



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2017/18 MTREF

The National Treasury has today published the operating and capital budgets of municipalities as adopted by their respective councils on its website. These budgets give an overview of expected revenue and expenditure trends in local government over the next three years, referred to as the 2017/18 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 2017/18 financial year and over the medium term period. In addition, the information is presented per category of municipality and per province. Highlights include:

- *In aggregate, budgeted revenue for 2017/18 is R386 billion, which is expected to increase to R410 billion in 2018/19 and R438 billion in 2019/20.*
- *Total municipal expenditure in 2017/18 is estimated to be R417 billion, increasing to R439 billion in 2018/19 and R467 billion in 2019/20. Expenditure for 2017/18 is 5.8 per cent higher than the 2016/17 MTREF.*
- *In the 2017/18 financial year, a net deficit of R3.3 billion is expected, a position that remains in deficit of R1.4 billion in 2018/19 and R717 million in 2019/20.*
- *Municipal operating expenditure on the trading services consisting of water, electricity, waste water management and waste management is budgeted to increase from R166 billion in 2016/17 to R174 billion in 2017/18. In 2017/18 this equates to just over half the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R110 billion of the aggregated operating expenditure of R346 billion or 32 per cent. Bulk purchases are expected to grow to R127 billion by 2019/20 representing 32.2 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. R21.5 billion will be allocated in 2017/18 to*

repairs and maintenance of assets from operating expenditure. This will increase to R23.2 billion in 2018/19 and R24.7 billion in 2019/20.

- *Capital expenditure has increased by 1.7 per cent compared to the 2016/17 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 16.9 per cent in 2017/18, 15.8 per cent in 2018/19 and 15.9 per cent in 2019/20.*
- *Total capital expenditure for 2017/18 is R70.6 billion and comprises R31.7 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will increase to R32.1 billion and increase to R33.9 billion in the outer years of the MTREF.*
- *The 2017/18 capital budget reflects a R45.3 billion investment in new infrastructure which is 64.1 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R25.3 billion or 35.9 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. The information is also used by National Treasury as the basis for the In-year Management, Monitoring and Reporting System for Local Government (IYM). 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. All this information feeds into the Municipal Money open local government data portal and can be accessed as follows: www.municipalmoney.gov.za. In addition, the Municipal Money raw data can be accessed directly from <http://municipaldata.treasury.gov.za>.

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 2017/18 MTREF budgets in the prescribed A1 Schedules as per the regulations.

All 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 **231** of **257** (90 per cent) municipalities managed to achieve this reconciliation last year, for the 2017/18 MTREF **238** of **257** (93 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.

Issued by: National Treasury
07 November 2017



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 2017/18, 2018/19 and 2019/20 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 Management, Monitoring and Reporting System for Local Government (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 29 September 2017. 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 2017/18 MTREF publication covers 256 municipalities.

The full list of information published:

- Aggregated/consolidated municipal 2017/18 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 2015/16.

HIGH LEVEL ANALYSIS OF THE 2017/18 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 2017/18 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

Table 1: Aggregated Operating and Capital budgets, 2016/17 - 2019/20

| Description | Original Budget | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|---|--------------------|--|--------------|--------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| R thousands | | | | |
| Total Revenue | 364 575 146 | 385 591 168 | 409 884 883 | 437 789 523 |
| Total Expenditure | 394 075 960 | 416 500 978 | 438 760 559 | 466 666 378 |
| Surplus / (deficit) | (29 500 814) | (30 909 810) | (28 875 677) | (28 876 855) |
| FINANCING: | | | | |
| External loans / borrowing | 12 015 730 | 13 327 264 | 13 036 256 | 14 147 518 |
| Internally generated funds ² | 16 366 651 | 14 253 266 | 14 425 244 | 14 012 067 |
| Total financing | 28 382 381 | 27 580 530 | 27 461 500 | 28 159 586 |
| Net surplus / (deficit) | (1 118 433) | (3 329 280) | (1 414 177) | (717 270) |

¹Excludes Taxation

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

Source: National Treasury Local Government Database

2. Total revenue is estimated to be R386 billion, R410 billion and R438 billion while total expenditure estimates are R417 billion, R439 billion and R467 billion for each of the respective financial years of the 2017/18 Medium-term Revenue and Expenditure Framework (MTREF).
3. 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).
4. Over the MTREF period municipalities intend to raise external loans (borrowing) of R41 billion to fund infrastructure development while contributing R43 billion through internally generated funding to infrastructure development.
5. It appears as if municipalities will not generate enough revenue to cover their operational expenses in 2017/18. The operational deficit is R3.3 billion which has decreased to R1.4 billion in 2018/19 and to R717 million in 2019/20.

Table 2: Consolidated budget summary for all municipalities for the 2017 MTREF

| Description | Current year | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|--|--------------------|---|--------------------|--------------------|
| | 2016/17 | Budget Year | Budget Year | Budget Year |
| R thousands | Original Budget | 2017/18 | 2018/19 | 2019/20 |
| Financial Performance | | | | |
| Property rates | 52 073 733 | 58 073 374 | 62 281 329 | 66 638 600 |
| Service charges | 166 606 944 | 174 098 607 | 187 851 698 | 202 013 689 |
| Investment revenue | 3 778 302 | 4 765 505 | 5 065 819 | 5 394 092 |
| Transfers recognised - operational | 68 364 165 | 76 566 063 | 82 287 561 | 87 601 475 |
| Other own revenue | 32 709 218 | 29 045 054 | 30 116 575 | 31 522 396 |
| Total Revenue (excluding capital transfers and contributions) | 323 532 361 | 342 548 602 | 367 602 981 | 393 170 252 |
| Employee costs | 88 363 545 | 99 464 317 | 106 945 764 | 114 521 471 |
| Remuneration of councillors | 3 762 311 | 3 991 169 | 4 240 143 | 4 496 486 |
| Depreciation & asset impairment | 26 599 121 | 29 994 911 | 31 600 397 | 33 480 316 |
| Finance charges | 8 428 320 | 9 722 678 | 10 561 789 | 11 206 926 |
| Materials and bulk purchases | 102 280 834 | 109 760 001 | 117 638 273 | 126 751 296 |
| Transfers and grants | 6 146 331 | 4 077 617 | 4 335 945 | 4 618 021 |
| Other expenditure | 89 070 333 | 88 867 189 | 93 694 847 | 98 813 007 |
| Total Expenditure¹ | 324 650 794 | 345 877 882 | 369 017 158 | 393 887 522 |
| Surplus/(Deficit) | (1 118 433) | (3 329 280) | (1 414 177) | (717 270) |
| Transfers recognised - capital | 38 340 079 | 41 447 343 | 40 995 158 | 44 067 944 |
| Contributions recognised - capital & contributed assets | 336 333 | 683 170 | 440 980 | 363 525 |
| Surplus/(Deficit) after capital transfers & contributions | 37 557 979 | 38 801 233 | 40 021 961 | 43 714 199 |
| Share of surplus/ (deficit) of associate | - | - | - | - |
| Surplus/(Deficit) for the year | 37 557 979 | 38 801 233 | 40 021 961 | 43 714 199 |
| Capital expenditure & funds sources | | | | |
| Capital expenditure | 69 425 165 | 70 623 096 | 69 743 401 | 72 778 856 |
| Transfers recognised - capital | 40 086 891 | 42 207 765 | 41 530 375 | 43 988 252 |
| Public contributions & donations | 955 894 | 834 801 | 751 527 | 631 018 |
| Borrowing | 12 015 730 | 13 327 264 | 13 036 256 | 14 147 518 |
| Internally generated funds | 16 366 651 | 14 253 266 | 14 425 244 | 14 012 067 |
| Total sources of capital funds | 69 425 165 | 70 623 096 | 69 743 401 | 72 778 856 |

¹Excludes taxation

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, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|---------------------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Category A | 37 419 702 | 196 636 987 | 234 056 690 | 37 916 441 | 204 887 025 | 242 803 466 | 39 245 601 | 221 639 509 | 260 885 110 | 40 948 124 | 238 675 427 | 279 623 551 |
| Category B | 21 758 136 | 107 676 448 | 129 434 584 | 23 169 679 | 117 722 794 | 140 892 473 | 20 988 413 | 124 727 323 | 145 715 736 | 22 622 493 | 132 010 431 | 154 632 924 |
| Category C | 10 247 327 | 19 218 926 | 29 466 253 | 9 536 975 | 19 938 784 | 29 475 759 | 9 509 387 | 21 236 149 | 30 745 536 | 9 208 239 | 22 484 394 | 31 692 633 |
| Total | 69 425 165 | 323 532 361 | 392 957 526 | 70 623 096 | 342 548 602 | 413 171 698 | 69 743 401 | 367 602 981 | 437 346 382 | 72 778 856 | 393 170 252 | 465 949 109 |
| Less | | | | | | | | | | | | |
| External loans / borrowing | 12 015 730 | - | 12 015 730 | 13 327 264 | - | 13 327 264 | 13 036 256 | - | 13 036 256 | 14 147 518 | - | 14 147 518 |
| Internally generated funds | 16 366 651 | - | 16 366 651 | 14 253 266 | - | 14 253 266 | 14 425 244 | - | 14 425 244 | 14 012 067 | - | 14 012 067 |
| Total revenue¹ | 41 042 785 | 323 532 361 | 364 575 146 | 43 042 565 | 342 548 602 | 385 591 168 | 42 281 902 | 367 602 981 | 409 884 883 | 44 619 271 | 393 170 252 | 437 789 523 |
| % of total revenue² | | | | | | | | | | | | |
| Category A | 9.4% | 49.7% | 59.1% | 9.2% | 49.6% | 58.8% | 9.0% | 50.7% | 59.7% | 8.8% | 51.2% | 60.0% |
| Category B | 6.5% | 26.9% | 33.5% | 5.6% | 28.5% | 34.1% | 4.8% | 28.5% | 33.3% | 4.9% | 28.3% | 33.2% |
| Category C | 2.5% | 4.9% | 7.5% | 2.3% | 4.8% | 7.1% | 2.2% | 4.9% | 7.0% | 2.0% | 4.8% | 6.8% |

¹Revenue excludes capital transfers

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

Source: National Treasury Local Government Database

7. Table 3 shows the aggregated budgeted revenue by category of municipality over the 2017/18 MTREF period. In aggregate, the budgeted total revenue for 2017/18 has increased by 5.8 per cent from R365 billion in 2016/17 to R438 billion in 2019/20. Operating revenue increased by 5.9 per cent while capital growth is 4.9 per cent when compared to 2016/17. The increase in operating revenue appears to be over optimistic given the current economic climate and the actual collection rate realised by municipalities.
8. In the outer years of the 2017/18 MTREF period, aggregated growth is 5.9 per cent and 6.5 per cent respectively. Capital revenue shows a decrease of 1.2 per cent in 2018/19 and an increase of 4.4 per cent in 2019/20.
9. Total gross revenue raised by Category A (metros) municipalities accounts for 58.8 per cent of the total aggregated revenue in 2017/18. This increases to 60 per cent by 2019/20 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 2017/18 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 33.5 per cent of total aggregated revenue while Category C (districts) municipalities contribute approximately 7 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 shows the total budgeted expenditure by category of municipality over the 2017/18 MTREF period. In aggregate, budgeted total municipal expenditure has grown by 18.4 per cent from R394.5 billion in 2016/17 to R467.1 billion in the 2019/20 financial year with growth in operating expenditure contributing 21.3 per cent and growth in capital expenditure is 4.8 per cent.

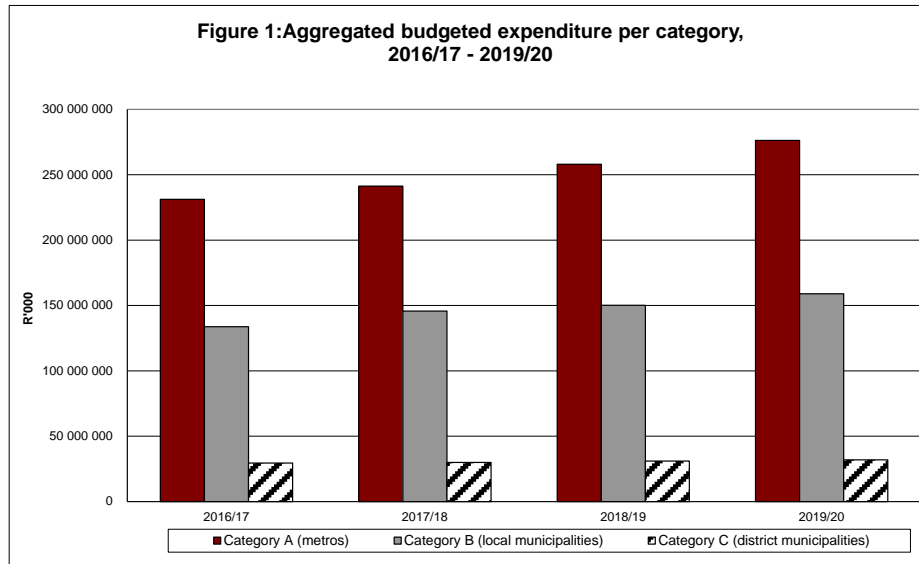
Table 4: Aggregated Operating and Capital expenditure per category, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|---|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Category A | 37 419 702 | 193 832 616 | 231 252 318 | 37 916 441 | 203 362 646 | 241 279 088 | 39 245 601 | 218 866 793 | 258 112 394 | 40 948 124 | 235 336 516 | 276 284 640 |
| Category B | 21 758 136 | 112 061 462 | 133 819 598 | 23 169 679 | 122 539 452 | 145 709 131 | 20 988 413 | 129 155 803 | 150 144 216 | 22 622 493 | 136 346 419 | 158 968 912 |
| Category C | 10 247 327 | 19 173 160 | 29 420 486 | 9 536 975 | 20 372 586 | 29 909 562 | 9 509 387 | 21 488 321 | 30 997 708 | 9 208 239 | 22 677 366 | 31 885 605 |
| Total | 69 425 165 | 325 067 237 | 394 492 403 | 70 623 096 | 346 274 685 | 416 897 781 | 69 743 401 | 369 510 916 | 439 254 317 | 72 778 856 | 394 360 300 | 467 139 157 |
| Less | | | | | | | | | | | | |
| Taxation | - | 416 443 | 416 443 | - | 396 803 | 396 803 | - | 493 758 | 493 758 | - | 472 779 | 472 779 |
| Total expenditure | 69 425 165 | 324 650 794 | 394 075 960 | 70 623 096 | 345 877 882 | 416 500 978 | 69 743 401 | 369 017 158 | 438 760 559 | 72 778 856 | 393 887 522 | 466 666 378 |
| % of total expenditure¹ | | | | | | | | | | | | |
| Category A | 9.5% | 49.1% | 58.6% | 9.1% | 48.8% | 57.9% | 8.9% | 49.8% | 58.8% | 8.8% | 50.4% | 59.1% |
| Category B | 5.5% | 28.4% | 33.9% | 5.6% | 29.4% | 35.0% | 4.8% | 29.4% | 34.2% | 4.8% | 29.2% | 34.0% |
| Category C | 2.6% | 4.9% | 7.5% | 2.3% | 4.9% | 7.2% | 2.2% | 4.9% | 7.1% | 2.0% | 4.9% | 6.8% |

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

Source: National Treasury Local Government Database

13. Capital budgets decreases in 2018/19 but increasing over the MTREF, with the capital spending of the metros rising from R37.9 billion in 2017/18 to R40.9 billion by 2019/20. The erratic budgeting for capital infrastructure by Category B municipalities is concerning while Category C municipalities show a steady decline in budgeted capital expenditure.



14. The total expenditure budget of the eight metros as a share of the total local government budget for the 2017/18 financial year constitutes 57.9 per cent, whereas local municipalities represent 35 per cent. District municipalities represent only 7.2 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing an estimated 59.1 per cent to total expenditure by 2019/20.
15. The contribution of capital expenditure to the total expenditure remains between 15 and 18 per cent with 17.6 per cent in 2016/17, 16.9 per cent in 2017/18, 15.9 per cent in 2018/19 to 15.6 per cent in 2019/20. 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.
16. Operating expenditure in aggregate represents 83.1 per cent in 2017/18, increases to 84.1 per cent in 2018/19 and 84.4 per cent in 2019/20 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

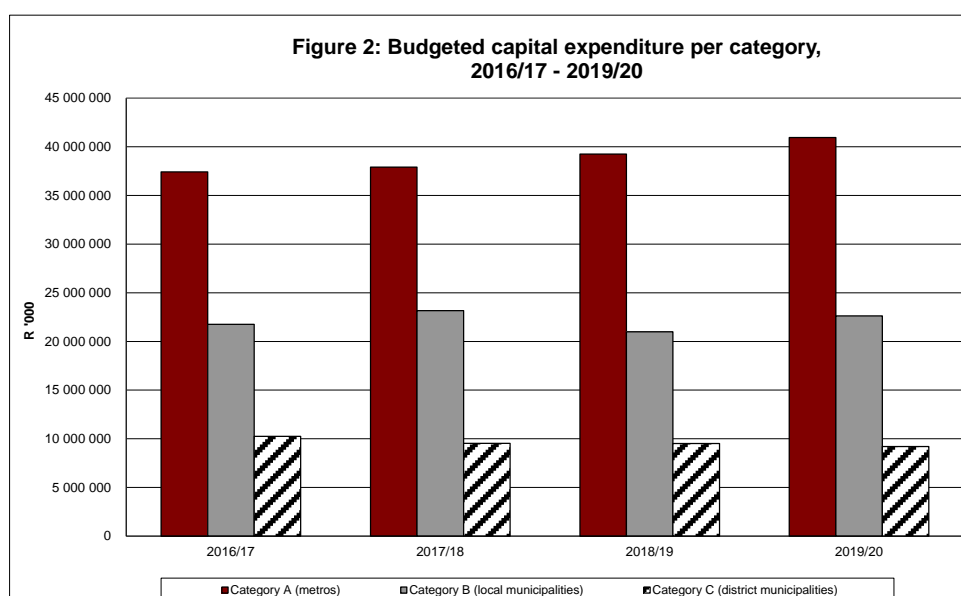
Table 5: Budgeted capital expenditure and funding, 2016/17 - 2019/20

| R thousands | Original Budget | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|--|-------------------|---|-------------------|-------------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Capital Expenditure - Standard Classification | | | | |
| <i>Governance and Administration</i> | 6 279 067 | 7 371 242 | 6 586 228 | 6 852 877 |
| Executive & Council | 1 974 985 | 2 355 166 | 2 144 805 | 2 683 639 |
| Budget & Treasury Office | 954 496 | 3 969 475 | 3 146 875 | 3 238 086 |
| Corporate Services | 3 349 587 | 1 046 602 | 1 294 548 | 931 152 |
| <i>Community and Public Safety</i> | 9 674 316 | 11 139 777 | 11 195 876 | 11 220 188 |
| Community & Social Services | 1 782 539 | 2 112 200 | 2 086 121 | 2 001 034 |
| Sport And Recreation | 1 349 126 | 1 372 966 | 1 085 581 | 1 135 437 |
| Public Safety | 1 002 044 | 1 011 654 | 911 638 | 763 342 |
| Housing | 5 216 981 | 6 306 304 | 6 781 651 | 6 964 455 |
| Health | 323 626 | 336 653 | 330 886 | 355 919 |
| <i>Economic and Environmental Services</i> | 20 528 124 | 19 772 563 | 19 363 763 | 20 335 118 |
| Planning and Development | 3 804 947 | 3 034 444 | 3 333 752 | 3 276 840 |
| Road Transport | 16 570 227 | 16 645 829 | 15 935 710 | 16 901 369 |
| Environmental Protection | 152 950 | 92 289 | 94 301 | 156 910 |
| <i>Trading Services</i> | 32 292 684 | 31 740 033 | 32 102 126 | 33 858 822 |
| Electricity | 8 781 703 | 8 044 251 | 8 078 239 | 9 167 913 |
| Water | 15 787 664 | 16 327 504 | 16 623 308 | 17 330 311 |
| Waste Water Management | 6 337 382 | 6 063 081 | 6 053 869 | 6 128 202 |
| Waste Management | 1 385 935 | 1 305 198 | 1 346 710 | 1 232 396 |
| <i>Other</i> | 650 975 | 599 480 | 495 409 | 511 852 |
| Total Capital Expenditure | 69 425 165 | 70 623 096 | 69 743 401 | 72 778 856 |
| <i>Of which</i> | | | | |
| Total New Assets | 49 315 250 | 45 295 193 | 44 436 006 | 46 367 898 |
| Total Renewal of Existing Assets | 20 109 915 | 25 327 903 | 25 307 395 | 26 410 958 |
| Total Capital Expenditure | 69 425 165 | 70 623 096 | 69 743 401 | 72 778 856 |
| <i>Percentage of total capital expenditure</i> | | | | |
| New assets | 71.0% | 64.1% | 63.7% | 63.7% |
| Renewal of existing assets | 29.0% | 35.9% | 36.3% | 36.3% |
| Funded by: | | | | |
| National Government | 37 624 866 | 39 563 937 | 39 318 202 | 41 853 599 |
| Provincial Government | 2 145 613 | 2 041 918 | 1 649 390 | 1 581 138 |
| District Municipality | 97 423 | 52 710 | 53 524 | 50 019 |
| Other transfers and grants | 218 990 | 549 200 | 509 258 | 503 496 |
| Transfers recognised - capital | 40 086 891 | 42 207 765 | 41 530 375 | 43 988 252 |
| Public contributions and donations | 955 894 | 834 801 | 751 527 | 631 018 |
| Borrowing | 12 015 730 | 13 327 264 | 13 036 256 | 14 147 518 |
| Internally generated funds | 16 366 651 | 14 253 266 | 14 425 244 | 14 012 067 |
| Total Capital Funding | 69 425 165 | 70 623 096 | 69 743 401 | 72 778 856 |
| Repairs and Maintenance by Asset Class | | | | |
| Infrastructure - Road Transport | 4 918 158 | 4 304 619 | 4 480 322 | 4 773 349 |
| Infrastructure - Electricity | 4 901 520 | 4 248 128 | 4 590 949 | 4 878 841 |
| Infrastructure - Water | 3 204 841 | 3 477 010 | 3 859 780 | 4 167 413 |
| Infrastructure - Sanitation | 2 179 951 | 1 888 544 | 2 144 297 | 2 348 411 |
| Infrastructure - Other | 1 077 366 | 613 131 | 662 925 | 693 823 |
| Infrastructure | 16 281 836 | 14 531 433 | 15 738 272 | 16 861 837 |
| Community | 1 930 970 | 1 038 266 | 1 121 280 | 1 175 481 |
| Heritage assets | 254 605 | 14 053 | 14 932 | 15 840 |
| Investment properties | 34 056 | 90 074 | 93 614 | 99 650 |
| Other assets | 5 757 610 | 5 866 409 | 6 183 457 | 6 553 468 |
| Total Repairs and Maintenance | 24 259 077 | 21 540 234 | 23 151 554 | 24 706 276 |

Source: National Treasury Local Government Database

17. The 2017/18 capital budget reflects a R45.3 billion investment in new infrastructure which is 64.1 per cent of the total aggregated capital budget; 6.9 per cent less than in 2016/17. Investment in the renewal of existing assets is appropriated at R25.3 billion or 35.9 per cent of the capital budget, significantly higher than the previous year but 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. R21.5 billion of operating expenditure will be allocated in 2017/18 to the repairs and maintenance of assets. This will increase to R23.2 billion

and R24.7 billion in the two outer years of the MTREF period but is lower than the R24.3 billion budgeted for in the 2016/17 MTREF.



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 2017/18 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 2017/18 estimated at R20.4 billion or 28.9 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 R14.6 billion or 20.6 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R10.1 billion or 14.3 per cent. This trend remains unchanged over the duration of the MTREF.
21. The national per capita spending average is estimated to be R7 491 in 2017/18. Only two provinces will exceed this national average in 2017/18, namely Gauteng at R10 816 and Western Cape at R10 525 per capita. The trend line suggests increases over the MTREF reaching R8 394 per capita by 2019/20.
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 Community Survey, 2016 released by Statistics South Africa.

Table 6: Aggregated Operating and Capital revenue for municipalities per provinces, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|----------------------------|-------------------|------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Capital | Operating ¹ | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Eastern Cape | 9 339 274 | 28 779 738 | 38 119 012 | 8 805 888 | 29 686 854 | 38 492 742 | 9 188 142 | 31 539 559 | 40 727 701 | 9 546 508 | 33 449 076 | 42 995 584 |
| Free State | 3 276 145 | 16 392 421 | 19 668 565 | 2 821 395 | 16 800 636 | 19 622 031 | 2 874 907 | 17 902 754 | 20 777 661 | 2 908 480 | 19 078 969 | 21 987 449 |
| Gauteng | 20 472 867 | 122 355 125 | 142 827 992 | 20 419 616 | 125 408 823 | 145 828 439 | 21 354 641 | 135 185 383 | 156 540 024 | 22 040 653 | 144 921 868 | 166 962 521 |
| Kw aZulu-Natal | 13 816 619 | 54 946 915 | 68 763 534 | 14 570 998 | 58 805 827 | 73 376 825 | 14 177 134 | 62 886 561 | 77 063 695 | 14 489 359 | 67 470 840 | 81 960 199 |
| Limpopo | 5 816 357 | 14 961 159 | 20 777 516 | 6 261 795 | 16 386 863 | 22 648 658 | 6 039 805 | 17 318 705 | 23 358 510 | 6 583 628 | 18 262 110 | 24 845 738 |
| Mpumalanga | 3 362 958 | 15 594 478 | 18 957 436 | 3 152 048 | 16 717 571 | 19 869 619 | 2 692 291 | 17 872 310 | 20 564 600 | 2 863 739 | 19 112 721 | 21 976 460 |
| North West | 2 427 559 | 13 616 195 | 16 043 754 | 3 107 218 | 16 988 909 | 20 096 127 | 2 896 315 | 18 278 213 | 21 174 527 | 3 239 165 | 19 621 636 | 22 860 801 |
| Northern Cape | 1 255 436 | 6 477 282 | 7 732 719 | 1 391 803 | 6 304 117 | 7 695 920 | 1 128 629 | 6 698 873 | 7 827 503 | 1 385 442 | 7 085 280 | 8 470 722 |
| Western Cape | 9 657 949 | 50 409 048 | 60 066 998 | 10 092 333 | 55 449 003 | 65 541 336 | 9 391 538 | 59 920 623 | 69 312 161 | 9 721 882 | 64 167 753 | 73 889 635 |
| Total | 69 425 165 | 323 532 361 | 392 957 526 | 70 623 096 | 342 548 602 | 413 171 698 | 69 743 401 | 367 602 981 | 437 346 382 | 72 778 856 | 393 170 252 | 465 949 109 |
| Less | | | | | | | | | | | | |
| External loans / borrowing | 12 015 730 | - | 12 015 730 | 13 327 264 | - | 13 327 264 | 13 036 256 | - | 13 036 256 | 14 147 518 | - | 14 147 518 |
| Internally generated funds | 16 366 651 | - | 16 366 651 | 14 253 266 | - | 14 253 266 | 14 425 244 | - | 14 425 244 | 14 012 067 | - | 14 012 067 |
| Total revenue | 41 042 785 | 323 532 361 | 364 575 146 | 43 042 565 | 342 548 602 | 385 591 168 | 42 281 902 | 367 602 981 | 409 884 883 | 44 619 271 | 393 170 252 | 437 789 523 |

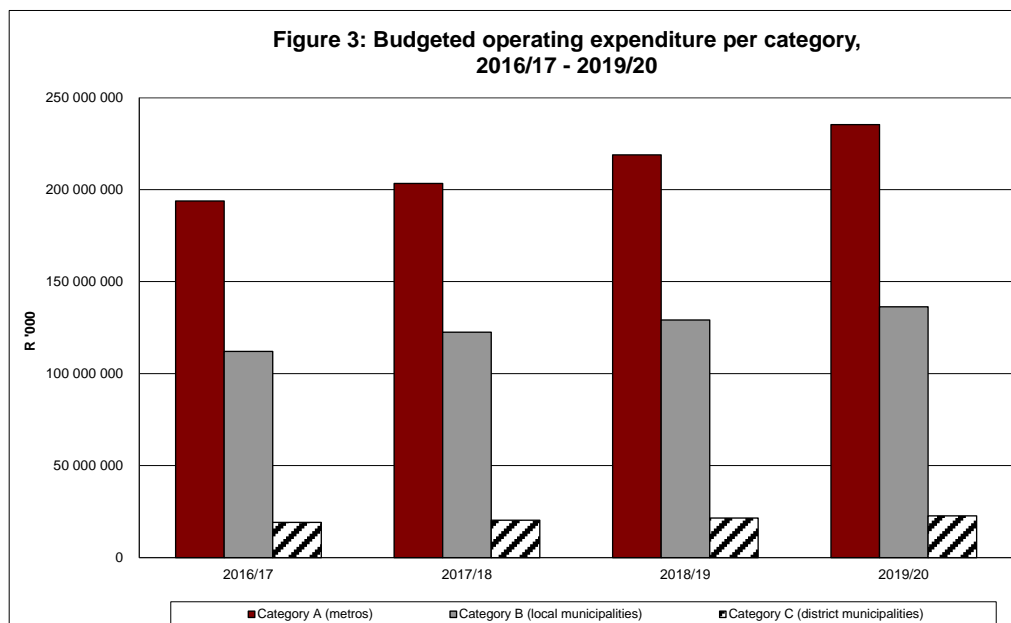
¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

Table 7: Aggregated Operating and Capital expenditure for municipalities per provinces, 2016/17 - 2019/20

| R thousand | Community Survey 2016 | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|----------------------------|-----------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Eastern Cape | 6 996 976 | 9 339 274 | 29 153 254 | 38 492 528 | 8 805 888 | 30 792 297 | 39 598 186 | 9 188 142 | 32 615 830 | 41 803 972 | 9 546 508 | 34 423 792 | 43 970 300 |
| Free State | 2 834 714 | 3 276 145 | 16 522 003 | 19 798 148 | 2 821 395 | 17 549 597 | 20 370 993 | 2 874 907 | 18 443 864 | 21 318 772 | 2 908 480 | 19 429 223 | 22 337 703 |
| Gauteng | 13 399 724 | 20 472 867 | 120 498 216 | 140 971 083 | 20 419 616 | 124 510 694 | 144 930 310 | 21 354 641 | 134 381 628 | 155 736 269 | 22 040 653 | 144 123 822 | 166 164 475 |
| Kw aZulu-Natal | 11 065 240 | 13 816 619 | 55 039 803 | 68 856 422 | 14 570 998 | 58 688 407 | 73 259 405 | 14 177 134 | 62 479 182 | 76 656 316 | 14 489 359 | 66 933 302 | 81 422 661 |
| Limpopo | 5 799 091 | 5 816 357 | 14 862 094 | 20 678 451 | 6 261 795 | 15 798 928 | 22 060 723 | 6 039 805 | 16 539 527 | 22 579 331 | 6 583 628 | 17 415 763 | 23 999 391 |
| Mpumalanga | 4 335 964 | 3 362 958 | 16 639 684 | 20 002 643 | 3 152 048 | 17 850 732 | 21 002 781 | 2 692 291 | 18 878 298 | 21 570 589 | 2 863 739 | 20 102 412 | 22 966 151 |
| North West | 3 748 435 | 2 427 559 | 14 245 803 | 16 673 362 | 3 107 218 | 18 461 735 | 21 568 953 | 2 896 315 | 19 510 625 | 22 406 940 | 3 239 165 | 20 773 061 | 24 012 226 |
| Northern Cape | 1 193 780 | 1 255 436 | 6 672 681 | 7 928 117 | 1 391 803 | 6 621 198 | 8 013 001 | 1 128 629 | 7 063 570 | 8 192 199 | 1 385 442 | 7 444 638 | 8 830 080 |
| Western Cape | 6 279 730 | 9 657 949 | 51 433 699 | 61 091 648 | 10 092 333 | 56 001 098 | 66 093 431 | 9 391 538 | 59 598 392 | 68 989 930 | 9 721 882 | 63 714 287 | 73 436 169 |
| Total | 55 653 654 | 69 425 165 | 325 067 237 | 394 492 403 | 70 623 096 | 346 274 685 | 416 897 781 | 69 743 401 | 369 510 916 | 439 254 317 | 72 778 856 | 394 360 300 | 467 139 157 |
| Less | | | | | | | | | | | | | |
| Taxation | | - | 416 443 | 416 443 | - | 396 803 | 396 803 | - | 493 758 | 493 758 | - | 472 779 | 472 779 |
| Total expenditure | | 69 425 165 | 324 650 794 | 394 075 960 | 70 623 096 | 345 877 882 | 416 500 978 | 69 743 401 | 369 017 158 | 438 760 559 | 72 778 856 | 393 887 522 | 466 666 378 |
| Per capita spending | | | | | | | | | | | | | |
| Eastern Cape | | 1 335 | 4 167 | 5 501 | 1 259 | 4 401 | 5 659 | 1 313 | 4 661 | 5 975 | 1 364 | 4 920 | 6 284 |
| Free State | | 1 156 | 5 828 | 6 984 | 995 | 6 191 | 7 186 | 1 014 | 6 506 | 7 521 | 1 026 | 6 854 | 7 880 |
| Gauteng | | 1 528 | 8 993 | 10 520 | 1 524 | 9 292 | 10 816 | 1 594 | 10 029 | 11 622 | 1 645 | 10 756 | 12 401 |
| Kw aZulu-Natal | | 1 249 | 4 974 | 6 223 | 1 317 | 5 304 | 6 621 | 1 281 | 5 646 | 6 928 | 1 309 | 6 049 | 7 358 |
| Limpopo | | 1 003 | 2 563 | 3 566 | 1 080 | 2 724 | 3 804 | 1 042 | 2 852 | 3 894 | 1 135 | 3 003 | 4 138 |
| Mpumalanga | | 776 | 3 838 | 4 613 | 727 | 4 117 | 4 844 | 621 | 4 354 | 4 975 | 660 | 4 636 | 5 297 |
| North West | | 648 | 3 800 | 4 448 | 829 | 4 925 | 5 754 | 773 | 5 205 | 5 978 | 864 | 5 542 | 6 406 |
| Northern Cape | | 1 052 | 5 590 | 6 641 | 1 166 | 5 546 | 6 712 | 945 | 5 917 | 6 862 | 1 161 | 6 236 | 7 397 |
| Western Cape | | 1 538 | 8 190 | 9 728 | 1 607 | 8 918 | 10 525 | 1 496 | 9 491 | 10 986 | 1 548 | 10 146 | 11 694 |
| Total | | 1 247 | 5 841 | 7 088 | 1 269 | 6 222 | 7 491 | 1 253 | 6 639 | 7 893 | 1 308 | 7 086 | 8 394 |

Source: National Treasury Local Government Database, StatsSA Community Survey 2016



Aggregated operating and capital budget for metros

24. The aggregated budgeted revenue for all metros over the 2017/18 MTREF period is contained in Table 8. Total revenue increased from R212.5 billion in 2016/17, to R222.7 billion in 2017/18, R239.5 billion in 2018/19 and to R257.4 billion in 2019/20, reflecting a total increase of 7.5 and 7.4 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 23.7 per cent for 2017/18 followed by the Cape Town at 18.7 per cent and eThekwinini at 16.8 per cent. Three metros, namely Nelson Mandela Bay, Buffalo City and Mangaung are comparatively small with total revenue at 4.5, 3.2 and 3.1 per cent respectively.

Table 8: Aggregated Operating and Capital revenue for metros, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|----------------------------|-------------------|------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Capital | Operating ¹ | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Buffalo City | 1 558 134 | 5 907 039 | 7 465 173 | 1 646 166 | 6 200 028 | 7 846 195 | 2 217 380 | 6 633 460 | 8 850 840 | 2 391 370 | 7 024 275 | 9 415 646 |
| Cape Town | 6 774 256 | 34 520 879 | 41 295 135 | 7 023 203 | 38 292 542 | 45 315 745 | 6 724 098 | 41 649 306 | 48 373 404 | 7 007 223 | 45 032 523 | 52 039 746 |
| Ekurhuleni Metro | 5 130 961 | 32 378 969 | 37 509 931 | 6 715 956 | 32 294 898 | 39 010 854 | 6 938 677 | 35 211 491 | 42 150 168 | 7 440 702 | 38 485 168 | 45 925 870 |
| eThekwinini | 6 725 067 | 31 267 560 | 37 992 627 | 7 340 084 | 33 384 656 | 40 724 740 | 7 225 045 | 36 156 713 | 43 381 758 | 7 750 324 | 39 061 131 | 46 811 455 |
| City Of Johannesburg | 9 543 581 | 46 175 187 | 55 718 768 | 8 589 421 | 48 849 779 | 57 439 200 | 9 450 731 | 53 042 861 | 62 493 592 | 8 958 526 | 56 618 375 | 65 576 901 |
| Mangaung | 1 806 094 | 6 641 627 | 8 447 721 | 1 139 436 | 6 275 571 | 7 415 008 | 1 251 942 | 6 783 991 | 8 035 933 | 1 302 452 | 7 431 753 | 8 734 205 |
| Nelson Mandela Bay | 1 416 400 | 9 535 857 | 10 952 257 | 1 601 891 | 9 363 536 | 10 965 427 | 1 613 792 | 10 197 685 | 11 811 477 | 1 691 246 | 11 054 320 | 12 745 566 |
| City Of Tshwane | 4 465 209 | 30 209 869 | 34 675 078 | 3 860 284 | 30 226 013 | 34 086 298 | 3 823 936 | 31 964 001 | 35 787 937 | 4 406 281 | 33 967 882 | 38 374 163 |
| Total | 37 419 702 | 196 636 987 | 234 056 690 | 37 916 441 | 204 887 025 | 242 803 466 | 39 245 601 | 221 639 509 | 260 885 110 | 40 948 124 | 238 675 427 | 279 623 551 |
| Less | | | | | | | | | | | | |
| External loans / borrowing | 10 055 854 | - | 10 055 854 | 11 425 976 | - | 11 425 976 | 11 683 540 | - | 11 683 540 | 13 047 551 | - | 13 047 551 |
| Internally generated funds | 11 523 863 | - | 11 523 863 | 8 639 890 | - | 8 639 890 | 9 661 178 | - | 9 661 178 | 9 213 788 | - | 9 213 788 |
| Total revenue | 15 839 986 | 196 636 987 | 212 476 973 | 17 850 576 | 204 887 025 | 222 737 601 | 17 900 883 | 221 639 509 | 239 540 392 | 18 686 785 | 238 675 427 | 257 362 212 |
| % of total revenue | | | | | | | | | | | | |
| Buffalo City | 0.7% | 2.5% | 3.2% | 0.7% | 2.6% | 3.2% | 0.8% | 2.5% | 3.4% | 0.9% | 2.5% | 3.4% |
| Cape Town | 2.9% | 14.7% | 17.6% | 2.9% | 15.8% | 18.7% | 2.6% | 16.0% | 18.5% | 2.5% | 16.1% | 18.6% |
| Ekurhuleni Metro | 2.2% | 13.8% | 16.0% | 2.8% | 13.3% | 16.1% | 2.7% | 13.5% | 16.2% | 2.7% | 13.8% | 16.4% |
| eThekwinini | 2.9% | 13.4% | 16.2% | 3.0% | 13.7% | 16.8% | 2.8% | 13.9% | 16.6% | 2.8% | 14.0% | 16.7% |
| City Of Johannesburg | 4.1% | 19.7% | 23.8% | 3.0% | 20.1% | 23.7% | 3.6% | 20.3% | 24.0% | 3.2% | 20.2% | 23.5% |
| Mangaung | 0.8% | 2.8% | 3.6% | 0.5% | 2.6% | 3.1% | 0.5% | 2.6% | 3.1% | 0.5% | 2.7% | 3.1% |
| Nelson Mandela Bay | 0.6% | 4.1% | 4.7% | 0.7% | 3.9% | 4.5% | 0.6% | 3.9% | 4.5% | 0.6% | 4.0% | 4.6% |
| City Of Tshwane | 1.9% | 12.9% | 14.8% | 1.6% | 12.4% | 14.0% | 1.5% | 12.3% | 13.7% | 1.6% | 12.1% | 13.7% |

¹ Operating revenue excluding capital transfers

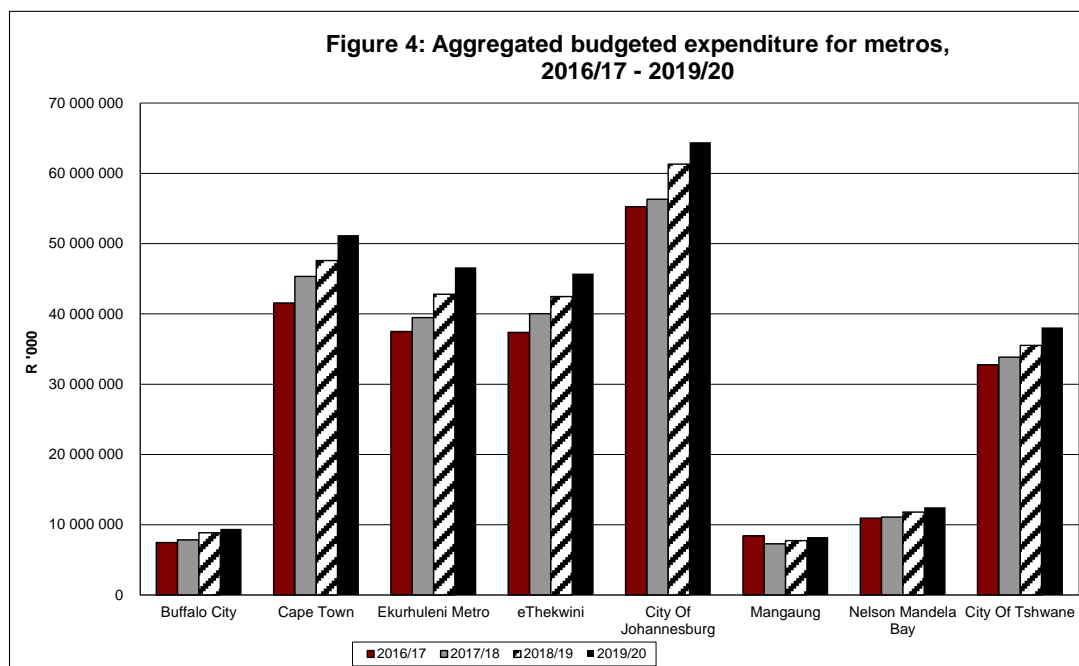
Source: National Treasury Local Government Database

26. The capital budget of the metros constitutes 53.7 per cent of the total municipal capital budget for 2017/18 and increases to 56.3 per cent of total municipal capital expenditure by 2019/20. This is about the same percentage as the previous year and 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, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|-------------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Buffalo City | 1 558 134 | 5 905 961 | 7 464 095 | 1 646 166 | 6 198 140 | 7 844 306 | 2 217 380 | 6 630 632 | 8 848 012 | 2 391 370 | 7 021 423 | 9 412 794 |
| Cape Town | 6 774 256 | 34 796 423 | 41 570 679 | 7 023 203 | 38 322 274 | 45 345 477 | 6 724 098 | 40 878 765 | 47 602 863 | 7 007 223 | 44 220 938 | 51 228 161 |
| Ekurhuleni Metro | 5 130 961 | 32 378 197 | 37 509 158 | 6 715 956 | 32 773 094 | 39 489 050 | 6 938 677 | 35 865 453 | 42 804 130 | 7 440 702 | 39 190 286 | 46 630 988 |
| eThekwinini | 6 725 067 | 30 646 274 | 37 371 341 | 7 340 084 | 32 697 271 | 40 037 355 | 7 225 045 | 35 250 706 | 42 475 751 | 7 750 324 | 38 007 007 | 45 757 331 |
| City Of Johannesburg | 9 543 581 | 45 722 359 | 55 265 940 | 8 589 421 | 47 740 117 | 56 329 538 | 9 450 731 | 51 868 787 | 61 319 518 | 8 958 526 | 55 490 539 | 64 449 065 |
| Mangaung | 1 806 094 | 6 598 468 | 8 404 562 | 1 139 436 | 6 147 612 | 7 287 049 | 1 251 942 | 6 493 750 | 7 745 692 | 1 302 452 | 6 932 967 | 8 235 419 |
| Nelson Mandela Bay | 1 416 400 | 9 503 483 | 10 919 883 | 1 601 891 | 9 488 809 | 11 090 701 | 1 613 792 | 10 173 091 | 11 786 884 | 1 691 246 | 10 784 515 | 12 475 761 |
| City Of Tshwane | 4 465 209 | 28 281 450 | 32 746 659 | 3 860 284 | 29 995 329 | 33 855 613 | 3 823 936 | 31 705 609 | 35 529 544 | 4 406 281 | 33 688 841 | 38 095 122 |
| Total | 37 419 702 | 193 832 616 | 231 252 318 | 37 916 441 | 203 362 646 | 241 279 088 | 39 245 601 | 218 866 793 | 258 112 394 | 40 948 124 | 235 336 516 | 276 284 640 |
| Less | | | | | | | | | | | | |
| Taxation | - | 416 443 | 416 443 | - | 396 803 | 396 803 | - | 493 758 | 493 758 | - | 472 779 | 472 779 |
| Total revenue | 37 419 702 | 193 416 173 | 230 835 875 | 37 916 441 | 202 965 843 | 240 882 285 | 39 245 601 | 218 373 035 | 257 618 636 | 40 948 124 | 234 863 737 | 275 811 861 |
| % of total expenditure | | | | | | | | | | | | |
| Buffalo City | 0.7% | 2.6% | 3.2% | 0.7% | 2.6% | 3.3% | 0.9% | 2.6% | 3.4% | 0.9% | 2.5% | 3.4% |
| Cape Town | 2.9% | 15.0% | 18.0% | 2.9% | 15.9% | 18.8% | 2.6% | 15.8% | 18.4% | 2.5% | 16.0% | 18.5% |
| Ekurhuleni Metro | 2.2% | 14.0% | 16.2% | 2.8% | 13.6% | 16.4% | 2.7% | 13.9% | 16.6% | 2.7% | 14.2% | 16.9% |
| eThekwinini | 2.9% | 13.3% | 16.2% | 3.0% | 13.6% | 16.6% | 2.8% | 13.7% | 16.5% | 2.8% | 13.8% | 16.6% |
| City Of Johannesburg | 4.1% | 19.8% | 23.9% | 3.6% | 19.8% | 23.3% | 3.7% | 20.1% | 23.8% | 3.2% | 20.1% | 23.3% |
| Mangaung | 0.8% | 2.9% | 3.6% | 0.5% | 2.5% | 3.0% | 0.5% | 2.5% | 3.0% | 0.5% | 2.5% | 3.0% |
| Nelson Mandela Bay | 0.6% | 4.1% | 4.7% | 0.7% | 3.9% | 4.6% | 0.6% | 3.9% | 4.6% | 0.6% | 3.9% | 4.5% |
| City Of Tshwane | 1.9% | 12.2% | 14.2% | 1.6% | 12.4% | 14.0% | 1.5% | 12.3% | 13.8% | 1.6% | 12.2% | 13.8% |

Source: National Treasury Local Government Database



27. Operating expenditure by metros accounts for more than half (58.7 per cent) of total municipal operating expenditure over the 2017/18 MTREF.
28. Table 9 also shows that the City of Johannesburg, eThekweni and Cape Town have the largest capital budgets at 3.6, 3.0 and 2.9 per cent of the aggregated total budget for metros. They are closely followed by the Ekurhuleni Metro at 2.8 per cent. When the City of Tshwane is benchmarked against the mentioned metros, its capital budget is a mere 1.6 per cent in 2017/18 and stays more or less the same over the MTREF.
29. 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 2017/18 are electricity (R72.6 billion), water (R24.7 billion), waste water management (R10.5 billion) and waste management (R6.7 billion). Over the MTREF, moderate increases are anticipated for electricity which is expected to grow by 8.1 per cent in 2018/19 and 7.7 per cent in 2019/20. 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. 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, 2016/17 - 2019/20

| | Electricity | Water | Waste Water Management | Waste Management |
|----------------------|-------------------|-------------------|------------------------|------------------|
| R thousand | | | | |
| 2016/17 | | | | |
| 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 |
| 2017/18 | | | | |
| Buffalo City | 1 806 439 | 479 127 | 365 998 | 336 766 |
| Cape Town | 11 942 587 | 3 933 401 | 2 092 272 | 1 341 882 |
| Ekurhuleni Metro | 13 027 720 | 4 087 720 | 1 355 300 | 1 214 668 |
| eThekweni | 12 787 852 | 3 825 905 | 890 031 | 624 509 |
| City Of Johannesburg | 15 905 848 | 6 865 008 | 3 890 049 | 1 479 507 |
| Mangaung | 2 237 750 | 945 264 | 282 575 | 109 502 |
| Nelson Mandela Bay | 3 748 825 | 714 594 | 469 359 | 174 671 |
| City Of Tshwane | 11 159 243 | 3 799 292 | 1 180 473 | 1 410 373 |
| Total revenue | 72 616 264 | 24 650 310 | 10 526 057 | 6 691 879 |
| 2018/19 | | | | |
| Buffalo City | 1 840 400 | 517 936 | 397 840 | 366 064 |
| Cape Town | 13 034 828 | 4 382 678 | 2 332 091 | 1 471 173 |
| Ekurhuleni Metro | 14 327 264 | 4 492 404 | 1 463 724 | 1 307 061 |
| eThekweni | 13 810 005 | 4 278 679 | 979 685 | 680 470 |
| City Of Johannesburg | 17 306 963 | 7 470 615 | 4 233 225 | 1 566 798 |
| Mangaung | 2 385 444 | 1 051 097 | 325 843 | 118 254 |
| Nelson Mandela Bay | 4 029 337 | 783 848 | 518 568 | 186 708 |
| City Of Tshwane | 11 794 985 | 4 015 703 | 1 247 851 | 1 512 373 |
| Total revenue | 78 529 226 | 26 992 959 | 11 498 826 | 7 208 901 |
| 2019/20 | | | | |
| Buffalo City | 1 874 999 | 559 371 | 432 054 | 397 546 |
| Cape Town | 14 090 638 | 4 867 839 | 2 589 072 | 1 599 278 |
| Ekurhuleni Metro | 15 756 488 | 4 937 228 | 1 580 822 | 1 406 545 |
| eThekweni | 14 913 885 | 4 785 161 | 1 078 462 | 741 434 |
| City Of Johannesburg | 18 609 411 | 8 092 454 | 4 585 599 | 1 651 405 |
| Mangaung | 2 542 899 | 1 153 202 | 370 749 | 127 721 |
| Nelson Mandela Bay | 4 329 998 | 859 583 | 604 919 | 199 565 |
| City Of Tshwane | 12 454 910 | 4 240 405 | 1 317 827 | 1 621 915 |
| Total revenue | 84 573 229 | 29 495 243 | 12 559 504 | 7 745 409 |

Source: National Treasury Local Government Database

31. Table 11 provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R49.2 billion for the purchase of bulk electricity in 2017/18, with an annual growth of 7.3 per cent and 8.0 per cent in the outer years of the MTREF. This is well aligned to the multi-year price determination of 8 per cent as provided for in the current Multi-Year Price Determination approved by NERSA for ESKOM as a result of higher increases approved in preceding years (12.7 per cent for 2015/16 and 9.4 per cent for 2016/17) and is considerably more than the 0.31 per cent prescribed in the NERSA's consultation paper on tariff benchmarking as referred to in MFMA Budget Circular No 86 issued on 8 March 2017. It seems that most municipalities preferred to use the multi-year price determination.
32. When comparing the revenue generated from the sale of electricity to the expenditure incurred on bulk electricity purchases, it may 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, 2016/17 - 2019/20

| R thousand | Electricity | | | | Water | | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Buffalo City | 1 316 772 | 1 352 869 | 1 357 063 | 1 361 270 | 204 816 | 225 297 | 247 827 | 272 610 |
| Cape Town | 8 095 800 | 8 094 800 | 8 742 384 | 9 441 775 | 419 380 | 445 335 | 485 000 | 525 860 |
| Ekurhuleni Metro | 9 084 096 | 9 193 632 | 10 112 995 | 11 124 295 | 2 778 539 | 3 027 824 | 3 270 049 | 3 531 653 |
| eThekweni | 8 479 903 | 8 430 809 | 9 105 274 | 9 833 696 | 1 936 669 | 2 227 169 | 2 561 244 | 2 945 431 |
| City Of Johannesburg | 11 144 331 | 10 465 014 | 11 144 984 | 12 084 532 | 2 507 328 | 2 949 126 | 3 152 615 | 3 354 383 |
| Mangaung | 1 413 137 | 1 376 931 | 1 468 205 | 1 565 537 | 434 003 | 506 603 | 541 559 | 578 385 |
| Nelson Mandela Bay | 2 871 221 | 2 871 187 | 2 986 035 | 3 254 778 | 119 875 | 134 260 | 150 371 | 168 416 |
| City Of Tshwane | 7 495 422 | 7 462 684 | 7 902 983 | 8 361 356 | 2 461 188 | 2 381 931 | 2 523 353 | 2 666 396 |
| Total expenditure | 49 900 681 | 49 247 927 | 52 819 922 | 57 027 238 | 10 861 798 | 11 897 546 | 12 932 020 | 14 043 134 |

Source: National Treasury Local Government Database

35. Expenditure on bulk water amounts to R11.9 billion in 2017/18 and increases by 8.7 per cent in 2018/19 to R12.9 billion and a further 8.6 per cent in 2019/20 to R14 billion.

Aggregated operating and capital budget for secondary cities

36. Tables 12 and 13 depict the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2017 MTREF period.
37. The total budgeted revenue for secondary cities amounts to R55.3 billion in 2017/18 and increases to R62.6 billion by 2019/20. Growth in revenue in the outer years is 5.7 and 7 per cent.
38. The total expenditure budget of secondary cities amounts to R59.2 billion in 2017/18, R61.6 billion in 2018/19 and R65.4 billion in 2019/20 representing a growth of 4.1 per cent and 6.2 per cent in the two outer years of the MTREF. When comparing this to the growth in revenue it appears that the secondary cities are budgeting for surpluses.
39. The growth in operating expenditure is expected to increase by 6 per cent in the outer years of the 2017/18 MTREF. 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 from R7.8 billion in 2017/18 to R7.2 billion in 2018/19 but increasing to R7.7 billion in 2019/20. 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, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|--|------------------|------------------------|-------------------|------------------|------------------------|-------------------|------------------|------------------------|-------------------|------------------|------------------------|-------------------|
| | Capital | Operating ¹ | Total | Capital | Operating ¹ | Total | Capital | Operating ¹ | Total | Capital | Operating ¹ | Total |
| Top 19 Municipalities | 7 142 629 | 45 383 831 | 52 526 460 | 7 802 129 | 50 645 617 | 58 447 746 | 7 153 398 | 54 091 298 | 61 244 696 | 7 731 441 | 57 574 924 | 65 306 366 |
| Matjhabeng | 133 363 | 2 041 473 | 2 174 836 | 181 215 | 2 324 173 | 2 505 388 | 121 039 | 2 496 769 | 2 617 807 | 129 559 | 2 553 945 | 2 683 505 |
| Emfuleni | 345 673 | 6 093 014 | 6 438 687 | 423 589 | 6 028 010 | 6 451 599 | 336 650 | 6 496 472 | 6 833 122 | 359 453 | 6 852 822 | 7 212 275 |
| Mogale City | 424 969 | 2 390 694 | 2 815 663 | 293 878 | 2 580 168 | 2 874 046 | 284 119 | 2 703 974 | 2 988 093 | 302 780 | 2 841 310 | 3 144 090 |
| Msunduzi | 726 241 | 4 473 006 | 5 199 247 | 698 424 | 4 937 882 | 5 636 306 | 561 224 | 5 186 467 | 5 747 690 | 570 039 | 5 493 388 | 6 063 427 |
| New castle | 275 667 | 1 709 674 | 1 985 341 | 252 778 | 1 742 062 | 1 994 840 | 254 998 | 1 860 347 | 2 115 345 | 268 168 | 1 986 666 | 2 254 834 |
| uMhlathuze | 479 397 | 2 635 837 | 3 115 234 | 521 255 | 2 895 441 | 3 416 696 | 566 774 | 3 042 996 | 3 609 770 | 548 154 | 3 261 361 | 3 809 515 |
| Polokwane | 1 096 467 | 2 818 325 | 3 914 792 | 1 230 118 | 3 292 262 | 4 522 380 | 1 202 352 | 3 401 763 | 4 604 115 | 1 647 837 | 3 697 590 | 5 345 427 |
| Govan Mbeki | 100 894 | 1 732 012 | 1 832 906 | 104 396 | 1 687 472 | 1 791 868 | 96 081 | 1 817 683 | 1 913 764 | 91 650 | 1 945 533 | 2 037 183 |
| Emalahleni (Mp) | 261 138 | 2 645 868 | 2 907 006 | 245 503 | 2 917 169 | 3 162 671 | 243 134 | 3 152 312 | 3 395 445 | 226 891 | 3 346 563 | 3 573 454 |
| Steve Tshwete | 257 135 | 1 370 181 | 1 627 316 | 282 175 | 1 357 202 | 1 639 377 | 323 885 | 1 441 568 | 1 765 453 | 365 983 | 1 531 074 | 1 897 057 |
| Mbombela / City of Mbombela | 751 719 | 2 625 428 | 3 377 147 | 607 134 | 2 734 077 | 3 341 211 | 570 027 | 2 943 674 | 3 513 701 | 640 865 | 3 141 081 | 3 781 946 |
| Sol Plaatje | 125 204 | 1 899 552 | 2 024 756 | 232 066 | 1 944 729 | 2 176 794 | 181 941 | 2 075 346 | 2 257 287 | 180 553 | 2 205 841 | 2 386 394 |
| Madibeng | 255 211 | 1 594 000 | 1 849 211 | 301 005 | 1 688 185 | 1 989 190 | 324 486 | 1 808 864 | 2 133 350 | 357 935 | 1 930 809 | 2 288 744 |
| Rustenburg | 486 874 | 4 056 902 | 4 543 776 | 581 219 | 4 717 778 | 5 298 997 | 459 943 | 5 161 463 | 5 621 406 | 510 548 | 5 719 585 | 6 230 133 |
| City Of Matlosana | 144 616 | 2 514 173 | 2 658 789 | 213 747 | 2 955 774 | 3 169 521 | 134 636 | 3 176 485 | 3 311 122 | 139 867 | 3 365 762 | 3 505 629 |
| Tlokweng / Tlokweng-Ventersdorp ² | - | - | - | 241 498 | 1 572 913 | 1 814 411 | 228 740 | 1 673 361 | 1 902 101 | 238 419 | 1 738 244 | 1 976 663 |
| Drakenstein | 592 474 | 1 954 441 | 2 546 915 | 633 142 | 2 107 107 | 2 740 248 | 438 169 | 2 308 974 | 2 747 143 | 338 228 | 2 373 260 | 2 711 488 |
| Stellenbosch | 463 792 | 1 310 077 | 1 773 869 | 418 057 | 1 427 946 | 1 846 002 | 319 514 | 1 509 615 | 1 829 129 | 226 873 | 1 609 517 | 1 836 390 |
| George | 221 795 | 1 519 175 | 1 740 970 | 340 932 | 1 735 267 | 2 076 199 | 505 685 | 1 833 166 | 2 338 851 | 587 639 | 1 980 573 | 2 568 213 |
| Less | | | | | | | | | | | | |
| External loans / borrowing | 1 427 070 | - | 1 427 070 | 1 231 284 | - | 1 231 284 | 835 832 | - | 835 832 | 703 873 | - | 703 873 |
| Internally generated funds | 1 483 808 | - | 1 483 808 | 1 874 682 | - | 1 874 682 | 1 916 861 | - | 1 916 861 | 2 031 328 | - | 2 031 328 |
| Total revenue | 4 231 751 | 45 383 831 | 49 615 582 | 4 696 163 | 50 645 617 | 55 341 780 | 4 400 705 | 54 091 298 | 58 492 003 | 4 996 240 | 57 574 924 | 62 571 164 |

¹ Operating revenue excluding capital transfers

² Municipality adopted the 2016/17 budget too late for inclusion in 2016 MTREF

Source: National Treasury Local Government Database

Table 13: Aggregated Operating and Capital expenditure for secondary cities, 2016/17 - 2019/20

| R thousand | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | |
|--|------------------|-------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total | Capital | Operating | Total |
| Top 19 Municipalities | 7 142 629 | 46 093 153 | 53 235 782 | 7 802 129 | 51 377 325 | 59 179 454 | 7 153 398 | 54 440 387 | 61 593 785 | 7 731 441 | 57 691 109 | 65 422 550 |
| Matjhabeng | 133 363 | 2 036 735 | 2 170 098 | 181 215 | 2 322 822 | 2 504 037 | 121 039 | 2 493 401 | 2 614 439 | 129 559 | 2 547 318 | 2 676 878 |
| Emfuleni | 345 673 | 5 937 229 | 6 282 903 | 423 589 | 5 864 496 | 6 288 085 | 336 650 | 6 413 307 | 6 749 957 | 359 453 | 6 768 865 | 7 128 318 |
| Mogale City | 424 969 | 2 783 094 | 3 208 063 | 293 878 | 2 519 890 | 2 813 768 | 284 119 | 2 585 703 | 2 869 822 | 302 780 | 2 712 907 | 3 015 687 |
| Msunduzi | 726 241 | 4 453 570 | 5 179 811 | 698 424 | 4 904 829 | 5 603 253 | 561 224 | 5 045 213 | 5 606 436 | 570 039 | 5 326 805 | 5 896 844 |
| New castle | 275 667 | 1 955 731 | 2 231 398 | 252 778 | 1 816 269 | 2 069 047 | 254 998 | 1 939 593 | 2 194 591 | 268 168 | 2 071 293 | 2 339 461 |
| uMhlathuze | 479 397 | 2 629 337 | 3 108 734 | 521 255 | 2 882 744 | 3 403 999 | 566 774 | 3 026 497 | 3 593 271 | 548 154 | 3 242 848 | 3 791 002 |
| Polokwane | 1 096 467 | 2 578 556 | 3 675 023 | 1 230 118 | 2 902 258 | 4 132 376 | 1 202 352 | 2 950 284 | 4 152 636 | 1 647 837 | 3 216 766 | 4 864 603 |
| Govan Mbeki | 100 894 | 1 708 279 | 1 809 173 | 104 396 | 1 655 807 | 1 760 203 | 96 081 | 1 784 039 | 1 880 120 | 91 650 | 1 903 032 | 1 994 682 |
| Emalahleni (Mp) | 261 138 | 2 696 508 | 2 957 646 | 245 503 | 3 077 035 | 3 322 538 | 243 134 | 3 255 028 | 3 498 161 | 226 891 | 3 443 425 | 3 670 316 |
| Steve Tshwete | 257 135 | 1 404 161 | 1 661 296 | 282 175 | 1 421 172 | 1 703 347 | 323 885 | 1 496 743 | 1 820 628 | 365 983 | 1 579 702 | 1 945 685 |
| Mbombela / City of Mbombela | 751 719 | 2 675 595 | 3 427 314 | 607 134 | 2 682 858 | 3 289 992 | 570 027 | 2 880 887 | 3 450 914 | 640 865 | 3 071 850 | 3 712 715 |
| Sol Plaatje | 125 204 | 1 891 344 | 2 016 548 | 232 066 | 1 936 491 | 2 168 556 | 181 941 | 2 066 096 | 2 248 036 | 180 553 | 2 196 444 | 2 376 997 |
| Madibeng | 255 211 | 1 582 851 | 1 838 062 | 301 005 | 2 293 154 | 2 594 159 | 324 486 | 2 336 601 | 2 661 087 | 357 935 | 2 397 038 | 2 754 973 |
| Rustenburg | 486 874 | 3 886 035 | 4 372 909 | 581 219 | 4 627 538 | 5 208 757 | 459 943 | 5 045 759 | 5 505 702 | 510 548 | 5 539 008 | 6 049 556 |
| City Of Matlosana | 144 616 | 2 818 956 | 2 963 572 | 213 747 | 3 277 018 | 3 490 765 | 134 636 | 3 457 403 | 3 592 039 | 139 867 | 3 634 820 | 3 774 687 |
| Tlokweng / Tlokweng-Ventersdorp ¹ | - | - | - | 241 498 | 1 711 554 | 1 953 052 | 228 740 | 1 809 488 | 2 038 228 | 238 419 | 1 929 280 | 2 167 699 |
| Drakenstein | 592 474 | 2 047 906 | 2 640 381 | 633 142 | 2 182 693 | 2 815 835 | 438 169 | 2 420 408 | 2 858 577 | 338 228 | 2 492 141 | 2 830 369 |
| Stellenbosch | 463 792 | 1 380 139 | 1 843 931 | 418 057 | 1 486 676 | 1 904 732 | 319 514 | 1 583 156 | 1 902 670 | 226 873 | 1 674 841 | 1 901 714 |
| George | 221 795 | 1 627 126 | 1 848 921 | 340 932 | 1 812 023 | 2 152 954 | 505 685 | 1 850 781 | 2 356 467 | 587 639 | 1 942 726 | 2 530 365 |
| Less | | | | | | | | | | | | |
| Taxation | - | - | - | - | - | - | - | - | - | - | - | - |
| Total revenue | 7 142 629 | 46 093 153 | 53 235 782 | 7 802 129 | 51 377 325 | 59 179 454 | 7 153 398 | 54 440 387 | 61 593 785 | 7 731 441 | 57 691 109 | 65 422 550 |

¹ Municipality adopted the 2016/17 budget too late for inclusion in 2016 MTREF

Source: National Treasury Local Government Database

41. 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 the City of Matlosana. All six municipalities have allocated 10 per cent or less than of their budgets to capital projects, similar to the previous year.
42. Over the medium term, the total budgets of the secondary cities exhibit some stability with an average growth of 5.3 per cent over the outer years of the MTREF period.

Growth in Aggregated Operating and Capital Budgets compared to the 2016/17 Budgets

43. Table 14 provides a comparison between the preliminary outcome for the 2016/17 financial year concluded on 30 June 2017 as published in the Section 71 Quarter 4 publication which was released on 16 August 2017, the adopted budget for the 2017/18 financial year and the average growth in municipal budgets over the 2017/18 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2016/17

| R thousands | 2016/17 | | | 2017/18 | 2018/19 | 2019/20 | % Growth rates: Estimated actual (Nominal) | |
|---|--------------------|--------------------|------------------------|-----------------------|--------------------|--------------------|--|---------------------|
| | Adopted Budget | Revised Budget | Preliminary outcome | Medium term estimates | | | 2016/17- 2017/18 | 2016/17- 2019/20 |
| Operating Revenue¹ | | | | | | | | |
| Property rates | 52 073 733 | 53 043 036 | 53 307 794 | 58 073 374 | 62 281 329 | 66 638 600 | 8.9% | 7.7% |
| Service charges | 166 606 944 | 166 574 953 | 156 838 197 | 174 098 607 | 187 851 698 | 202 013 689 | 11.0% | 8.8% |
| Other own revenue | 104 851 684 | 105 660 668 | 94 811 372 | 110 376 621 | 117 469 954 | 124 517 963 | 16.4% | 9.5% |
| Total Revenue | 323 532 361 | 325 278 656 | 304 957 363 | 342 548 602 | 367 602 981 | 393 170 252 | 12.3% | 8.8% |
| Operating Expenditure | | | | | | | | |
| Employee related costs | 88 884 660 | 89 287 535 | 84 307 131 | 99 752 194 | 107 252 005 | 114 849 401 | 18.3% | 10.9% |
| Debt impairment | 17 210 388 | 18 286 067 | 13 579 472 | 19 795 974 | 20 445 919 | 21 474 482 | 45.8% | 16.5% |
| Bulk purchases | 94 438 508 | 95 043 800 | 87 980 809 | 97 355 515 | 104 282 734 | 112 208 304 | 10.7% | 8.4% |
| Other expenditure | 124 533 681 | 128 473 613 | 108 335 012 | 129 371 002 | 137 530 258 | 145 828 114 | 19.4% | 10.4% |
| Total Expenditure² | 325 067 237 | 331 091 016 | 294 202 425 | 346 274 685 | 369 510 916 | 394 360 300 | 17.7% | 10.3% |
| Operating Surplus/(Deficit) | (1 534 876) | (5 812 359) | 10 754 938 | (3 726 083) | (1 907 935) | (1 190 048) | (134.6%) | (148.0%) |
| Capital Funding | | | | | | | | |
| External loans | 11 911 806 | 11 589 395 | 8 068 520 | 13 276 655 | 12 957 197 | 14 059 536 | 64.5% | 20.3% |
| Internal contributions | 11 106 533 | 10 671 474 | 9 032 611 | 10 149 388 | 10 628 999 | 10 254 113 | 12.4% | 4.3% |
| Transfers and subsidies | 40 086 891 | 39 653 330 | 31 782 534 | 42 207 765 | 41 530 375 | 43 988 252 | 32.8% | 11.4% |
| Other | 6 319 936 | 6 934 807 | 5 527 012 | 4 989 288 | 4 626 830 | 4 476 956 | (9.7%) | (6.8%) |
| Total funding | 69 425 165 | 68 849 006 | 54 410 678 | 70 623 096 | 69 743 401 | 72 778 856 | 29.8% | 10.2% |
| Capital Expenditure | | | | | | | | |
| Water | 22 054 268 | 20 526 413 | 16 020 032 | 22 112 500 | 22 406 679 | 23 150 584 | 38.0% | 13.1% |
| Electricity | 8 697 860 | 8 992 344 | 6 577 674 | 7 866 930 | 8 020 922 | 9 113 688 | 19.6% | 11.5% |
| Housing | 1 738 043 | 1 367 513 | 1 370 209 | 1 790 023 | 1 608 895 | 1 638 016 | 30.6% | 6.1% |
| Roads, pavements, bridges and storm water | 13 570 722 | 13 218 651 | 11 806 516 | 14 200 214 | 13 723 286 | 14 716 226 | 20.3% | 7.6% |
| Other | 23 364 273 | 24 744 085 | 18 636 247 | 24 653 429 | 23 983 619 | 24 160 343 | 32.3% | 9.0% |
| Total expenditure | 69 425 165 | 68 849 006 | 54 410 678 | 70 623 096 | 69 743 401 | 72 778 856 | 29.8% | 10.2% |

¹Excluding capital transfers and contributions

²Includes Taxation

Source: National Treasury Local Government Database

44. As seen in the above table, operating expenditure increases in total by 17.7 per cent when the preliminary outcome for 2016/17 and the MTREF budget for 2017/18 are compared to the operating revenue of 12.3 per cent. Increasing operating expenditure that exceeds revenue is a concern and is considered unsustainable.
45. Compared to the preliminary outcomes of 2016/17, salaries, wages and allowances will increase by 18.3 per cent and bulk purchases by 10.7 per cent. Increases in bulk purchases are largely attributed to the 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 45.8 per cent which is 28.2 per cent lower than the 74 per cent increase in the 2016/17 MTREF. This is 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 and contradicts the assumptions made around collection rates in the budget preparation.

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 10.3 per cent over the last two years of the MTREF in the total operating expenditure with the highest increase of 16.5 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 2016/17 of R13.6 billion compared to the original budget for the same year of R17.2 billion, a difference of R3.6 billion. It is suspected that the budget appropriation for 2016/17 may be overstated and subsequently distorting the percentage growth.
50. Provisions in respect of bulk purchases are also expected to increase by 8.4 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
51. In respect of operating revenue items, the average increase is 8.8 per cent which is lower than the average operating expenditure and hence the municipalities are budgeting for deficits in the 3 years of the 2017/18 MTREF.
52. Capital budgets grow significantly by 29.8 per cent in 2017/18. 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 64.5 per cent in external loans for the funding of the capital budget indicates the municipalities are overly optimistic about their borrowing capacity to fund their capital programs.
53. Grants and subsidies show an increase of 32.8 per cent when compared to the preliminary outcomes for 2016/17.
54. Over the MTREF period the average capital expenditure growth is increasing to an estimated 10.2 per cent.

Changes to Baseline

55. Table 15 highlights the extent to which municipalities have allocated additional resources in the 2017/18 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 2017/18 forward estimates.

Table 15: Changes to baseline for 2017 MTREF

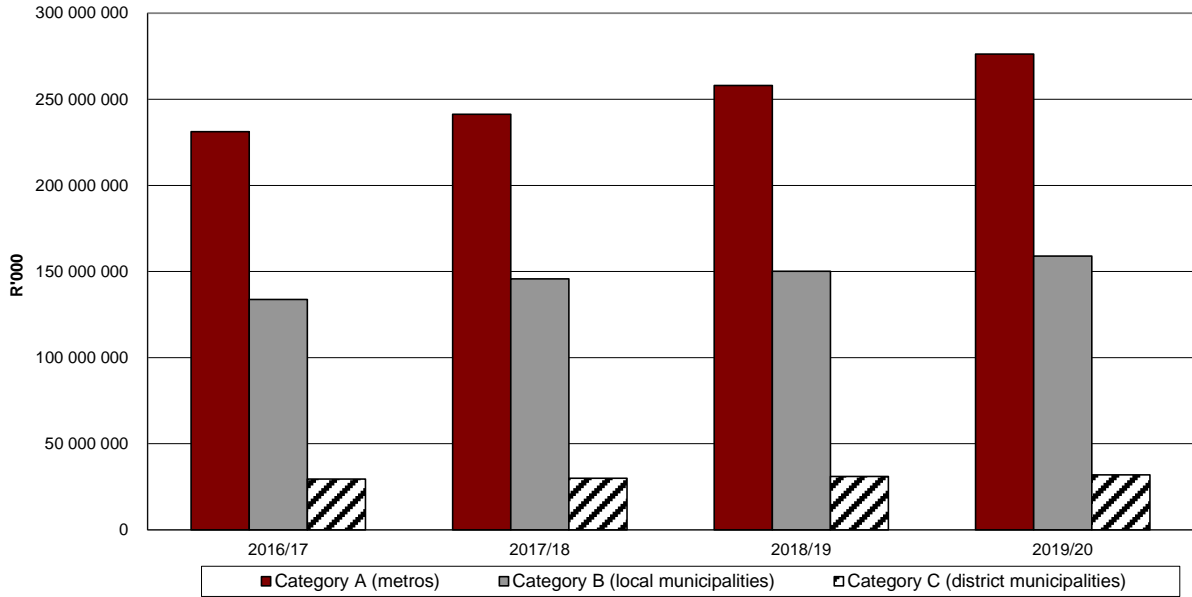
| | 2017/18 | | | 2018/19 | | | 2019/20 | % change to baseline | | % share of total change to baseline | |
|---|-------------------------------|-------------------------------------|---------------------|-------------------------------|-------------------------------------|---------------------|-------------------------------------|----------------------|---------------|-------------------------------------|---------------|
| | 2016/17 Medium term estimates | 2017/18 Draft Medium term estimates | Changes to baseline | 2016/17 Medium term estimates | 2017/18 Draft Medium term estimates | Changes to baseline | 2017/18 Draft Medium term estimates | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| R thousands | | | | | | | | | | | |
| Operating Revenue¹ | | | | | | | | | | | |
| Property rates | 55 463 403 | 58 073 374 | 2 609 971 | 59 002 453 | 62 281 329 | 3 278 876 | 66 638 600 | 4.7% | 5.6% | (94.5%) | (59.8%) |
| Service charges | 181 695 221 | 174 098 607 | (7 596 614) | 198 510 493 | 187 851 698 | (10 658 795) | 202 013 689 | (4.2%) | (5.4%) | 275.1% | 194.3% |
| Other own revenue | 108 151 748 | 110 376 621 | 2 224 873 | 115 575 726 | 117 469 954 | 1 894 228 | 124 517 963 | 2.1% | 1.6% | (80.6%) | (34.5%) |
| Total Revenue | 345 310 372 | 342 548 602 | (2 761 769) | 373 088 672 | 367 602 981 | (5 485 691) | 393 170 252 | (0.8%) | (1.5%) | 100.0% | 100.0% |
| Operating Expenditure | | | | | | | | | | | |
| Employee related costs | 95 220 726 | 99 752 194 | 4 531 468 | 101 954 116 | 107 252 005 | 5 297 889 | 114 849 401 | 4.8% | 5.2% | (3499.5%) | (244.9%) |
| Debt impairment | 18 114 143 | 19 795 974 | 1 681 831 | 19 137 747 | 20 445 919 | 1 308 172 | 21 474 482 | 9.3% | 6.8% | (1298.8%) | (60.5%) |
| Bulk purchases | 102 761 082 | 97 355 515 | (5 405 567) | 112 027 223 | 104 282 734 | (7 744 489) | 112 208 304 | (5.3%) | (6.9%) | 4174.6% | 358.0% |
| Other expenditure | 130 308 223 | 129 371 002 | (937 221) | 138 554 887 | 137 530 258 | (1 024 629) | 145 828 114 | (0.7%) | (0.7%) | 723.8% | 47.4% |
| Total Expenditure² | 346 404 174 | 346 274 685 | (129 489) | 371 673 973 | 369 510 916 | (2 163 057) | 394 360 300 | (0.0%) | (0.6%) | 100.0% | 100.0% |
| Operating Surplus/(Deficit) | (1 093 802) | (3 726 083) | (2 632 281) | 1 414 699 | (1 907 935) | (3 322 634) | (1 190 048) | | | | |
| Capital Funding | | | | | | | | | | | |
| External loans | 11 462 959 | 13 276 655 | 1 813 696 | 11 819 995 | 12 957 197 | 1 137 202 | 14 059 536 | 15.8% | 9.6% | 63.6% | 222.3% |
| Internal contributions | 10 254 874 | 10 149 388 | (105 486) | 9 972 501 | 10 628 999 | 656 498 | 10 254 113 | (1.0%) | 6.6% | (3.7%) | 128.3% |
| Transfers and subsidies | 41 349 772 | 42 207 765 | 857 993 | 42 784 244 | 41 530 375 | (1 253 868) | 43 988 252 | 2.1% | (2.9%) | 30.1% | (245.1%) |
| Other | 4 702 889 | 4 989 288 | 286 400 | 4 655 024 | 4 626 830 | (28 194) | 4 476 956 | 6.1% | (0.6%) | 10.0% | (5.5%) |
| Total funding | 67 770 493 | 70 623 096 | 2 852 603 | 69 231 763 | 69 743 401 | 511 638 | 72 778 856 | 4.2% | 0.7% | 100.0% | 100.0% |
| Capital Expenditure | | | | | | | | | | | |
| Water | 23 752 820 | 22 112 500 | (1 640 320) | 24 120 614 | 22 406 679 | (1 713 935) | 23 150 584 | (6.9%) | (7.1%) | (57.5%) | (335.0%) |
| Electricity | 7 032 039 | 7 866 930 | 834 891 | 7 263 068 | 8 020 922 | 757 854 | 9 113 688 | 11.9% | 10.4% | 29.3% | 148.1% |
| Housing | 1 643 584 | 1 790 023 | 146 439 | 1 546 888 | 1 608 895 | 62 007 | 1 638 016 | 8.9% | 4.0% | 5.1% | 12.1% |
| Roads, pavements, bridges and storm water | 13 634 175 | 14 200 214 | 566 039 | 13 872 962 | 13 723 286 | (149 676) | 14 716 226 | 4.2% | (1.1%) | 19.8% | (29.3%) |
| Other | 21 707 875 | 24 653 429 | 2 945 554 | 22 428 231 | 23 983 619 | 1 555 388 | 24 160 343 | 13.6% | 6.9% | 103.3% | 304.0% |
| Total expenditure | 67 770 493 | 70 623 096 | 2 852 603 | 69 231 763 | 69 743 401 | 511 638 | 72 778 856 | 4.2% | 0.7% | 100.0% | 100.0% |

¹Excluding capital transfers and contributions²Includes Taxation

Source: National Treasury Local Government Database

56. Compared to the 2016/17 MTREF forecast, budgeted operating revenue for 2017/18 has decreased by R2.8 billion and operating expenditure by R129 million. An additional R2.9 billion was allocated to capital expenditure in the 2017/18 financial year.
57. For the 2018/19 financial year, the operating revenue will decrease further by R5.5 billion and operating expenditure by R2.2 billion. An additional R511 million will be set aside for capital expenditure.
58. Against operating expenditure, bulk purchases can be observed as decreasing by 5.3 per cent to the baseline in the 2017/18 financial year and by 6.9 per cent in the 2018/19 year. This is concerning as the bulk purchase cost of electricity and water are expected to increase by 8 per cent if the multi-year increases are used. 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 2017/18 financial year can be observed in the Property rates which increases and Service charges which decreases at around 5 per cent.
60. The capital expenditure baseline in the 2017/18 financial year is related to an anticipated increase of 4.2 per cent.
61. From a funding perspective, the increased capital expenditure will be supported by an increase in external loans funding of 15.8 per cent. The internal contributions have decreased by 1 per cent and corresponds with the deficit budgets over the 2017/18 MTREF.

**Figure 1: Aggregated budgeted expenditure per category,
2016/17 - 2019/20**



**Figure 1.1: Budgeted capital expenditure per category,
2016/17 - 2019/20**

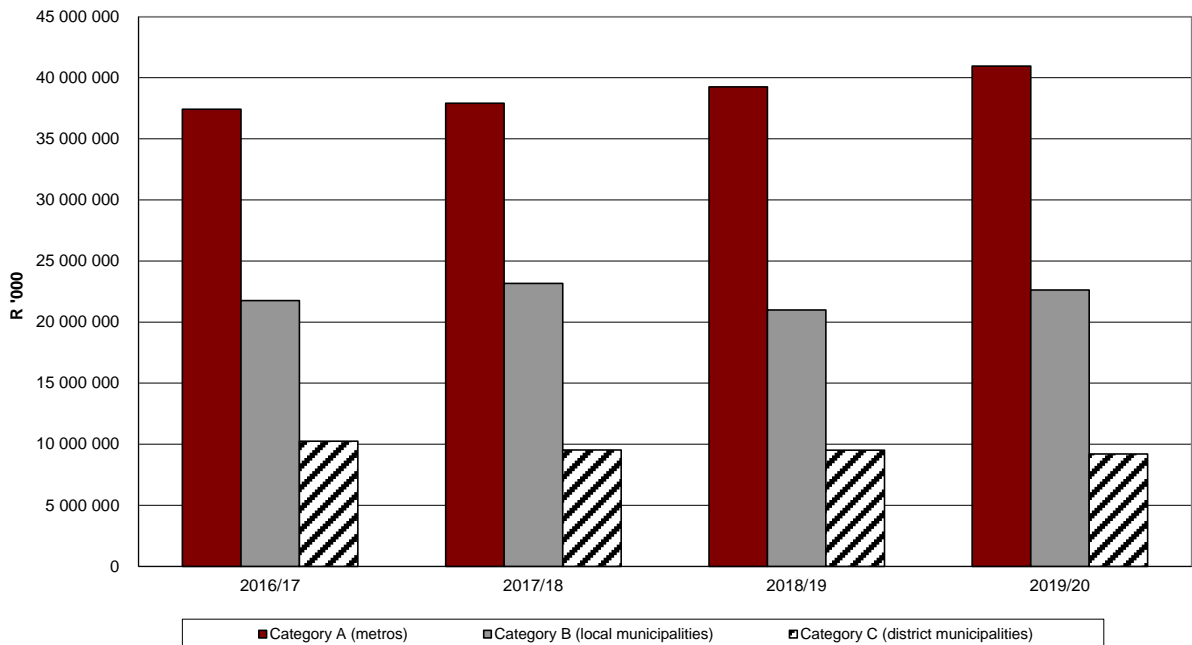


Figure 1.2: Budgeted operating expenditure per category, 2016/17 - 2019/20

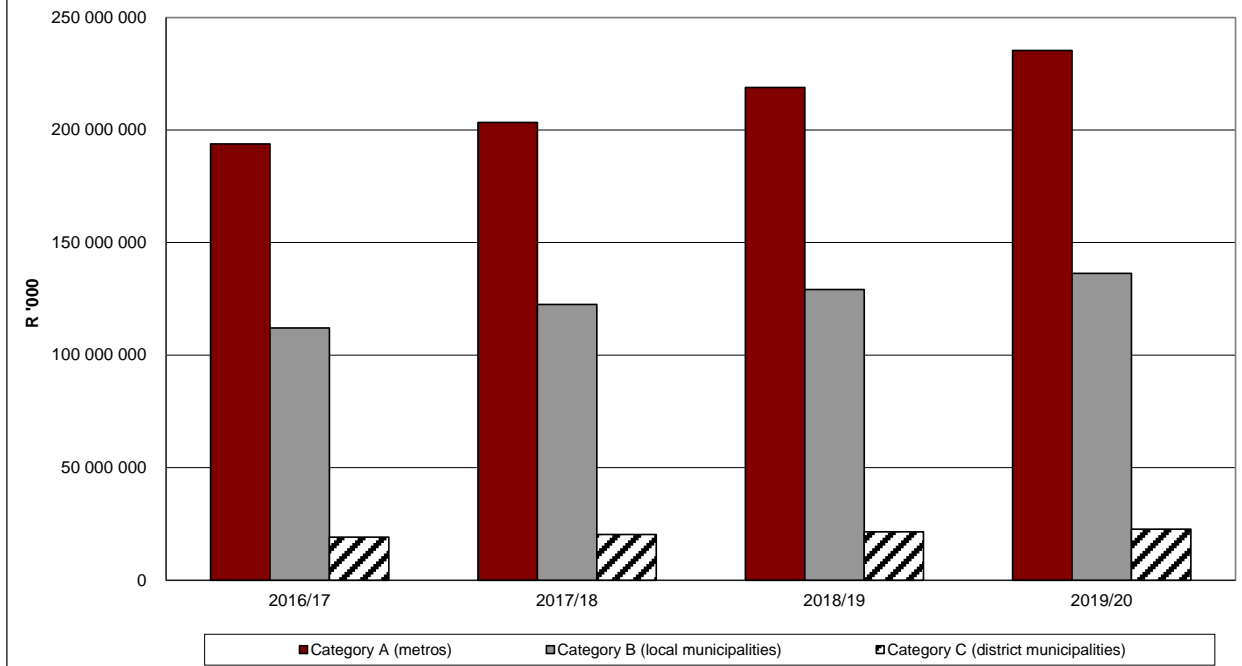


Figure 2: Total operating and capital expenditure per province, 2016/17 - 2019/20

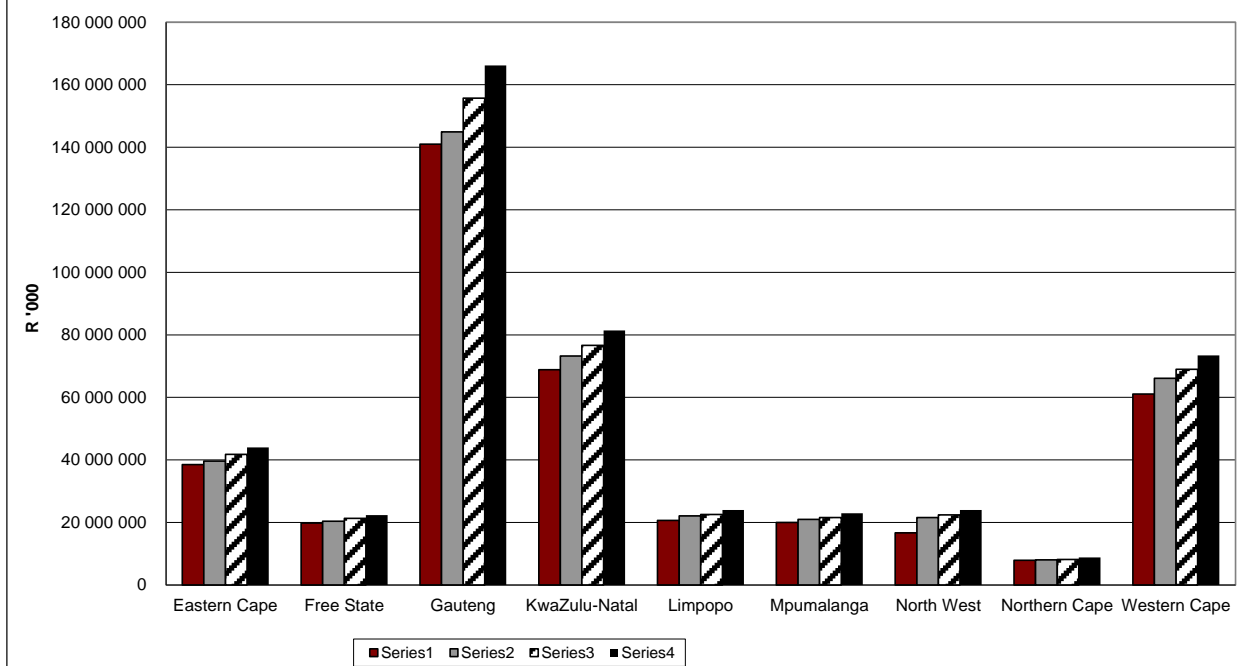


Figure 2.1: Budgeted capital expenditure per province, 2016/17 - 2019/20

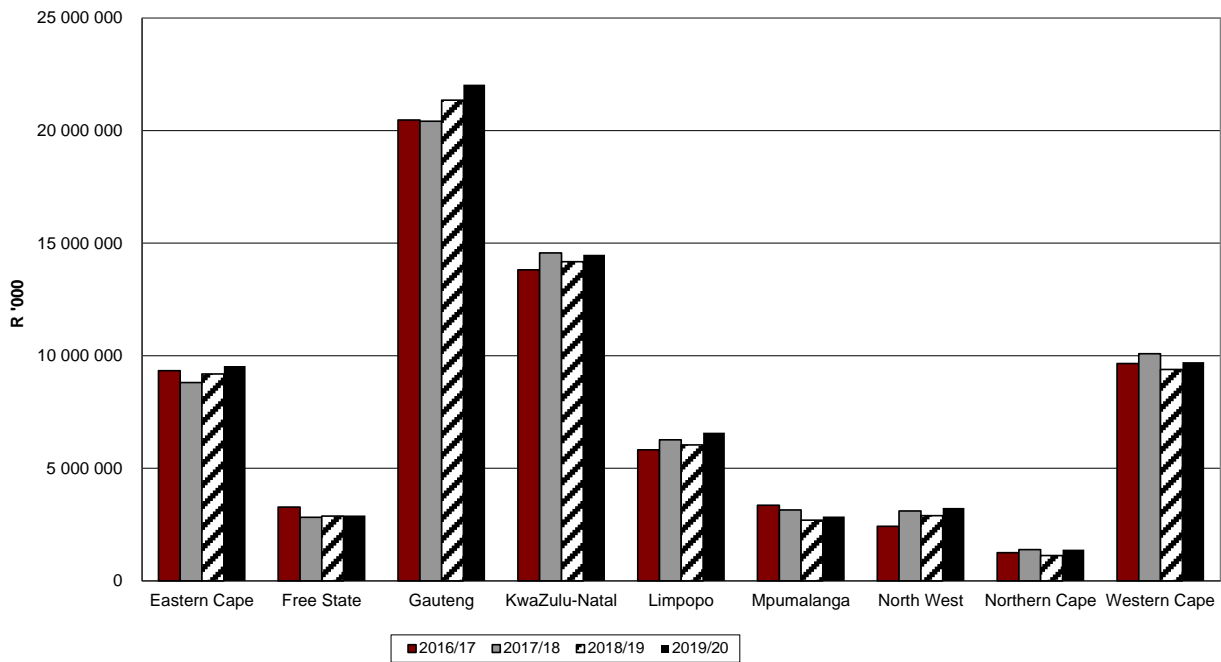
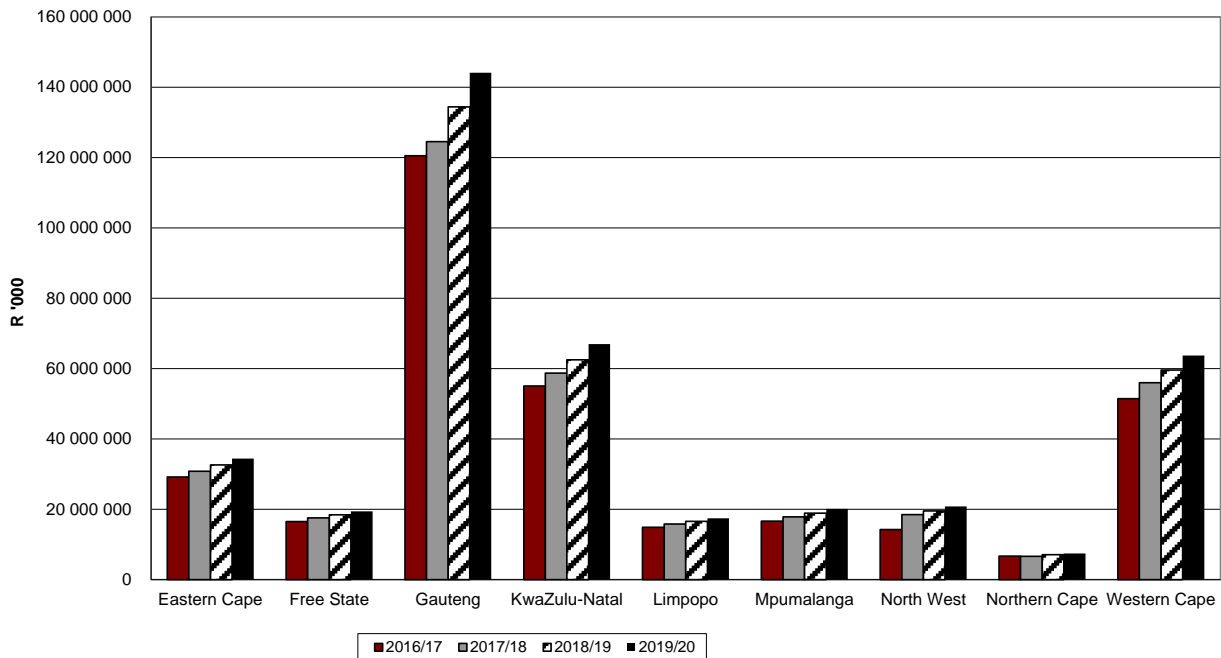
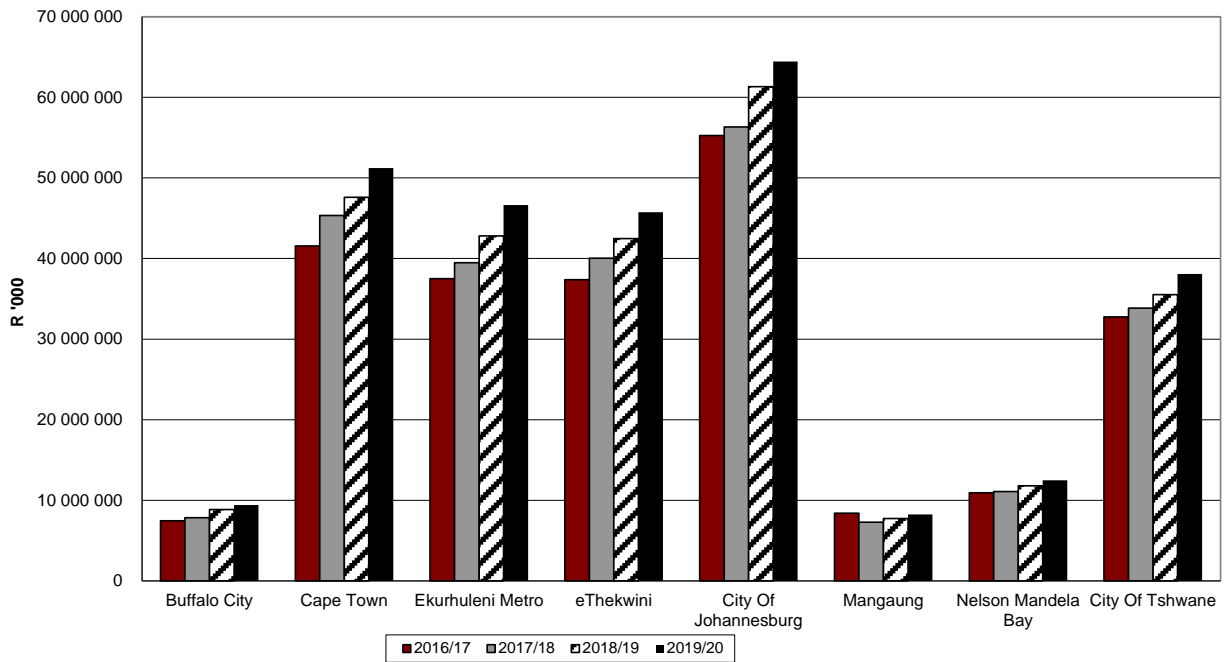


Figure 2.2: Budgeted operating expenditure per province, 2016/17 - 2019/20



**Figure 3: Aggregated budgeted expenditure for metros,
2016/17 - 2019/20**



**Figure 3.1: Budgeted capital expenditure per metro,
2016/17 - 2019/20**

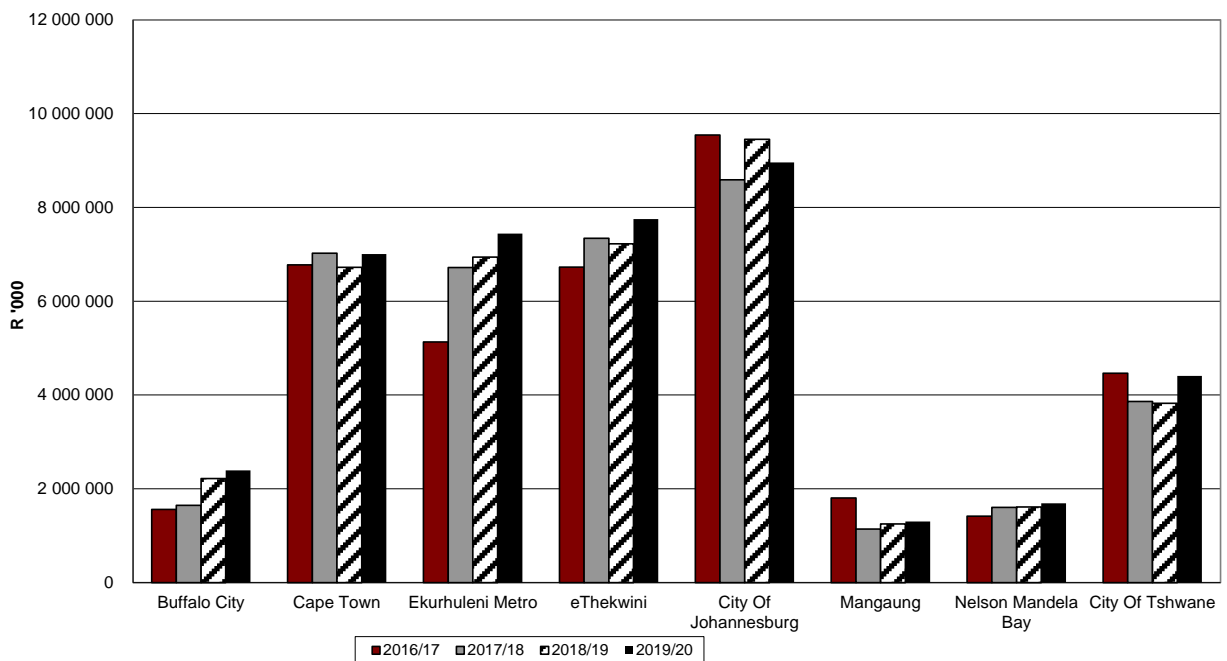
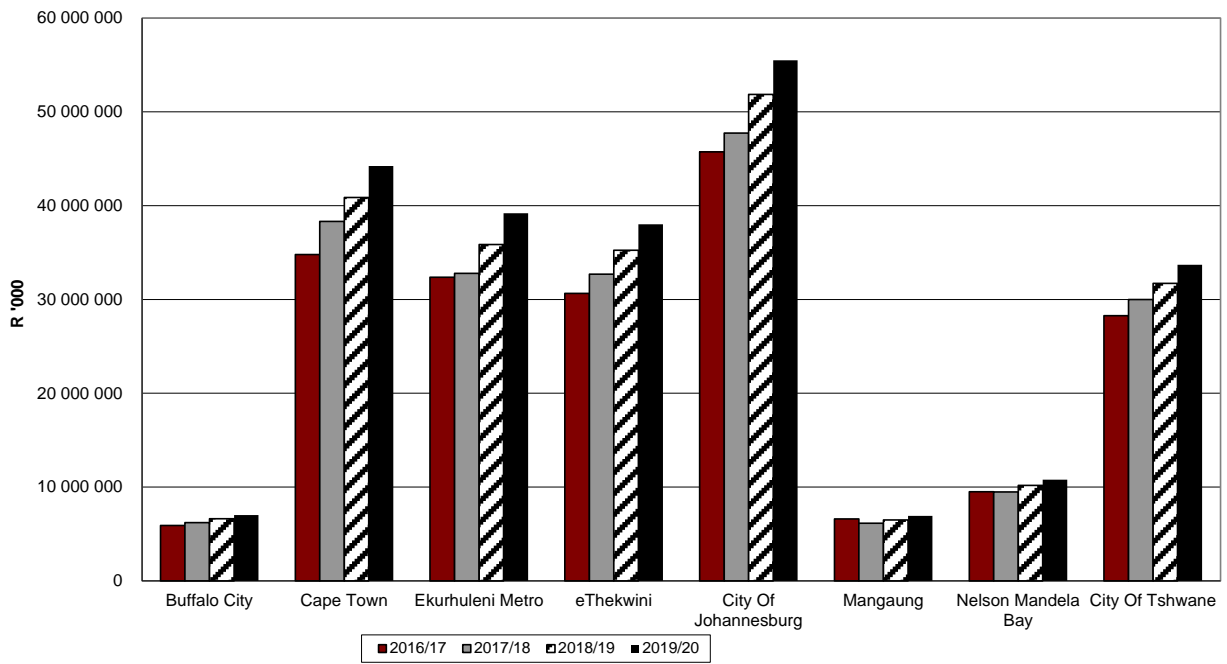
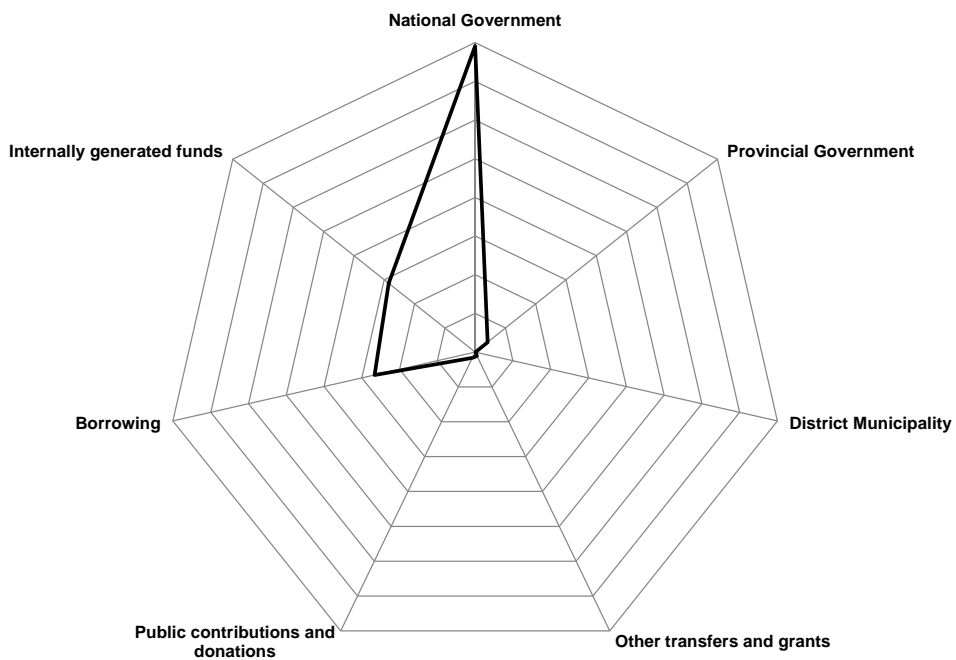


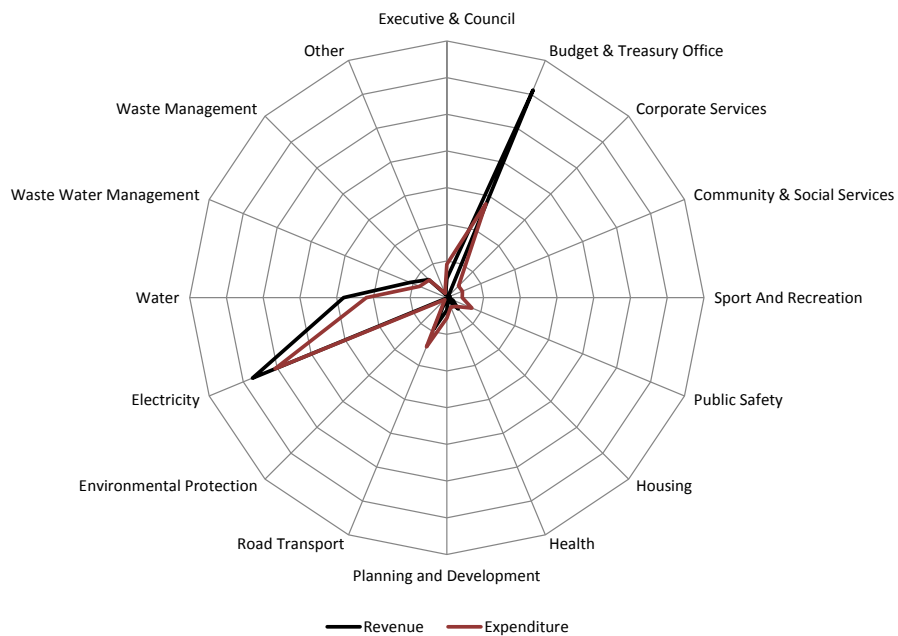
Figure 3.2: Budgeted operating expenditure per metro, 2016/17 - 2019/20



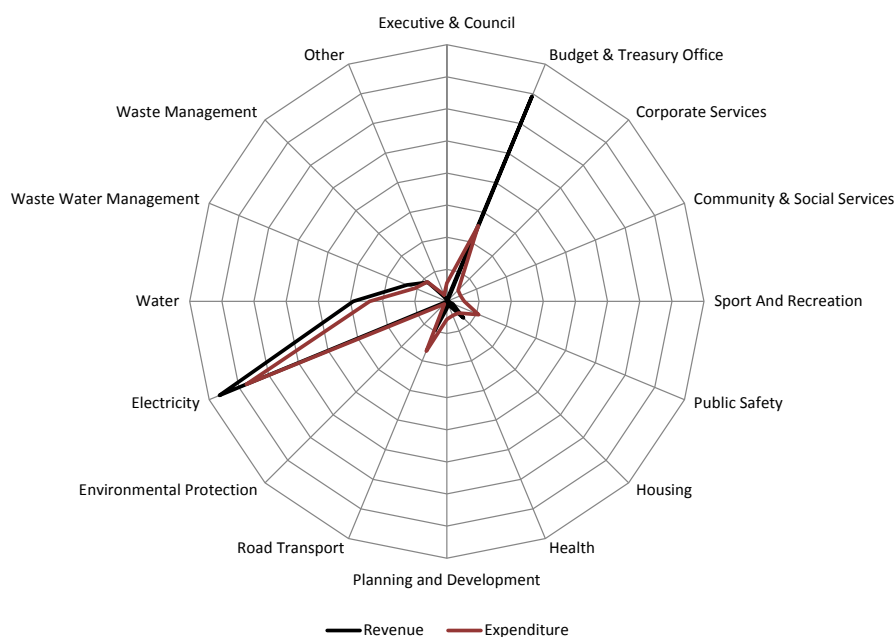
Capital funding contributions, 2017/18



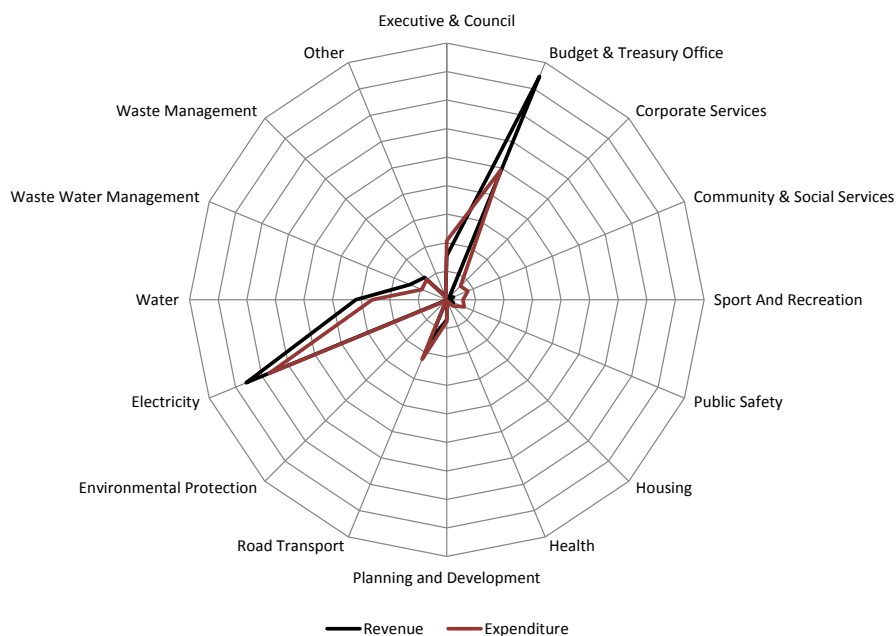
Aggregated operating revenue and expenditure by standard classification, 2017/18



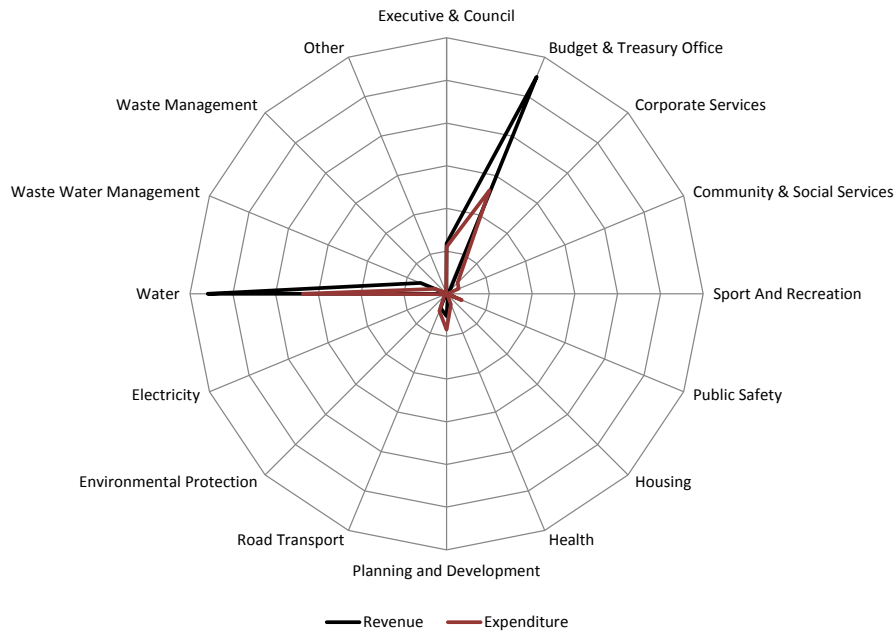
Category A operating revenue and expenditure by standard classification, 2017/18



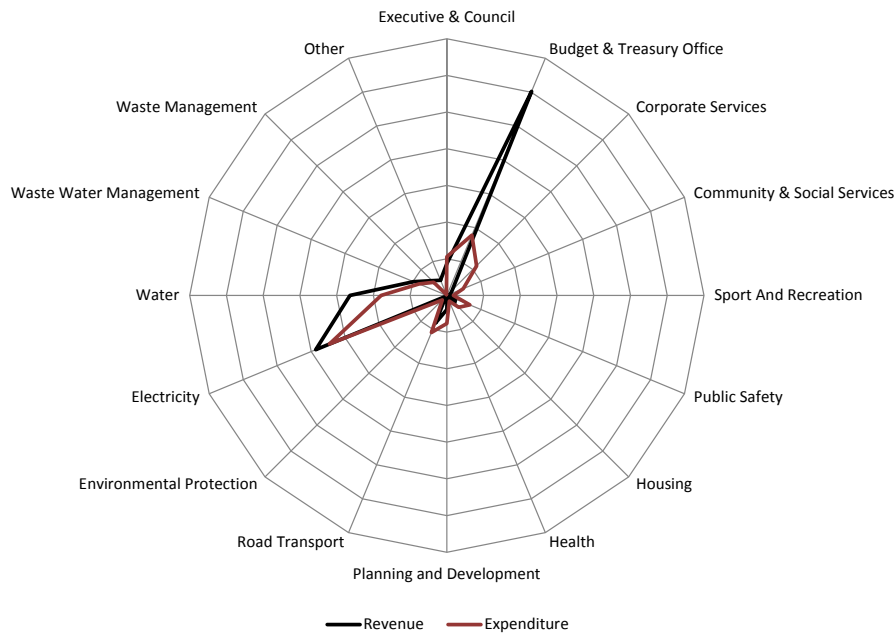
Category B operating revenue and expenditure by standard classification, 2017/18



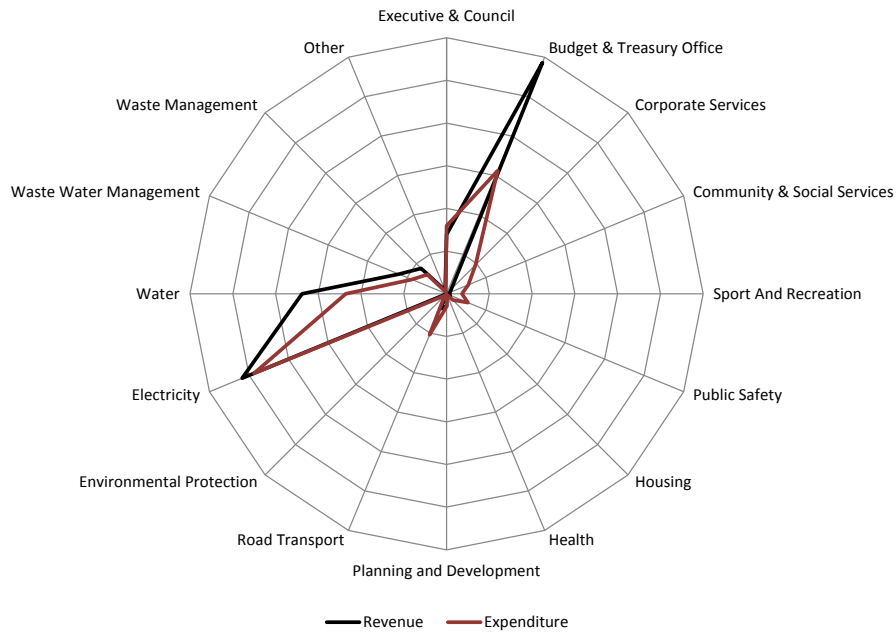
Category C operating revenue and expenditure by standard classification, 2017/18



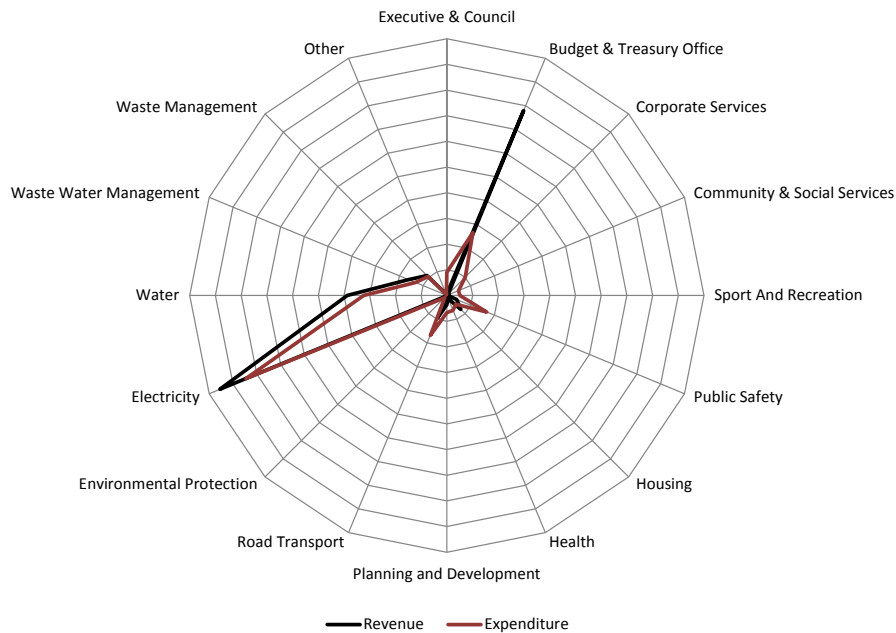
Eastern Cape operating revenue and expenditure by standard classification, 2017/18



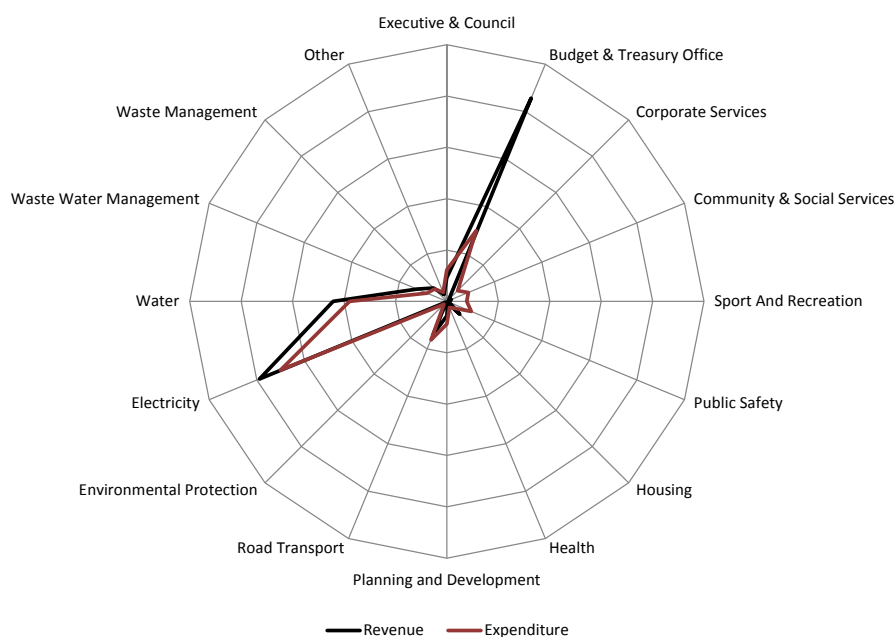
Free State operating revenue and expenditure by standard classification, 2017/18



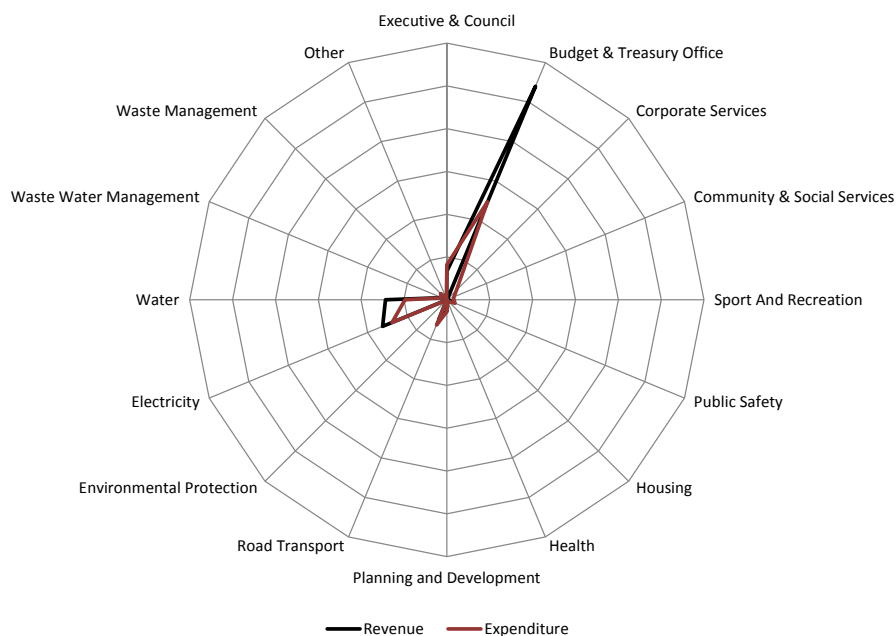
Gauteng operating revenue and expenditure by standard classification, 2017/18



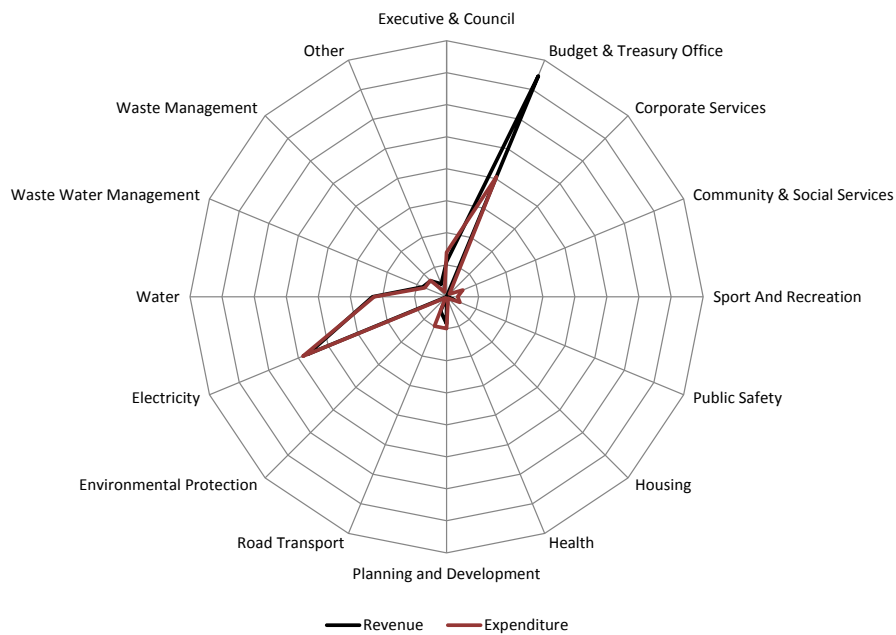
KwaZulu-Natal operating revenue and expenditure by standard classification, 2017/18



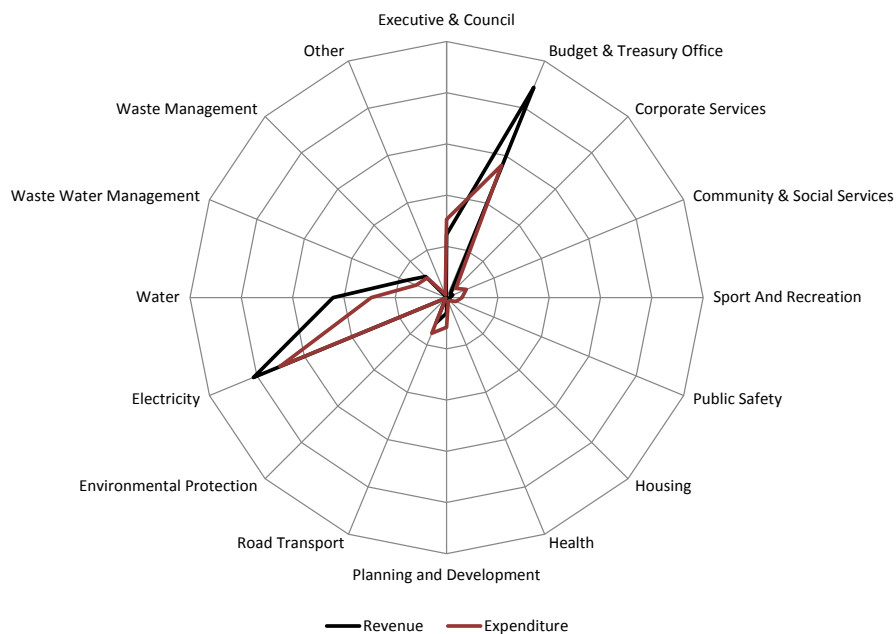
Limpopo operating revenue and expenditure by standard classification, 2017/18



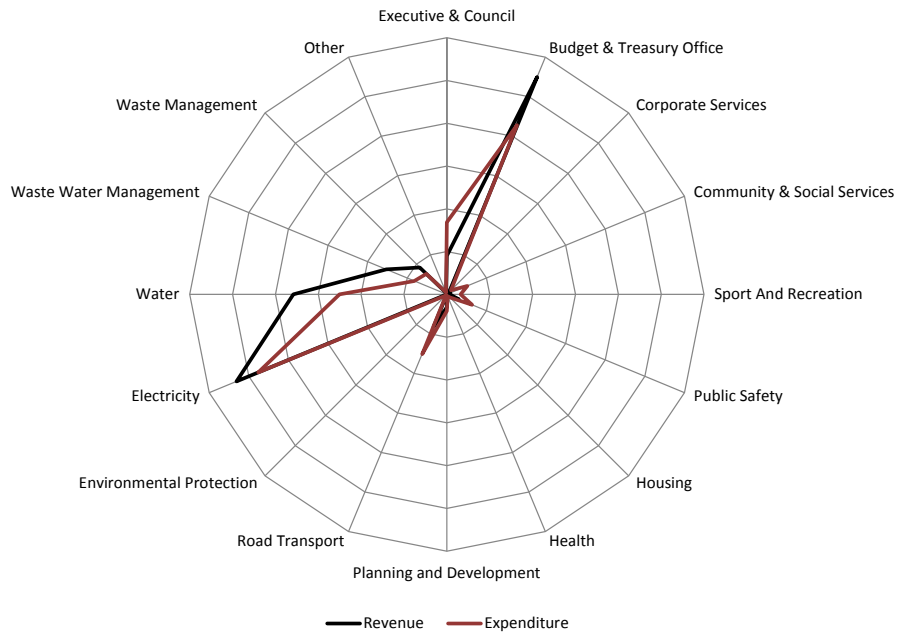
Mpumalanga operating revenue and expenditure by standard classification, 2017/18



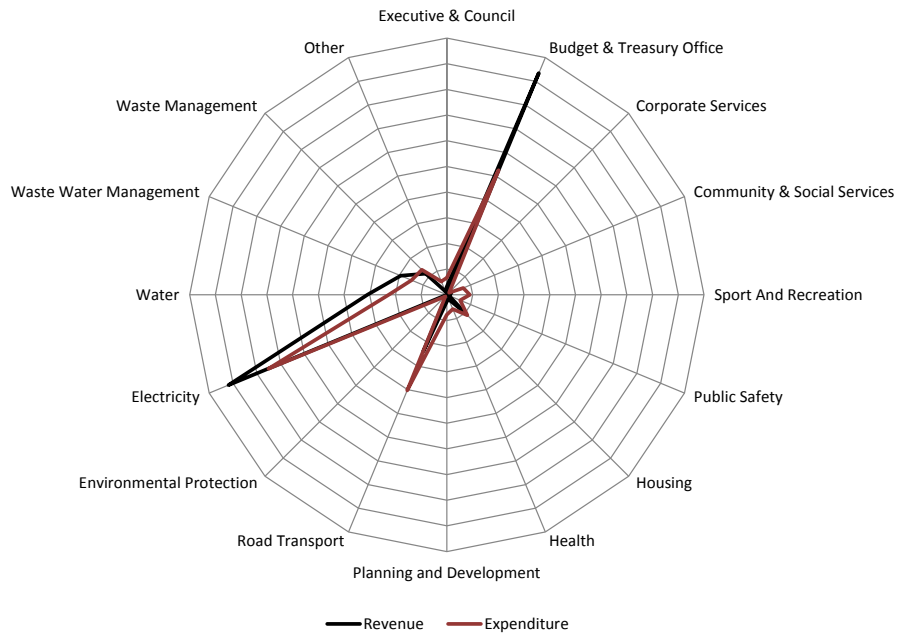
Northern Cape operating revenue and expenditure by standard classification, 2017/18



North West operating revenue and expenditure by standard classification, 2017/18



Western Cape operating revenue and expenditure by standard classification, 2017/18



Planned capital expenditure, 2017/18

