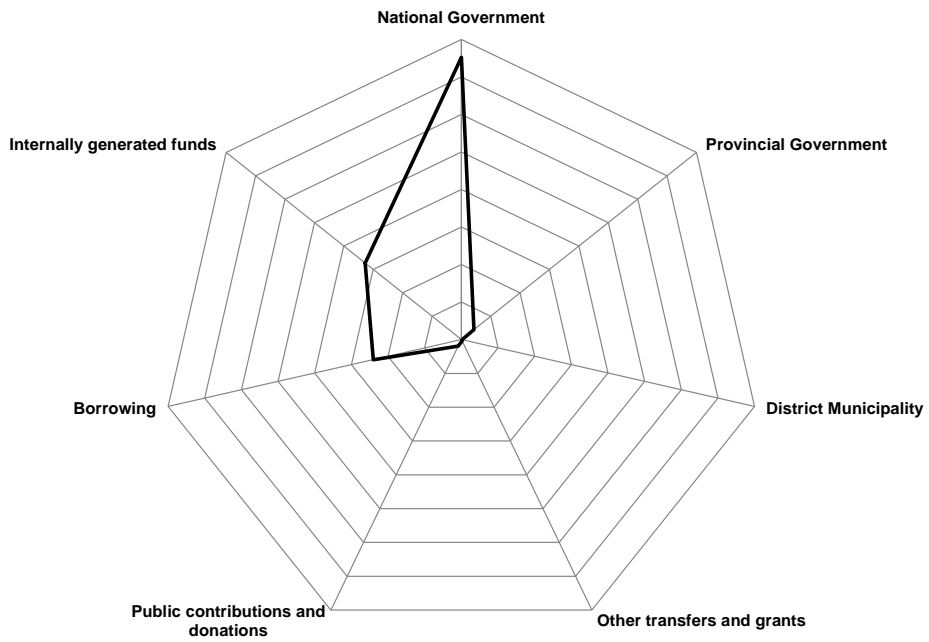


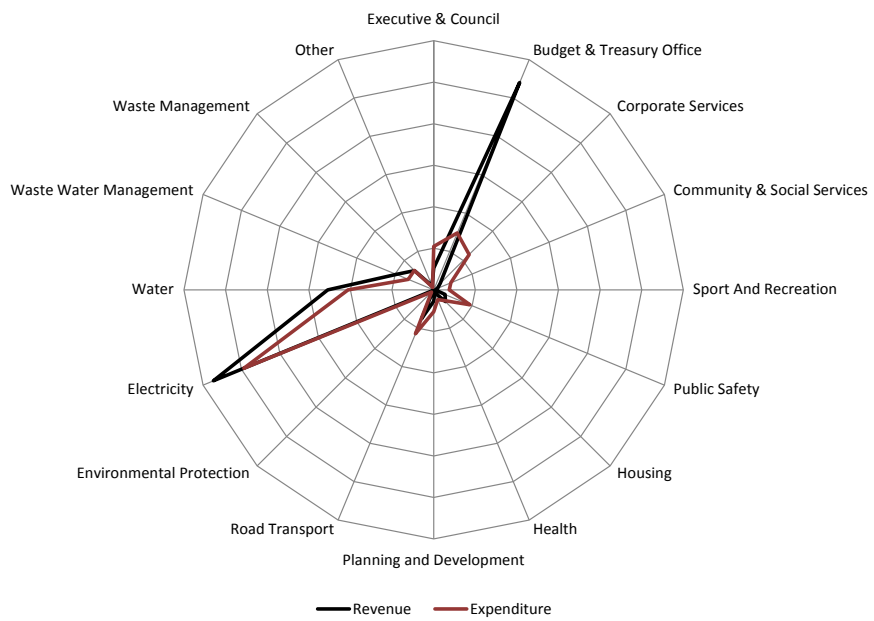
Figure 3.2: Budgeted operating expenditure per metro, 2015/16 - 2018/19



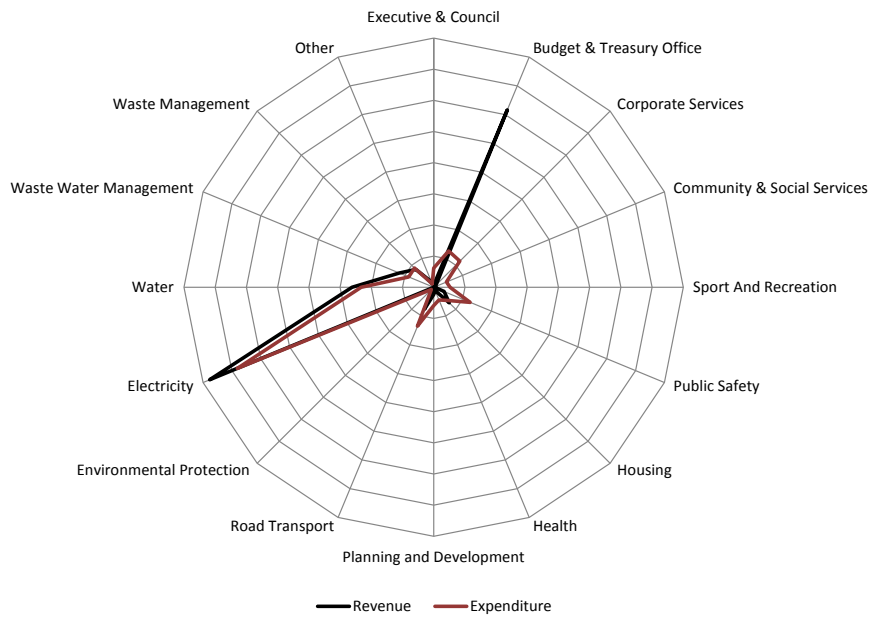
Capital funding contributions, 2016/17



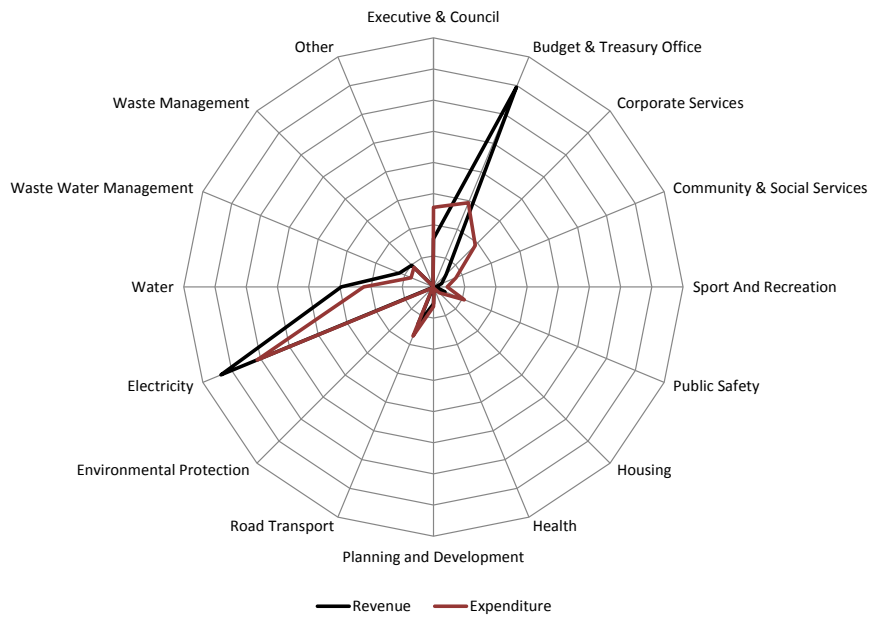
Aggregated operating revenue and expenditure by standard classification, 2016/17



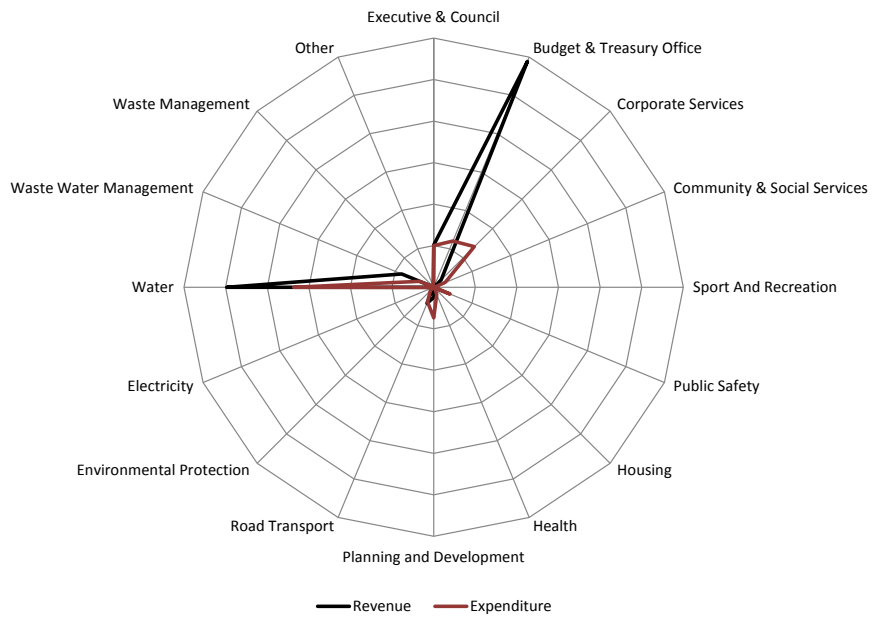
**Category A operating revenue and expenditure
by standard classification, 2016/17**



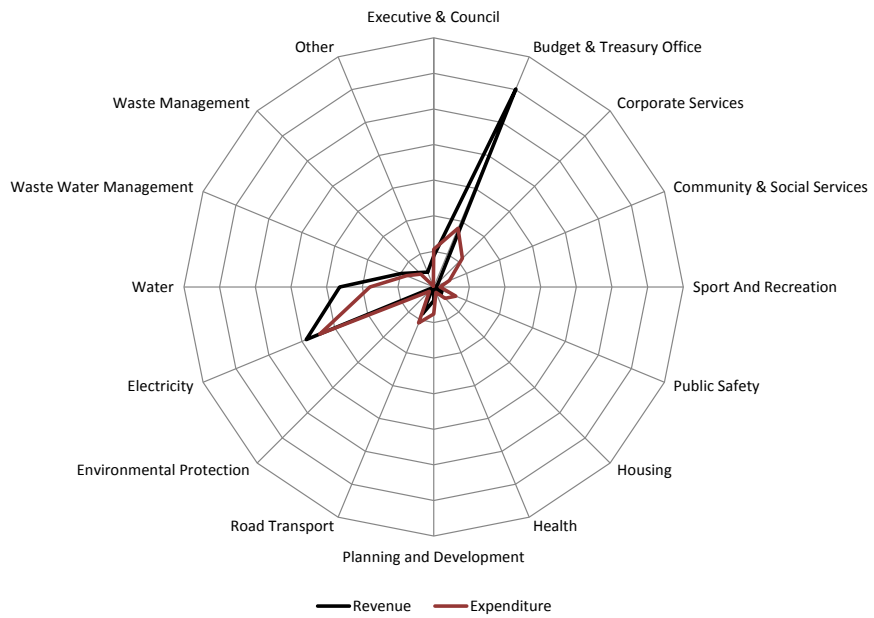
**Category B operating revenue and expenditure
by standard classification, 2016/17**



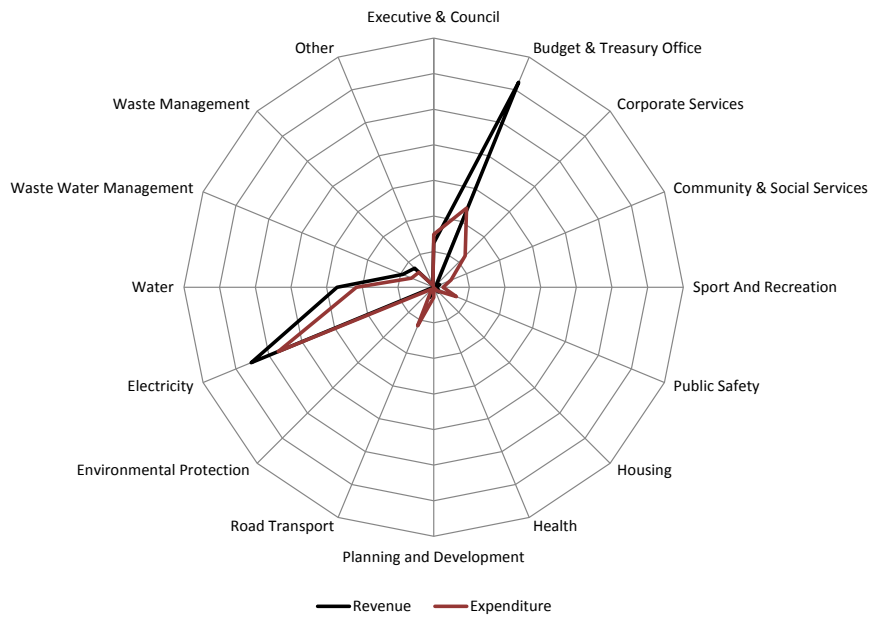
**Category C operating revenue and expenditure
by standard classification, 2016/17**



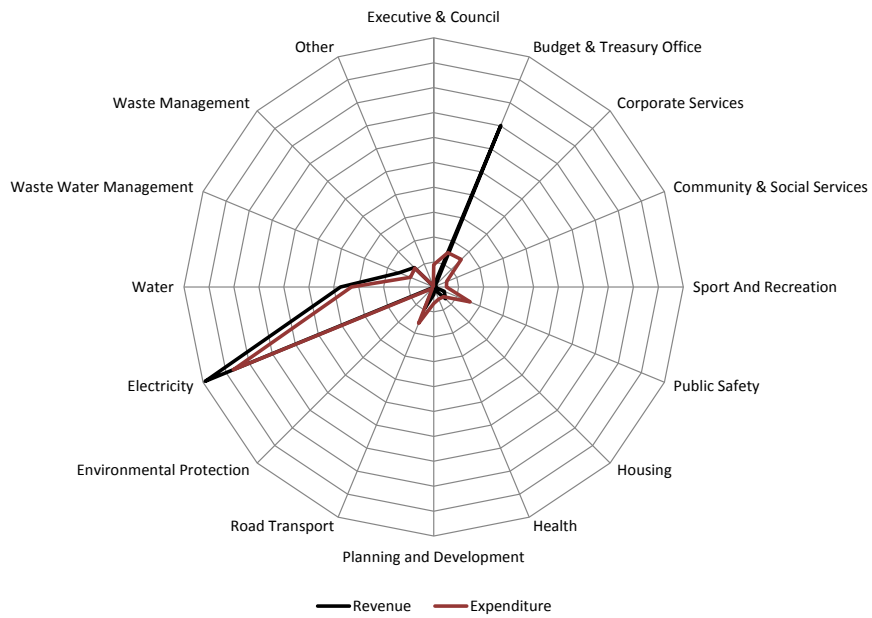
**Eastern Cape operating revenue and expenditure
by standard classification, 2016/17**



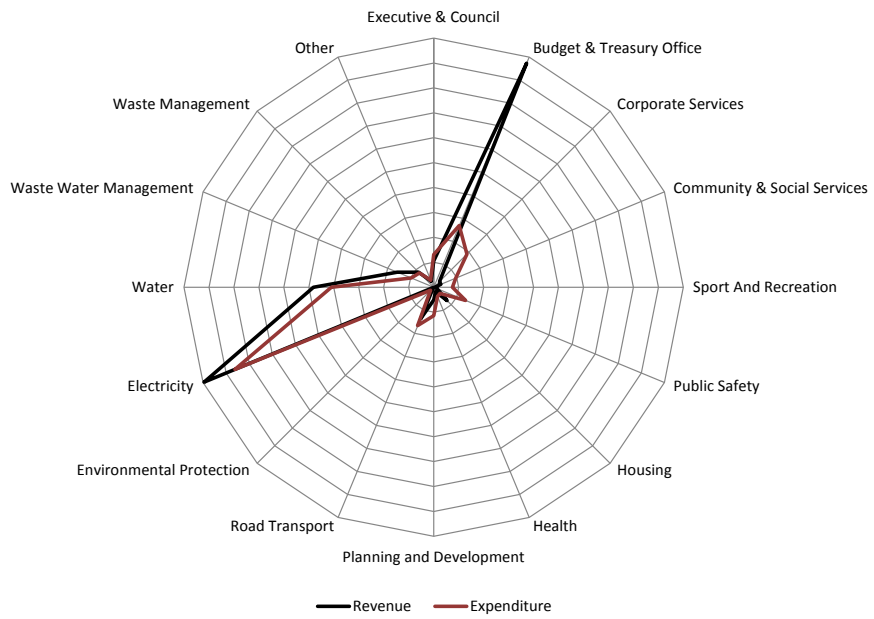
**Free State operating revenue and expenditure
by standard classification, 2016/17**



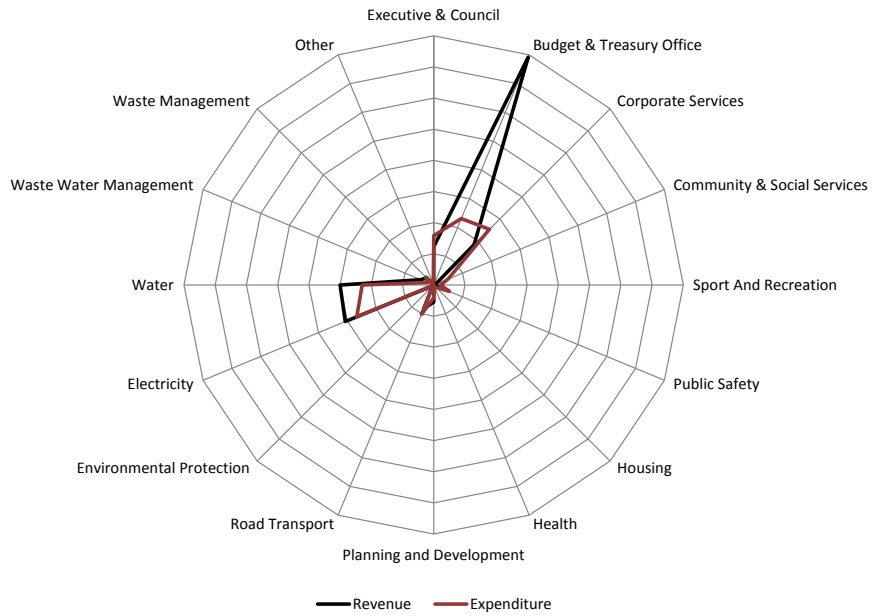
**Gauteng operating revenue and expenditure
by standard classification, 2016/17**



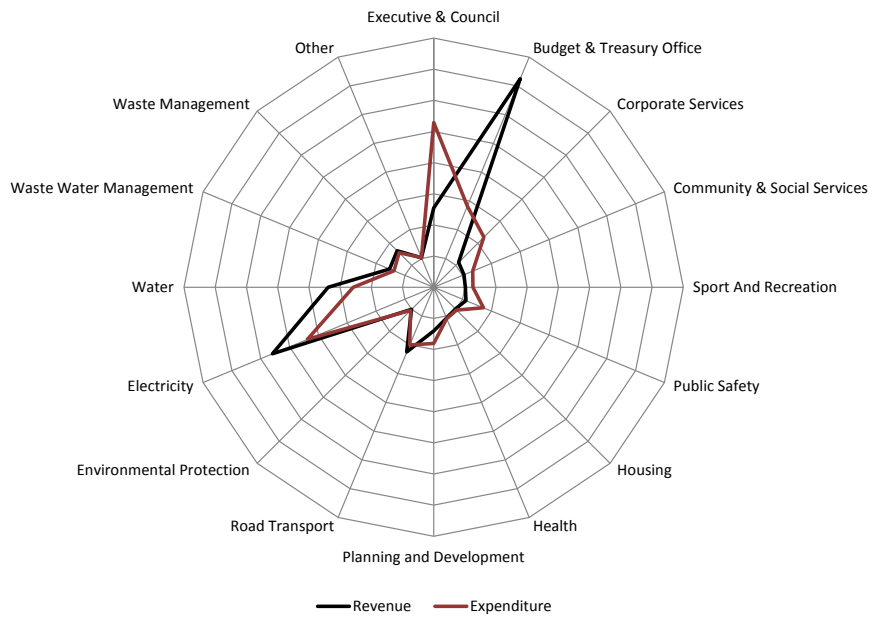
**KwaZulu-Natal operating revenue and expenditure
by standard classification, 2016/17**



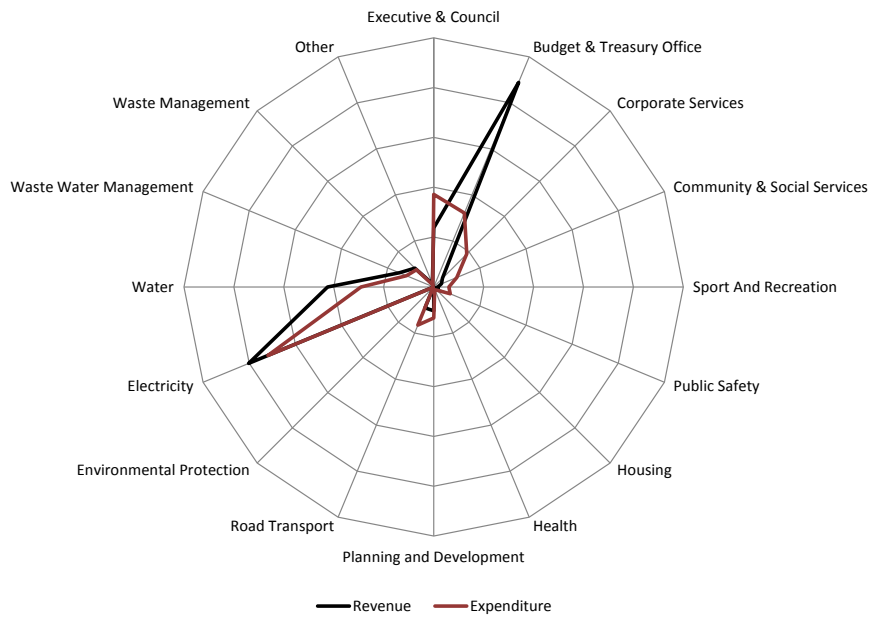
**Limpopo operating revenue and expenditure
by standard classification, 2016/17**



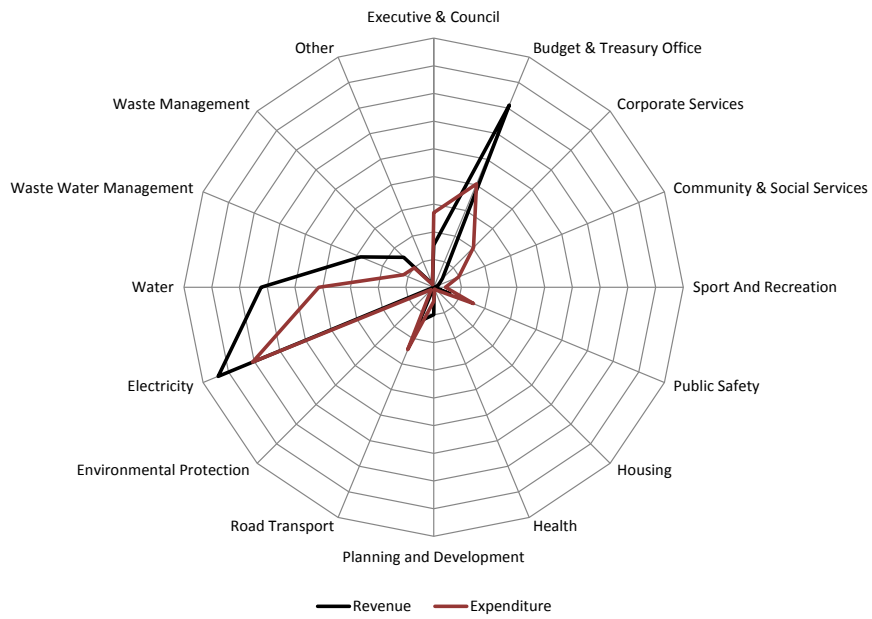
**Mpumalanga operating revenue and expenditure
by standard classification, 2016/17**



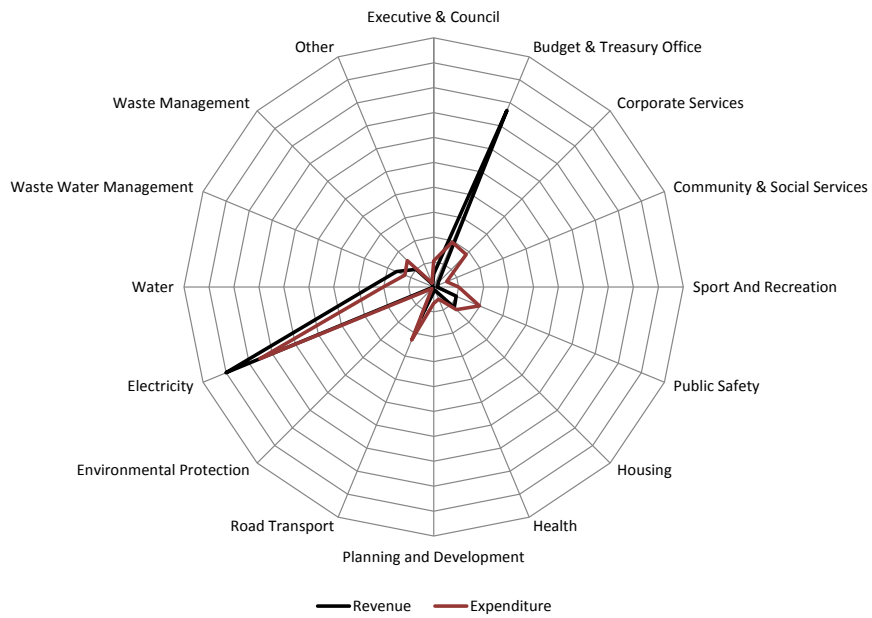
**Northern Cape operating revenue and expenditure
by standard classification, 2016/17**



**North West operating revenue and expenditure
by standard classification, 2016/17**



**Western Cape operating revenue and expenditure
by standard classification, 2016/17**



Planned capital expenditure, 2016/17

