



MEDIA STATEMENT

LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2021/22 MTREF

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 2021/22 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 2021/22 financial year and over the medium-term period. In addition, the information is presented per category of municipality and per province. Highlights include:

- The aggregated budgeted revenue for 2021/22 is R489 billion, which is expected to increase to R517.7 billion in 2022/23 and R540.9 billion in 2023/24.
- Total municipal expenditure in 2021/22 is estimated to be R521.3 billion, increasing to R547.9 billion in 2022/23 and R572.7 billion in 2023/24. Total expenditure for 2021/22 is 6.5 per cent higher than the 2021/22 financial year.
- A net deficit of R4.6 billion is expected in the 2021/22 financial year, a position that remains in deficit of R2.9 billion in 2022/23 and R3.4 billion in 2023/24.
- Municipalities will realise operating deficits on the aggregated operating budgets over the 2021/22 MTREF as the total operating expenditure increases at a higher rate than the revenue projections. This is an indication that municipalities are living beyond their means and a first sign of financial challenges.
- The main cost drivers are employee related costs and materials and bulk purchases representing 29.3 per cent and 33 per cent of the operating expenditure respectively. 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.
- Reporting on operational repairs and maintenance figures has been institutionalised as part of Section 71 in-year reporting. Municipalities allocated R26 billion to repairs and maintenance of assets in 2021/22. This will increase to R27 billion in 2022/23 and to R28.1 billion in 2022/23.
- Capital expenditure has decreased by 1.5 per cent compared to the original budget for the 2020/21 financial year. Capital expenditure in aggregate represents 13.2 per cent in

2021/22, 12.8 per cent in 2022/23 and 12.5 per cent in 2023/24 of the overall budget of municipalities.

- Trading services (electricity, water, wastewater management and waste management) represents 46.9 per cent of the total capital expenditure of R69 billion in 2021/22 and further increases to 49.5 per cent by 2023/24.
- The 2021/22 capital expenditure budget reflects a R42.6 billion investment in new infrastructure which is 61.7 per cent of the total aggregated capital budget. Investment in the renewal and upgrading of existing assets is much lower at R11.3 billion or 16.3 per cent and R15.1 billion or 21.9 per cent of the total capital budget respectively.

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 time series 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 had to submit their 2021/22 MTREF budgets in the prescribed A1 Schedules as per the regulations.

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 an aggregated summary of municipal operating and capital budgets for the 2021/22 Medium Term Revenue Expenditure Framework (MTREF); and

Annexure C contains a set of key graphs articulating the numbers in graphical format.

Go to www.treasury.gov.za/mfma for more information.

Issued by National Treasury

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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 2021/22, 2022/23 and 2023/24 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 *m*SCOA data strings to the National Treasury by the latest 14 July 2021. 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 2021/22 MTREF publication covers 257 municipalities.



ANNEXURE A

THE FULL LIST OF INFORMATION PUBLISHED:

- Aggregated/Consolidated municipal 2021/22 MTREF information;
- A set of related graphs;
- Summary of expenditure per function;
- Summary of large expenditure items;
- *A. Medium-term budget (three-year budget perspective of the summarised operational and capital appropriations):*
 - Operating budget 2021/22;
 - Capital budget 2021/22;
 - Operating budget 2022/23;
 - Capital budget 2022/23;
 - Operating budget 2023/24; and
 - Capital budget 2023/24.
- *B. Municipal Budget and Reporting Regulations format (Summary of financial dimensions):*
 - Schedule A1: Consolidated for all municipalities;
 - Schedule A1: Per province;
 - Schedule A1: Metros; and
 - Schedule A1: Secondary Cities.
- *C. Municipal Budget and Reporting Regulations format (Detail of schedules A2 to A10):*
 - Schedule A2 (Standard Classification):
 - Schedule A2: Consolidated for all municipalities;
 - Schedule A2: Per province;
 - Schedule A2: Metros; and
 - Schedule A2: Secondary Cities.
 - Schedule A4 (Statement of Financial Performance):
 - Schedule A4: Consolidated for all municipalities;
 - Schedule A4: Per province;
 - Schedule A4: Metros, and
 - Schedule A4: Secondary Cities.
 - Schedule A5 (Capital Budget):
 - Schedule A5: Consolidated for all municipalities;
 - Schedule A5: Per province;
 - Schedule A5: Metros; and
 - Schedule A5: Secondary Cities.
 - Schedule 6 (Statement of Financial Position):
 - Schedule A6: Consolidated for all municipalities;
 - Schedule A6: Per province;
 - Schedule A6: Metros; and
 - Schedule A6: Secondary Cities.
 - Schedule A7 (Cash Flow Budget/Position):

- Schedule A7: Consolidated for all municipalities;
 - Schedule A7: Per province;
 - Schedule A7: Metros; and
 - Schedule A7: Secondary Cities.
- Schedule A9 (Asset Management):
 - Schedule A9: Consolidated for all municipalities;
 - Schedule A9: Per province;
 - Schedule A9: Metros; and
 - Schedule A9: Secondary Cities.
- Schedule A10 (Free Basic Services):
 - Schedule A10: Consolidated for all municipalities;
 - Schedule A10: Per province;
 - Schedule A10: Metros; and
 - Schedule A10: Secondary Cities.
- Combined Schedules A1 to A10:
 - Metros;
 - Secondary cities
- *D. Changes to Baseline:*
 - Sum of changes to baseline; and
 - Information per province.
- *E. Summary of Growth Rates:*
 - Sum of growth in municipal budgets, and
 - Information per province.
- *mSCOA framework assorted results.*

HIGH LEVEL ANALYSIS OF THE 2021/22 MTREF:

- The analysis below is restricted to the aggregated budgets 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 2021/22 budget and MTREF is also published on the National Treasury website.
- Table 1 below reflects the aggregated operating and capital budget for the 2021/22 MTREF. Total revenue is projected to increase from R454 billion in the adjusted budget of the 2020/21 financial year to R489 billion in 2021/22, thereafter increases to R540.9 billion by 2023/24. On the contrary, total expenditure is projected to increase from R485.7 billion in the adjusted budget of the 2020/21 financial year to R521.3 billion in 2021/22, thereafter increases to R572.7 billion by 2023/24.

*Aggregated operating and capital budget***Table 1: Aggregated Operating and Capital budgets, 2020/21 - 2023/24**

Description	Original Budget	Adjusted Budget	2021/22 Medium Term Revenue & Expenditure Framework		
	2020/21	2020/21	2021/22	2022/23	2023/24
R thousands					
REVENUE:					
Total Revenue (excluding capital transfers and contributions)	414 783 420	413 972 219	447 874 842	475 135 121	498 174 150
Capital Revenue					
Transfers recognised - capital	37 832 531	40 035 533	41 143 185	42 525 505	42 760 779
Public contributions & donations	-	-	-	-	-
Total Capital Revenue	37 832 531	40 035 533	41 143 185	42 525 505	42 760 779
Total Revenue	452 615 951	454 007 751	489 018 027	517 660 626	540 934 929
EXPENDITURE:					
Total Operating Expenditure ¹	419 277 564	416 392 049	452 273 851	477 894 328	501 307 962
Capital expenditure	70 109 367	69 255 232	69 016 174	69 997 853	71 409 841
Total Expenditure	489 386 931	485 647 280	521 290 025	547 892 181	572 717 803
Surplus / (deficit)	(36 770 980)	(31 639 529)	(32 271 999)	(30 231 555)	(31 782 874)
FINANCING:					
External loans / borrowing	11 395 889	9 319 965	11 927 324	13 752 352	15 376 938
Internally generated funds ²	20 247 414	18 962 762	15 788 032	13 559 594	12 984 115
Total financing	31 643 303	28 282 727	27 715 356	27 311 946	28 361 053
Net surplus / (deficit)	(5 127 677)	(3 356 802)	(4 556 642)	(2 919 609)	(3 421 820)

¹Includes Taxation² External loans and internally generated funds are the municipality's own contribution to capital revenue.

- 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).
- However, the external loans (borrowing) and internally generated funds are considered in determining the net surplus/ (deficit) as they are funding instruments of the capital expenditure. Municipalities intend to fund infrastructure development through external loans (borrowing) of R41.1 billion and internally generated funding of R42.3 billion (R54.1 billion for the 2020/21 MTREF) over the 2021/22 MTREF.
- It is notable, that in aggregate municipalities will realise operating deficits on the operating budgets over the 2021/22 MTREF as the total operating expenditure increases at a higher rate than the revenue projections. This is an indication that municipalities are living beyond their means and a first sign of financial challenges. A net deficit of R4.6 billion is projected in the

2021/22 financial year after considering revenue from external loans and internally generated funds. This is a deterioration compared to a deficit of R3.4 billion in the 2020/21 adjusted budget and will reduce to R2.9 billion in 2022/23, thereafter increase to R3.4 billion in 2023/24.

6. Municipalities are reducing their contribution from internally generated funds towards the capital budget while increasing external loans over the MTREF. This is in line with the operating deficits that are projected.
7. It needs to be noted that municipalities are on the 'accrual' basis of accounting and as a result the operating statement of financial performance represents the intended billings and other revenue receipts and not actual collections (cash in the bank). The degree to which billings and other revenue translate into actual cash is highly dependent on the management of the municipal revenue value chain and credit control processes.
8. Municipalities are required to estimate monthly revenue and expenditure as part of the Municipal Budget and Reporting Regulations (MBRR) schedules. These monthly projections are used to monitor the performance of the municipalities during the municipal financial year and are reported on in the quarterly Section 71 publications to determine if the municipalities are over- or underperforming on their estimated revenue and expenditure.
9. Table 2 below reflects the summary of the operating budget by key source of revenue and the main cost drivers over the 2021/22 MTREF, the capital expenditure and how it is funded. Notable is that municipal operating budgets are mainly funded from revenue generated from property rates and service charges. As indicated earlier in the report, the table below only reflects billings. Therefore, municipalities must put effort in collecting billed revenue and ensuring implementation of revenue management measures such as issuing accurate bills and implementing credit control where required.
10. Property rates and service charges represents 68.8 per cent (R978.4 billion) of the projected operating revenue over the 2021/22 MTREF. Therefore, failure to collect the projected revenue will result in an increase in municipalities in financial distress as municipalities continue to incur expenditure in line with the budget projections. Municipalities will have to implement cost containment measures and spend in line with the revenue collected to ensure financial sustainability.



Table 2: Consolidated budget summary for all municipalities for the 2021 MTREF

Description	Current year 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
	Adopted budget	Adjusted budget	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
R thousands					
Financial Performance					
Property rates	73 958 017	73 616 731	80 591 655	84 560 207	89 278 912
Service charges	199 379 961	197 865 007	223 711 704	241 277 129	258 958 260
Investment revenue	4 076 648	3 800 666	3 594 446	3 783 074	3 561 202
Transfers recognised - operational	92 289 586	98 461 323	93 326 152	97 505 630	96 715 699
Other own revenue	45 079 208	40 228 492	46 650 885	48 009 081	49 660 077
Total Revenue (excluding capital transfers and contributions)	414 783 420	413 972 219	447 874 842	475 135 121	498 174 150
Employee costs	121 893 061	122 471 683	133 118 587	140 047 921	145 716 287
Remuneration of councillors	4 654 965	4 595 044	4 868 635	5 081 159	5 289 171
Depreciation & asset impairment	33 149 123	33 168 110	34 691 748	36 296 554	37 171 050
Finance charges	11 850 663	10 320 552	10 597 280	11 553 498	12 185 538
Materials and bulk purchases	126 694 971	126 924 168	145 310 020	157 104 158	169 599 011
Transfers and grants	3 465 881	3 601 278	4 030 863	4 097 514	4 060 312
Other expenditure	117 568 899	115 311 214	119 656 718	123 713 523	127 286 593
Total Expenditure	419 277 564	416 392 049	452 273 851	477 894 328	501 307 962
Surplus/(Deficit)	(4 494 144)	(2 419 830)	(4 399 009)	(2 759 207)	(3 133 812)
Transfers recognised - capital	38 597 728	38 709 743	40 841 454	42 513 916	43 063 530
Contributions recognised - capital & contributed assets	1 074 011	1 337 891	1 347 544	1 272 234	1 357 941
Surplus/(Deficit) after capital transfers & contributions	35 177 594	37 627 804	37 789 988	41 026 943	41 287 659
Share of surplus/ (deficit) of associate	1 616	(15 000)	-	-	-
Surplus/(Deficit) for the year	35 179 210	37 612 804	37 789 988	41 026 943	41 287 659
Capital expenditure & funds sources					
Capital expenditure	70 109 367	69 255 232	69 016 174	69 997 853	71 409 841
Transfers recognised - capital	37 832 531	40 035 533	41 143 185	42 525 505	42 760 779
Public contributions & donations	-	-	-	-	-
Borrowing	11 395 889	9 319 965	11 927 324	13 752 352	15 376 938
Internally generated funds	20 247 414	18 962 762	15 788 032	13 559 594	12 984 115
Total sources of capital funds	69 475 834	68 318 260	68 858 541	69 837 451	71 121 832

Source: National Treasury Local Government database

11. The main cost drivers are employee related costs and materials and bulk purchases representing 29.3 per cent and 33 per cent of the operating expenditure respectively. Contracted services is also a main cost driver and is included as part of other expenditure. Employee related costs are mainly informed by the percentage increase in the cost of living adjustment and filling of vacancies. This expenditure item is projected to increase by 8.7 per cent from R122.5 billion in the 2020/21 adjusted budget to R133.1 billion in 2021/22 and further increases to R145.7 billion in 2023/24.
12. Remuneration of councillors increased by 6 per cent from R4.6 billion in the 2020/21 adjusted budget to R4.9 billion in 2021/22 and further increases to R5.3 billion in 2023/24. The projected increase is informed by the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils.
13. The performance against the operating budget is not an indication of whether the budget is funded or not funded in terms of Section 18 of the MFMA. A municipal budget is considered to be funded if the projected cash to be collected is sufficient to cover the commitments.

Aggregated operating and capital budget per municipal category

14. Table 3 below indicates the aggregated budgeted revenue by category of municipality over the 2021/22 MTREF period. In aggregate, the total operating budgeted revenue for 2021/22 increased by 8 per cent from R414.8 billion in 2020/21 to R447.9 billion in 2021/22. Operating revenue increased by 6.1 per cent and 4.8 per cent in the outer years of the 2021/22 MTREF. The increase appears optimistic compared to the previous years which can be due to the current

economic climate. Capital revenue is low and is not balancing with the capital expenditure. This appears to be a reporting challenge in the mSCOA classification framework due to incorrect use of the prescribed segments by the municipalities.

Table 3: Aggregated Operating and Capital Revenue per category, 2020/21 - 2023/24

R thousand	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	31 552 266	246 230 320	277 782 586	34 380 002	268 089 430	302 469 431	36 249 501	286 043 633	322 293 135	38 882 281	303 148 585	342 030 866
Category B	24 061 872	144 571 276	168 633 149	25 068 292	154 509 919	179 578 211	23 344 670	161 800 128	185 144 797	22 552 092	169 398 270	191 950 362
Category C	13 861 695	23 981 824	37 843 519	9 410 248	25 275 494	34 685 741	10 243 280	27 291 360	37 534 640	9 687 459	25 627 295	35 314 754
Total	69 475 834	414 783 420	484 259 254	68 858 541	447 874 842	516 733 383	69 837 451	475 135 121	544 972 572	71 121 832	498 174 150	569 295 982
Less												
External loans / borrowing	11 395 889	-	11 395 889	11 927 324	-	11 927 324	13 752 352	-	13 752 352	15 376 938	-	15 376 938
Internally generated funds	20 247 414	-	20 247 414	15 788 032	-	15 788 032	13 559 594	-	13 559 594	12 984 115	-	12 984 115
Recalculated revenue¹	37 832 531	414 783 420	452 615 951	41 143 185	447 874 842	489 018 027	42 525 505	475 135 121	517 660 626	42 760 779	498 174 150	540 934 929
% of total revenue²												
Category A	6,5%	50,8%	57,4%	6,7%	51,9%	58,5%	6,7%	52,5%	59,1%	6,8%	53,2%	60,1%
Category B	5,0%	29,9%	34,8%	4,9%	29,9%	34,8%	4,3%	29,7%	34,0%	4,0%	29,8%	33,7%
Category C	2,9%	5,0%	7,8%	1,8%	4,9%	6,7%	1,9%	5,0%	6,9%	1,7%	4,5%	6,2%

¹Revenue excludes capital transfers

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

15. Aggregated revenue growth increased by 6.7 per cent in 2021/22 and gradually increases at a lower rate in the outer years of the 2021/22 MTREF period at 5.5 per cent and 4.5 per cent respectively. Capital revenue decreases by 0.9 per cent, however increases by 1.4 per cent and 1.8 per cent in the outer years of the 2021/22 MTREF.
16. Category A (Metros) municipalities contributes 58.5 per cent of aggregated revenue in the 2021/22 financial year which increases to 60.1 per cent by 2023/24. The eight metros account for more than 50 per cent of aggregated revenue raised by local government. This supports the notion that metros have a larger fiscal capacity (ability to raise revenue) when compared to other categories of municipalities.
17. The percentage share of total aggregated revenue for Category B and C municipalities decreases slightly over the 2021/22 MTREF period. Total revenue raised by Category B (local) municipalities is on average 34.1 per cent of aggregated revenue while Category C (districts) municipalities on average contribute 6.6 per cent.
18. 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 closely linked to the changes in transfers from national and provincial government.
19. Table 4 below reflects the total budgeted expenditure by category of municipality over the 2021/22 MTREF period. In aggregate, budgeted municipal expenditure increased by 6.5 per cent from R489.4 billion in 2020/21 to R521.3 billion in the 2021/22 financial year. The increase is mainly driven by the operating expenditure which increased by 7.9 per cent while capital expenditure decreased by 1.6 per cent.

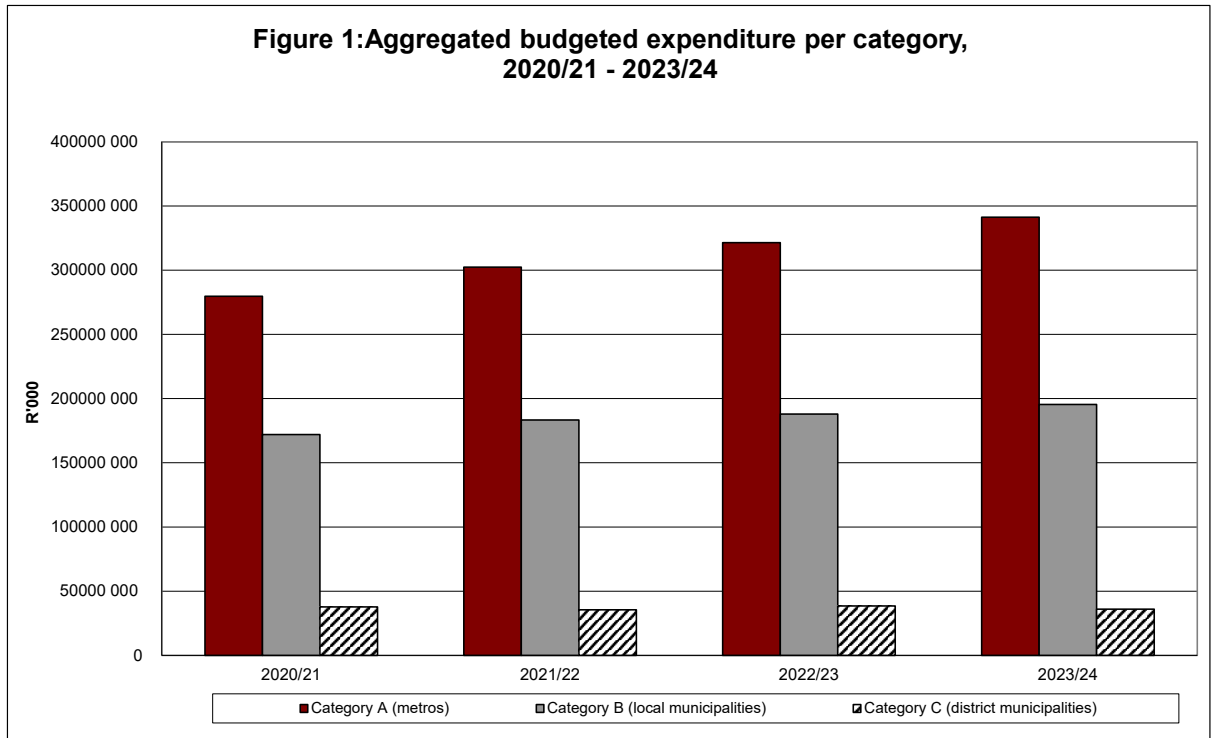
Table 4: Aggregated Operating and Capital expenditure per category, 2020/21 - 2023/24

R thousand	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	31 567 404	248 124 118	279 691 522	34 420 743	268 015 253	302 435 995	36 292 961	285 141 541	321 434 502	38 928 642	302 343 694	341 272 336
Category B	24 584 336	147 354 178	171 938 514	25 165 707	158 145 867	183 311 574	23 432 806	164 560 942	187 993 748	22 768 834	172 653 135	195 421 969
Category C	13 957 627	23 799 268	37 756 895	9 429 725	26 112 732	35 542 457	10 272 086	28 191 845	38 463 931	9 712 364	26 311 133	36 023 497
Total expenditure	70 109 367	419 277 564	489 386 931	69 016 174	452 273 851	521 290 025	69 997 853	477 894 328	547 892 181	71 409 841	501 307 962	572 717 803
% of total expenditure¹												
Category A	6,5%	50,7%	57,2%	6,6%	51,4%	58,0%	6,6%	52,0%	58,7%	6,8%	52,8%	59,6%
Category B	5,0%	30,1%	35,1%	4,8%	30,3%	35,2%	4,3%	30,0%	34,3%	4,0%	30,1%	34,1%
Category C	2,9%	4,9%	7,7%	1,8%	5,0%	6,8%	1,9%	5,1%	7,0%	1,7%	4,6%	6,3%

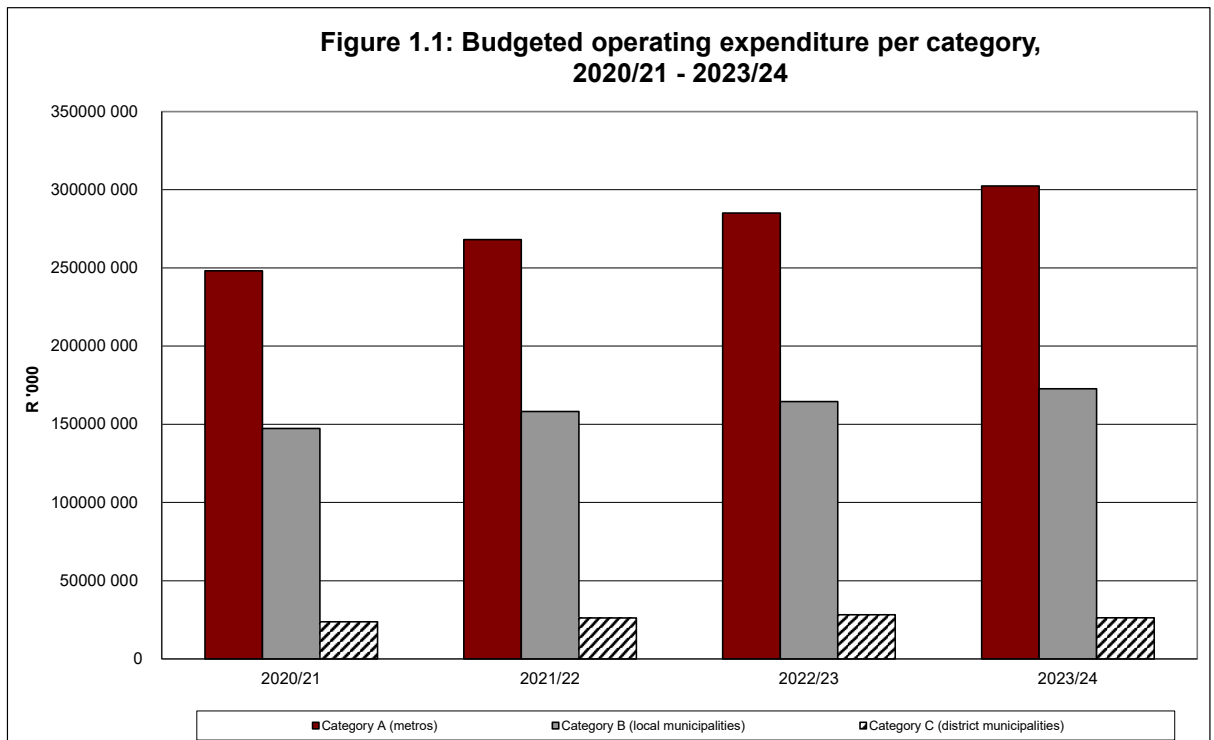
¹Percentage calculations in per category tables are based on total revenue and expenditure (including external loans and internally generated funds).

Source: National Treasury Local Government Database





20. The increase in operating expenditure is suffocating the investment in infrastructure which is evident in the low increases in capital expenditure at an average of 1.7 per cent in the outer years of the MTREF period. This negatively impacts on the objective to invest in infrastructure to ensure economic growth.
21. The total expenditure budget of the eight metros as a share of the total local government budget for the 2021/22 financial year constitutes 58 per cent, whereas local municipalities represent 35.2 per cent. District municipalities represent only 6.6 per cent of total expenditure. The metros contribution slightly increases while the local municipalities' decreases over the MTREF period estimated at 59.6 per cent and 34.1 per cent of total expenditure respectively by 2023/24.
22. The percentage of capital expenditure to total expenditure is declining over the MTREF period. Capital expenditure represented 14.3 per cent of the total expenditure in 2020/21 and is projected to decrease to 13.2 per cent in 2021/22 and further decreases to 12.5 per cent in 2023/24. Even though this performance is within the National Treasury norm of spending between 10 and 20 per cent of total expenditure on capital projects, the declining trends highlights the increasing risk of not investing in infrastructure while the condition is deteriorating. This eventually impacts on municipalities ability to deliver services.
23. Operating expenditure in aggregate represents 85.7 per cent in 2020/21, increases to 86.8 per cent in 2021/22, 87.2 per cent in 2022/23 and 87.5 per cent in 2023/24 of the overall budget of municipalities. As indicated earlier in the report, the major cost drivers are employee related costs and bulk purchases which contributes to the annual increases. However, municipalities must ensure efficiencies in the system to reduce the impact of the increasing operating expenditure on their sustainability.



Detailed capital expenditure and funding

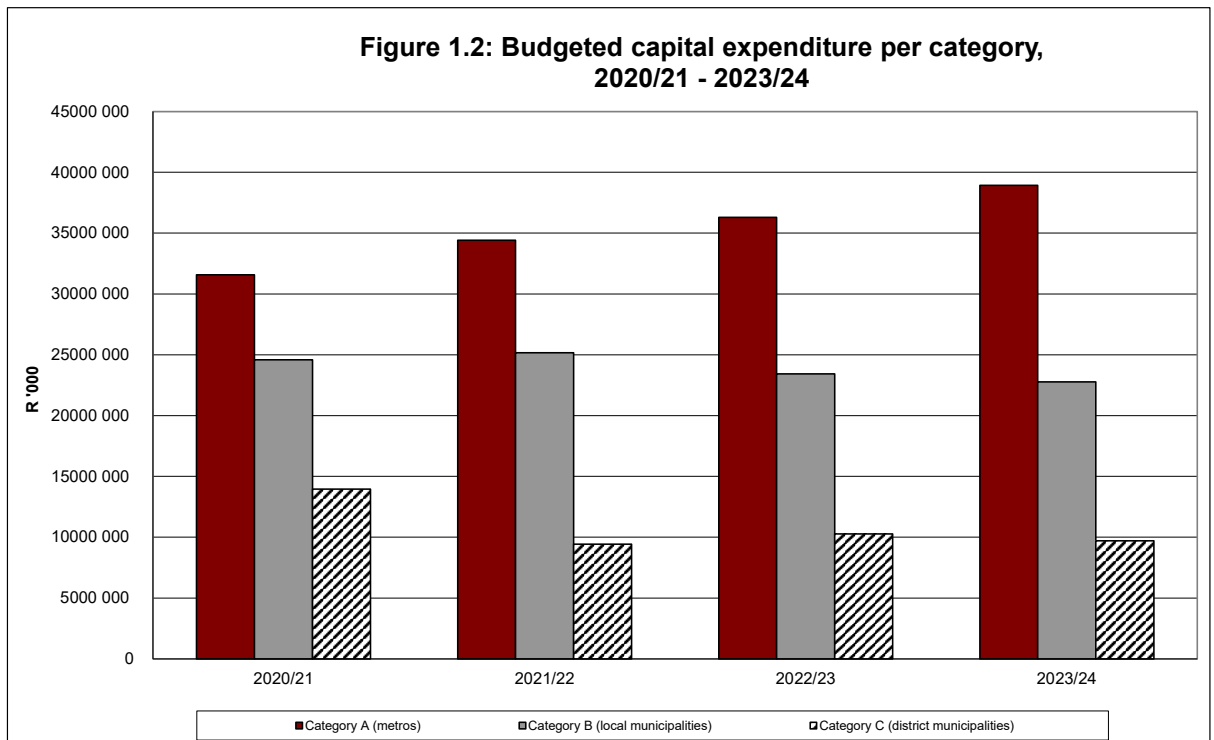
24. Table 5a below reflects the budgeted capital expenditure by standard classification and how it is funded over the 2021/22 MTREF period. The capital expenditure is further categorised between new assets, renewal and upgrading of existing assets. This enables the assessment of the extent to which municipalities are investing in new infrastructure in relation to ensuring that the existing infrastructure is in a good condition.
25. Municipalities are prioritising infrastructure spending on trading services which comprises of electricity, water, waste water management and waste management. Trading services represents 46.9 per cent of the total capital expenditure of R69 billion in 2021/22 and further increases to 49.5 per cent by 2023/24. The high spending is on water infrastructure which can be due to the extension of water supply to more households.
26. Economic and environmental services is the second contributor to capital expenditure which includes road transport. This is observed in the 2021/22 MTREF allocations of R18.9 billion or 27.4 per cent, R19.5 billion or 27.9 per cent and R19.1 billion or 26.7 per cent of the aggregated capital expenditure budget in each of the respective financial years of the MTREF. The highest allocation is in road transport due to some municipalities implementing the integrated public transport system funded by the Public Transport Network Grant (PTNG).

Table 5a: Budgeted capital expenditure and funding, 2020/21 - 2023/24

R thousands	Original Budget 2020/21	Adjusted Budget 2020/21	2021/22 Medium Term Revenue & Expenditure Framework		
			2021/22	2022/23	2023/24
Capital Expenditure - Standard Classification					
<i>Governance and Administration</i>	12 723 339	7 502 549	6 535 740	5 830 001	5 726 064
Executive & Council	5 897 886	659 096	870 573	799 667	827 257
Budget & Treasury Office	6 822 834	6 839 878	5 661 232	5 027 112	4 895 761
Corporate Services	2 620	3 575	3 935	3 223	3 046
<i>Community and Public Safety</i>	9 314 091	10 804 395	10 613 975	10 401 041	10 597 462
Community & Social Services	1 444 235	1 591 435	1 541 685	1 459 115	1 161 186
Sport And Recreation	1 632 477	1 871 527	1 385 237	1 134 159	1 236 637
Public Safety	895 726	946 119	884 052	779 514	702 889
Housing	5 083 144	6 123 242	6 490 934	6 860 576	7 306 764
Health	258 508	272 071	312 067	167 677	189 987
<i>Economic and Environmental Services</i>	17 141 549	17 664 803	18 907 282	19 532 580	19 093 683
Planning and Development	3 359 101	3 504 759	4 240 133	3 771 401	3 428 562
Road Transport	13 581 075	13 857 807	14 445 288	15 429 553	15 355 043
Environmental Protection	201 372	302 238	221 862	331 625	310 078
<i>Trading Services</i>	30 343 246	32 682 858	32 372 474	33 654 448	35 377 839
Electricity	6 019 609	6 869 226	7 413 812	7 290 868	7 548 004
Water	16 045 252	17 745 816	16 433 897	17 357 598	17 934 933
Waste Water Management	6 481 970	6 322 179	6 824 799	7 445 648	8 360 941
Waste Management	1 796 415	1 745 636	1 699 966	1 560 334	1 533 962
<i>Other</i>	587 142	600 627	586 703	579 782	614 793
Total Capital Expenditure	70 109 367	69 255 232	69 016 174	69 997 853	71 409 841
<i>Of which</i>					
Total New Assets	47 470 851	42 927 247	42 611 734	40 824 275	41 653 315
Total Renewal of Existing Assets	9 500 128	11 631 245	11 266 572	12 104 345	12 958 301
Total Upgrading of Existing Assets	13 138 388	14 696 739	15 137 868	17 069 232	16 798 225
Total Capital Expenditure	70 109 367	69 255 232	69 016 174	69 997 853	71 409 841
<i>Percentage of total capital expenditure</i>					
New assets	67,7%	61,2%	61,7%	58,3%	58,3%
Renewal of existing assets	13,6%	16,6%	16,3%	17,3%	18,1%
Upgrading of Existing Assets	18,7%	21,2%	21,9%	24,4%	23,5%
Funded by:					
National Government	35 378 249	36 791 482	38 382 960	40 161 647	40 433 798
Provincial Government	1 753 737	2 309 991	1 647 361	1 419 956	1 487 517
District Municipality	86 156	150 076	30 608	7 095	6 081
Other transfers and grants	614 390	783 984	1 082 256	936 808	833 382
Transfers recognised - capital	37 832 531	40 035 533	41 143 185	42 525 505	42 760 779
Borrowing	11 395 889	9 319 965	11 927 324	13 752 352	15 376 938
Internally generated funds	20 247 414	18 962 762	15 788 032	13 559 594	12 984 115
Total Capital Funding	69 475 834	68 318 260	68 858 541	69 837 451	71 121 832

Source: National Treasury Local Government database

27. The 2021/22 capital expenditure budget reflects a R42.6 billion investment in new infrastructure which is 61.7 per cent of the total aggregated capital budget. Investment in the renewal and upgrading of existing assets is much lower at R11.3 billion or 16.3 per cent and R15.1 billion or 21.9 per cent of the total capital budget respectively. Capital budgets are therefore leaning towards new assets rather than the renewal and upgrading of existing assets. However, the allocation of 38.3 per cent is close to the norm of 40 per cent.



28. National Treasury introduced various indicators to measure municipal performance as part of the Municipal Budget and Reporting Regulations (MBRR). One such indicator measures the investment in asset renewal as a percentage of depreciation. This ratio measures the extent to which municipalities are replacing their assets in relation to the use (consumption) thereof.
29. Municipalities allocations for renewal and upgrading of existing assets represents 76.6 per cent of depreciation in 2021/22 and increases to 80.4 per cent by 2023/24 while the ideal ratio should be 100 per cent (refer to the consolidated A9 schedule). This indicates that municipalities are consuming their assets at a higher rate than what they are providing for renewal/upgrading. The impact of this under provision will result in failing infrastructure performance due to obsolescence. This highlights the need for municipalities to reprioritise and focus on renewal and upgrading of existing assets instead of investing in new assets.
30. Ideally, there should be a correlation between investment in renewal and upgrading of existing assets and repairs and maintenance. For example, a municipality that invests significantly in renewal and upgrading of existing assets to ensure that they are in a good condition, will spend less on repairs and maintenance. However, this is not the case in most municipalities. Table 5b below highlights the budgeted repairs and maintenance by asset class.

Table 5b: Budgeted repairs and maintenance by asset class, 2020/21 - 2023/24

R thousands	Original Budget 2020/21	Adjusted Budget 2020/21	2021/22 Medium Term Revenue & Expenditure Framework		
			2021/22	2022/23	2023/24
Repairs and Maintenance by Asset Class	31 510 811	24 277 122	26 002 208	27 044 816	28 051 946
<i>Roads Infrastructure</i>	4 000 328	3 825 064	3 954 395	4 053 215	4 234 244
<i>Storm water Infrastructure</i>	545 636	450 282	503 720	537 869	554 376
<i>Electrical Infrastructure</i>	5 362 294	5 465 480	6 143 786	6 458 150	6 712 274
<i>Water Supply Infrastructure</i>	3 413 361	3 496 526	3 763 421	3 972 370	4 063 172
<i>Sanitation Infrastructure</i>	2 244 890	2 322 336	2 448 092	2 517 819	2 654 357
<i>Solid Waste Infrastructure</i>	7 001 838	430 929	437 095	415 847	431 079
<i>Rail Infrastructure</i>	55 974	50 569	53 610	57 555	45 979
<i>Coastal Infrastructure</i>	60 938	92 392	25 317	44 200	42 514
<i>Information and Communication Infrastructure</i>	132 790	133 042	145 283	154 443	159 643
Infrastructure Total	22 818 048	16 266 620	17 474 719	18 211 469	18 897 639
Community Facilities	1 442 585	1 049 739	1 053 169	1 093 795	1 140 144
Sport and Recreation Facilities	291 120	293 308	312 221	330 674	346 843
Community Assets Total	1 733 705	1 343 047	1 365 390	1 424 469	1 486 986
Heritage Assets	4 804	6 362	5 509	5 710	5 930
Revenue Generating	53 821	49 050	52 875	56 210	57 052
Non-revenue Generating	76 457	49 509	50 467	49 463	51 641
Investment properties	130 278	98 559	103 341	105 673	108 692
Operational Buildings	1 677 747	1 552 061	1 482 855	1 524 978	1 572 989
Housing	134 294	145 874	178 652	195 768	212 982
Other Assets	1 812 040	1 697 934	1 661 507	1 720 745	1 785 971
Biological or Cultivated Assets	10 689	10 225	12 637	11 894	12 427
Servitudes	-	-	-	-	-
Licences and Rights	264 753	269 879	288 794	308 130	314 886
Intangible Assets	264 753	269 879	288 794	308 130	314 886
Computer Equipment	608 294	548 607	627 451	620 892	635 429
Furniture and Office Equipment	692 039	657 342	1 104 082	1 147 848	1 191 076
Machinery and Equipment	1 307 376	1 332 803	1 077 318	1 120 755	1 160 614
Transport Assets	2 128 786	2 045 743	2 281 458	2 367 230	2 452 297
Land	-	-	-	-	-
Zoo's, Marine and Non-biological Animals	-	109	-	-	-

Source: National Treasury Local Government database

31. The MBRR contains a performance ratio that measures the percentage of repairs and maintenance in relation to the value of property, plant and equipment (PPE). The ratio measures the level of repairs and maintenance to ensure adequate maintenance to prevent breakdowns and interruptions to service delivery. Repairs and maintenance of municipal assets is required to ensure the continued provision of services.
32. Table 5c below reflects the total asset value which is used to measure this ratio. The total asset value increases over the MTREF period from R702.4 billion in 2021/22 to R718.4 billion in 2023/24. On the contrary, repairs and maintenance as a percentage of PPE is 4 per cent for all the financial years in the 2021/22 MTREF. This indicates that the additional repairs and maintenance required due to increased investment in capital assets is not adequately provided for. Furthermore, the performance is below the norm of 8 per cent.
33. Municipalities are not adequately providing for repairs and maintenance while they are not prioritising renewal and upgrading of existing assets. This is evident in the reported service delivery failures due to ageing infrastructure and lack of maintenance. Therefore, investment in existing infrastructure and repairs and maintenance must be informed by the condition of the assets regardless of the provided norms. Some infrastructure assets have deteriorated to the extent that spending 40 per cent of capital expenditure on renewal and upgrading of existing infrastructure is not sufficient to ensure sustainable service delivery. Furthermore, the condition of other assets has deteriorated beyond repairs and maintenance and requires replacement.
34. Asset management must be considered a strategic spending priority for local government and municipalities must aggressively reprioritise non-priority spending to current economic infrastructure. National Treasury will continue to monitor spending against asset management to ensure that it is a spending priority.

Table 5c: Asset register summary, 2020/21 - 2023/24

Description	Original Budget 2020/21	Adjusted Budget 2020/21	2021/22 Medium Term Revenue & Expenditure Framework		
			Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
R thousands					
ASSET REGISTER SUMMARY - PPE (WDV)					
<i>Roads Infrastructure</i>	104 699 475	119 069 639	134 991 667	136 102 415	141 468 831
<i>Storm water Infrastructure</i>	8 493 465	11 404 005	13 090 802	12 383 606	12 541 502
<i>Electrical Infrastructure</i>	87 004 767	96 268 781	89 510 245	87 589 799	86 741 008
<i>Water Supply Infrastructure</i>	86 011 616	87 620 936	108 422 080	117 142 601	99 342 541
<i>Sanitation Infrastructure</i>	33 461 129	38 663 774	50 996 474	52 956 224	51 106 202
<i>Solid Waste Infrastructure</i>	7 412 725	7 356 597	3 741 626	4 117 969	6 263 634
<i>Rail Infrastructure</i>	1 003 566	1 006 167	1 680 326	1 403 553	1 318 875
<i>Coastal Infrastructure</i>	677 432	767 064	876 918	888 845	979 914
<i>Information and Communication Infrastructure</i>	(1 207 336)	(943 930)	6 776 659	7 058 257	7 171 690
Infrastructure	327 556 839	361 213 033	410 086 796	419 643 268	406 934 197
Community Assets	52 017 752	61 591 573	64 640 907	63 730 769	66 379 642
Heritage Assets	1 377 243	1 255 176	1 086 965	1 105 878	1 090 113
Investment properties	21 896 837	25 189 398	27 309 603	26 836 405	26 936 349
Other Assets	37 256 198	109 650 074	136 728 439	140 948 451	145 396 220
Biological or Cultivated Assets	33 163	163 795	721 461	686 950	640 148
Intangible Assets	3 458 117	5 130 030	8 731 750	6 801 306	8 238 316
Computer Equipment	13 255 150	12 539 816	(261 575)	(1 125 452)	335 885
Furniture and Office Equipment	7 261 780	3 757 274	2 211 076	2 637 057	9 581 771
Machinery and Equipment	12 149 785	12 450 969	11 884 989	10 727 663	12 174 463
Transport Assets	10 277 597	24 779 486	13 503 400	16 325 950	18 229 207
Land	21 424 466	22 714 893	25 707 356	22 912 874	22 391 998
Zoo's, Marine and Non-biological Animals	26 684	22 727	21 158	35 260	37 478
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	507 991 612	640 458 244	702 372 326	711 266 378	718 365 787

Source: National Treasury Local Government database

35. The capital expenditure budget is mainly funded from transfers from national, provincial government, district municipalities and other sources. The allocations for this funding source over the 2021/22 MTREF period are R41.1 billion or 59.8 per cent for 2021/22, R42.5 billion or 60.9 per cent for 2022/23 and R42.8 billion or 60.1 per cent. This is an indication that municipalities rely on grant funding for infrastructure delivery. Therefore, a decline in infrastructure grants from national and provincial government will result in lower capital expenditure budgets.
36. Internally generated funding represents 22.9 per cent, 19.4 per cent and 18.3 per cent of total capital funding for 2021/22, 2022/23 and 2023/24 financial years respectively. The declining trend correlates with the operating deficits generated by municipality and increasing unfunded budgets. Municipalities must generate operating surpluses to ensure that there are funding reserves that can be created towards funding the capital budget. Therefore, increased revenue maximisation and collection effort is critical to enable infrastructure investment.
37. Borrowing represents 17.3 per cent, 19.7 per cent and 21.6 per cent of total capital funding for 2021/22, 2022/23 and 2023/24 financial years respectively. This is increasing over the 2021/22 MTREF period compared to the 2020/21 financial year. Funding from borrowing depends on municipalities financial position. Therefore, given the deteriorating state of municipal finances, this funding source may be negatively affected subsequently lower infrastructure investment. It is critical that municipalities ensures financial sustainability through prudent financial management practices.

Aggregated operating and capital budget per province

38. Table 6 below reflects aggregated operating and capital revenue per province.

Table 6: Aggregated Operating and Capital revenue per province, 2020/21 - 2023/24

R thousand	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 942 846	24 917 855	31 860 700	8 924 215	39 101 920	48 026 136	8 938 052	41 452 599	50 390 651	8 474 001	43 585 935	52 059 936
Free State	4 028 620	20 224 258	24 252 878	3 182 774	21 835 041	25 017 815	3 003 748	22 401 739	25 405 487	2 995 900	23 668 129	26 664 029
Gauteng	15 421 356	164 549 930	179 971 286	17 483 753	164 848 970	182 332 724	17 632 096	175 395 813	193 027 908	17 902 873	185 767 889	203 670 761
KwaZulu-Natal	10 790 522	72 122 484	82 913 006	12 053 278	77 285 963	89 339 241	12 399 334	83 173 532	95 572 866	12 236 546	85 070 768	97 307 313
Limpopo	6 120 140	20 308 506	26 428 646	6 243 631	22 384 956	28 628 588	6 262 287	22 731 723	28 994 010	6 286 875	23 503 634	29 790 509
Mpumalanga	3 914 777	20 914 259	24 829 035	4 499 127	22 433 143	26 932 270	4 590 973	23 476 751	28 067 723	4 385 421	24 519 400	28 904 820
North West	8 027 216	20 218 124	28 245 339	3 486 189	21 373 888	24 860 077	3 501 186	22 532 167	26 033 352	3 563 246	23 525 345	27 088 591
Northern Cape	1 309 937	8 013 320	9 323 256	1 365 725	8 471 460	9 837 185	1 287 356	8 802 292	10 089 648	1 289 617	9 215 536	10 505 152
Western Cape	12 920 421	63 514 684	76 435 105	11 619 848	70 139 501	81 759 349	12 222 420	75 168 506	87 390 926	13 987 353	79 317 516	93 304 870
Total	69 475 834	414 783 420	484 259 254	68 858 541	447 874 842	516 733 383	69 837 451	475 135 121	544 972 572	71 121 832	498 174 150	569 295 982
Less												
External loans / borrowing	11 395 889	-	11 395 889	11 927 324	-	11 927 324	13 752 352	-	13 752 352	15 376 938	-	15 376 938
Internally generated funds	20 247 414	-	20 247 414	15 788 032	-	15 788 032	13 559 594	-	13 559 594	12 984 115	-	12 984 115
Recalculated revenue	37 832 531	414 783 420	452 615 951	41 143 185	447 874 842	489 018 027	42 525 505	475 135 121	517 660 626	42 760 779	498 174 150	540 934 929

¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

39. A provincial analysis reveals that Gauteng with 11 municipalities (including three metros and two secondary cities), followed by KwaZulu-Natal with 54 municipalities (including one metro and three secondary cities) then Western Cape with 30 municipalities (including one metro and three secondary cities) are the highest contributors to local government's aggregated revenue at R182.3 billion, R89.3 billion and R81.8 billion in 2021/22 respectively. The trend increases over the MTREF period. The province that contributes the least is Northern Cape at R9.8 billion in 2021/22.

40. Table 7 below reflects aggregated operating and capital expenditure per province.

Table 7: Aggregated Operating and Capital expenditure budgets per province, 2020/21 - 2022/24

R thousand	Population 2016	2020/21			2021/22			2022/23			2023/24		
		Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 996 976	6 960 146	24 926 069	31 886 215	9 063 197	39 978 611	49 041 809	9 091 228	42 495 855	51 587 083	8 602 567	45 044 761	53 647 329
Free State	2 834 714	4 038 676	20 766 342	24 805 018	3 191 669	22 127 805	25 319 475	3 009 505	22 518 209	25 527 714	3 001 971	23 642 096	26 644 066
Gauteng	13 399 724	15 423 966	164 661 280	180 085 246	17 471 284	164 394 041	181 865 325	17 617 704	174 787 334	192 405 038	17 886 219	185 166 141	203 052 360
KwaZulu-Natal	11 065 240	11 021 103	72 176 330	83 197 433	12 053 908	77 904 480	89 958 387	12 399 897	83 627 591	96 027 488	12 237 134	85 468 274	97 705 408
Limpopo	5 799 091	6 154 722	19 292 091	25 446 813	6 250 996	21 870 307	28 121 303	6 262 287	21 945 495	28 207 782	6 286 875	22 951 053	29 237 928
Mpumalanga	4 335 964	4 105 707	22 896 666	27 002 373	4 521 727	23 536 823	28 058 550	4 617 273	24 620 740	29 238 012	4 412 321	25 621 655	30 033 976
North West	3 748 435	8 129 817	19 593 250	27 723 067	3 477 068	22 272 598	25 749 667	3 490 134	23 191 423	26 681 557	3 556 394	24 195 873	27 752 267
Northern Cape	1 193 780	1 331 392	8 042 778	9 374 169	1 366 325	8 696 524	10 062 849	1 287 356	9 120 819	10 408 175	1 289 617	9 533 028	10 822 644
Western Cape	6 279 730	12 943 839	66 922 758	79 866 597	11 619 998	71 492 662	83 112 660	12 222 470	75 586 862	87 809 332	14 136 743	79 685 081	93 821 824
Total expenditure		70 109 367	419 277 564	489 386 931	69 016 174	452 273 851	521 290 025	69 997 853	477 894 328	547 892 181	71 409 841	501 307 962	572 717 803
Per capita spending													
Eastern Cape		995	3 562	4 557	1 295	5 714	7 009	1 299	6 073	7 373	1 229	6 438	7 667
Free State		1 425	7 326	8 750	1 126	7 806	8 932	1 062	7 944	9 005	1 059	8 340	9 399
Gauteng		1 151	12 288	13 439	1 304	12 268	13 572	1 315	13 044	14 359	1 335	13 819	15 153
KwaZulu-Natal		996	6 523	7 519	1 089	7 040	8 130	1 121	7 558	8 678	1 106	7 724	8 830
Limpopo		1 061	3 327	4 388	1 078	3 771	4 849	1 080	3 784	4 864	1 084	3 958	5 042
Mpumalanga		947	5 281	6 228	1 043	5 428	6 471	1 065	5 678	6 743	1 018	5 909	6 927
North West		2 169	5 227	7 396	928	5 942	6 869	931	6 187	7 118	949	6 455	7 404
Northern Cape		1 115	6 737	7 853	1 145	7 285	8 429	1 078	7 640	8 719	1 080	7 986	9 066
Western Cape		2 061	10 657	12 718	1 850	11 385	13 235	1 946	12 037	13 983	2 251	12 689	14 940
Total		1 260	7 534	8 793	1 240	8 127	9 367	1 258	8 587	9 845	1 283	9 008	10 291

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

41. Gauteng, KwaZulu-Natal and Western Cape provinces contributes the most to total local government expenditure. This indicates the importance of this provinces in driving the country's economy. The total expenditure for Gauteng increases from R181.9 billion in 2021/22 to R203.1 billion in 2023/24 financial year. Capital expenditure for the province increased by 13.3 per cent from R15.4 billion in 2020/21 to R17.5 billion in 2021/22.

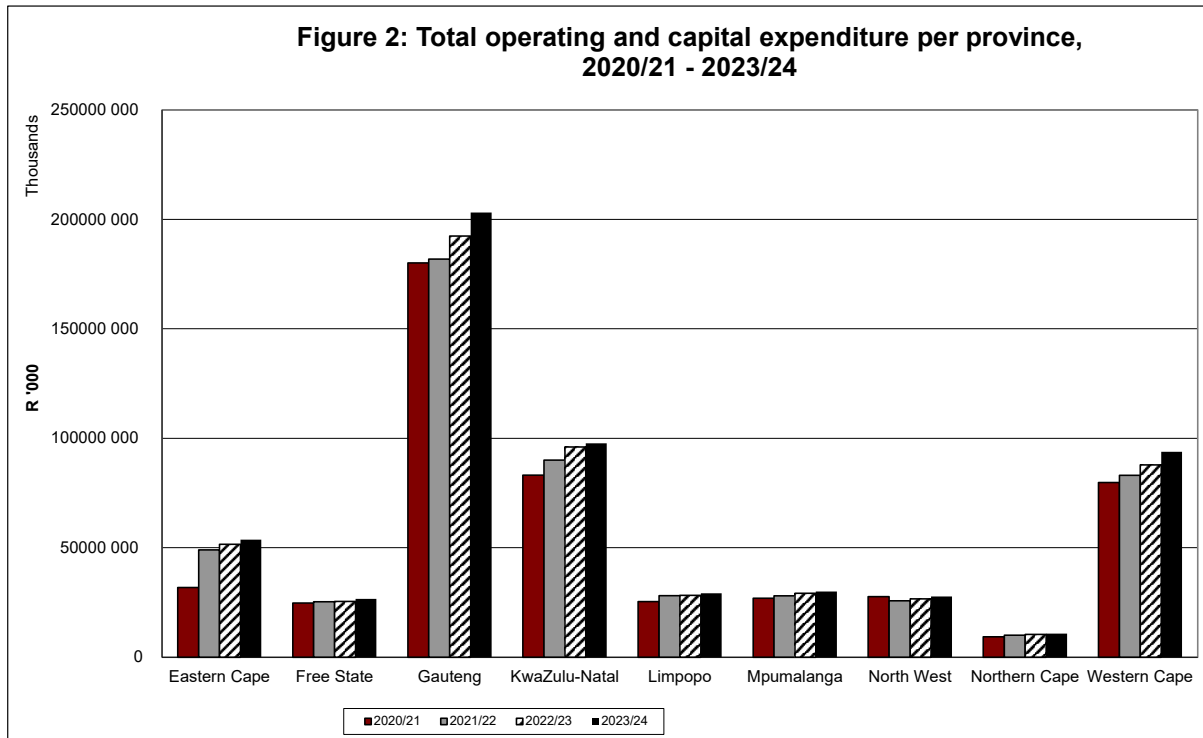
42. Capital expenditure by KwaZulu-Natal province increased by 9.4 per from R11 billion in 2020/21 to R12.1 billion in 2021/22 while Western Cape's decreased by 10.2 per cent from R12.9 billion in 2020/21 to R11.6 billion in 2021/22.

43. Table 7 above indicates that the national aggregate per capita spending average is estimated at R9 367 in 2021/22, an increase from R8 793 in 2020/21. Only two provinces will exceed this national average in 2021/22, namely Gauteng at R13 572 and Western Cape at R13 235 per capita. The trend line suggests increases over the MTREF reaching R10 291 per capita by 2023/24. Free State is the closest to the national per capita spending at R8 932 in 2021/22.

44. It should also be noted that this calculation is based on the Community Survey, 2016 released by Statistics South Africa.



45. 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.
46. The lowest level of per capita spending is in Limpopo estimated to be R4 849 in 2021/22 which increases over the MTREF to R5 042 by 2023/24.



Aggregated operating and capital budget for metros

47. Table 8 below depicts metros operating and capital revenue over the 2021/22 MTREF. If further reflects each metros percentage contribution to aggregate revenue.

Table 8: Aggregated Operating and Capital revenue budgets for metros, 2020/21 - 2023/24

	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
R thousand												
Buffalo City	1 660 089	7 507 552	9 167 640	1 803 592	8 234 112	10 037 703	2 208 774	8 804 512	11 013 286	2 117 298	9 389 820	11 507 119
Cape Town	9 666 369	42 443 103	52 109 472	8 325 971	47 512 224	55 838 195	9 131 020	51 049 562	60 180 582	11 501 856	53 871 241	65 373 097
City of Ekurhuleni	4 929 978	41 629 459	46 559 437	4 081 636	42 935 624	47 017 260	4 037 864	46 097 592	50 135 456	4 110 835	49 273 108	53 383 943
eThekweni	4 792 769	40 534 246	45 327 015	5 321 542	43 656 807	48 978 349	5 728 780	46 562 083	52 290 863	6 042 135	49 354 634	55 396 769
City Of Johannesburg	5 328 954	69 142 819	74 471 773	8 157 478	65 846 786	74 004 264	8 544 165	69 986 901	78 531 066	8 802 148	73 773 527	82 575 675
Mangaung	1 136 562	7 412 427	8 548 990	1 221 006	8 073 601	9 294 606	1 256 045	8 246 065	9 502 110	1 246 332	8 742 275	9 988 607
Nelson Mandela Bay	-	-	-	1 511 907	12 835 948	14 347 854	1 376 100	14 138 927	15 515 027	1 175 743	15 284 931	16 460 673
City Of Tshwane	4 037 545	37 560 714	41 598 260	3 956 871	38 994 329	42 951 200	3 966 754	41 157 991	45 124 745	3 885 935	43 459 049	47 344 983
Total	31 552 266	246 230 320	277 782 586	34 380 002	268 089 430	302 469 431	36 249 501	286 043 633	322 293 135	38 882 281	303 148 585	342 030 866
Less												6,1%
External loans / borrowing	9 533 303	-	9 533 303	10 152 572	-	10 152 572	12 099 529	-	12 099 529	14 271 867	-	14 271 867
Internally generated funds	7 782 132	-	7 782 132	8 251 257	-	8 251 257	7 465 820	-	7 465 820	7 606 018	-	7 606 018
Recalculated revenue	14 236 831	246 230 320	260 467 151	15 976 172	268 089 430	284 065 602	16 684 152	286 043 633	302 727 785	17 004 396	303 148 585	320 152 981
% of total revenue												
Buffalo City	0,8%	2,7%	3,3%	0,6%	2,7%	3,3%	0,7%	2,7%	3,4%	0,6%	2,7%	3,4%
Cape Town	3,5%	15,3%	18,8%	2,8%	15,7%	18,5%	2,8%	15,8%	18,7%	3,4%	15,8%	19,1%
City of Ekurhuleni	1,8%	15,0%	16,8%	1,3%	14,2%	15,5%	1,3%	14,3%	15,6%	1,2%	14,4%	15,6%
eThekweni	1,7%	14,8%	16,3%	1,8%	14,4%	16,2%	1,8%	14,4%	16,2%	1,8%	14,4%	16,2%
City Of Johannesburg	1,9%	24,9%	26,8%	2,7%	21,8%	24,5%	2,7%	21,7%	24,4%	2,6%	21,6%	24,1%
Mangaung	0,4%	2,7%	3,1%	0,4%	2,7%	3,1%	0,4%	2,6%	2,9%	0,4%	2,6%	2,9%
Nelson Mandela Bay	-	-	-	0,5%	4,2%	4,7%	0,4%	4,4%	4,8%	0,3%	4,5%	4,8%
City Of Tshwane	1,5%	13,5%	15,0%	1,3%	12,9%	14,2%	1,2%	12,8%	14,0%	1,1%	12,7%	13,8%

¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

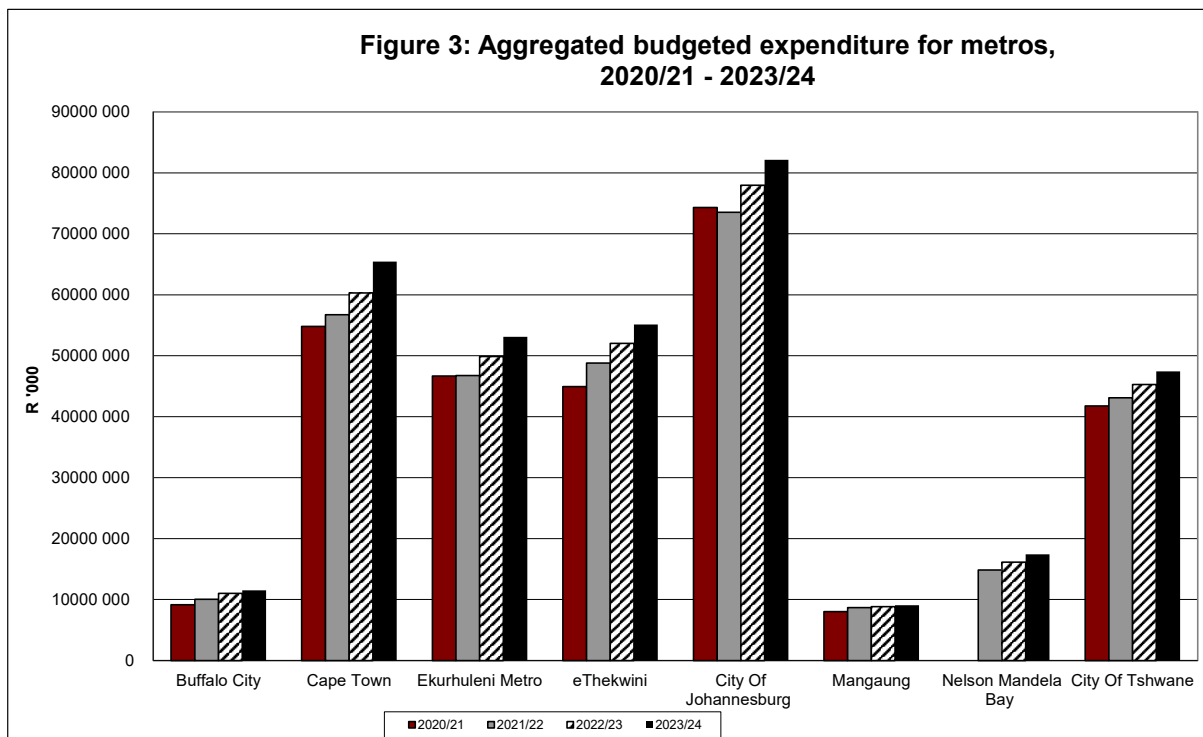


48. The aggregated budgeted revenue for all metros increased from R277.8 billion in 2020/21 to R302.5 billion in 2021/22. The increase in electricity tariffs which are above inflation contributes to this increase as metros raise significant part of the revenue from service charges. The revenue is projected to increase over the MTREF to R322.3 billion in 2022/23 and to R342 billion in 2023/24, reflecting a total increase of 6.6 and 6.1 per cent in the two outer years of the MTREF.
49. City of Johannesburg, Cape Town and eThekweni are the highest contributors to metros aggregated revenue at 24.5 per cent, 18.5 per cent and 16.2 per cent in 2021/22 respectively. Two metros, namely Mangaung and Buffalo City constitutes a small percentage of the total revenue at 3.1 per cent and 3.3 per cent respectively. The percentage contributions to aggregated revenue remains relatively constant over the MTREF.
50. Table 9 below depicts metros operating and capital expenditure over the 2021/22 MTREF. It further reflects each metros percentage contribution to aggregate expenditure.

Table 9: Aggregated Operating and Capital expenditure for metros, 2010/21 - 2023/24

	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
R thousand												
Buffalo City	1 660 239	7 506 953	9 167 191	1 803 592	8 231 745	10 035 336	2 208 774	8 802 859	11 011 633	2 117 298	9 386 307	11 503 605
Cape Town	9 681 357	45 118 985	54 800 342	8 325 971	48 403 183	56 729 154	9 131 020	51 141 575	60 272 595	11 501 856	53 950 636	65 452 492
City of Ekurhuleni	4 929 978	41 755 974	46 685 952	4 081 636	42 677 385	46 759 021	4 037 864	45 828 789	49 866 653	4 110 835	48 992 491	53 103 325
eThekweni	4 792 769	40 161 811	44 954 580	5 321 542	43 464 626	48 786 168	5 728 780	46 300 656	52 029 436	6 042 135	49 097 984	55 140 119
City Of Johannesburg	5 328 954	68 998 412	74 327 366	8 157 478	65 363 298	73 520 776	8 544 165	69 441 030	77 985 195	8 802 148	73 334 303	82 136 451
Mangaung	1 136 562	6 875 325	8 011 887	1 221 006	7 450 829	8 671 834	1 256 045	7 595 584	8 851 629	1 246 332	7 818 754	9 065 086
Nelson Mandela Bay	-	-	-	1 552 648	13 284 135	14 836 783	1 419 559	14 735 196	16 154 755	1 222 104	16 207 482	17 429 586
City Of Tshwane	4 037 545	37 706 660	41 744 205	3 956 871	39 140 052	43 096 923	3 966 754	41 295 853	45 262 606	3 885 935	43 555 737	47 441 672
Total	31 567 404	248 124 118	279 691 522	34 420 743	268 015 253	302 435 995	36 292 961	285 141 541	321 434 502	38 928 642	302 343 694	341 272 336
Less												
Taxation	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	31 567 404	248 124 118	279 691 522	34 420 743	268 015 253	302 435 995	36 292 961	285 141 541	321 434 502	38 928 642	302 343 694	341 272 336
% of total expenditure												
Buffalo City	0,6%	2,7%	3,3%	0,6%	2,7%	3,3%	0,7%	2,7%	3,4%	0,6%	2,8%	3,4%
Cape Town	3,5%	16,1%	19,6%	2,8%	16,0%	18,8%	2,8%	15,9%	18,8%	3,4%	15,8%	19,2%
City of Ekurhuleni	1,8%	14,9%	16,7%	1,3%	14,1%	15,5%	1,3%	14,3%	15,5%	1,2%	14,4%	15,6%
eThekweni	1,7%	14,4%	16,1%	1,8%	14,4%	16,1%	1,8%	14,4%	16,2%	1,8%	14,4%	16,2%
City Of Johannesburg	1,9%	24,7%	26,6%	2,7%	21,6%	24,3%	2,7%	21,6%	24,3%	2,6%	21,5%	24,1%
Mangaung	0,4%	2,5%	2,9%	0,4%	2,5%	2,9%	0,4%	2,4%	2,8%	0,4%	2,3%	2,7%
Nelson Mandela Bay	-	-	-	0,5%	4,4%	4,9%	0,4%	4,6%	5,0%	0,4%	4,7%	5,1%
City Of Tshwane	1,4%	13,5%	14,9%	1,3%	12,9%	14,2%	1,2%	12,8%	14,1%	1,1%	12,8%	13,9%

Source: National Treasury Local Government Database



51. Metros aggregated expenditure budget is R302.4 billion in 2021/22 and increases to R341.3 billion by 2023/24. As highlighted earlier in the report, category A (metros) municipalities contributes 58 per cent of total municipal expenditure in 2021/22. This highlights the overall importance of the metros in driving economic growth and job creation as they are widely considered the growth engines of the economy.
52. Operating expenditure by metros accounts for more than half (59.7 per cent in average) of total municipal operating expenditure over the 2021/22 MTREF while capital expenditure represents an average of 52.1 per cent of total municipal capital expenditure.
53. Cape Town, City of Johannesburg and eThekweni have the largest capital budgets at 2.8, 2.7 and 1.8 per cent of the aggregated total budget for metros (operating and capital expenditure). City of Tshwane's capital budget is relatively low at 1.3 per cent and decreases over the MTREF when benchmarked against the above-mentioned metros. However, it is closely comparable to City of Ekurhuleni.
54. Table 10 below reflects the amount to be generated by metros through the sale (billing) of core municipal services. The revenue figures include capital transfers.

Table 10: Budgeted Financial Performance (revenue and expenditure by standard classification)

Description	2017/18	2018/19	2019/20	Current year 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
	Audited Outcome (BR)	Audited Outcome (BR)	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
R thousands								
Revenue - Functional								
<i>Trading services</i>	148 856 945	161 226 916	204 169 208	224 446 718	223 916 151	252 369 920	271 620 860	289 580 156
Energy sources	83 374 845	95 359 354	119 822 445	129 138 039	128 710 925	148 768 074	161 472 247	174 967 936
Water management	42 308 026	38 132 949	49 711 162	58 344 501	59 401 066	64 719 454	68 905 408	73 476 502
Waste water management	11 687 283	13 877 834	17 994 927	18 477 795	18 447 097	20 590 307	21 906 843	20 670 978
Waste management	11 486 791	13 856 778	16 640 673	18 486 383	17 357 063	18 292 086	19 336 362	20 464 740
Expenditure - Functional								
<i>Trading services</i>	137 936 887	158 150 089	202 547 227	201 539 424	203 694 115	229 707 953	245 142 256	260 661 301
Energy sources	78 710 425	90 301 491	114 016 132	116 219 700	117 108 185	136 423 192	147 077 942	159 404 570
Water management	39 112 030	43 609 179	57 117 634	54 684 751	55 535 769	59 819 076	63 307 370	65 058 190
Waste water management	8 827 681	10 834 130	14 731 563	13 888 909	13 964 777	15 203 336	15 864 807	16 466 185
Waste management	11 286 751	13 405 288	16 681 899	16 746 064	17 085 384	18 262 348	18 892 137	19 732 356
Surplus(Deficit) for Trading Services	10 920 058	3 076 827	1 621 981	22 907 294	33 504 594	34 924 105	36 711 070	28 918 855

Source: National Treasury Local Government Database

55. The table above indicates that metros are generating surpluses from trading services, however this is distorted as the revenue includes capital transfers while corresponding capital expenditure is excluded.
56. The major drivers of revenue in 2021/22 are energy sources at R148.8 billion, water management at R64.7 billion, waste water management at R20.6 billion and waste management at R18.3 billion. There is a significant increase of 15.6 per cent in revenue from energy sources in 2021/22 compared to R223.9 billion in the 2020/21 adjusted budget. This is due to the high electricity tariff increase of 14.59 per cent approved by the National Electricity Regulator. This highlights that there is no growth in consumption of electricity, instead, the revenue is largely dependent on tariff increases.
57. Lower increases are anticipated for energy sources over the MTREF at 8.5 per cent in 2022/23 and 7.7 per cent in 2023/24. 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. This increased revenue does not directly supplement the funding of municipalities as it is offset against the increases associated with bulk purchases.
58. Table 11 below reflects the expenditure incurred by metros on electricity bulk purchases and water consumed. The accounting treatment for water was changed in the mSCOA classification framework to align to Generally Recognised Accounting Practice (GRAP) which requires that bulk water purchases be accounted for as inventory. Therefore, the expenditure is recognised when water is consumed through distribution.
59. As a result of the change in accounting treatment, there are inconsistencies in expenditure reported on water consumed. For example, the expenditure reported by Cape Town now



includes consumption of water from natural resources which was previously excluded. The reporting by eThekweni appears to be understated compared to the previous financial year.

Table 11: Bulk purchases expenditure for metros for functions, 2020/21 - 2023/24

R thousand	Electricity				Water Consumed			
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
Buffalo City	1 779 698	2 010 261	2 208 472	2 426 228	277 777	269 628	291 954	316 127
Cape Town	9 585 215	11 182 400	12 669 659	14 354 724	405 666	2 164 113	2 169 044	2 164 113
City of Ekurhuleni	12 547 651	14 224 085	15 490 028	16 868 641	4 303 271	3 444 519	3 644 301	3 855 671
eThekweni	10 220 351	12 525 889	13 465 231	14 475 021	3 210 314	257 724	30 089	335 191
City Of Johannesburg	12 175 141	13 700 479	15 002 474	16 402 362	6 531 536	6 910 365	7 214 421	7 539 070
Mangaung	1 720 532	2 002 153	2 115 279	2 265 103	488 331	481 883	495 421	516 252
Nelson Mandela Bay	-	4 289 195	5 052 672	5 952 048	-	7 665	9 078	10 322
City Of Tshwane	9 527 588	11 160 809	11 776 242	12 706 655	3 099 168	3 161 447	3 512 859	3 670 937
Total expenditure	57 556 176	71 095 270	77 780 058	85 450 782	18 316 063	16 697 345	17 367 167	18 407 682

Source: National Treasury Local Government Database

60. Metros have budgeted R71.1 billion for the purchase of bulk electricity in 2021/22, with an annual increase of 9.4 per cent and 9.9 per cent in the outer years of the MTREF. The expenditure on electricity bulk purchases is estimated at R85.5 billion by 2023/24. The National Energy Regulator of South Africa (NERSA) published a guideline on 12 March 2021 of a proposed tariff increase of 14.59 per cent for 2021/22.
61. 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 is a major cost driver of the electricity function. Therefore, the high increases in cost of bulk purchases and reducing consumption minimises the profits where they are realised. Other operational costs include expenditure on personnel, materials, refurbishment, repairs and maintenance, distribution losses and overhead costs.
62. Notably, the increases associated with the sale of electricity in the two outer years of the MTREF are lower than the budgeted increases associated with bulk purchases. This indicates that municipalities are subsidising consumers by not passing the total cost of bulk purchases. This approach is not sustainable as it will result in the electricity function operating at a deficit. On the contrary, the increase of tariffs without consider affordability may result in increased levels of non-payment.
63. 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.

Aggregated operating and capital budget for secondary cities

64. Table 12 below depicts secondary cities (top 19 municipalities) operating and capital revenue over the 2021/22 MTREF.

69. Secondary cities that have allocated the least of their aggregated budget to their capital budgets in 2021/22 are Matjhabeng, Emfuleni, Mogale City, Msunduzi, Newcastle, Govan Mbeki, Emalahleni (MP), Sol Plaatje, J B Marks, Drakenstein and the City of Matlosana. All ten municipalities have allocated less than 10 per cent of their total budgets to capital projects, which is less than the norm of between 10 and 20 per cent.
70. Polokwane and Steve Tshwete has the largest allocations at 22.9 per cent and 22 per cent in 2021/22 respectively.

Growth in Aggregated Operating and Capital Budgets compared to the 2020/21 Budgets

71. Table 14 below provides a comparison between the preliminary outcome for the 2020/21 financial year concluded on 30 June 2021 as published in the Section 71 Quarter 4 publication which was released on 09 September 2021, the adopted budget for the 2021/22 financial year and the average growth in municipal budgets over the 2021/22 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2020/21

	2020/21			2021/22	2022/23	2023/24	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2020/21- 2021/22	2020/21- 2023/24
R thousands								
Operating Revenue¹								
Property rates	73 958 017	73 616 731	75 437 662	80 591 655	84 560 207	89 278 912	6,8%	5,8%
Service charges	199 379 961	197 865 007	193 387 837	223 711 704	241 277 129	258 958 260	15,7%	10,2%
Other own revenue	141 445 442	142 490 481	139 893 836	143 571 482	149 297 786	149 936 977	2,6%	2,3%
Total Revenue	414 783 420	413 972 219	408 719 334	447 874 842	475 135 121	498 174 150	9,6%	6,8%
Operating Expenditure								
Employee related costs	121 893 061	122 471 683	121 457 202	133 118 587	140 047 921	145 716 287	9,6%	6,3%
Debt impairment	33 413 770	32 894 636	24 685 522	34 962 928	36 197 247	37 060 778	41,6%	14,5%
Bulk purchases	89 200 442	89 838 208	91 514 222	107 659 149	117 145 945	128 029 883	17,6%	11,8%
Other expenditure	174 770 290	171 187 522	153 166 064	176 533 188	184 503 215	190 501 014	15,3%	7,5%
Total Expenditure	419 277 564	416 392 049	390 823 009	452 273 851	477 894 328	501 307 962	15,7%	8,7%
Operating Surplus/(Deficit)	(4 494 144)	(2 419 830)	17 896 325	(4 399 009)	(2 759 207)	(3 133 812)		
Capital Funding								
External loans	11 395 889	9 319 965	5 818 870	11 927 324	13 752 352	15 376 938	105,0%	38,3%
Internal contributions	20 247 414	18 962 762	12 445 028	15 788 032	13 559 594	12 984 115	26,9%	1,4%
Transfers and subsidies	37 832 531	40 035 533	34 243 263	41 143 185	42 525 505	42 760 779	20,1%	7,7%
Other	-	-	-	-	-	-	-	-
Total funding	69 475 834	68 318 260	52 507 161	68 858 541	69 837 451	71 121 832	31,1%	10,6%
Capital Expenditure								
Water	15 238 129	16 980 056	13 801 448	17 002 855	17 759 402	17 917 810	23,2%	9,1%
Electricity	6 589 441	6 587 970	5 071 232	6 923 677	6 895 940	7 313 021	36,5%	13,0%
Housing	1 626 948	2 597 611	1 179 067	3 049 296	2 791 930	3 103 069	158,6%	38,1%
Roads, pavements, bridges and storm water	15 015 311	14 780 359	15 880 201	16 025 698	17 027 681	16 918 851	0,9%	2,1%
Other	31 639 538	28 309 236	19 689 583	26 014 648	25 522 901	26 157 090	32,1%	9,9%
Total expenditure	70 109 367	69 255 232	55 621 532	69 016 174	69 997 853	71 409 841	24,1%	8,7%

¹Excluding capital transfers and contributions

Source: MSCOA submitted to National Treasury, Adopted Budget, Revised Budget and Adopted Budget Estimates, Preliminary Outcome = Actuals

72. Total operating expenditure increased by 15.7 per cent in 2021/22 compared to the preliminary outcome for 2020/21 while operating revenue increases by 9.6 per cent in 2021/22 and an average of 6.8 per cent over the MTREF period. There is an average increase of 8.7 per cent over the last two years of the MTREF in the total operating expenditure. This approach is not sustainable as municipalities continue to spend more than their revenue generating capability resulting in increasing operating deficits and financial distress.
73. Employee related costs increased by 9.6 per cent and bulk purchases by 17.6 per cent. Bulk purchases will increase by 17.8 per cent as indicated in the Eskom standard tariff submission for the 2021/22 financial year and an average of 11.6 per cent over the last two years of the MTREF. 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.

74. Debt impairment is expected to increase by 41.6 per cent in 2021/22 and an average of 14.5 per cent over the last two years of the MTREF. This is an indication of the revenue losses expected due the economic slowdown as a result of the COVID-19 pandemic. However, it is an improvement compared to 75 per cent in the previous year.
75. Capital budgets increased by 24.1 per cent from 2020/21 to 2021/22 and an average of 8.7 per cent over the last two years of the MTREF. Capital projects will have to be properly and effectively managed to ensure implementation as planned given the persistent trends in underspending of capital budgets. The increase of 105 per cent in external borrowing is unrealistic and reflects the reporting challenges as a result of the mSCOA classification framework.
76. Grants and subsidies increased by 20.1 per cent compared to the preliminary outcomes for 2020/21 and an average of 7.7 per cent over the last two years of the MTREF.
77. The increase in capital expenditure does not align to capital funding due to the incorrect treatment of the mSCOA classification framework resulting in under stated capital funding.

Changes to Baseline

78. Table 15 below highlight the extent to which municipalities have changed the budget allocations in the 2021/22 MTREF compared to the two outer years of the 2020/21 MTREF. The deviation to the changes to baseline for operating and capital budgets limited to 5 per cent and 10 per cent respectively.

Table 15: Changes to baseline for 2021 MTREF

	2021/22			2022/23			2023/24	% change to baseline		% share of total change to baseline	
	2020/21 Medium term estimates	2021/22 Draft Medium term estimates	Changes to baseline	2020/21 Medium term estimates	2021/22 Draft Medium term estimates	Changes to baseline	2021/22 Draft Medium term estimates	2021/22	2022/23	2021/22	2022/23
R thousands											
Operating Revenue¹											
Property rates	78 245 107	80 591 655	2 346 548	82 977 248	84 560 207	1 582 959	89 278 912	3,0%	1,9%	24,7%	19,4%
Service charges	213 450 961	223 711 704	10 260 743	228 538 958	241 277 129	12 738 171	258 958 260	4,8%	5,6%	108,2%	155,8%
Other own revenue	146 693 296	143 571 482	(3 121 814)	155 440 995	149 297 786	(6 143 209)	149 936 977	(2,1%)	(4,0%)	(32,9%)	(75,1%)
Total Revenue	438 389 364	447 874 842	9 485 478	466 957 201	475 135 121	8 177 920	498 174 150	2,2%	1,8%	100,0%	100,0%
Operating Expenditure											
Employee related costs	127 892 916	133 118 587	5 225 671	136 534 174	140 047 921	3 513 747	145 716 287	4,1%	2,6%	35,3%	24,5%
Debt impairment	32 610 365	34 962 928	2 352 562	34 416 109	36 197 247	1 781 138	37 060 778	7,2%	5,2%	15,9%	12,4%
Bulk purchases	94 692 354	107 659 149	12 966 795	101 642 369	117 145 945	15 503 576	128 029 883	13,7%	15,3%	87,7%	108,1%
Other expenditure	182 293 920	176 533 188	(5 760 732)	190 956 969	184 503 215	(6 453 754)	190 501 014	(3,2%)	(3,4%)	(39,0%)	(45,0%)
Total Expenditure	437 489 555	452 273 851	14 784 297	463 549 622	477 894 328	14 344 707	501 307 962	3,4%	3,1%	100,0%	100,0%
Operating Surplus/(Deficit)	899 809	(4 399 009)	(5 298 819)	3 407 579	(2 759 207)	(6 166 786)	(3 133 812)				
Capital Funding											
External loans	13 355 912	11 927 324	(1 428 588)	13 084 441	13 752 352	667 912	15 376 938	(10,7%)	5,1%	(13,8%)	7,0%
Internal contributions	9 302 576	15 788 032	6 485 456	9 397 983	13 559 594	4 161 611	12 984 115	69,7%	44,3%	62,8%	43,8%
Transfers and subsidies	35 873 801	41 143 185	5 269 384	37 849 097	42 525 505	4 676 408	42 760 779	14,7%	12,4%	51,0%	49,2%
Other	-	-	-	-	-	-	-	-	-	-	-
Total funding	58 532 289	68 858 541	10 326 252	60 331 520	69 837 451	9 505 930	71 121 832	17,6%	15,8%	100,0%	100,0%
Capital Expenditure											
Water	14 696 045	17 002 855	2 306 810	15 712 193	17 759 402	2 047 209	17 917 810	15,7%	13,0%	27,3%	30,8%
Electricity	6 249 804	6 923 677	673 873	6 294 748	6 895 940	601 192	7 313 021	10,8%	9,6%	8,0%	9,1%
Housing	1 610 718	3 049 296	1 438 578	1 730 575	2 791 930	1 061 355	3 103 069	89,3%	61,3%	17,0%	16,0%
Roads, pavements, bridges and storm water	14 843 193	16 025 698	1 182 505	15 795 247	17 027 681	1 232 434	16 918 851	8,0%	7,8%	14,0%	18,6%
Other	23 162 103	26 014 648	2 852 545	23 825 380	25 522 901	1 697 521	26 157 090	12,3%	7,1%	33,7%	25,6%
Total expenditure	60 561 863	69 016 174	8 454 311	63 358 143	69 997 853	6 639 710	71 409 841	14,0%	10,5%	100,0%	100,0%

¹Excluding capital transfers and contributions

Source: MSCOA submitted to National Treasury, Adopted Budget, Revised Budget and Adopted Budget Estimates, Preliminary Outcome = Actuals

79. Operating revenue for 2021/22 increased by R9.5 billion (2.2 per cent) and operating expenditure by R14.8 billion (3.4 per cent) compared to the projection in the 2020/21 MTREF while the increase for 2022/23 is R8.2 billion (1.8 per cent) for operating revenue and R14.3 billion (3.1 per cent) for operating expenditure. This indicates that the operating budget is multi-year as the deviation to the changes to baseline is less than 5 per cent.

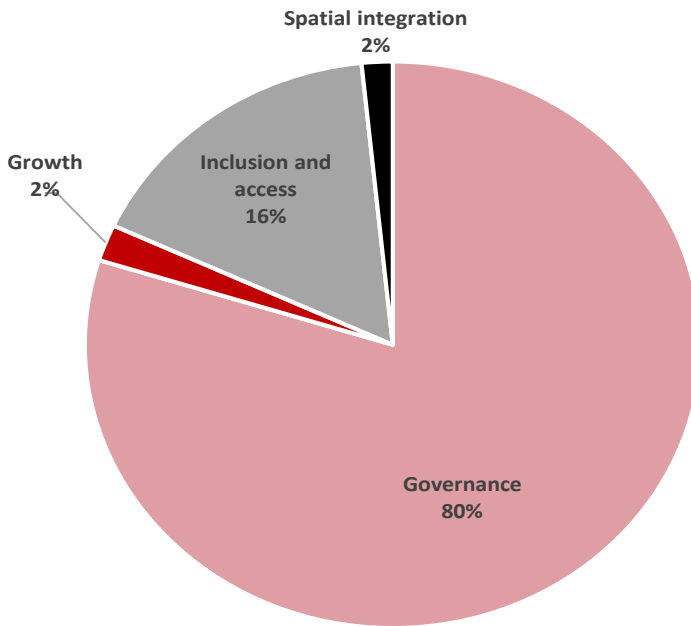
80. Bulk purchases increased by R13 billion (13.7 per cent) and R15.5 billion (15.3 per cent) in 2021/22 and 2022/23 respectively compared to the 2020/21 MTREF. This expenditure item is informed by the high increases in bulk electricity tariffs.
81. Overall, there is an increase in service charges while other own revenue is declining. It should be noted that this item includes revenue from transfers and subsidies from national and provincial government and district municipalities.
82. Capital expenditure increased by R8.5 billion (14 per cent) and R6.6 billion (10.5 per cent) in 2021/22 and 2022/23 respectively compared to the 2020/21 MTREF. As mentioned earlier in the report, the capital expenditure is not fully aligned with the capital funding due to mSCOA reporting challenges. The capital budget for 2021/22 is not multi-year as the deviation is higher than 10 per cent. However, some municipalities indicated that the reprioritisation of the 2020/21 budget as a result of the COVID-19 pandemic has distorted the baseline.

Analysis in the mSCOA framework

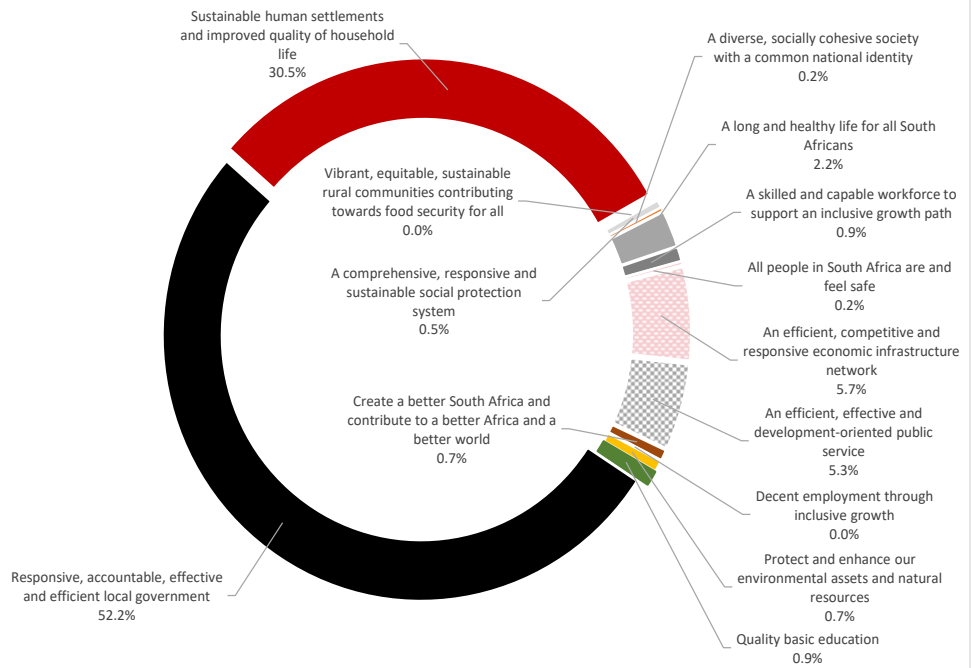
83. The mSCOA classification framework requires municipalities to unpack their Integrated Development Plans (IDP) into operational and capital projects and to link those projects to the IUDF (Integrated Urban Development Framework) and MTSF (Medium Term Strategic Objectives) as well as their own strategic objectives. In this way a link between measurable outputs and outcome indicators can be established.
84. Municipalities submit their adopted budgets by the latest 30 June each year. Accompanying the adopted budgets are the lists of the capital and operational projects that will be implemented in the coming municipal financial year. These projects are all linked at the prescribed project level and a unique project number that is used to ringfence the costs associated to the project per municipality.
85. The project detail data file links each project to four specific strategic objectives of which two are prescribed (MTSF and the IUDF) and two objectives that is unique to the municipality and describes their focus areas for the coming year.
86. Using the different dimensions available in the mSCOA framework, the municipal 2021/22 MTREF budgets were analysed to determine how they align to the MTSF and the IUDF. The figures below indicates that 80 per cent of the municipal budgets for 2021/22 will be spend on governance. Furthermore, 52.2 per cent of municipal budgets in 2021/22 will be spend in relation to the MTSF target for responsive, accountable, effective and efficient local government.



Budgeted expenditure for the 2021/22 MTREF per IUDF strategic objective

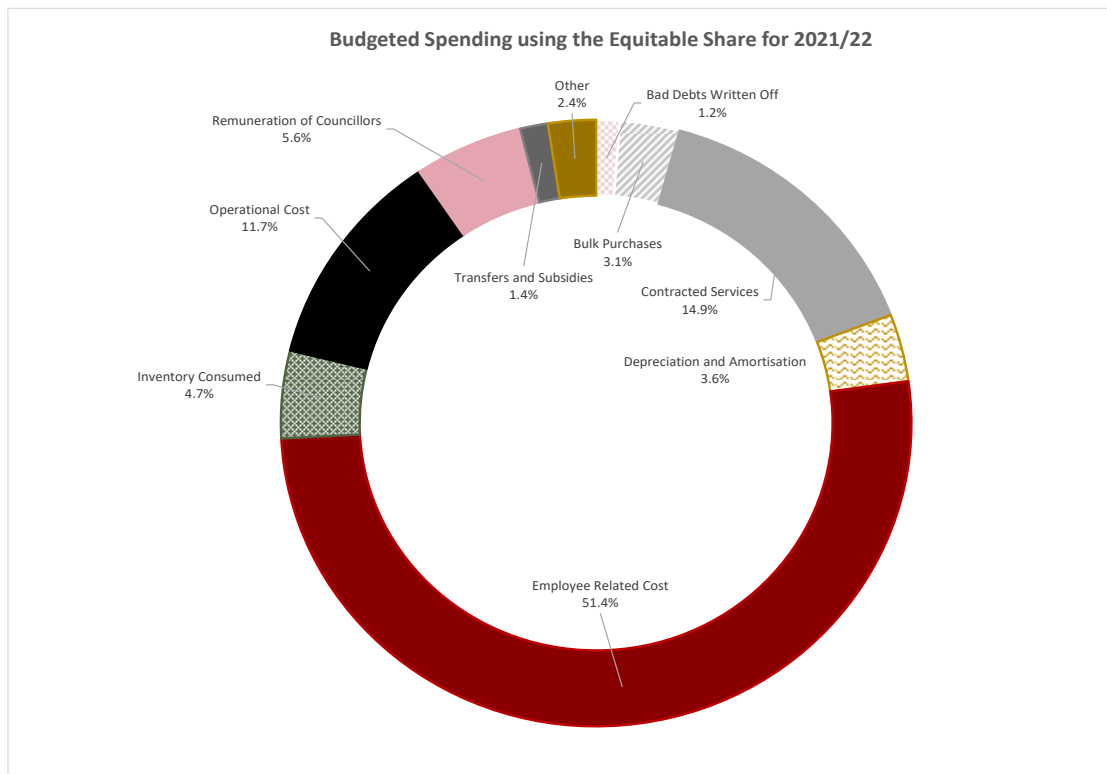


Budgets expenditure 2021/22 MTREF by MTSF Strategic Objective



Utilization of the Local Government Equitable share

- 87. The spending of conditional grants is regularly reported in the quarterly Section 71 publications, the mSCOA classification framework has made it possible to trace what the municipalities are budgeting to spend their Equitable share on.
- 88. By linking two of the mSCOA segments namely the Fund and Expenditure segments, it is possible to determine the expenditure that is funded through the Equitable share. The figure below indicates that 51.4 per cent of the equitable share allocation for 2021/22 will be spend on employee related costs.



- 89. More detail is available on the MFMA website.

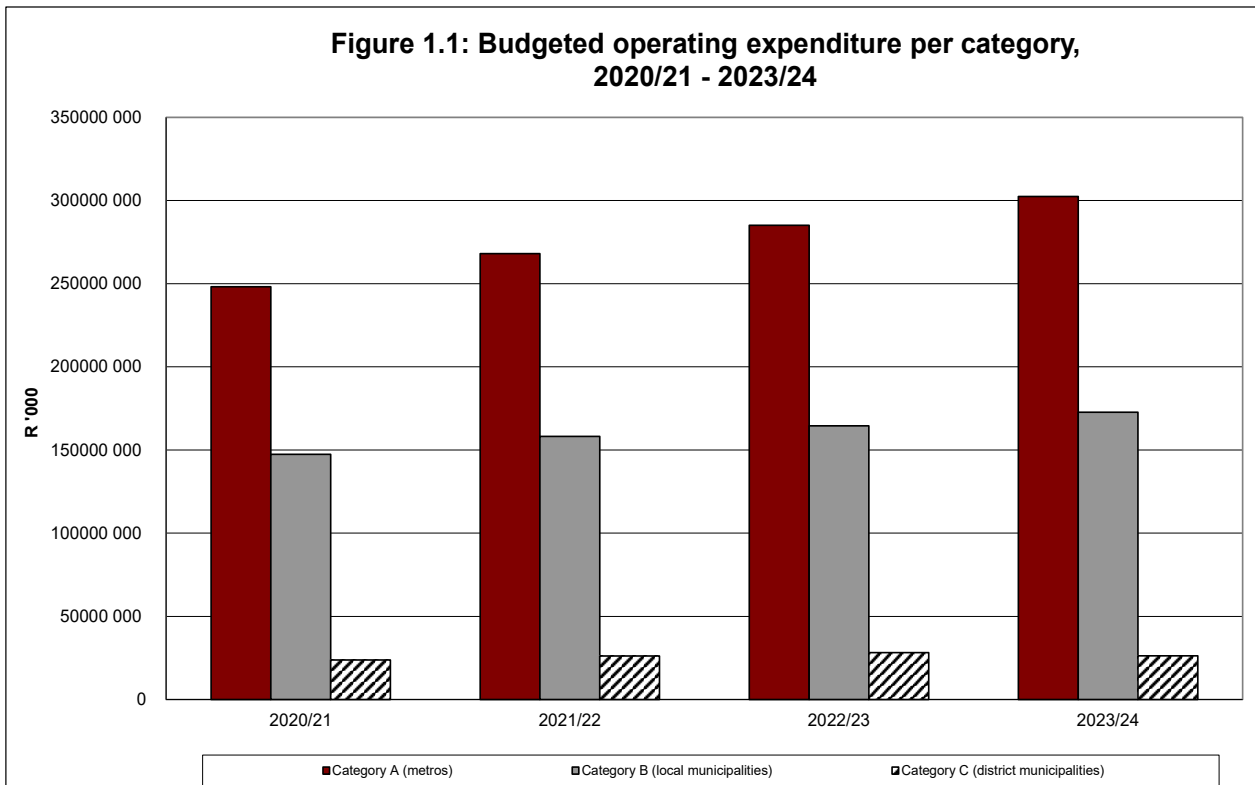
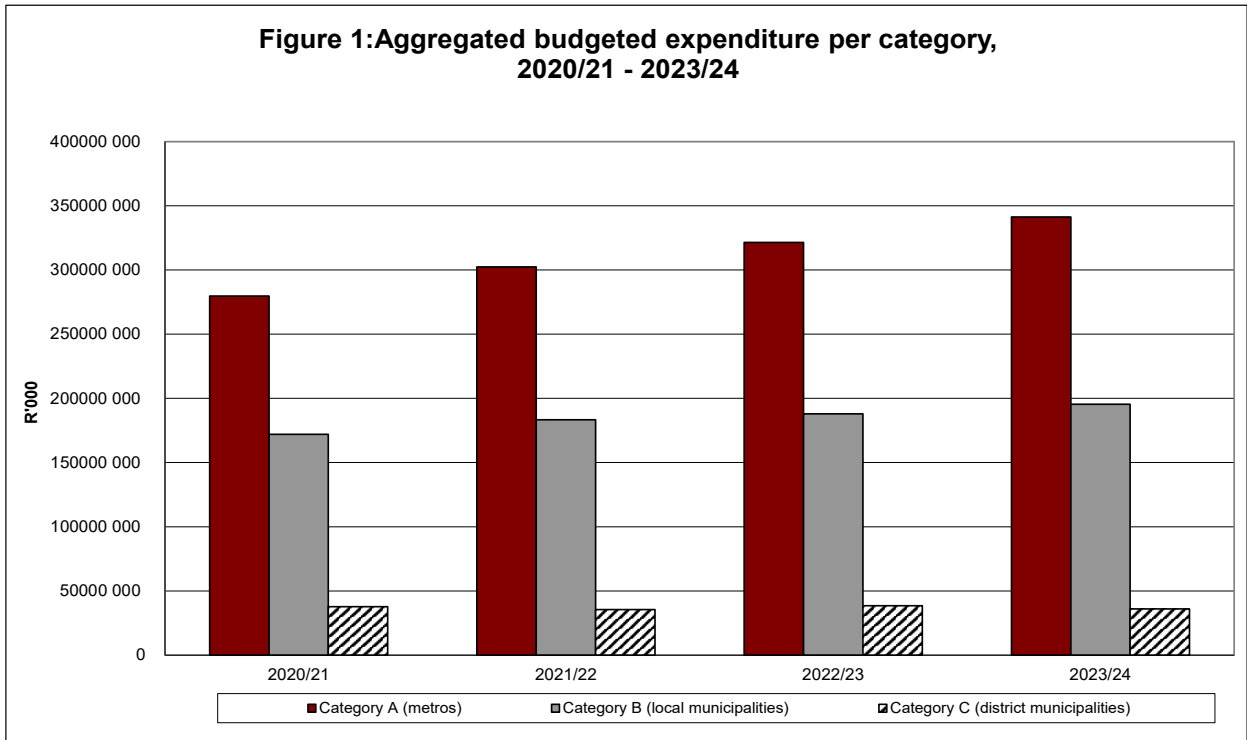


Figure 1.2: Budgeted capital expenditure per category, 2020/21 - 2023/24

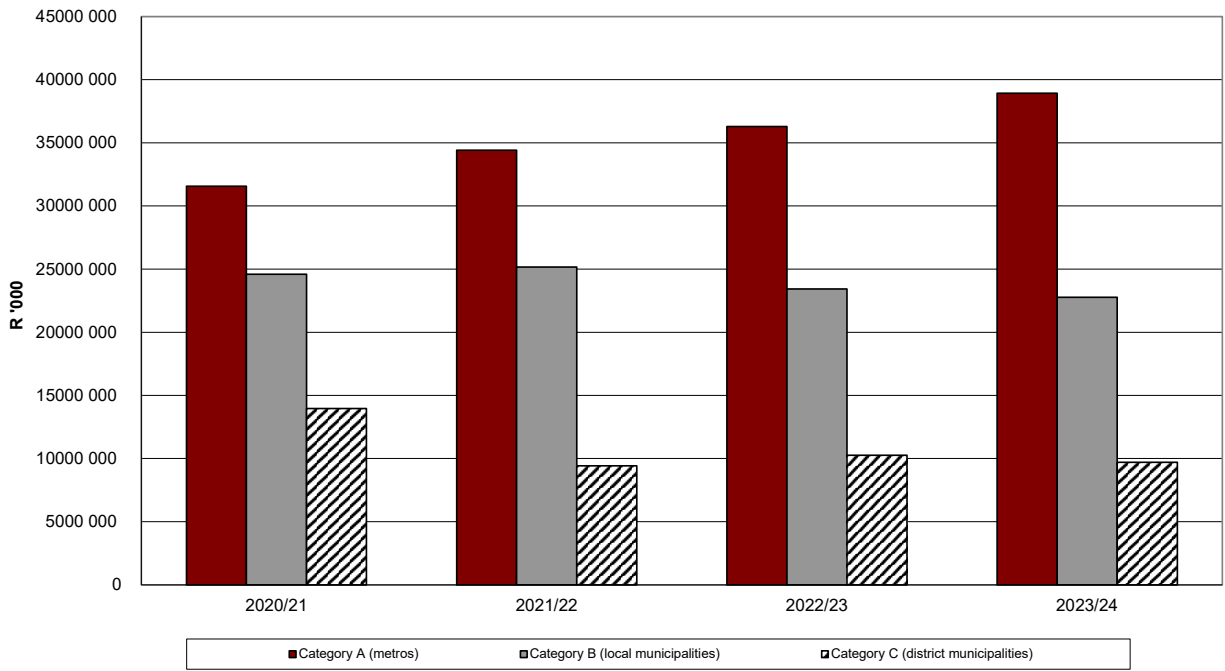


Figure 2: Total operating and capital expenditure per province, 2020/21 - 2023/24

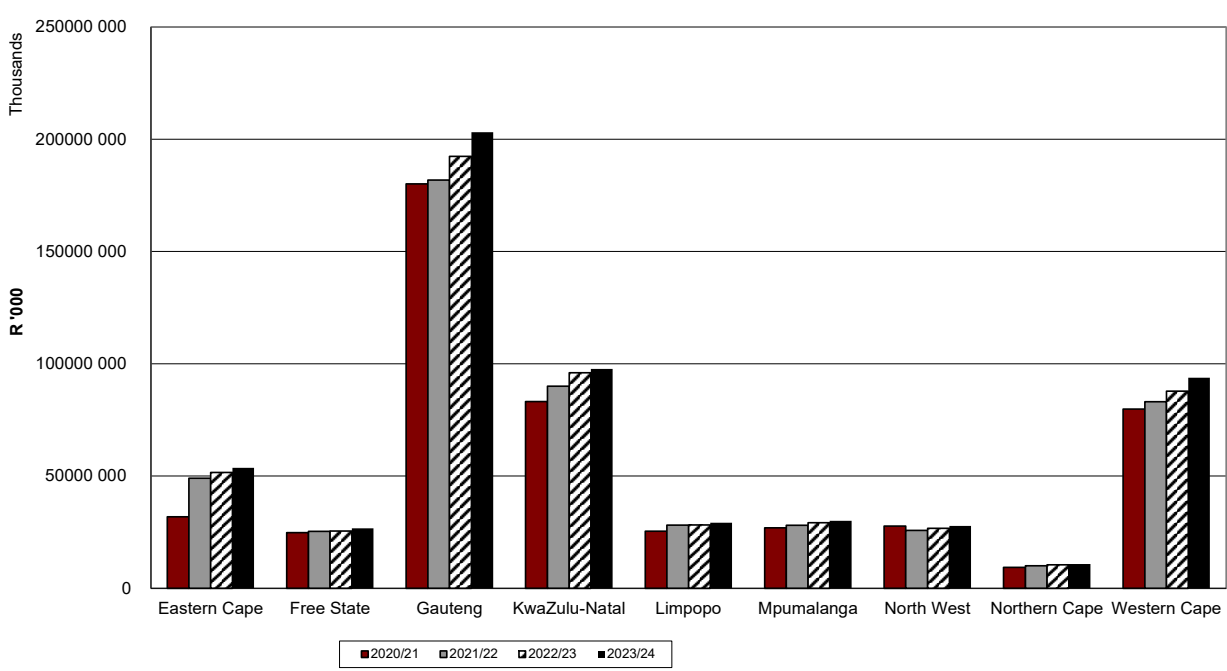


Figure 2.1: Budgeted capital expenditure per province, 2020/21 - 2023/24

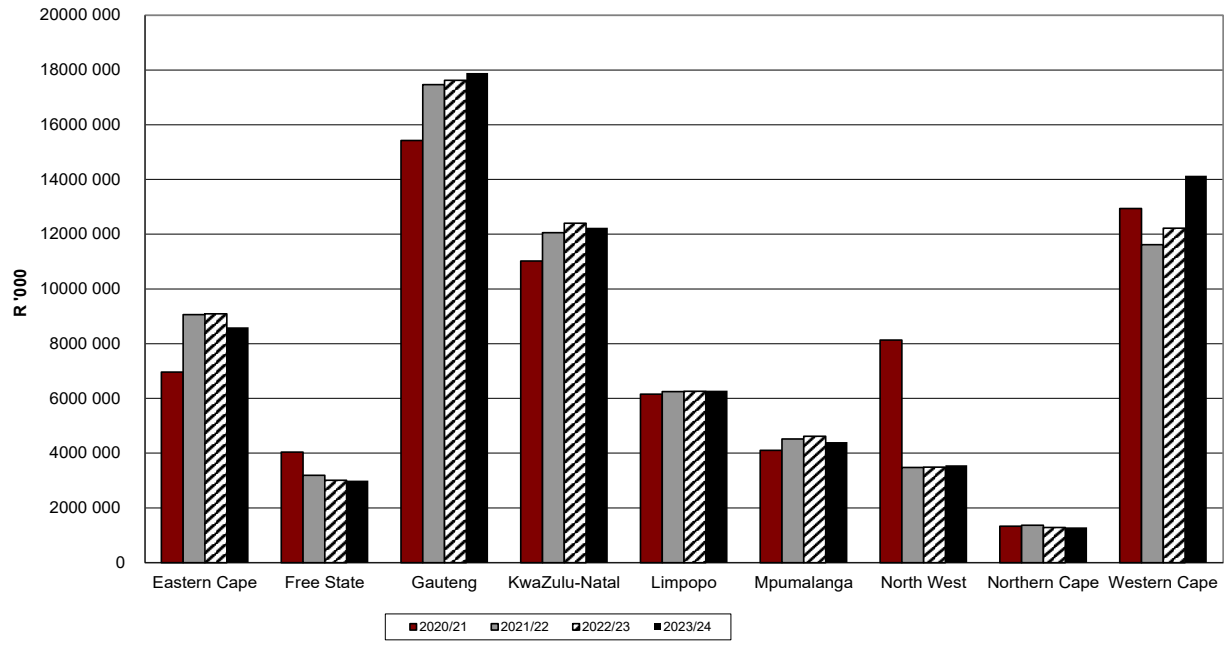


Figure 2.2: Budgeted operating expenditure per province, 2020/21 - 2023/24

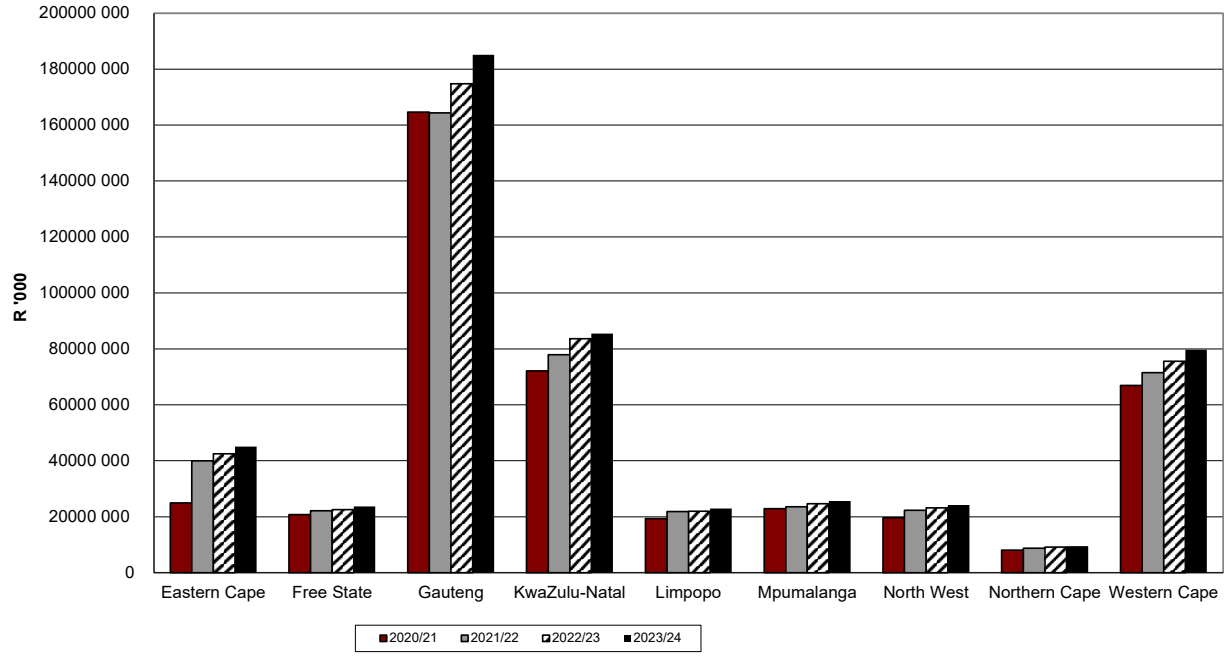


Figure 3: Aggregated budgeted expenditure for metros, 2020/21 - 2023/24

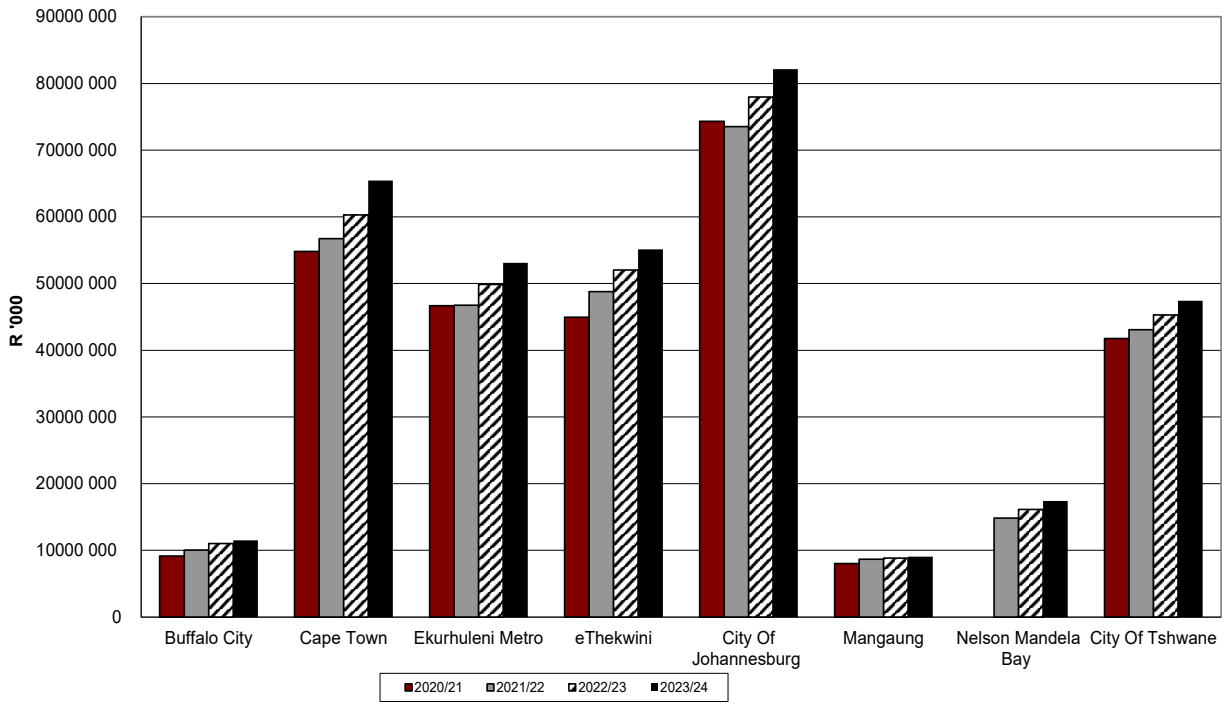


Figure 3.1: Budgeted capital expenditure per metro, 2020/21 - 2023/24

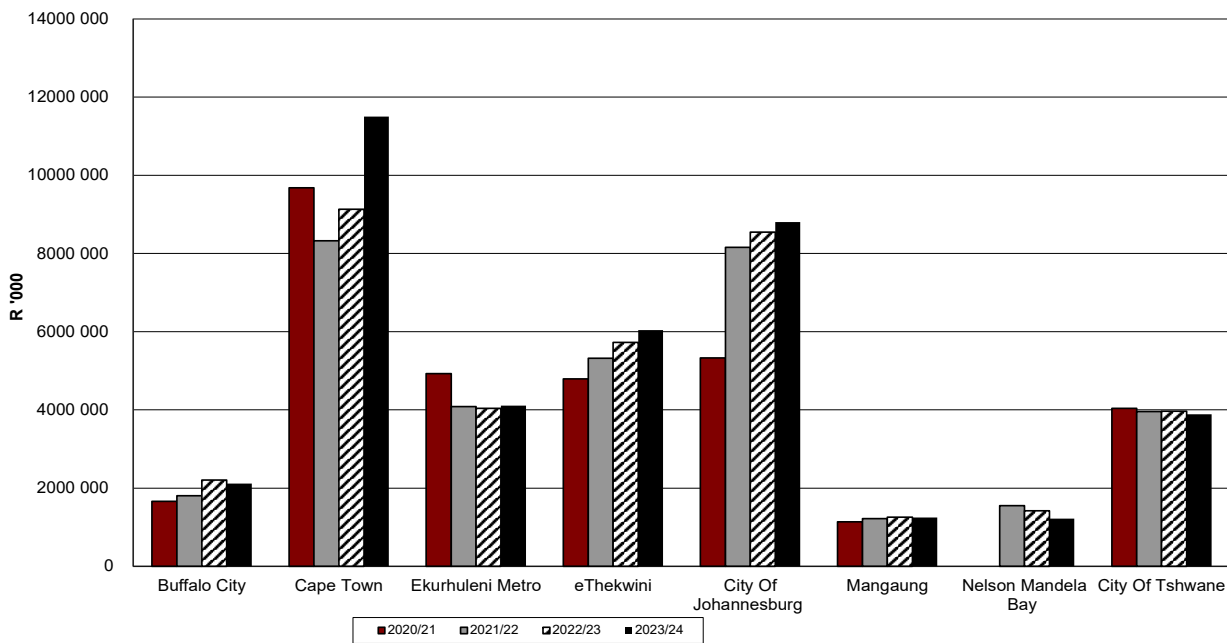
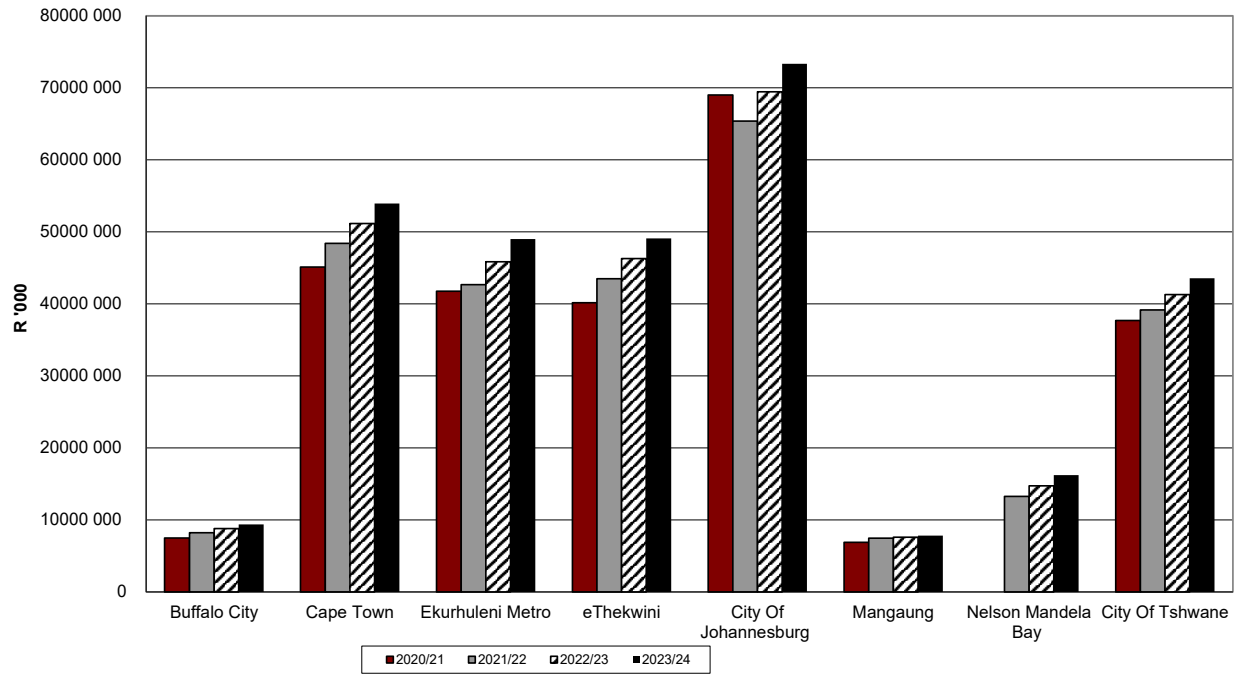
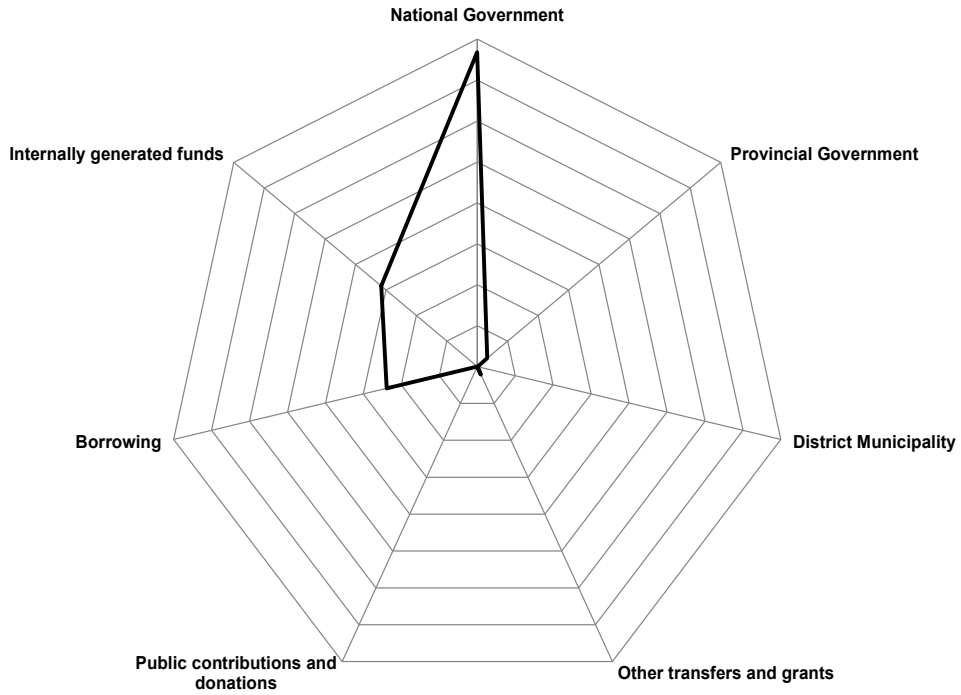


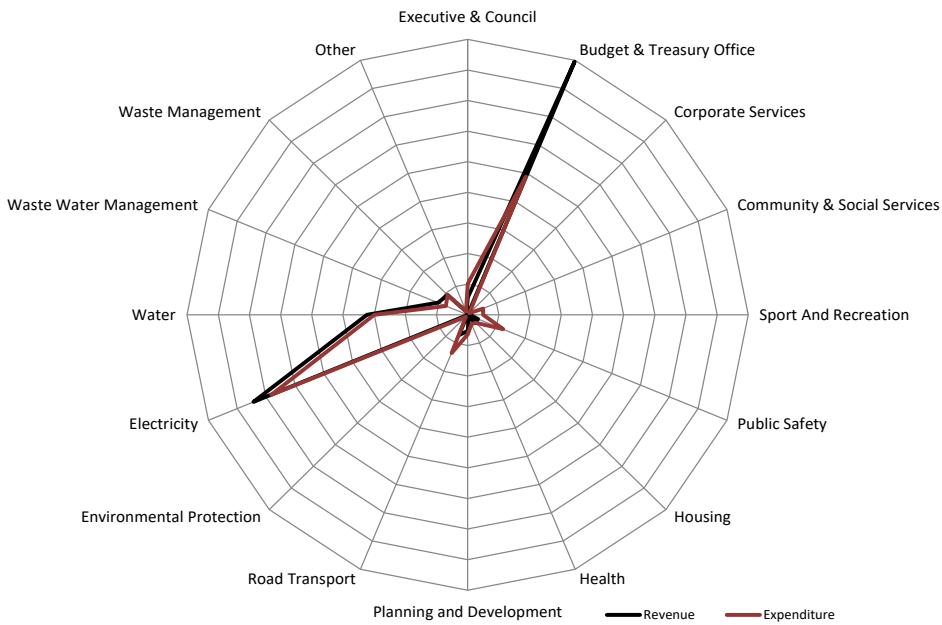
Figure 3.2: Budgeted operating expenditure per metro, 2020/21 - 2023/24



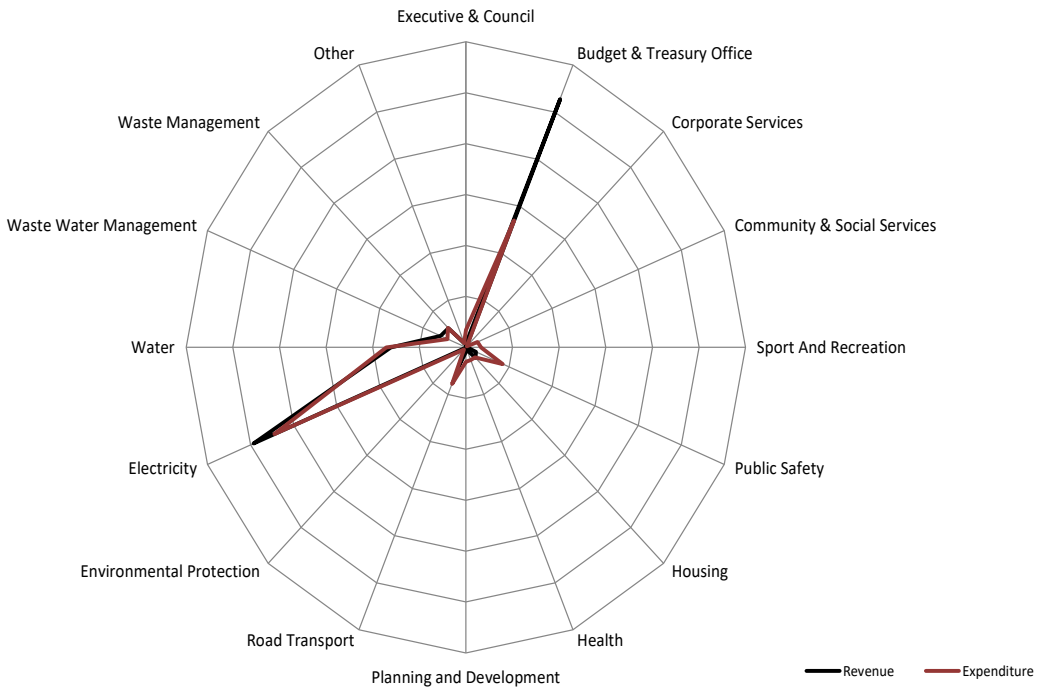
Capital funding contributions, 2021/22



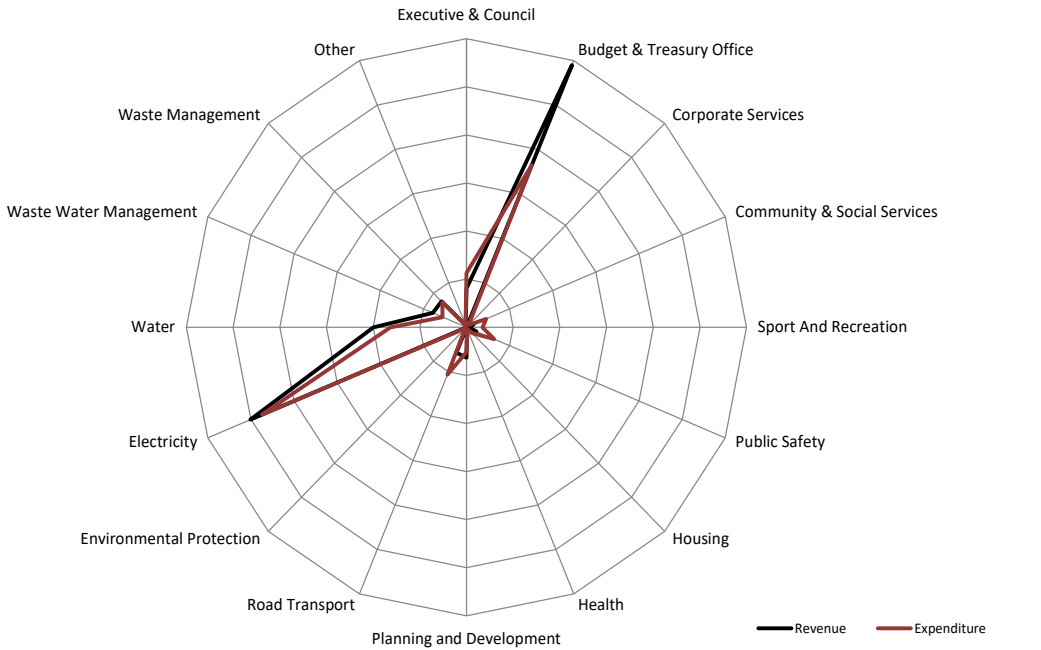
Aggregated operating revenue and expenditure by standard classification, 2021/22



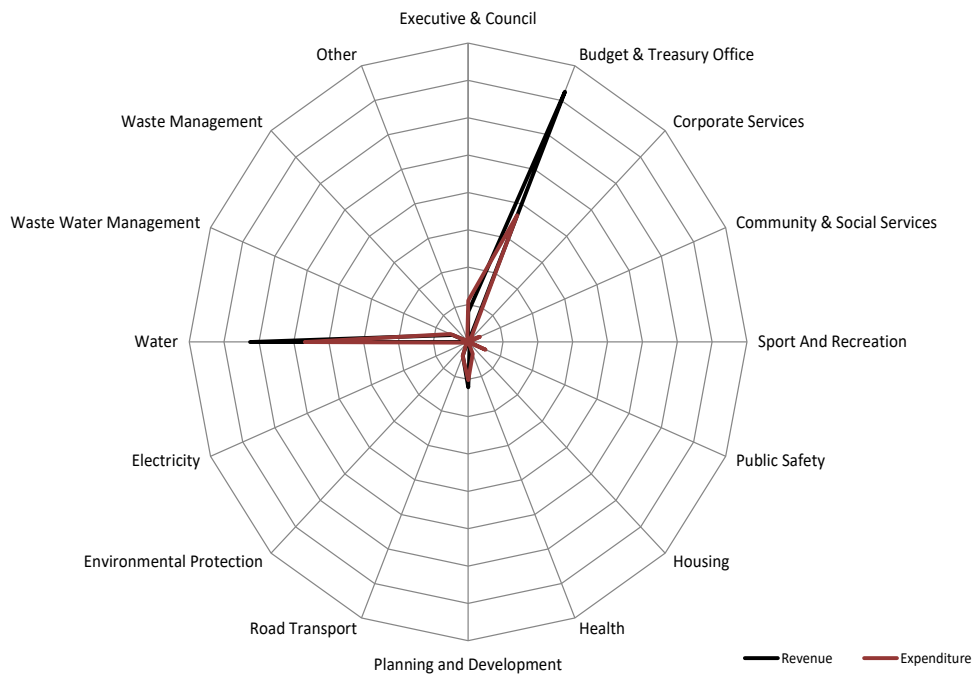
Category A operating revenue and expenditure by standard classification, 2021/22



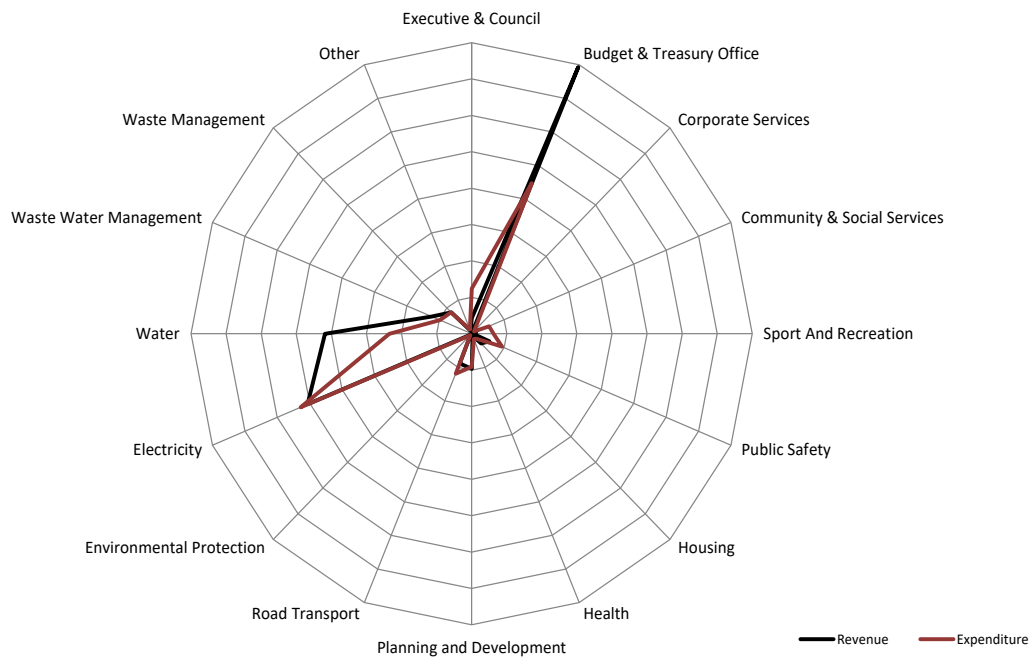
Category B operating revenue and expenditure by standard classification, 2021/22



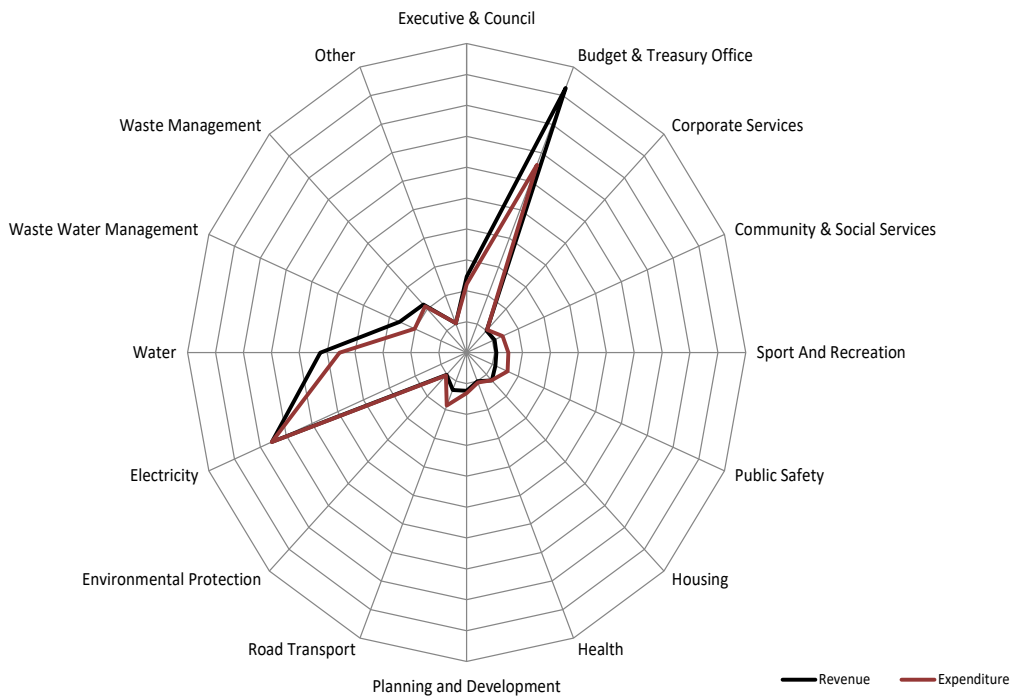
Category C operating revenue and expenditure by standard classification, 2021/22



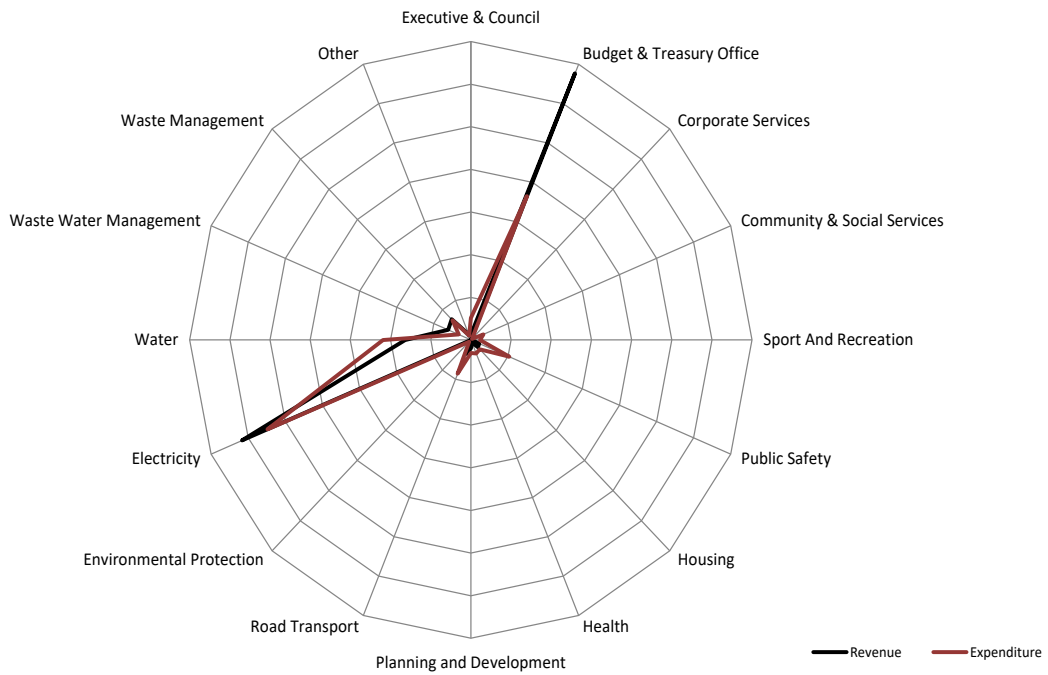
Eastern Cape operating revenue and expenditure by standard classification, 2021/22



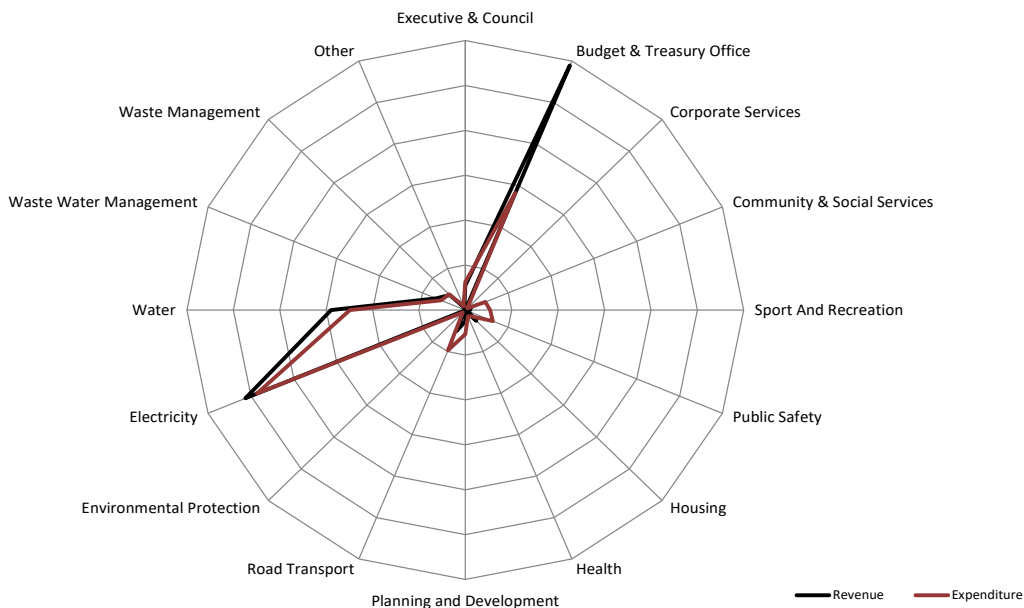
Free State operating revenue and expenditure by standard classification, 2021/22



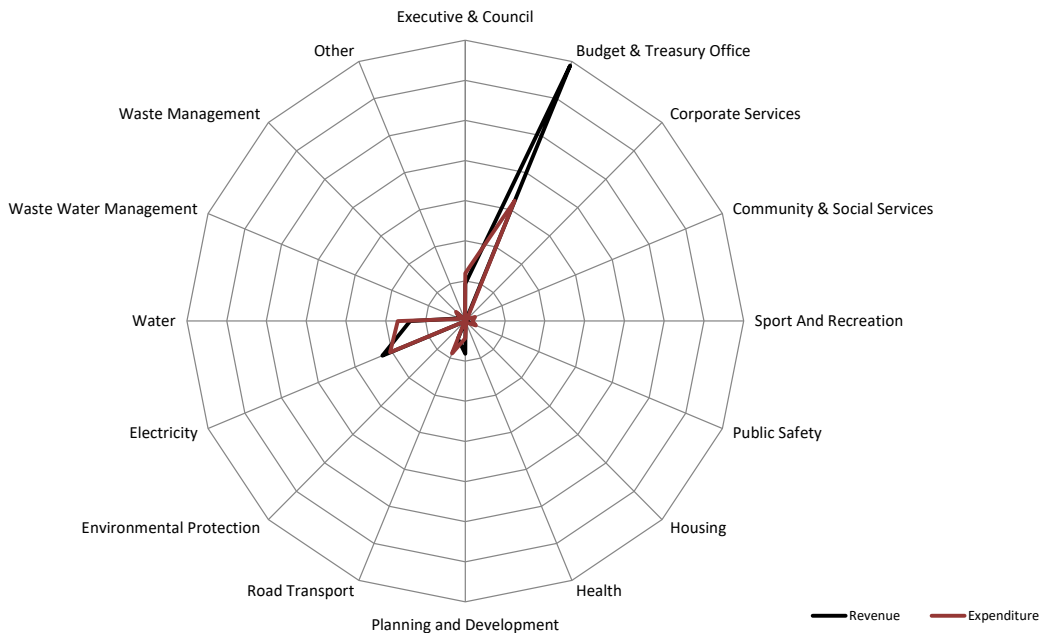
Gauteng operating revenue and expenditure by standard classification, 2021/22



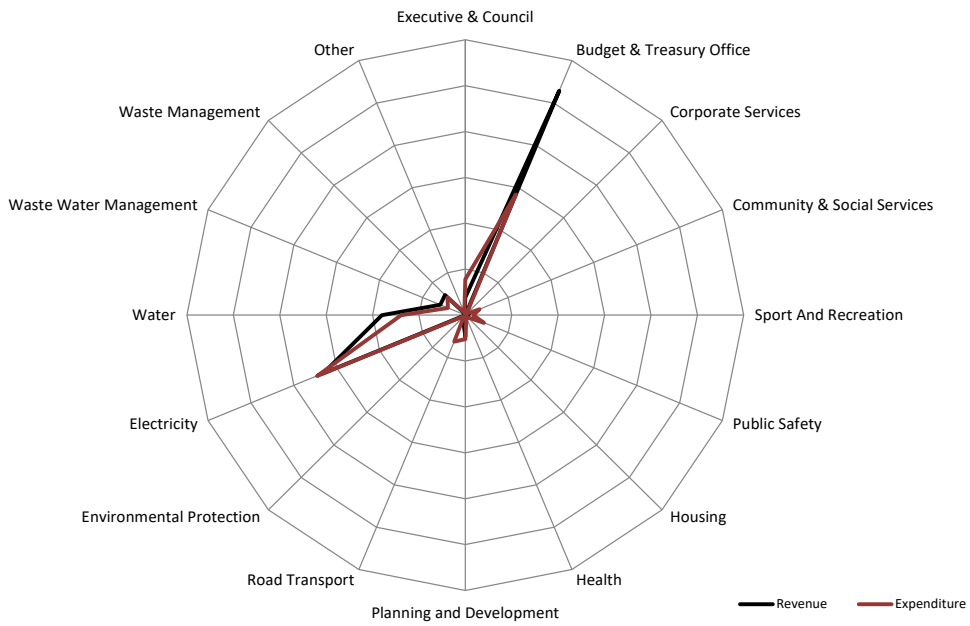
KwaZulu-Natal operating revenue and expenditure by standard classification, 2021/22



Limpopo operating revenue and expenditure by standard classification, 2021/22



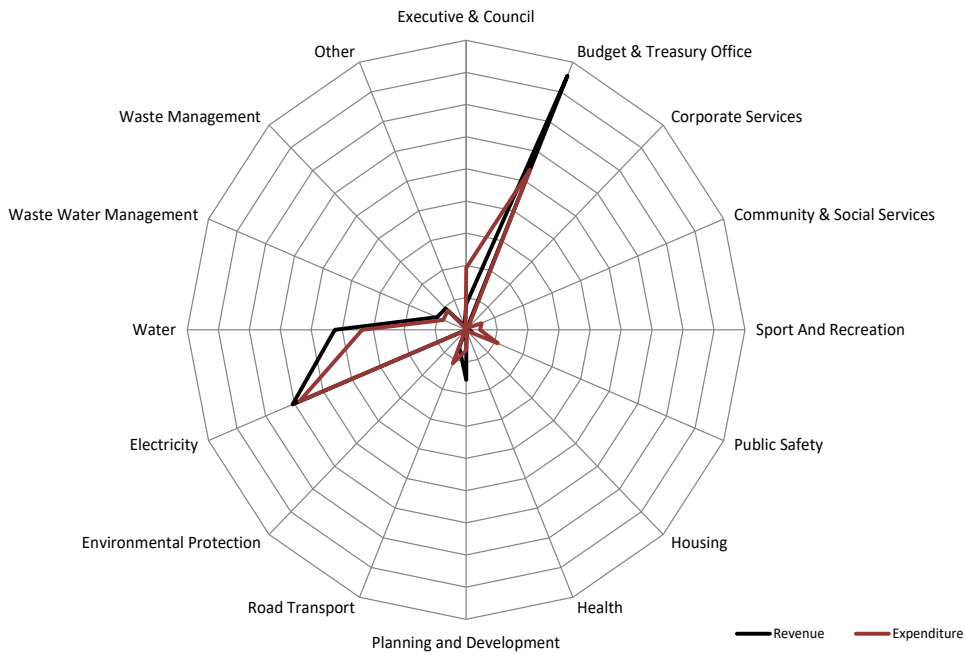
Mpumalanga operating revenue and expenditure by standard classification, 2021/22



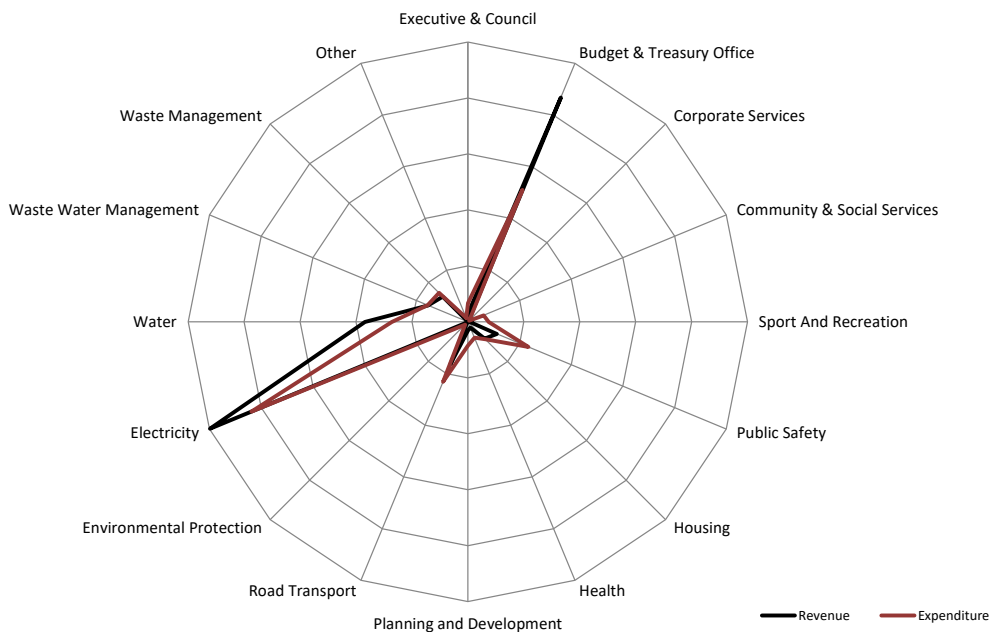
Northern Cape operating revenue and expenditure by standard classification, 2021/22



North West operating revenue and expenditure by standard classification, 2021/22



Western Cape operating revenue and expenditure by standard classification, 2021/22



Planned capital expenditure, 2021/22

