



MEDIA STATEMENT

LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2022/23 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 2022/23 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 2022/23 financial year and over the medium-term period. In addition, the information is presented per category of municipality and province. Highlights include:

- The aggregated budgeted revenue for 2022/23 is R529.7 billion, which is expected to increase to R558.1 billion in 2023/24 and R593.9 billion in 2024/25;
- Total municipal expenditure in 2023/24 is estimated to be R557.4 billion, increasing to R582.1 billion in 2023/24 and R614.5 billion in 2024/25. Total expenditure for 2022/23 is 5.1 per cent higher than the adjusted budget for 2021/22 financial year;
- Municipalities will realise operating deficits on the operating budgets in the 2022/23 financial year 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. However, the situation is projected to improve in the outer years of the 2022/23 MTREF as operating surpluses will be realised;
- A net deficit of R269.6 million is expected in the 2022/23 financial year, which improves to a surplus of R3.5 billion in 2023/24 and R7.3 billion in 2024/25;
- The main cost drivers are employee related costs and materials and bulk purchases representing 28.9 per cent and 32.7 per cent of the operating expenditure respectively. Municipalities are experiencing a two-fold impact of the high electricity and water tariff increases; lower sales levels owing to changes in consumption patterns and increased bad debt as a result of affordability pressures;
- Capital expenditure increased by 1 per cent to R69.7 billion in 2022/23 compared to the original budget for the 2021/22 financial year. Capital expenditure in aggregate represents 12.5 per cent in 2022/23, 11.7 per cent in 2023/24 and 11.4 per cent in 2024/25 of the overall budget of municipalities;

- Trading services (electricity, water, wastewater management and waste management) represents 49.7 per cent of the total capital expenditure of R69.7 billion in 2022/23 and slightly decreases to 49.1 per cent by 2024/25;
- The 2022/23 capital expenditure budget reflects a R43.8 billion investment in new infrastructure which is 62.8 per cent of the total aggregated capital budget. Investment in the renewal and upgrading of existing assets is much lower at R10.9 billion (15.6 per cent) and R15.1 billion (21.6 per cent) of the total capital budget respectively; and
- Reporting on operational repairs and maintenance figures has been institutionalised as part of Section 71 in-year reporting. Municipalities allocated R27.7 billion to repairs and maintenance of assets in 2022/23. This will increase to R29.2 billion in 2023/24 and to R30.9 billion in 2024/25.

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>. A new development that facilitate transparency is the GoMuni portal which can be accessed at https://lg.treasury.gov.za/ibi_apps/signin by clicking on the public access tab.

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 2022/23 MTREF budgets in the prescribed A1 Schedules as per the regulations.

In addition, with the implementation of the Municipal Standard Chart of Accounts (*mSCOA*) on 1 July 2017, municipalities must now prepare their budgets at the posting level over all segments as prescribed in the *mSCOA* classification framework. All financial systems must have the facility to produce the A1 Schedule directly from their financial systems from the *mSCOA* classification framework. Therefore, municipalities must put controls in place to ensure alignment of the adopted A1 Schedule to the financial system and the *mSCOA* data strings submitted to National Treasury. This publication is therefore based solely on the new regulated framework in terms of *mSCOA*.

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 2022/23 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

Date: 05 December 2022

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 2022/23, 2023/24 and 2024/25 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 mSCOA data strings to the National Treasury by the latest 14 July 2022. 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 2022/23 MTREF publication covers 257 municipalities.





ANNEXURE A

THE FULL LIST OF INFORMATION PUBLISHED:

- Aggregated/Consolidated municipal 2022/23 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 2022/23;
 - Capital budget 2022/23;
 - Operating budget 2023/24;
 - Capital budget 2023/24;
 - Operating budget 2024/25; and
 - Capital budget 2024/25.
- *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 2022/23 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 2022/23 budget and MTREF is also published on the National Treasury website.
- Table 1 below reflects the aggregated operating and capital budget for the 2022/23 MTREF. Total revenue is projected to increase from R497.5 billion in the adjusted budget of the 2021/22 financial year to R529.7 billion in 2022/23, thereafter increases to R593.9 billion by 2024/25. On the contrary, total expenditure is projected to increase from R530.3 billion in the adjusted budget of the 2021/22 financial year to R557.4 billion in 2022/23, thereafter increases to R614.5 billion by 2024/25.

*Aggregated operating and capital budget***Table 1: Aggregated Operating and Capital budgets, 2021/22 - 2024/25**

Description	Original Budget	Adjusted Budget	2022/23 Medium Term Revenue & Expenditure Framework		
	2021/22	2021/22	2022/23	2023/24	2024/25
R thousands					
REVENUE:					
Total Revenue (excluding capital transfers and contributions)	447 874 842	455 634 781	487 561 967	517 501 287	551 874 230
Capital Revenue					
Transfers recognised - capital	41 143 185	41 874 750	42 170 085	40 575 170	42 046 624
Public contributions & donations	-	-	-	-	-
Total Capital Revenue	41 143 185	41 874 750	42 170 085	40 575 170	42 046 624
Total Revenue	489 018 027	497 509 531	529 732 051	558 076 457	593 920 854
EXPENDITURE:					
Total Operating Expenditure ¹	452 273 851	462 980 663	487 713 309	513 837 687	544 494 768
Capital expenditure	69 016 174	67 358 243	69 726 413	68 231 411	69 975 153
Total Expenditure	521 290 025	530 338 907	557 439 722	582 069 097	614 469 922
Surplus / (deficit)	(32 271 999)	(32 829 376)	(27 707 670)	(23 992 640)	(20 549 068)
FINANCING:					
External loans / borrowing	11 927 324	7 043 196	10 348 260	12 993 016	13 875 036
Internally generated funds ²	15 788 032	18 027 723	17 089 785	14 544 502	13 949 564
Total financing	27 715 356	25 070 918	27 438 045	27 537 518	27 824 599
Net surplus / (deficit)	(4 556 642)	(7 758 458)	(269 625)	3 544 878	7 275 532

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 investment through external loans (borrowing) of R37.2 billion and internally generated funding of R45.6 billion over the 2021/22 MTREF. It is noted that the use of borrowing as a funding source declined in the 2022/23 financial year compared to the adopted budget of 2021/22. It appears that borrowing allocations in the adopted budgets are unrealistic given the reduction during the adjustments budget.

5. It is notable, that in aggregate municipalities will realise operating deficits on the operating budgets in the 2022/23 financial year 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. However, the situation is projected to improve in the outer years of the 2022/23 MTREF as operating surpluses will be realised. A net deficit of R269.6 million is projected in the 2022/23 financial year after considering revenue from external loans and internally generated funds. This is an improvement compared to a deficit of R7.7 billion in the 2021/22 adjusted budget and will result in a net surplus of R3.5 billion in 2023/24 and R7.3 billion in 2024/25.
6. Municipalities are reducing their contribution from internally generated funds towards the capital budget while increasing external loans over the MTREF except for 2024/25 financial year. This is in line with the improved financial performance with high operating surplus projected.
7. It must 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 major source of revenue and the main cost drivers over the 2022/23 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 per cent (R1.1 trillion) of the projected operating revenue over the 2022/23 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 2022 MTREF

Description	Current year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
	Adopted budget	Adjusted budget	Budget Year 2022/23	Budget Year 2023/24	Budget Year 2024/25
R thousands					
Financial Performance					
Property rates	80 591 655	81 660 192	85 384 377	89 791 125	94 739 458
Service charges	223 711 704	225 338 792	243 455 686	262 278 118	282 381 265
Investment revenue	3 594 446	3 390 166	3 543 683	3 679 018	3 696 403
Transfers recognised - operational	93 326 152	95 264 188	100 019 214	105 125 630	112 203 921
Other own revenue	46 650 885	49 981 443	55 159 007	56 627 396	58 853 183
Total Revenue (excluding capital transfers and contributions)	447 874 842	455 634 781	487 561 967	517 501 287	551 874 230
Employee costs	133 118 587	132 670 663	141 593 936	148 319 866	156 401 513
Remuneration of councillors	4 868 635	4 717 986	4 851 122	5 058 494	5 287 803
Depreciation & asset impairment	34 691 748	34 421 879	35 942 203	37 508 980	39 389 780
Finance charges	10 597 280	10 139 196	10 728 518	11 598 824	12 491 285
Materials and bulk purchases	145 310 020	149 042 271	155 922 250	168 499 623	181 901 566
Transfers and grants	4 030 863	3 879 313	3 809 501	3 898 813	3 749 854
Other expenditure	119 656 718	128 109 356	134 865 778	138 953 087	145 272 969
Total Expenditure	452 273 851	462 980 663	487 713 309	513 837 687	544 494 768
Surplus/(Deficit)	(4 399 009)	(7 345 882)	(151 342)	3 663 601	7 379 462
Transfers recognised - capital	40 841 454	41 024 677	42 211 136	43 819 340	45 727 161
Contributions recognised - capital & contributed assets	1 347 544	1 389 649	1 033 941	803 241	774 148
Surplus/(Deficit) after capital transfers & contributions	37 789 988	35 068 444	43 093 735	48 286 182	53 880 770
Share of surplus/ (deficit) of associate	1 616	-	-	-	-
Surplus/(Deficit) for the year	37 791 603	35 068 444	43 093 735	48 286 182	53 880 770
Capital expenditure & funds sources					
Capital expenditure	69 016 174	67 358 243	69 726 413	68 231 411	69 975 153
Transfers recognised - capital	41 143 185	41 874 750	42 170 085	40 575 170	42 046 624
Public contributions & donations	-	-	-	-	-
Borrowing	11 927 324	7 043 196	10 348 260	12 993 016	13 875 036
Internally generated funds	15 788 032	18 027 723	17 089 785	14 544 502	13 949 564
Total sources of capital funds	68 858 541	66 945 668	69 608 130	68 112 688	69 871 224

Source: National Treasury Local Government database

11. The main cost drivers are employee related costs and materials and bulk purchases representing 28.9 per cent and 32.7 per cent of the operating expenditure respectively. Contracted services are 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 6.7 per cent from R132.7 billion in the 2021/22 adjusted budget to R141.6 billion in 2022/23 and further increases to R156.4 billion in 2024/25.
12. Remuneration of councillors increased by 2.8 per cent from R4.7 billion in the 2021/22 adjusted budget to R4.9 billion in 2022/23 and further increases to R5.3 billion in 2024/25. 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 (operating and capital) by category of municipality over the 2022/23 MTREF period. In aggregate, the total budgeted operating revenue for 2022/23 increased by 8.9 per cent from R447.9 billion in 2021/22 to R487.6 billion in 2022/23. The average increase in operating revenue is 6.4 per cent in the outer years of the 2022/23 MTREF. The increase appears realistic given the current economic climate.

Table 3: Aggregated Operating and Capital Revenue per category, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	34 380 002	268 089 430	302 469 431	31 929 952	292 733 035	324 662 987	33 647 138	311 976 697	345 623 834	36 160 471	333 904 745	370 065 216
Category B	25 068 292	154 509 919	179 578 211	28 129 748	167 370 872	195 500 619	24 768 269	176 492 933	201 261 201	23 834 913	187 413 932	211 248 845
Category C	9 410 248	25 275 494	34 685 741	9 548 430	27 458 060	37 006 490	9 697 282	29 031 658	38 728 939	9 875 839	30 555 554	40 431 393
Total	68 858 541	447 874 842	516 733 383	69 608 130	487 561 967	557 170 096	68 112 688	517 501 287	585 613 975	69 871 224	551 874 230	621 745 454
Less												
External loans / borrowing	11 927 324	-	11 927 324	10 348 260	-	10 348 260	12 993 016	-	12 993 016	13 875 036	-	13 875 036
Internally generated funds	15 788 032	-	15 788 032	17 089 785	-	17 089 785	14 544 502	-	14 544 502	13 949 564	-	13 949 564
Recalculated revenue¹	41 143 185	447 874 842	489 018 027	42 170 085	487 561 967	529 732 051	40 575 170	517 501 287	558 076 457	42 046 624	551 874 230	593 920 854
% of total revenue²												
Category A	6,7%	51,9%	58,5%	5,7%	52,5%	58,3%	5,7%	53,3%	59,0%	5,8%	53,7%	59,5%
Category B	4,9%	29,9%	34,8%	5,0%	30,0%	35,1%	4,2%	30,1%	34,4%	3,8%	30,1%	34,0%
Category C	1,8%	4,9%	6,7%	1,7%	4,9%	6,6%	1,7%	5,0%	6,6%	1,6%	4,9%	6,5%

¹Revenue excludes capital transfers

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

- The increase in aggregated revenue fluctuates over the 2022/23 MTREF at 7.8 per cent in 2022/23, 5.1 per cent and 6.2 per cent in 2023/24 and 2024/25 respectively.
- Category A (Metros) municipalities contribute 58.3 per cent of aggregated revenue in the 2022/23 financial year which increases to 59.5 per cent by 2024/25. 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. However, the contribution has slightly decreased compared to the previous projections in the 2021/22 MTREF. This could indicate the revenue challenges that the metros are experiencing due to the changing economic and social environment.
- The percentage share of aggregated revenue for Category B municipalities slightly decreases over the 2022/23 MTREF period while the Category C municipalities' share is constant. Total revenue raised by Category B (local) municipalities is on average 34.4 per cent of aggregated revenue while Category C (districts) municipalities on average contribute 6.6 per cent.
- 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.
- Table 4 below reflects the total budgeted expenditure by category of municipality over the 2022/23 MTREF period. In aggregate, budgeted municipal expenditure increased by 6.9 per cent from R521.3 billion in 2021/22 to R557.4 billion in the 2022/23 financial year. The increase is mainly driven by the operating expenditure which increased by 7.8 per cent while capital expenditure increased by 1 per cent.

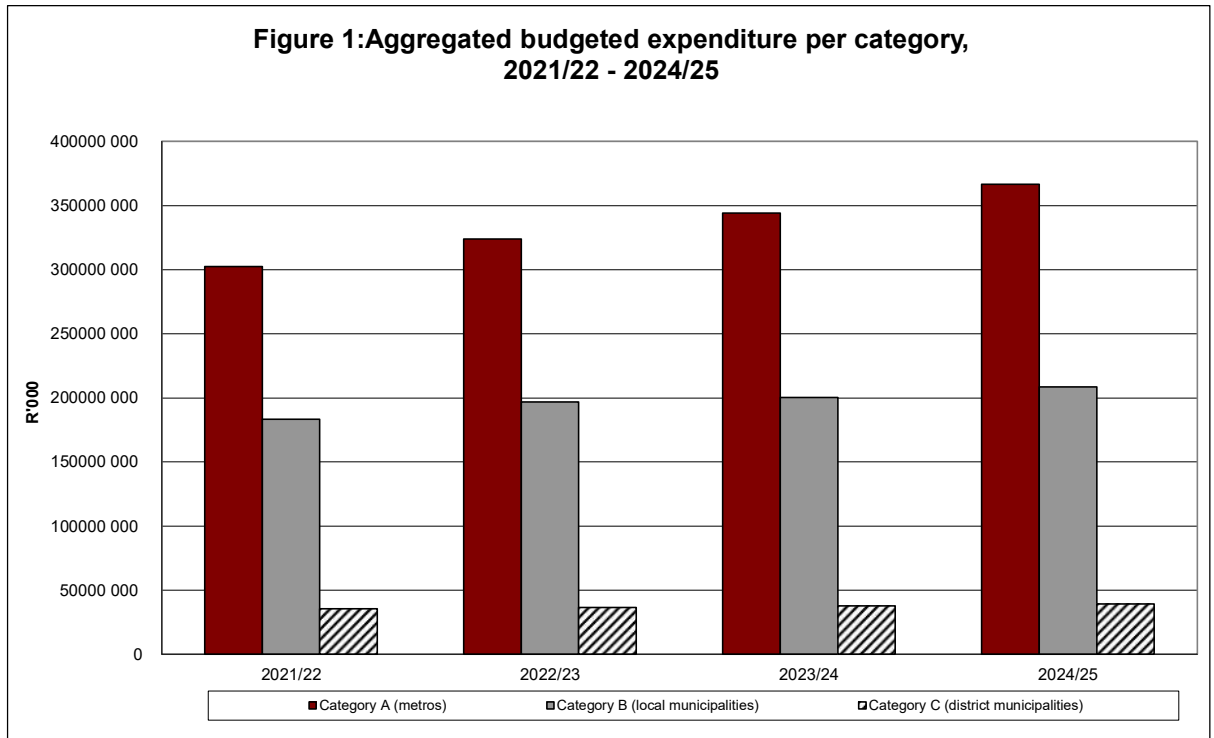
Table 4: Aggregated Operating and Capital expenditure per category, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	34 420 743	268 015 253	302 435 995	31 981 008	292 108 921	324 089 928	33 691 659	310 460 819	344 152 478	36 205 193	330 511 257	366 716 450
Category B	25 165 707	158 145 867	183 311 574	28 160 483	168 651 795	196 812 277	24 827 962	175 361 678	200 189 639	23 883 820	184 738 375	208 622 195
Category C	9 429 725	26 112 732	35 542 457	9 584 922	26 952 594	36 537 516	9 711 790	28 015 190	37 726 981	9 886 140	29 245 137	39 131 277
Total expenditure	69 016 174	452 273 851	521 290 025	69 726 413	487 713 309	557 439 722	68 231 411	513 837 687	582 069 097	69 975 153	544 494 768	614 469 922
% of total expenditure¹												
Category A	6,6%	51,4%	58,0%	5,7%	52,4%	58,1%	5,8%	53,3%	59,1%	5,9%	53,8%	59,7%
Category B	4,8%	30,3%	35,2%	5,1%	30,3%	35,3%	4,3%	30,1%	34,4%	3,9%	30,1%	34,0%
Category C	1,8%	5,0%	6,8%	1,7%	4,8%	6,6%	1,7%	4,8%	6,5%	1,6%	4,8%	6,4%

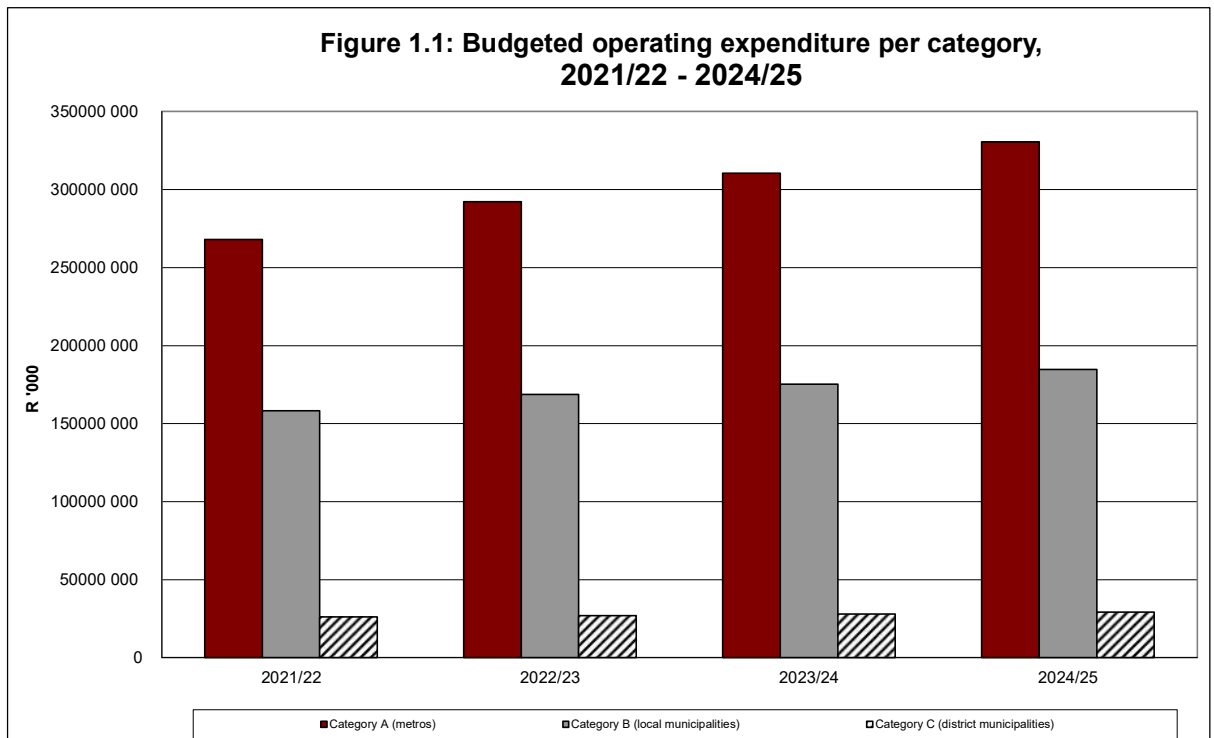
¹Percentage calculations in per category tables are based on total revenue and expenditure (including external loans and internally generated funds).

Source: National Treasury Local Government Database





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 0.5 per cent over the 2022/23 MTREF period. This negatively impacts on the objective to invest in infrastructure to ensure economic growth.
21. The metros' share of the total local government expenditure budget is 58.1 per cent for the 2022/23 financial year, whereas local municipalities represent 35.3 per cent. District municipalities represent 6.6 per cent of total expenditure. The metros contribution slightly increases while the local municipalities' decreases over the MTREF period estimated at 59.7 per cent and 34 per cent of total expenditure respectively by 2024/25.
22. The percentage of capital expenditure to total expenditure is declining over the MTREF period. Capital expenditure represented 13.2 per cent of the total expenditure in 2021/22 and is projected to decrease to 12.5 per cent in 2022/23 and further decreases to 11.4 per cent in 2024/25. 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. It has been observed over the previous years that the poor implementation of capital budgets results in lower investment than the budgeted allocation. Therefore, the expenditure is less than 10 per cent of total expenditure indicating that municipalities are prioritising current operations over future capacity of municipal services. This is evident in the poor service delivery.
24. Operating expenditure in aggregate represents 87.5 per cent in 2022/23 and increases to 88.6 per cent by 2024/25. As indicated earlier in the report, the major cost drivers are employee related costs and bulk purchases which contributes to the annual increases. The increase in bulk electricity and water is high and far exceeds inflation. However, municipalities must ensure efficiencies in the system such as water and electricity losses to reduce the impact of the increasing operating expenditure on their sustainability.



Detailed capital expenditure and funding

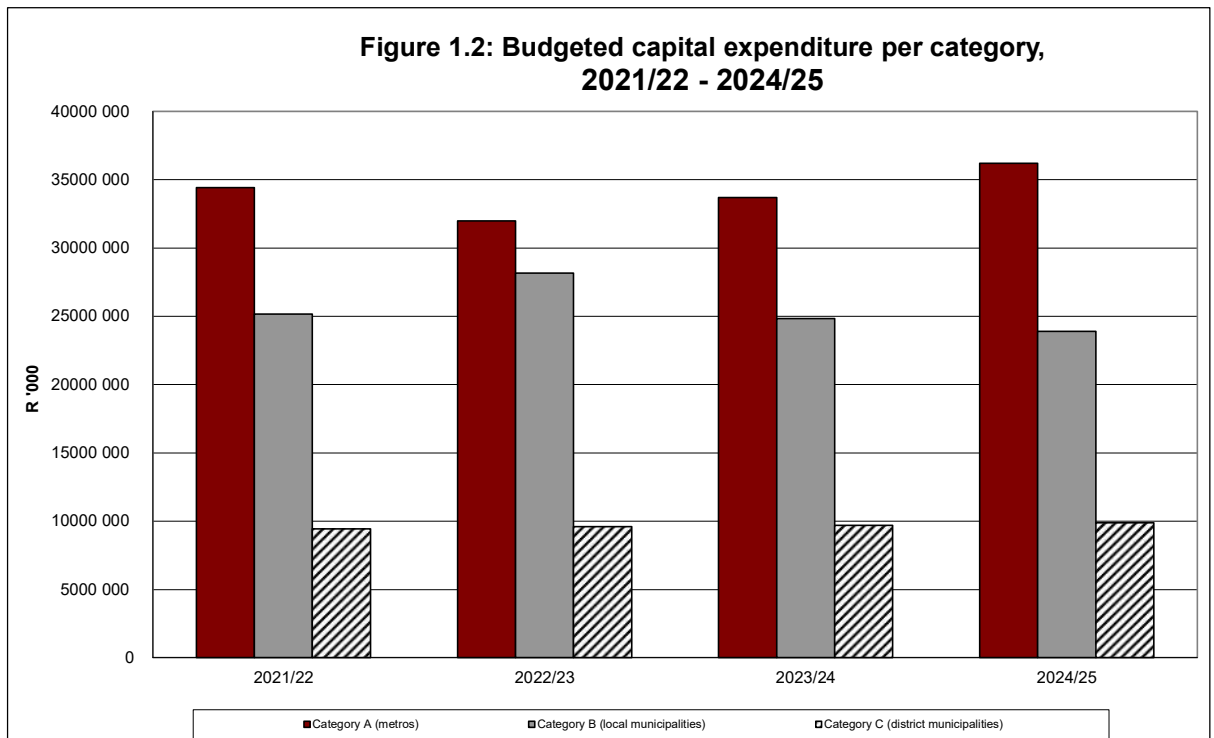
25. Table 5a below reflects the budgeted capital expenditure by standard classification and how it is funded over the 2022/23 MTREF period. The capital expenditure is further categorised between new assets, renewal and upgrading of existing assets. This enables the assessment of the extent to which municipalities are investing in new infrastructure in relation to ensuring that the existing infrastructure is in a good condition.
26. Municipalities are prioritising infrastructure spending on trading services which comprises of electricity, water, waste water management and waste management. Trading services represent 49.7 per cent of the total capital expenditure of R69.7 billion in 2022/23 and slightly decreases to 49.1 per cent by 2024/25. The high spending is on water and waste water management infrastructure which can be due to the extension of water supply to more households and addressing the dilapidated infrastructure.
27. Economic and environmental services (including road transport) is the second contributor to capital expenditure at 27.2 per cent. 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, 2021/22 - 2024/25

R thousands	Original Budget 2021/22	Adjusted Budget 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
			2022/23	2023/24	2024/25
Capital Expenditure - Standard Classification					
<i>Governance and Administration</i>	6 535 740	6 460 334	5 947 037	5 625 215	5 338 695
Executive & Council	870 573	410 132	448 287	328 114	312 603
Budget & Treasury Office	5 661 232	5 978 178	5 495 722	5 293 538	5 018 688
Corporate Services	3 935	72 025	3 028	3 562	7 405
<i>Community and Public Safety</i>	10 613 975	10 493 589	9 763 806	9 006 738	9 005 352
Community & Social Services	1 541 685	1 437 663	1 686 186	1 615 559	1 510 851
Sport And Recreation	1 385 237	1 419 950	1 276 309	1 146 388	1 113 774
Public Safety	884 052	738 552	829 910	573 568	564 133
Housing	6 490 934	6 679 845	5 695 386	5 341 159	5 380 106
Health	312 067	217 578	276 016	330 063	436 488
<i>Economic and Environmental Services</i>	18 907 282	17 386 677	18 964 237	19 112 510	20 888 095
Planning and Development	4 240 133	3 989 904	4 295 925	3 969 152	3 828 628
Road Transport	14 445 288	13 271 608	14 451 540	14 797 779	16 738 737
Environmental Protection	221 862	125 164	216 773	345 579	320 729
<i>Trading Services</i>	32 372 474	32 397 724	34 653 836	34 142 415	34 381 101
Electricity	7 413 812	7 425 743	8 747 137	7 679 527	7 318 188
Water	16 433 897	17 240 090	16 441 791	16 949 637	17 360 405
Waste Water Management	6 824 799	6 441 170	7 705 487	7 711 267	7 931 618
Waste Management	1 699 966	1 290 721	1 759 422	1 801 984	1 770 890
<i>Other</i>	586 703	619 920	397 496	344 533	361 911
Total Capital Expenditure	69 016 174	67 358 243	69 726 413	68 231 411	69 975 153
<i>Of which</i>					
Total New Assets	42 611 734	42 416 558	43 785 786	40 608 792	43 568 651
Total Renewal of Existing Assets	11 266 572	11 110 384	10 870 059	11 908 935	11 708 331
Total Upgrading of Existing Assets	15 137 868	13 831 302	15 070 568	15 713 684	14 698 171
Total Capital Expenditure	69 016 174	67 358 243	69 726 413	68 231 411	69 975 153
<i>Percentage of total capital expenditure</i>					
New assets	61,7%	61,5%	62,8%	59,5%	62,3%
Renewal of existing assets	16,3%	16,1%	15,6%	17,5%	16,7%
Upgrading of Existing Assets	21,9%	20,5%	21,6%	23,0%	21,0%
Funded by:					
National Government	38 382 960	38 429 808	39 135 144	38 772 166	40 318 495
Provincial Government	1 647 361	2 281 676	1 861 887	1 064 122	996 724
District Municipality	30 608	65 269	82 536	58 017	56 629
Other transfers and grants	1 082 256	1 097 996	1 090 517	680 864	674 776
Transfers recognised - capital	41 143 185	41 874 750	42 170 085	40 575 170	42 046 624
Borrowing	11 927 324	7 043 196	10 348 260	12 993 016	13 875 036
Internally generated funds	15 788 032	18 027 723	17 089 785	14 544 502	13 949 564
Total Capital Funding	68 858 541	66 945 668	69 608 130	68 112 688	69 871 224

Source: National Treasury Local Government database

28. The investment in new infrastructure in 2022/23 is R43.8 billion which represents 62.8 per cent of the aggregated capital budget while investment in the renewal and upgrading of existing assets is much lower at R10.9 billion (15.6 per cent) and R15.1 billion (21.6 per cent) respectively. Capital budgets are therefore leaning towards new assets rather than the renewal and upgrading of existing assets. The renewal and upgrading of existing assets represent 37.2 per cent of the capital budget. The allocation has slightly decreased compared to 38.3 per cent in the 2021/22 adopted budget. This is below the norm of 40 per cent and should be analysed in relation to the asset condition and the allocation of repairs and maintenance.



29. 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.
30. Municipalities allocations for renewal and upgrading of existing assets represent 72.5 per cent of depreciation in 2022/23 which is a decline compared to 73 per cent in the 2021/22 adjusted budgets. The allocation further decreases to 67.3 per cent by 2024/25 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.
31. 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, 2021/22 - 2024/25

R thousands	Original Budget 2021/22	Adjusted Budget 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
			2022/23	2023/24	2024/25
Repairs and Maintenance by Asset Class	26 002 208	27 624 774	27 721 890	29 224 226	30 904 093
<i>Roads Infrastructure</i>	3 954 395	4 344 834	4 173 693	4 416 717	4 690 123
<i>Storm water Infrastructure</i>	503 720	516 266	542 553	548 619	573 541
<i>Electrical Infrastructure</i>	6 143 786	6 347 799	6 466 020	6 608 972	6 991 207
<i>Water Supply Infrastructure</i>	3 763 421	3 995 056	3 758 844	4 055 014	4 264 089
<i>Sanitation Infrastructure</i>	2 448 092	2 688 469	2 436 938	2 601 989	2 856 587
<i>Solid Waste Infrastructure</i>	437 095	445 039	530 774	521 424	537 314
<i>Rail Infrastructure</i>	53 610	69 046	11 456	20 986	22 009
<i>Coastal Infrastructure</i>	25 317	20 215	25 897	27 198	28 257
<i>Information and Communication Infrastructure</i>	145 283	154 775	163 092	180 042	188 154
Infrastructure Total	17 474 719	18 581 500	18 109 266	18 980 960	20 151 282
Community Facilities	1 053 169	1 164 770	1 176 233	1 447 492	1 503 095
Sport and Recreation Facilities	312 221	324 323	318 775	332 222	341 288
Community Assets Total	1 365 390	1 489 094	1 495 008	1 779 714	1 844 383
Heritage Assets	5 509	7 244	6 777	8 888	8 585
Revenue Generating	52 875	54 035	29 125	30 331	31 595
Non-revenue Generating	50 467	52 643	46 824	50 540	55 551
Investment properties	103 341	106 679	75 948	80 871	87 147
Operational Buildings	1 482 855	1 591 798	2 046 220	2 112 253	2 249 970
Housing	178 652	162 842	191 617	191 805	197 750
Other Assets	1 661 507	1 754 640	2 237 837	2 304 058	2 447 721
Biological or Cultivated Assets	12 637	15 376	21 170	22 116	23 115
Servitudes	-	-	-	-	-
Licences and Rights	288 794	279 192	232 712	239 883	240 570
Intangible Assets	288 794	279 192	232 712	239 883	240 570
Computer Equipment	627 451	661 511	856 324	873 849	907 620
Furniture and Office Equipment	1 104 082	762 021	735 178	765 941	809 173
Machinery and Equipment	1 077 318	1 681 491	1 643 644	1 730 471	1 830 120
Transport Assets	2 281 458	2 286 026	2 308 025	2 437 475	2 554 377
Land	-	-	-	-	-
Zoo's, Marine and Non-biological Animals	-	-	130	100	100

Source: National Treasury Local Government database

32. The budget allocation for repairs and maintenance slightly increased from R27.6 billion in 2021/22 adjusted budget to R27.7 billion in 2022/23. Repairs and maintenance of infrastructure assets represents 65.3 per cent of the total allocation of which electrical infrastructure has the most allocation.
33. 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.
34. Table 5c below reflects the total asset value which is used to measure this ratio. The total asset value decreases over the MTREF period from R719.7 billion in 2022/23 to R711.9 billion in 2024/25 while repairs and maintenance as a percentage of PPE is 4 per cent for all the financial years in the 2022/23 MTREF and remains unchanged compared to the 2021/22 MTREF. The performance is below the norm of 8 per cent. The information reported on the asset register highlights credibility challenges given the increasing investment in capital assets. It can also indicate the declining asset value due to the poor state of municipalities assets.
35. 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.
36. 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	2022/23 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>	134 991 667	136 330 933	129 502 066	129 229 330	134 789 237
<i>Storm water Infrastructure</i>	13 090 802	12 507 417	10 546 647	10 899 194	11 263 814
<i>Electrical Infrastructure</i>	89 510 245	87 536 088	86 712 675	85 974 658	86 085 313
<i>Water Supply Infrastructure</i>	108 422 080	108 217 419	110 210 963	103 612 549	111 562 198
<i>Sanitation Infrastructure</i>	50 996 474	46 576 865	46 135 494	47 055 038	52 319 099
<i>Solid Waste Infrastructure</i>	3 741 626	4 094 439	4 881 362	5 461 904	6 077 553
<i>Rail Infrastructure</i>	1 680 326	1 836 542	690 549	1 865 083	1 858 689
<i>Coastal Infrastructure</i>	876 918	948 166	938 385	1 087 731	1 227 695
<i>Information and Communication Infrastructure</i>	6 776 659	6 590 883	2 337 360	7 333 660	2 673 052
Infrastructure	410 086 796	404 638 752	391 955 502	392 519 148	407 856 650
Community Assets	64 640 907	70 410 382	95 277 310	51 181 607	53 584 469
Heritage Assets	1 086 965	1 348 666	1 353 453	1 278 923	1 282 962
Investment properties	27 309 603	26 475 260	27 995 017	28 178 803	28 639 877
Other Assets	136 728 439	133 711 963	138 613 325	142 991 961	147 197 354
Biological or Cultivated Assets	721 461	353 896	465 705	1 345 526	1 352 242
Intangible Assets	8 731 750	8 320 061	7 408 588	7 649 033	7 826 517
Computer Equipment	(261 575)	(217 132)	1 917 837	1 901 996	2 008 021
Furniture and Office Equipment	2 211 076	140 841	1 624 481	2 578 490	2 853 625
Machinery and Equipment	11 884 989	13 228 543	11 737 595	12 054 327	12 463 778
Transport Assets	13 503 400	17 396 065	13 594 992	17 472 060	18 720 870
Land	25 707 356	26 839 507	27 758 045	27 888 998	28 048 527
Zoo's, Marine and Non-biological Animals	21 158	13 018	12 927	16 031	16 406
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	702 372 326	702 659 821	719 714 778	687 056 904	711 851 297

Source: National Treasury Local Government database

37. The capital expenditure budget is mainly funded from transfers from national, provincial government, district municipalities and other transfers. The allocations for this funding source over the 2022/23 MTREF period are R42.2 billion or 60.6 per cent for 2022/23, R40.6 billion or 59.6 per cent for 2023/24 and R42.1 billion or 60.2 per cent for 2024/25. This is an indication that municipalities rely on grant funding for infrastructure delivery. Therefore, a decline in infrastructure grants from national and provincial government result in lower capital expenditure budgets which is observed in the 2023/24 financial year.
38. Internally generated funding represents 24.6 per cent of total capital funding for 2022/23 and decreases over the MTREF to 20 per cent by 2024/25. The declining trend correlates with most municipalities' fragile financial position. Even though, in aggregate municipalities are projecting operating surpluses in the outer years of the MTREF, they will not have reserves to fund the capital budget. This is because of the challenges that they experience in collecting billed revenue. Therefore, increased revenue maximisation and collection effort is critical to enable infrastructure investment.
39. Borrowing represents 14.9 per cent of total capital funding in 2022/23 and gradually increases in the outer years of the MTREF to 19.9 per cent by 2024/25. It is observed that the increase in borrowing correlates with the decrease in internally generated funds. Funding from borrowing depends on municipalities financial position. Therefore, given the deteriorating state of municipal finances, this funding source may be negatively affected subsequently result in lower infrastructure investment. It is critical that municipalities ensure financial sustainability through prudent financial management practices.

Aggregated operating and capital budget per province

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

Table 6: Aggregated Operating and Capital revenue per province, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	8 924 215	39 101 920	48 026 136	9 790 979	42 902 509	52 693 488	8 973 959	45 443 666	54 417 625	8 480 608	47 938 839	56 419 448
Free State	3 182 774	21 835 041	25 017 815	3 259 822	23 504 889	26 764 711	2 990 582	24 792 525	27 783 108	3 182 011	26 254 807	29 436 818
Gauteng	17 483 753	164 848 970	182 332 724	15 480 022	178 457 645	193 937 667	14 714 912	189 983 147	204 698 059	15 777 672	203 607 827	219 385 499
KwaZulu-Natal	12 053 278	77 285 963	89 339 241	13 073 841	83 606 727	96 680 569	11 873 736	88 246 937	100 120 673	11 950 074	93 474 219	105 424 293
Limpopo	6 243 631	22 384 956	28 628 588	6 712 095	23 654 845	30 366 939	6 669 359	25 039 326	31 708 686	6 467 806	26 723 605	33 191 410
Mpumalanga	4 499 127	22 433 143	26 932 270	4 575 528	24 319 494	28 895 022	3 394 507	25 508 238	28 902 744	3 613 339	27 044 103	30 657 442
North West	3 486 189	21 373 888	24 860 077	3 588 050	24 393 002	27 981 052	3 427 780	25 932 390	29 360 170	3 185 081	27 999 860	31 184 941
Northern Cape	1 365 725	8 471 460	9 837 185	1 382 211	8 767 175	10 149 385	1 269 367	9 199 188	10 468 555	1 277 513	9 712 468	10 989 982
Western Cape	11 619 848	70 139 501	81 759 349	11 745 583	77 955 680	89 701 264	14 798 485	83 355 870	98 154 355	15 937 120	89 118 502	105 055 621
Total	68 858 541	447 874 842	516 733 383	69 608 130	487 561 967	557 170 096	68 112 688	517 501 287	585 613 975	69 871 224	551 874 230	621 745 454
Less												
External loans / borrowing	11 927 324	-	11 927 324	10 348 260	-	10 348 260	12 993 016	-	12 993 016	13 875 036	-	13 875 036
Internally generated funds	15 788 032	-	15 788 032	17 089 785	-	17 089 785	14 544 502	-	14 544 502	13 949 564	-	13 949 564
Recalculated revenue	41 143 185	447 874 842	489 018 027	42 170 085	487 561 967	529 732 051	40 575 170	517 501 287	558 076 457	42 046 624	551 874 230	593 920 854

¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

41. The provincial analysis highlights that Gauteng with 11 municipalities, followed by KwaZulu-Natal with 54 municipalities then Western Cape with 30 municipalities are the highest contributors to local government's aggregated revenue at R193.9 billion, R96.7 billion and R89.7 billion in 2022/23 respectively. The trend increases over the MTREF period. The province that contributes the least is Northern Cape at R10.1 billion in 2022/23. This indicates the socio-economic position of the various provinces.

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

Table 7: Aggregated Operating and Capital expenditure budgets per province, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	9 063 197	39 978 611	49 041 809	9 865 808	43 291 784	53 157 592	9 021 924	45 563 181	54 585 104	8 528 777	48 149 971	56 678 748
Free State	3 191 669	22 127 805	25 319 475	3 289 017	23 458 752	26 747 769	3 015 473	24 189 038	27 204 512	3 208 295	25 242 506	28 450 801
Gauteng	17 471 284	164 394 041	181 865 325	15 480 472	178 032 266	193 512 739	14 715 302	188 475 116	203 190 418	15 777 922	201 048 465	216 826 386
KwaZulu-Natal	12 053 908	77 904 480	89 958 387	13 078 737	83 153 044	96 231 781	11 878 866	87 330 178	99 209 044	11 955 889	91 725 881	103 681 770
Limpopo	6 250 996	21 870 307	28 121 303	6 712 095	22 681 410	29 393 505	6 669 359	23 670 056	30 339 416	6 467 806	24 843 766	31 311 572
Mpumalanga	4 521 727	23 536 823	28 058 550	4 583 448	24 925 889	29 509 337	3 405 822	25 619 040	29 024 863	3 619 946	26 760 924	30 380 870
North West	3 477 068	22 272 598	25 749 667	3 589 580	24 261 390	27 850 969	3 431 280	25 291 051	28 722 331	3 187 081	26 910 946	30 098 027
Northern Cape	1 366 325	8 696 524	10 062 849	1 369 106	8 951 650	10 320 756	1 278 099	9 366 891	10 644 990	1 272 768	9 869 045	11 141 813
Western Cape	11 619 998	71 492 662	83 112 660	11 758 151	78 957 123	90 715 274	14 815 285	84 333 135	99 148 420	15 956 670	89 943 265	105 899 935
Total expenditure	69 016 174	452 273 851	521 290 025	69 726 413	487 713 309	557 439 722	68 231 411	513 837 687	582 069 097	69 975 153	544 494 768	614 469 922
Per capita spending												
Eastern Cape	1 295	5 714	7 009	1 410	6 187	7 597	1 289	6 512	7 801	1 219	6 882	8 100
Free State	1 126	7 806	8 932	1 160	8 276	9 436	1 064	8 533	9 597	1 132	8 905	10 037
Gauteng	1 304	12 268	13 572	1 155	13 286	14 442	1 098	14 066	15 164	1 177	15 004	16 181
KwaZulu-Natal	1 089	7 040	8 130	1 182	7 515	8 697	1 074	7 892	8 966	1 080	8 290	9 370
Limpopo	1 078	3 771	4 849	1 157	3 911	5 069	1 150	4 082	5 232	1 115	4 284	5 399
Mpumalanga	1 043	5 428	6 471	1 057	5 749	6 806	7 85	5 908	6 694	8 35	6 172	7 007
North West	928	5 942	6 869	958	6 472	7 430	915	6 747	7 662	850	7 179	8 029
Northern Cape	1 145	7 285	8 429	1 147	7 499	8 645	1 071	7 846	8 917	1 066	8 267	9 333
Western Cape	1 850	11 385	13 235	1 872	12 573	14 446	2 359	13 429	15 789	2 541	14 323	16 864
Total	1 240	8 127	9 367	1 253	8 763	10 016	1 226	9 233	10 459	1 257	9 784	11 041

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

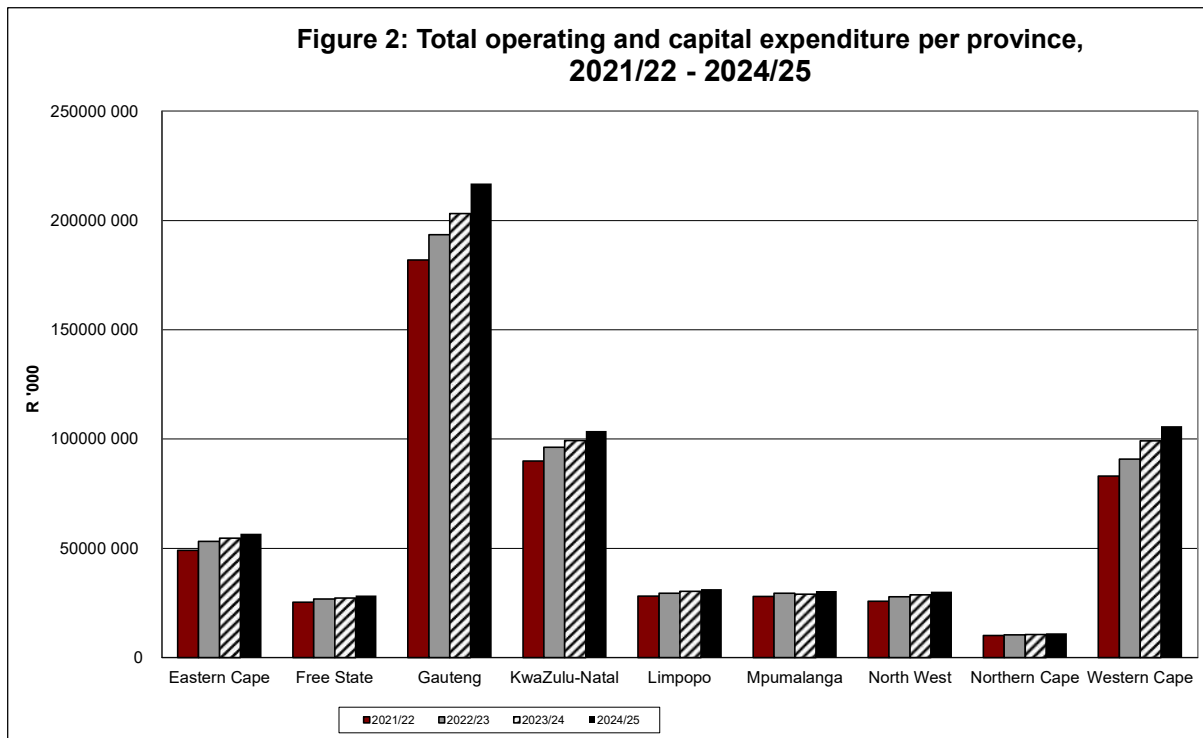
43. Gauteng, KwaZulu-Natal and Western Cape provinces contributes the most to total local government expenditure. This indicates the importance of these provinces in driving the country's economy. The total expenditure for Gauteng increases from R193.5 billion in 2022/23 to R216.8 billion in 2024/25 financial year. Operating expenditure for the province increased by 8.3 per cent from R164.4 billion in 2021/22 to R178 billion in 2022/23 while capital expenditure decreased by 11.4 per cent.

44. The operating expenditure by KwaZulu-Natal province increased by 6.7 per cent from R77.9 billion in 2021/22 to R83.2 billion in 2022/23 while the capital expenditure increased by 8.5 per cent. The Western Cape province's operating expenditure increased by 10.4 per cent from R71.5 billion in 2021/22 to R79 billion in 2022/23 while the capital expenditure increased by 1.2 per cent.

45. Table 7 above indicates that the national aggregate per capita spending average is estimated at R10 016 in 2022/23, an increase from R9 367 in 2021/22. Only two provinces will exceed this national average in 2022/23, namely Gauteng at R14 442 and Western Cape at R14 446 per capita. The trend line suggests increases over the MTREF reaching R11 041 per capita by 2024/25. Free State is the closest to the national per capita spending at R9 436 in 2022/23.



46. It should also be noted that this calculation is based on the Community Survey, 2016 released by Statistics South Africa.
47. The high per capita spending in the Gauteng and Western Cape provinces is 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.
48. The lowest level of per capita spending is in Limpopo estimated to be R5 069 in 2022/23 which increases over the MTREF to R5 399 by 2024/25.



Aggregated operating and capital budget for metros

49. Table 8 below depicts the metros operating and capital revenue over the 2022/23 MTREF. It further reflects each metro's percentage contribution to aggregate revenue.

Table 8: Aggregated Operating and Capital revenue budgets for metros, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 803 592	8 234 112	10 037 703	2 086 362	8 871 639	10 958 001	1 811 183	9 308 750	11 119 934	1 288 703	9 889 494	11 178 198
Cape Town	8 325 971	47 512 224	55 838 195	7 527 791	53 434 043	60 961 834	11 017 486	57 300 161	68 317 648	12 751 298	61 541 061	74 292 359
City of Ekurhuleni	4 081 636	42 935 624	47 017 260	3 323 853	48 266 991	51 590 844	3 618 375	52 211 627	55 830 002	3 672 997	56 561 921	60 234 919
eThekwin	5 321 542	43 656 807	48 978 349	5 589 511	46 326 594	51 916 105	4 955 050	49 455 409	54 410 459	5 128 941	52 557 169	57 686 110
City Of Johannesburg	8 157 478	65 846 786	74 004 264	7 740 924	70 024 240	77 765 164	8 012 423	73 981 876	81 994 299	8 439 550	79 170 222	87 609 772
Mangaung	1 221 006	8 073 601	9 294 606	1 280 835	8 811 248	10 092 083	1 339 288	9 325 391	10 664 679	1 387 497	9 907 361	11 294 858
Nelson Mandela Bay	1 511 907	12 835 948	14 347 854	1 587 570	14 846 441	16 434 011	1 273 481	15 717 739	16 991 220	1 236 788	16 723 633	17 960 421
City Of Tshwane	3 956 871	38 994 329	42 951 200	2 793 105	42 151 840	44 944 945	1 619 850	44 675 744	46 295 594	2 254 696	47 553 884	49 808 580
Total	34 380 002	268 089 430	302 469 431	31 929 952	292 733 035	324 662 987	33 647 138	311 976 697	345 623 834	36 160 471	333 904 745	370 065 216
Less												
External loans / borrowing	10 152 572	-	10 152 572	7 614 833	-	7 614 833	11 089 295	-	11 089 295	12 403 670	-	12 403 670
Internally generated funds	8 251 257	-	8 251 257	8 998 846	-	8 998 846	7 927 517	-	7 927 517	7 989 119	-	7 989 119
Recalculated revenue	15 976 172	268 089 430	284 065 602	15 316 273	292 733 035	308 049 308	14 630 326	311 976 697	326 607 023	15 767 683	333 904 745	349 672 428
% of total revenue												
Buffalo City	0,6%	2,7%	3,3%	0,6%	2,7%	3,4%	0,5%	2,7%	3,2%	0,3%	2,7%	3,0%
Cape Town	2,8%	15,7%	18,5%	2,3%	16,5%	18,8%	3,2%	16,6%	19,8%	3,4%	16,6%	20,1%
City of Ekurhuleni	1,3%	14,2%	15,5%	1,0%	14,9%	15,9%	1,0%	15,1%	16,2%	1,0%	15,3%	16,3%
eThekwini	1,8%	14,4%	16,2%	1,7%	14,3%	16,0%	1,4%	14,3%	15,7%	1,4%	14,2%	15,6%
City Of Johannesburg	2,7%	21,8%	24,5%	2,4%	21,6%	24,0%	2,3%	21,4%	23,7%	2,3%	21,4%	23,7%
Mangaung	0,4%	2,7%	3,1%	0,4%	2,7%	3,1%	0,4%	2,7%	3,1%	0,4%	2,7%	3,1%
Nelson Mandela Bay	0,5%	4,2%	4,7%	0,5%	4,6%	5,1%	0,4%	4,5%	4,9%	0,3%	4,5%	4,9%
City Of Tshwane	1,3%	12,9%	14,2%	0,9%	13,0%	13,8%	0,5%	12,9%	13,4%	0,6%	12,9%	13,5%

¹Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

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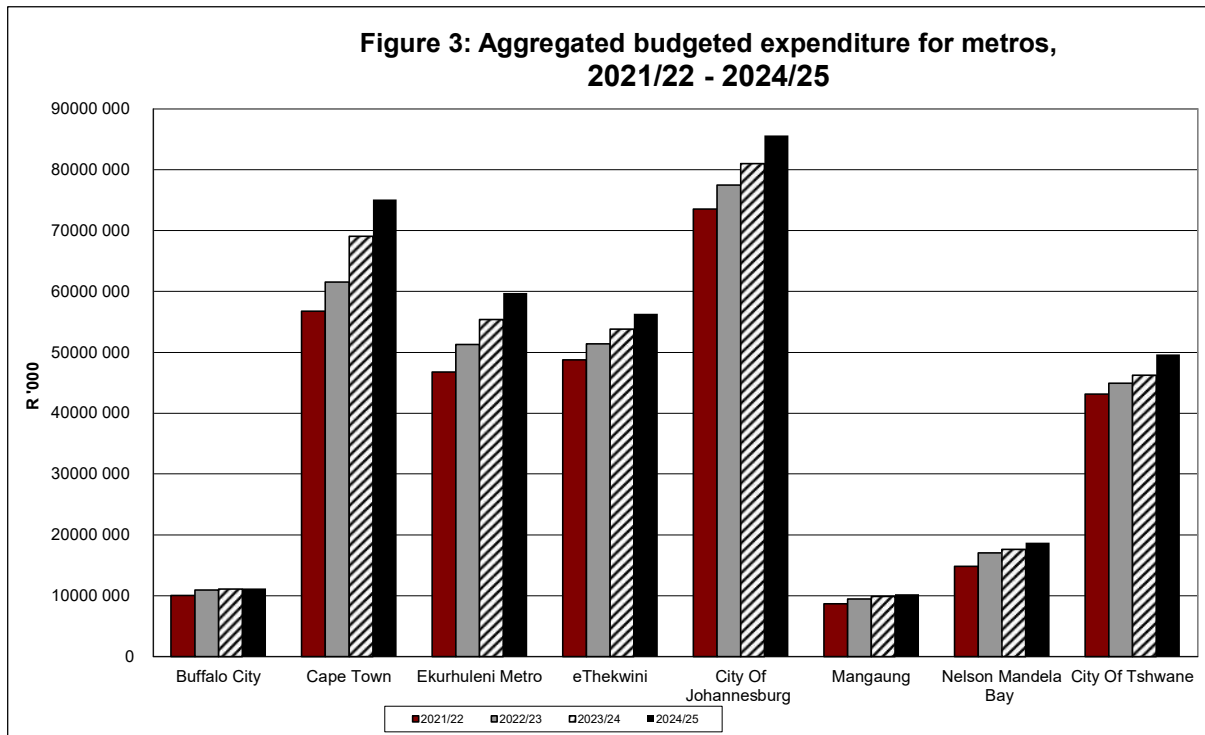


50. The aggregated budgeted revenue for all metros increased from R302.5 billion in 2021/22 to R324.7 billion in 2022/23. The increase in electricity tariffs which are above inflation contributes to this increase as metros raise significant part of the revenue from service charges. The revenue is projected to increase over the MTREF to R345.6 billion in 2023/24 and to R370.1 billion in 2024/25, reflecting a total increase of 6.5 and 7.1 per cent in the two outer years of the MTREF respectively.
51. City of Johannesburg, Cape Town and eThekweni are the highest contributors to metros aggregated revenue at 24 per cent, 18.8 per cent and 16 per cent in 2022/23 respectively. Two metros, namely Mangaung and Buffalo City constitutes a small percentage of the total revenue at 3.1 per cent and 3.4 per cent respectively. The percentage contributions to aggregated revenue remains relatively constant over the MTREF.
52. Table 9 below depicts metros operating and capital expenditure over the 2022/23 MTREF. It further reflects each metros percentage contribution to aggregate expenditure.

Table 9: Aggregated Operating and Capital expenditure for metros, 2021/22 - 2024/25

	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
R thousand												
Buffalo City	1 803 592	8 231 745	10 035 336	2 086 362	8 870 409	10 956 772	1 811 183	9 306 333	11 117 516	1 288 703	9 887 741	11 176 445
Cape Town	8 325 971	48 403 183	56 729 154	7 527 791	54 014 016	61 541 807	11 017 486	58 049 327	69 066 813	12 751 298	62 386 808	75 138 106
City of Ekurhuleni	4 081 636	42 677 385	46 759 021	3 323 853	47 969 108	51 292 961	3 618 375	51 784 076	55 402 451	3 672 997	56 071 679	59 744 677
eThekweni	5 321 542	43 464 626	48 786 168	5 589 511	45 817 130	51 406 641	4 955 050	48 870 221	53 825 271	5 128 941	51 220 662	56 349 603
City Of Johannesburg	8 157 478	65 363 298	73 520 776	7 740 924	69 734 280	77 475 204	8 012 423	72 997 077	81 009 500	8 439 550	77 222 720	85 662 270
Mangaung	1 221 006	7 450 829	8 671 834	1 280 835	8 157 202	9 438 037	1 339 288	8 523 798	9 863 086	1 387 497	8 867 372	10 254 869
Nelson Mandela Bay	1 552 648	13 284 135	14 836 783	1 638 626	15 397 727	17 036 354	1 318 003	16 315 161	17 633 164	1 281 510	17 454 108	18 735 619
City Of Tshwane	3 956 871	39 140 052	43 096 923	2 793 105	42 149 047	44 942 152	1 619 850	44 614 825	46 234 675	2 254 696	47 400 166	49 654 862
Total	34 420 743	268 015 253	302 435 995	31 981 008	292 108 921	324 089 928	33 691 659	310 460 819	344 152 478	36 205 193	330 511 257	366 716 450
Less												
Taxation	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	34 420 743	268 015 253	302 435 995	31 981 008	292 108 921	324 089 928	33 691 659	310 460 819	344 152 478	36 205 193	330 511 257	366 716 450
% of total expenditure												
Buffalo City	0,6%	2,7%	3,3%	0,6%	2,7%	3,4%	0,5%	2,7%	3,2%	0,4%	2,7%	3,0%
Cape Town	2,8%	16,0%	18,8%	2,3%	16,7%	19,0%	3,2%	16,9%	20,1%	3,5%	17,0%	20,5%
City of Ekurhuleni	1,3%	14,1%	15,5%	1,0%	14,8%	15,8%	1,1%	15,0%	16,1%	1,0%	15,3%	16,3%
eThekweni	1,8%	14,4%	16,1%	1,7%	14,1%	15,9%	1,4%	14,2%	15,6%	1,4%	14,0%	15,4%
City Of Johannesburg	2,7%	21,6%	24,3%	2,4%	21,5%	23,9%	2,3%	21,2%	23,5%	2,3%	21,1%	23,4%
Mangaung	0,4%	2,5%	2,9%	0,4%	2,5%	2,9%	0,4%	2,5%	2,9%	0,4%	2,4%	2,8%
Nelson Mandela Bay	0,5%	4,4%	4,9%	0,5%	4,8%	5,3%	0,4%	4,7%	5,1%	0,3%	4,8%	5,1%
City Of Tshwane	1,3%	12,9%	14,2%	0,9%	13,0%	13,9%	0,5%	13,0%	13,4%	0,6%	12,9%	13,5%

Source: National Treasury Local Government Database



53. Metros aggregated expenditure budget is R324.1 billion in 2022/23 and increases to R366.7 billion by 2024/25. As highlighted earlier in the report, category A (metros) municipalities contributes 58.1 per cent of total municipal expenditure in 2022/23. 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.
54. Operating expenditure by metros accounts for more than half (53.2 per cent in average) of total municipal operating expenditure over the 2022/23 MTREF while capital expenditure represents an average of 49 per cent of total municipal capital expenditure.
55. City of Johannesburg, Cape Town and eThekweni have the largest capital budgets at 2.4, 2.3 and 1.7 per cent of the aggregated budget for metros (operating and capital expenditure). City of Tshwane's capital budget is relatively low at 0.9 per cent and decreases 2023/24 when benchmarked against the above-mentioned metros. However, it is closely comparable to City of Ekurhuleni.
56. 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	2018/19	2019/20	2020/21	Current year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
	Audited Outcome (BR)	Audited Outcome (BR)	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year 2023/24	Budget Year 2024/25
R thousands								
Revenue - Functional								
Trading services	161 226 916	204 388 158	216 833 868	252 369 920	257 036 085	277 126 851	301 270 709	322 671 373
Energy sources	95 359 354	119 551 951	122 790 370	148 768 074	148 553 872	160 011 744	176 764 112	190 934 902
Water management	38 132 949	49 889 054	57 186 591	64 719 454	68 588 578	72 883 138	80 721 114	84 864 497
Waste water management	13 877 834	18 255 810	18 868 348	20 590 307	21 217 899	23 748 213	22 027 845	23 799 768
Waste management	13 856 778	16 691 342	17 988 558	18 292 086	18 675 736	20 483 756	21 757 638	23 072 206
Expenditure - Functional								
Trading services	173 436 936	221 462 322	232 900 467	248 104 554	254 282 504	261 276 502	281 881 644	301 631 436
Energy sources	95 148 189	119 705 553	126 851 490	142 546 867	143 708 563	151 884 312	158 634 376	170 968 505
Water management	48 980 736	64 628 758	67 215 223	66 179 164	69 832 187	71 207 289	70 296 988	74 565 747
Waste water management	13 497 930	18 304 811	18 760 946	18 708 100	19 316 764	18 642 993	18 656 017	19 769 473
Waste management	15 810 080	18 823 200	20 072 808	20 670 423	21 424 990	19 541 908	34 294 263	36 327 711
Surplus/(Deficit) for Trading Services	(12 210 020)	(17 074 165)	(16 066 599)	4 265 367	33 504 594	34 924 105	36 711 070	21 039 937

Source: National Treasury Local Government Database

57. 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.
58. The major sources of revenue in 2022/23 are energy sources at R160 billion, water management at R72.9 billion, waste water management at R23.7 billion and waste management at R20.5 billion. There is an increase of 7.7 per cent in revenue from energy sources in 2022/23 compared to R148.5 billion in the 2021/22 adjusted budget. This is due to the electricity tariff increase guideline of 7.47 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.
59. Higher increases are anticipated for energy sources over the MTREF at 10.5 per cent in 2023/24 and 8 per cent in 2024/25. 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.
60. 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.
61. As a result of the change in accounting treatment, there were inconsistencies in expenditure reported on water consumed in the previous financial year. However, the reporting improved in the 2022/23 MTREF. City of Tshwane did not report water consumed for the outer years of the MTREF.

Table 11: Bulk purchases expenditure for metros for functions, 2021/22 - 2024/25

R thousand	Electricity				Water			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
Buffalo City	2 010 261	2 160 427	2 343 415	2 554 323	258 839	191 651	204 635	223 052
Cape Town	11 182 400	12 350 900	14 201 053	16 328 728	4 129 517	3 621 933	3 693 482	3 878 156
City of Ekurhuleni	14 224 085	15 418 908	16 900 665	18 524 819	3 644 519	3 788 971	4 205 758	4 668 391
eThekweni	12 525 889	13 272 412	14 267 806	15 195 180	1 898 418	2 492 135	2 720 730	2 804 610
City of Johannesburg	13 700 479	15 363 589	16 774 479	18 143 222	6 625 501	4 369 096	4 657 456	4 964 847
Mangaung	2 002 153	2 145 935	2 240 356	2 341 172	481 883	534 000	557 496	582 583
Nelson Mandela Bay	4 289 195	4 705 312	5 110 439	5 550 448	76 652	80 101	84 106	88 732
City Of Tshwane	11 160 809	12 121 755	13 079 373	14 112 644	3 361 447	4 296 921	-	-
Total expenditure	71 095 270	77 539 237	84 917 586	92 750 536	20 476 775	19 374 807	16 123 663	17 210 372

Source: National Treasury Local Government Database

62. Metros have budgeted R77.5 billion for the purchase of bulk electricity in 2022/23, with an annual increase of 9.5 per cent and 9.2 per cent in the outer years of the MTREF. The expenditure on electricity bulk purchases is to increase to R92.8 billion by 2024/25. The National Energy Regulator of South Africa (NERSA) published a guideline of a proposed tariff increase of 7.47 per cent for 2022/23.
63. 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.
64. 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

65. Table 12 below depicts secondary cities (top 19 municipalities) operating and capital revenue over the 2022/23 MTREF.

Table 12: Aggregated Operating and Capital revenue budgets for secondary cities, 2021/22 - 2024/25

R thousand	2021/22			2022/23			2023/24			2024/25		
	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total
Secondary cities	7 529 142	64 475 253	72 004 395	8 544 523	71 389 067	79 933 590	8 016 437	75 822 270	83 838 706	7 849 540	80 727 247	88 576 787
Matjhabeng	157 833	3 527 317	3 685 149	176 809	3 677 907	3 854 716	173 933	3 869 518	4 043 451	390 813	4 128 474	4 519 287
Emfuleni	428 432	6 754 321	7 182 752	422 019	7 001 734	7 423 753	502 615	7 526 072	8 028 687	410 255	8 109 532	8 519 787
Mogale City	259 784	3 156 894	3 416 678	424 391	3 364 885	3 789 276	319 471	3 525 266	3 844 737	345 846	3 714 097	4 059 943
Msunduzi	576 302	6 418 414	6 994 716	835 918	7 050 770	7 886 689	717 784	7 331 670	8 049 454	561 489	7 557 848	8 119 337
Newcastle	68 741	2 214 242	2 282 982	209 378	2 693 263	2 902 640	170 083	2 600 755	2 770 838	117 850	2 796 272	2 914 122
uMhlatuze	830 967	3 762 787	4 593 755	835 076	4 468 276	5 303 352	790 986	4 761 992	5 552 978	807 214	5 083 755	5 890 969
Polokwane	1 128 560	4 028 835	5 157 394	847 868	4 338 280	5 186 148	747 467	4 793 713	5 541 179	766 802	5 306 485	6 073 287
Govan Mbeki	264 380	2 589 362	2 853 742	163 882	2 828 608	2 992 490	155 464	3 009 087	3 164 552	160 519	3 205 061	3 365 580
Emalahleni (Mp)	183 780	3 802 907	3 986 687	221 891	3 995 529	4 217 420	205 828	4 227 052	4 432 880	214 286	4 441 357	4 655 642
Steve Tshwete	611 391	1 993 805	2 605 196	643 920	2 137 904	2 781 824	368 494	2 254 090	2 622 585	341 031	2 380 343	2 721 374
City of Mbombela	617 205	3 474 234	4 091 439	652 821	3 903 532	4 556 352	857 782	4 183 157	5 040 939	959 551	4 490 506	5 450 057
Sol Plaatje	179 266	2 365 711	2 544 977	190 043	2 487 209	2 677 252	154 168	2 673 277	2 827 445	164 069	2 847 055	3 011 124
Madibeng	310 285	2 155 760	2 466 045	449 264	2 422 623	2 871 888	370 680	2 584 178	2 954 858	386 393	2 759 922	3 146 315
Rustenburg	626 870	5 669 738	6 296 608	624 278	7 074 810	7 699 088	467 104	7 483 852	7 950 956	475 031	7 858 546	8 333 578
City Of Matlosana	167 630	3 531 358	3 698 988	217 038	4 019 854	4 236 892	193 139	4 466 456	4 659 594	180 239	4 916 086	5 096 325
J B Marks	213 117	1 887 847	2 100 964	302 063	2 105 830	2 407 693	338 003	2 222 281	2 560 284	276 192	2 366 232	2 642 424
Drakenstein	128 103	2 608 798	2 736 900	130 609	2 836 566	2 967 175	112 185	3 004 203	3 116 388	104 670	3 184 104	3 288 774
Stellenbosch	406 054	2 020 051	2 426 105	409 273	2 103 783	2 513 056	427 269	2 247 477	2 674 747	440 003	2 401 085	2 841 089
George	370 443	2 512 874	2 883 317	787 983	2 877 904	3 665 888	943 982	3 058 173	4 002 155	747 286	3 180 486	3 927 772
Less												
External loans / borrowing	888 896	-	888 896	1 328 044	-	1 328 044	1 079 532	-	1 079 532	905 375	-	905 375
Internally generated funds	2 218 344	-	2 218 344	1 980 466	-	1 980 466	1 948 502	-	1 948 502	1 823 834	-	1 823 834
Recalculated revenue	4 421 901	64 475 253	68 897 154	5 236 013	71 389 067	76 625 080	4 988 403	75 822 270	80 810 672	5 120 331	80 727 247	85 847 878

¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database



66. The total budgeted revenue for secondary cities amounts to R76.6 billion in 2022/23 (an increase of R7.7 billion from 2021/22) and increases to R85.9 billion by 2024/25. The increase in revenue in the outer years is 5.5 and 6.2 per cent.
67. Msunduzi, Rustenburg and Emfuleni are the largest contributors to secondary cities aggregated revenue at R7.9 billion, R7.7 billion and R7.4 billion in 2022/23 respectively. Polokwane contributes the largest to capital revenue at R847.9 million in 2022/23 due to the implementation of the integrated public transport system funded by the PTNG.
68. Table 13 below depicts secondary cities operating and capital expenditure over the 2022/23 MTREF. The total expenditure budget of secondary cities increased from R72.8 billion in 2021/22 to R79.5 billion in 2022/23, R81.9 billion in 2023/24 and R86.3 billion in 2024/25 representing an increase of 3.1 per cent and 5.4 per cent in the two outer years of the MTREF. The secondary cities budgeted for operating surpluses over the 2022/23 MTREF.
69. Capital expenditure decreases from R8.5 billion in 2022/23 to R7.8 billion by 2024/25. This could be due to the deteriorating financial position of municipalities resulting in the inability to contribute own funding towards the capital program.

Table 13: Aggregated Operating and Capital expenditure budgets for secondary cities, 2020/21 - 2023/24

R thousand	2020/21			2021/22			2022/23			2023/24		
	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total
Top 19 Municipalities	7 184 403	61 037 730	68 222 133	7 529 432	65 246 141	72 775 572	7 197 791	68 344 566	75 542 357	6 980 770	72 285 418	79 266 188
Matjhabeng	153 247	2 958 364	3 111 611	157 833	3 499 848	3 657 681	172 429	3 268 094	3 440 523	175 911	3 690 287	3 866 198
Emfuleni	333 960	6 066 389	6 400 349	428 632	6 521 452	6 950 083	353 838	7 115 542	7 469 379	363 379	7 624 023	7 987 402
Mogale City	199 326	3 290 122	3 489 447	259 784	3 451 948	3 711 732	257 891	3 470 454	3 728 345	268 363	3 652 267	3 920 630
Msunduzi	580 892	5 516 477	6 097 369	576 302	6 118 414	6 694 716	471 702	6 651 007	7 122 710	445 823	7 077 824	7 523 647
Newcastle	24 322	2 397 474	2 421 796	68 831	2 488 931	2 557 761	145 450	2 575 004	2 720 453	133 442	2 751 059	2 884 502
uMhathuze	671 834	3 485 274	4 157 108	830 967	3 913 242	4 744 209	692 156	4 106 403	4 798 558	743 020	4 335 870	5 078 890
Polokwane	1 201 499	3 679 467	4 880 966	1 128 560	3 789 546	4 918 106	1 053 387	3 911 312	4 964 700	1 077 629	4 095 252	5 172 881
Govan Mbeki	325 861	2 376 700	2 702 561	264 380	2 492 629	2 757 009	302 088	2 638 726	2 940 814	342 900	2 752 079	3 094 979
Emalahleni (Mp)	245 771	4 504 262	4 750 032	183 780	4 088 203	4 271 983	169 440	4 264 294	4 433 733	175 828	4 455 376	4 631 203
Steve Tshwete	682 404	1 906 279	2 588 683	611 391	2 164 828	2 776 219	589 445	2 286 141	2 875 586	334 047	2 362 842	2 696 889
City of Mbombela	410 187	3 618 653	4 028 840	617 205	3 353 878	3 971 083	663 861	3 497 875	4 161 736	647 826	3 629 150	4 276 976
Sol Plaatje	154 456	2 193 028	2 347 484	179 266	2 344 984	2 524 250	113 125	2 524 262	2 637 387	115 786	2 699 808	2 815 594
Madibeng	281 482	2 462 474	2 743 957	310 285	2 635 090	2 945 375	338 000	2 737 516	3 075 516	349 294	2 845 690	3 194 984
Rustenburg	611 404	4 326 090	4 937 495	626 870	5 310 189	5 937 059	647 292	5 511 784	6 159 077	659 297	5 766 256	6 425 554
City Of Matlosana	162 800	3 382 374	3 545 174	167 630	3 692 555	3 860 186	175 428	3 900 130	4 075 558	194 403	4 150 830	4 345 233
J B Marks	164 261	2 091 965	2 256 226	213 117	2 191 276	2 404 393	215 284	2 332 884	2 548 168	170 205	2 478 166	2 648 370
Drakenstein	216 972	2 515 184	2 732 157	128 103	2 660 568	2 788 671	91 022	2 852 134	2 943 156	95 133	2 951 795	3 046 928
Stellenbosch	375 750	1 887 463	2 263 214	406 054	2 017 490	2 423 544	384 460	2 083 067	2 467 527	381 495	2 185 990	2 567 484
George	387 975	2 379 689	2 767 664	370 443	2 511 069	2 881 512	361 493	2 617 935	2 979 428	306 991	2 780 853	3 087 844

Source: National Treasury Local Government Database

70. Secondary cities that have allocated the least of their aggregated budget to their capital budgets in 2022/23 are Matjhabeng, Emfuleni, Newcastle, Govan Mbeki, Emalahleni (MP), Sol Plaatje, Rustenburg, City of Matlosana and Drakenstein. 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.
71. Steve Tshwete and George have the largest allocations at 22.4 per cent and 21.6 per cent in 2022/23 respectively.

Growth in Aggregated Operating and Capital Budgets compared to the 2021/22 Budgets

72. Table 14 below provides a comparison between the preliminary outcome for the 2021/22 financial year ended on 30 June 2022 as published in the Section 71 Quarter 4 publication which was released on 02 September 2022, the adopted budget for the 2022/23 financial year and the average growth in municipal budgets over the 2022/23 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2021/22

R thousands	2021/22			2022/23	2023/24	2024/25	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2021/22- 2022/23	2021/22- 2024/25
Operating Revenue¹								
Property rates	80 591 655	81 660 192	76 784 504	85 384 377	89 791 125	94 739 458	11,2%	7,3%
Service charges	223 711 704	225 338 792	213 550 937	243 455 686	262 278 118	282 381 265	14,0%	9,8%
Other own revenue	143 571 482	148 635 797	142 179 919	158 721 903	165 432 044	174 753 507	11,6%	7,1%
Total Revenue	447 874 842	455 634 781	432 515 360	487 561 967	517 501 287	551 874 230	12,7%	8,5%
Operating Expenditure								
Employee related costs	133 118 587	132 670 663	125 853 340	141 593 936	148 319 866	156 401 513	12,5%	7,5%
Debt impairment	34 962 928	35 956 978	21 980 806	38 056 654	40 013 369	42 625 683	73,1%	24,7%
Bulk purchases	107 659 149	108 402 725	101 023 398	117 105 308	127 174 135	137 831 827	15,9%	10,9%
Other expenditure	176 533 188	185 950 297	163 931 223	190 957 411	198 330 317	207 635 745	16,5%	8,2%
Total Expenditure	452 273 851	462 980 663	412 788 767	487 713 309	513 837 687	544 494 768	18,2%	9,7%
Operating Surplus/(Deficit)	(4 399 009)	(7 345 882)	19 726 594	(151 342)	3 663 601	7 379 462		
Capital Funding								
External loans	11 927 324	7 043 196	5 905 562	10 348 260	12 993 016	13 875 036	75,2%	32,9%
Internal contributions	15 788 032	18 027 723	9 291 410	17 089 785	14 544 502	13 949 564	83,9%	14,5%
Transfers and subsidies	41 143 185	41 874 750	31 241 703	42 170 085	40 575 170	42 046 624	35,0%	10,4%
Other	-	-	-	-	-	-	-	-
Total funding	68 858 541	66 945 668	46 438 676	69 608 130	68 112 688	69 871 224	49,9%	14,6%
Capital Expenditure								
Water	17 002 855	17 439 930	11 978 117	15 817 335	17 419 752	17 317 350	32,1%	13,1%
Electricity	6 923 677	7 060 343	4 871 919	10 103 566	8 194 248	8 148 566	107,4%	18,7%
Housing	3 049 296	3 134 116	1 817 170	2 143 853	2 046 692	2 106 395	18,0%	5,0%
Roads, pavements, bridges and storm water	16 025 698	14 978 777	12 996 718	14 978 648	14 590 142	16 403 332	15,2%	8,1%
Other	26 014 648	24 745 077	16 001 218	26 683 011	25 980 576	25 999 512	66,8%	17,6%
Total expenditure	69 016 174	67 358 243	47 665 143	69 726 413	68 231 411	69 975 153	46,3%	13,7%

¹Excluding capital transfers and contributions

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

73. Total operating expenditure increased by 18.2 per cent in 2022/23 compared to the preliminary outcome for 2021/22 while operating revenue increased by 12.7 per cent. The revenue increase rate is lower than the expenditure, which is the case over the MTREF. This could be indicative that municipalities may realise operating deficits at the end of the financial year. This approach is not sustainable as municipalities continue to spend more than their revenue generating capability resulting in increasing operating deficits and financial distress.
74. Employee related costs increased by 12.5 per cent and bulk purchases by 15.9 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.
75. Debt impairment is expected to increase by 73.1 per cent in 2022/23 and an average of 24.7 per cent over the last two years of the MTREF. This is an indication that municipalities are expecting lower revenue collection levels in 2022/23 financial year. It is observed from the previous financial years that municipalities tend to understate the provision for debt impairment when budgeting and reporting during the year. It is only during the audit that the correct figures are reported.
76. Capital budgets increased by 43.6 per cent from 2021/22 to 2022/23 and an average of 13.7 per cent over the outer 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 increases in the capital funding reflects the reporting challenges as a result of the mSCOA classification framework where the funding exceeds expenditure.

Changes to Baseline

77. Table 15 below highlight the extent to which municipalities have changed the budget allocations in the 2022/23 MTREF compared to the two outer years of the 2021/22 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 2022 MTREF

	2022/23			2023/24			2024/25	% change to baseline		% share of total change to baseline	
	2021/22 Medium term estimates	2022/23 Draft Medium term estimates	Changes to baseline	2022/23 Medium term estimates	2022/23 Draft Medium term estimates	Changes to baseline	2022/23 Draft Medium term estimates	2022/23	2023/24	2022/23	2023/24
R thousands											
Operating Revenue¹											
Property rates	84 560 207	85 384 377	824 170	89 278 912	89 791 125	512 213	94 739 458	1,0%	0,6%	8,7%	6,3%
Service charges	241 277 129	243 455 686	2 178 558	258 958 260	262 278 118	3 319 858	282 381 265	0,9%	1,3%	23,0%	40,6%
Other own revenue	149 297 786	158 721 903	9 424 118	149 936 977	165 432 044	15 495 067	174 753 507	6,3%	10,3%	99,4%	189,5%
Total Revenue	475 135 121	487 561 967	12 426 845	498 174 150	517 501 287	19 327 137	551 874 230	2,6%	3,9%	131,0%	236,3%
Operating Expenditure											
Employee related costs	140 047 921	141 593 936	1 546 015	145 716 287	148 319 866	2 603 579	156 401 513	1,1%	1,8%	10,5%	18,2%
Debt impairment	36 197 247	38 056 654	1 859 407	37 060 778	40 013 369	2 952 591	42 625 683	5,1%	8,0%	12,6%	20,6%
Bulk purchases	117 145 945	117 105 308	(40 637)	128 029 883	127 174 135	(855 748)	137 831 827	(0,0%)	(0,7%)	(0,3%)	(6,0%)
Other expenditure	184 503 215	190 957 411	6 454 196	190 501 014	198 330 317	7 829 302	207 635 745	3,5%	4,1%	43,7%	54,6%
Total Expenditure	477 894 328	487 713 309	9 818 980	501 307 962	513 837 687	12 529 725	544 494 768	2,1%	2,5%	66,4%	87,3%
Operating Surplus/(Deficit)	(2 759 207)	(151 342)	2 607 865	(3 133 812)	3 663 601	6 797 412	7 379 462				
Capital Funding											
External loans	13 752 352	10 348 260	(3 404 092)	15 376 938	12 993 016	(2 383 922)	13 875 036	(24,8%)	(15,5%)	(33,0%)	(25,1%)
Internal contributions	13 559 594	17 089 785	3 530 191	12 984 115	14 544 502	1 560 386	13 949 564	26,0%	12,0%	34,2%	16,4%
Transfers and subsidies	42 525 505	42 170 085	(355 420)	42 760 779	40 575 170	(2 185 609)	42 046 624	(0,8%)	(5,1%)	(3,4%)	(23,0%)
Other	-	-	-	-	-	-	-	-	-	-	-
Total funding	69 837 451	69 608 130	(229 321)	71 121 832	68 112 688	(3 009 144)	69 871 224	(0,3%)	(4,2%)	(2,2%)	(31,7%)
Capital Expenditure											
Water	17 759 402	15 817 335	(1 942 067)	17 917 810	17 419 752	(498 058)	17 317 350	(10,9%)	(2,8%)	(23,0%)	(7,5%)
Electricity	6 895 940	10 103 566	3 207 627	7 313 021	8 194 248	881 228	8 148 566	46,5%	12,1%	37,9%	13,3%
Housing	2 791 930	2 143 853	(648 077)	3 103 069	2 046 692	(1 056 378)	2 106 395	(23,2%)	(34,0%)	(7,7%)	(15,9%)
Roads, pavements, bridges and storm water	17 027 681	14 978 648	(2 049 033)	16 918 851	14 590 142	(2 328 709)	16 403 332	(12,0%)	(13,8%)	(24,2%)	(35,1%)
Other	25 522 901	26 683 011	1 160 110	26 157 090	25 980 576	(176 513)	25 999 512	4,5%	(0,7%)	13,7%	(2,7%)
Total expenditure	69 997 853	69 726 413	(271 440)	71 409 841	68 231 411	(3 178 430)	69 975 153	(0,4%)	(4,5%)	(3,2%)	(47,9%)

¹Excluding capital transfers and contributions

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

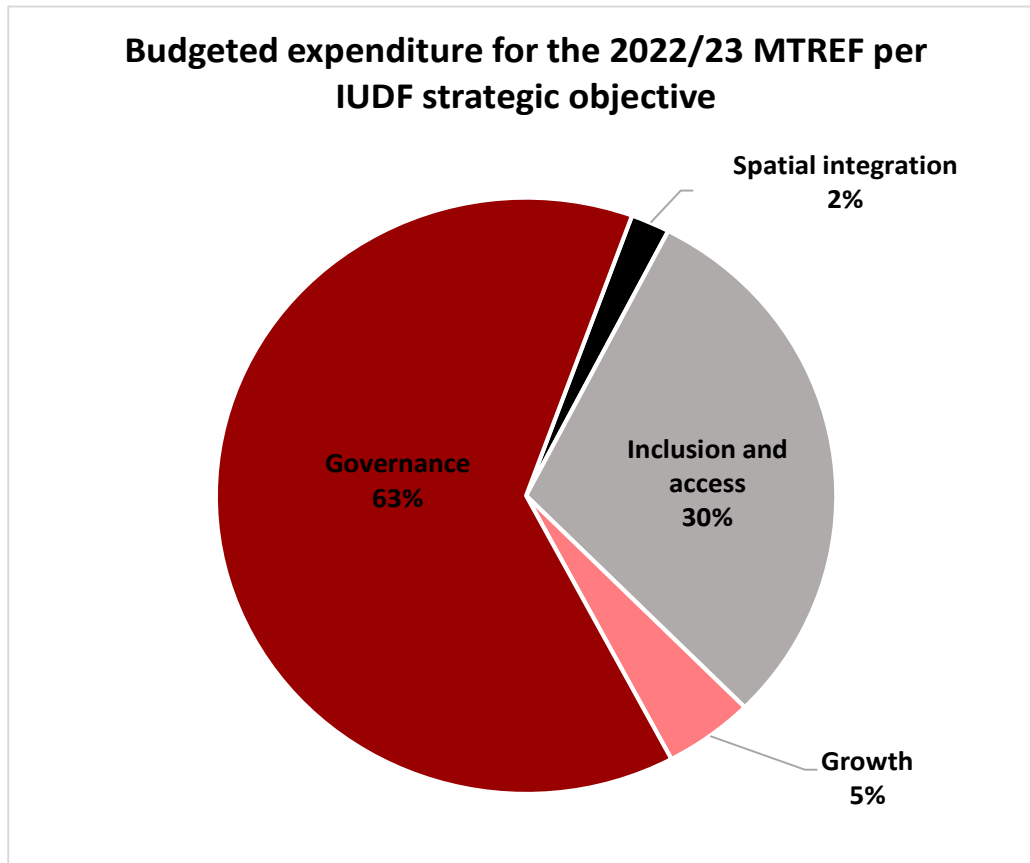
78. Operating revenue for 2022/23 increased by R12.4 billion (2.6 per cent) and operating expenditure by R9.8 billion (2.1 per cent) compared to the projection in the 2021/22 MTREF while the increase for 2023/24 is R19.3 billion (3.9 per cent) for operating revenue and R12.5 billion (2.5 per cent) for 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.
79. Bulk purchases slightly decreased compared to the 2020/21 MTREF. This expenditure item is mainly informed by the increases in bulk electricity tariffs as there is no growth in consumption.
80. 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.
81. Capital expenditure decreased by R271.4 million (0.4 per cent) and R3.2 billion (4.5 per cent) in 2022/23 and 2023/24 respectively compared to the 2021/22 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 2022/23 is multi-year as the deviation is lower than 10 per cent.

Analysis in the mSCOA framework

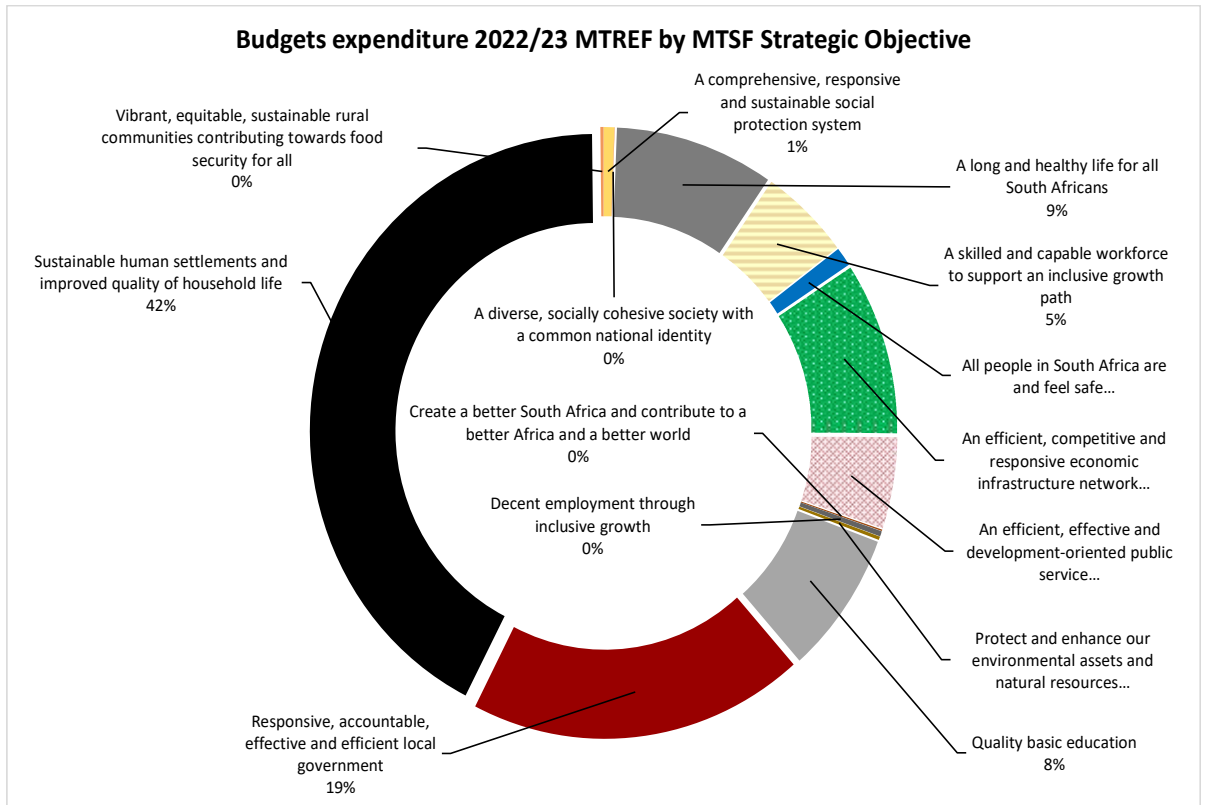
82. The mSCOA classification framework requires municipalities to unpack their Integrated Development Plans (IDP) into operational and capital projects and to link those projects to the IUDF (Integrated Urban Development Framework) and MTSF (Medium Term Strategic Objectives) as well as their own strategic objectives. In this way a link between measurable outputs and outcome indicators can be established.
83. 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.



84. 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.
85. Using the different dimensions available in the *mSCOA* framework, the municipal 2022/23 MTREF budgets were analysed to determine how they align to the MTSF and the IUDF. The figure below indicates spending per IUDF strategic objectives and reflects that 63 per cent of the municipal budgets for 2022/23 will be spend on governance while 30 per cent will be spend on inclusion and access.

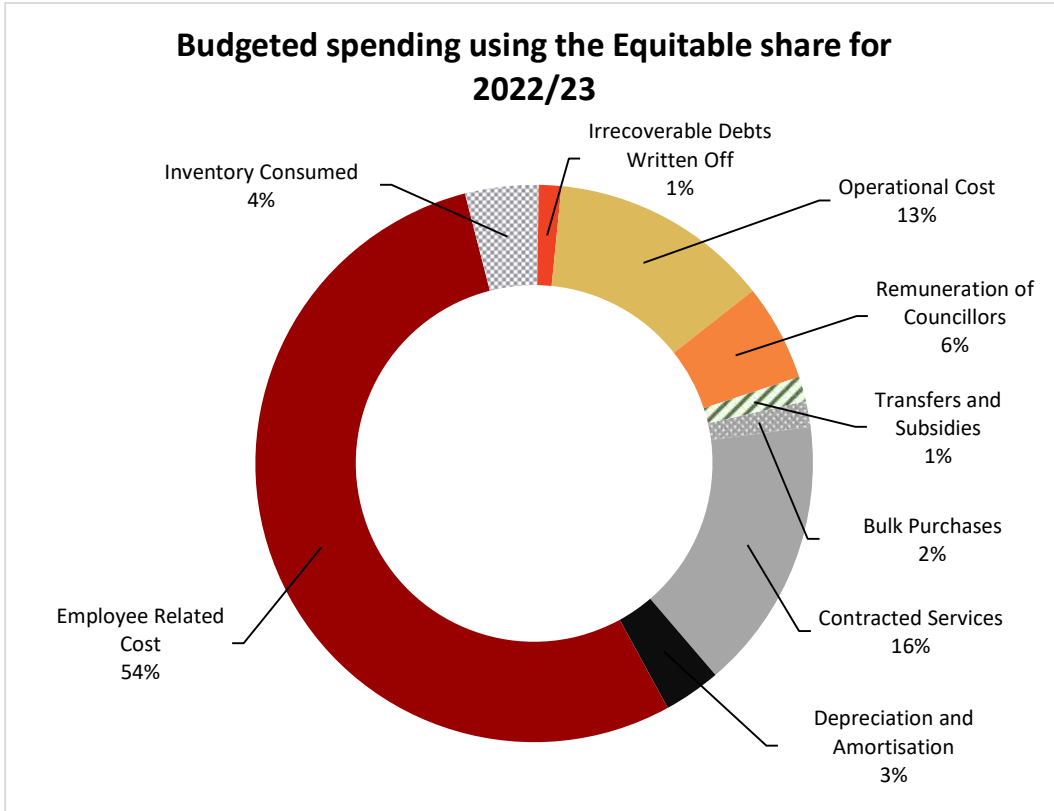


86. The figure below indicates spending per MTSF strategic objectives and reflects that 42 per cent of the municipal budgets for 2022/23 will be spend on sustainable human settlements and improved quality of household life while 19 per cent will be spend on responsible, accountable, effective and efficient local government.



Utilization of the Local Government Equitable share

- 87. The spending of conditional grants is regularly reported in the quarterly Section 71 publications, the *m*SCOA 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 *m*SCOA 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 54 per cent of the equitable share allocation for 2022/23 will be spend on employee related costs.



89. More detail is available on the MFMA website.

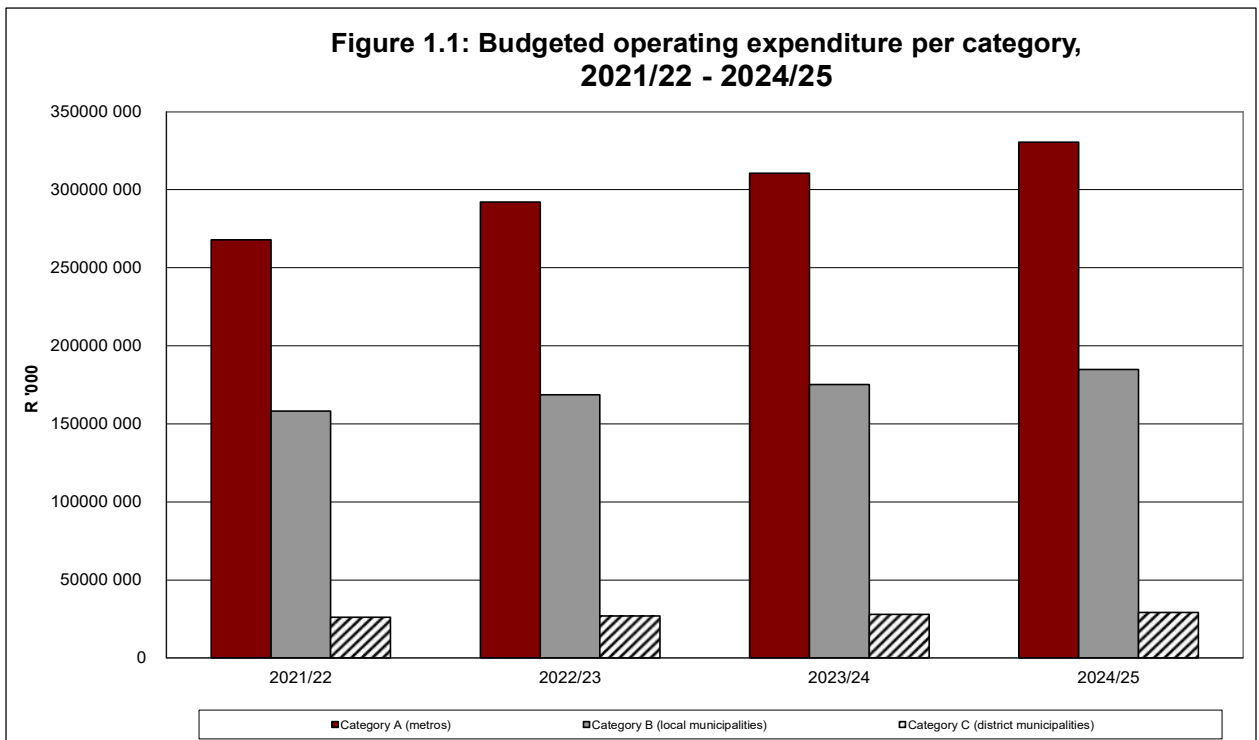
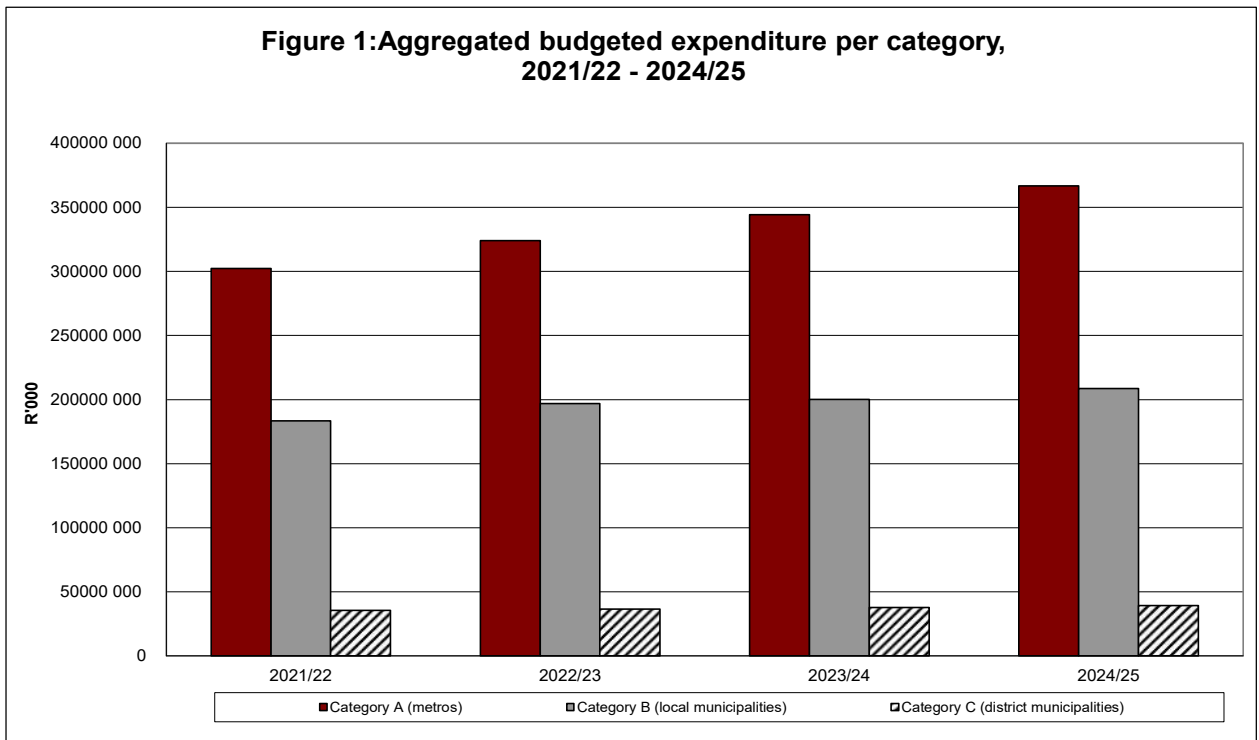


Figure 1.2: Budgeted capital expenditure per category, 2021/22 - 2024/25

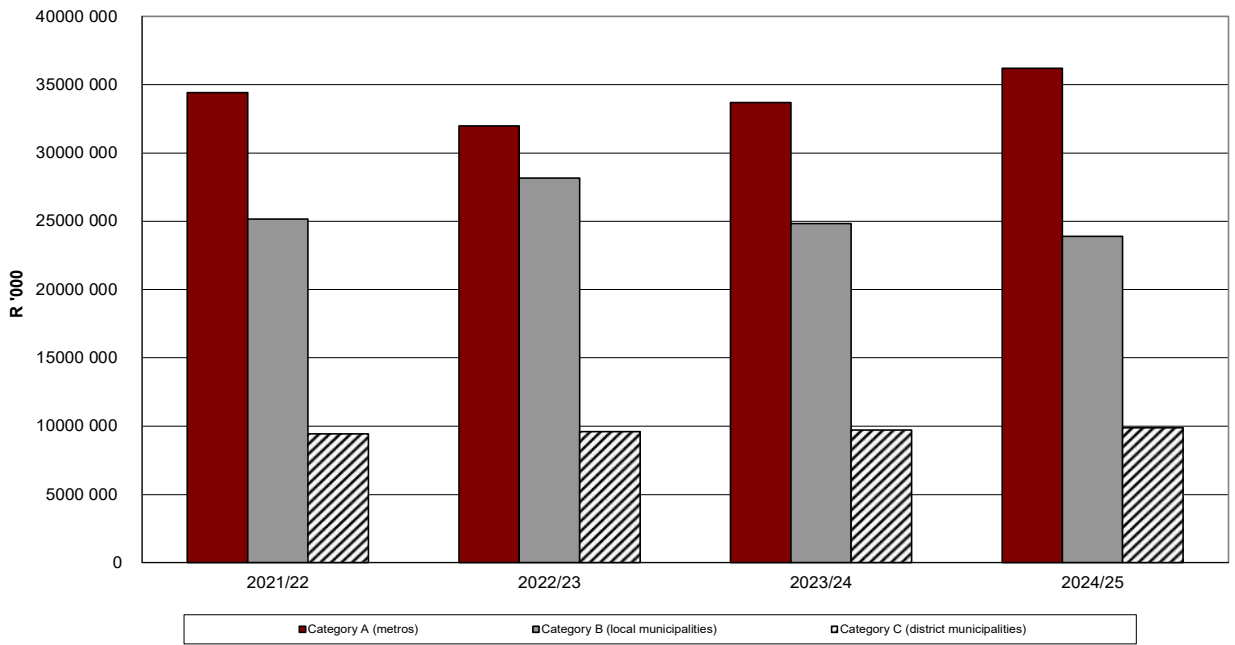


Figure 2: Total operating and capital expenditure per province, 2021/22 - 2024/25

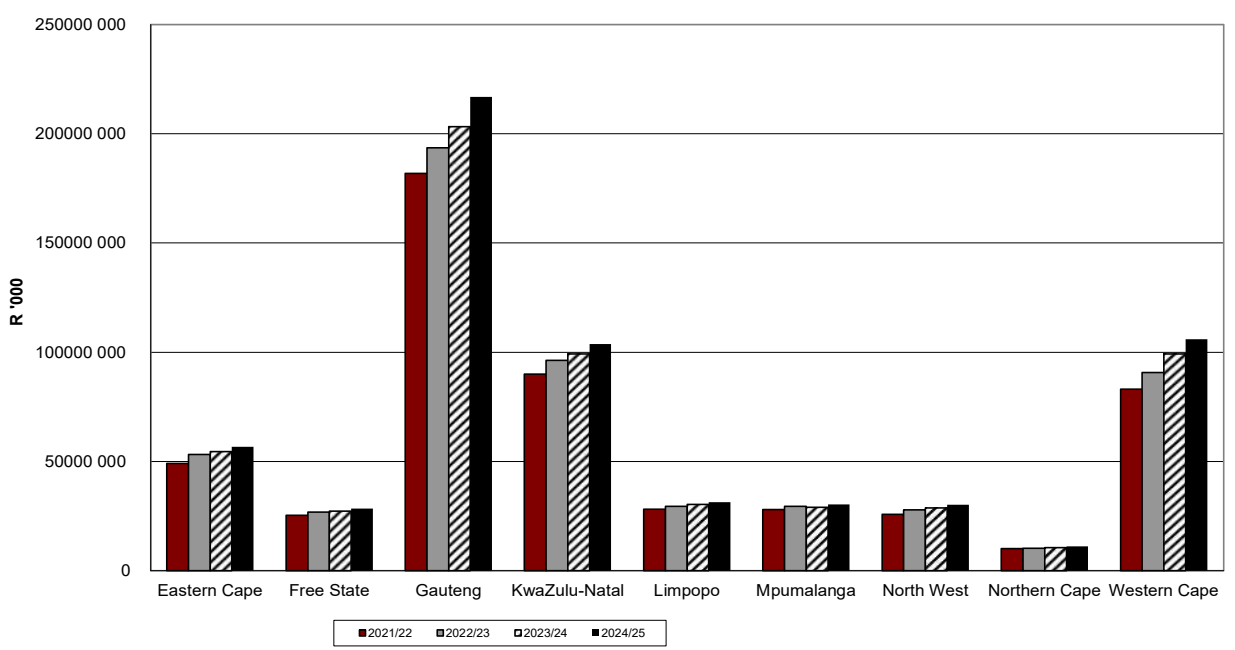


Figure 2.1: Budgeted capital expenditure per province, 2021/22 - 2024/25

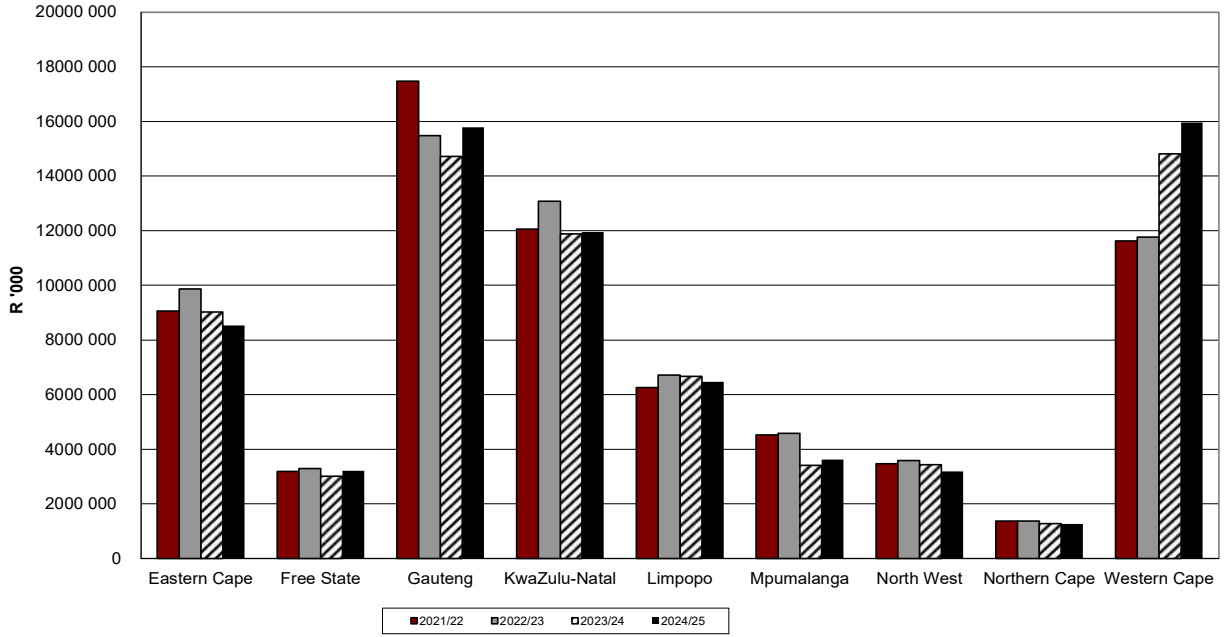


Figure 2.2: Budgeted operating expenditure per province, 2021/22 - 2024/25

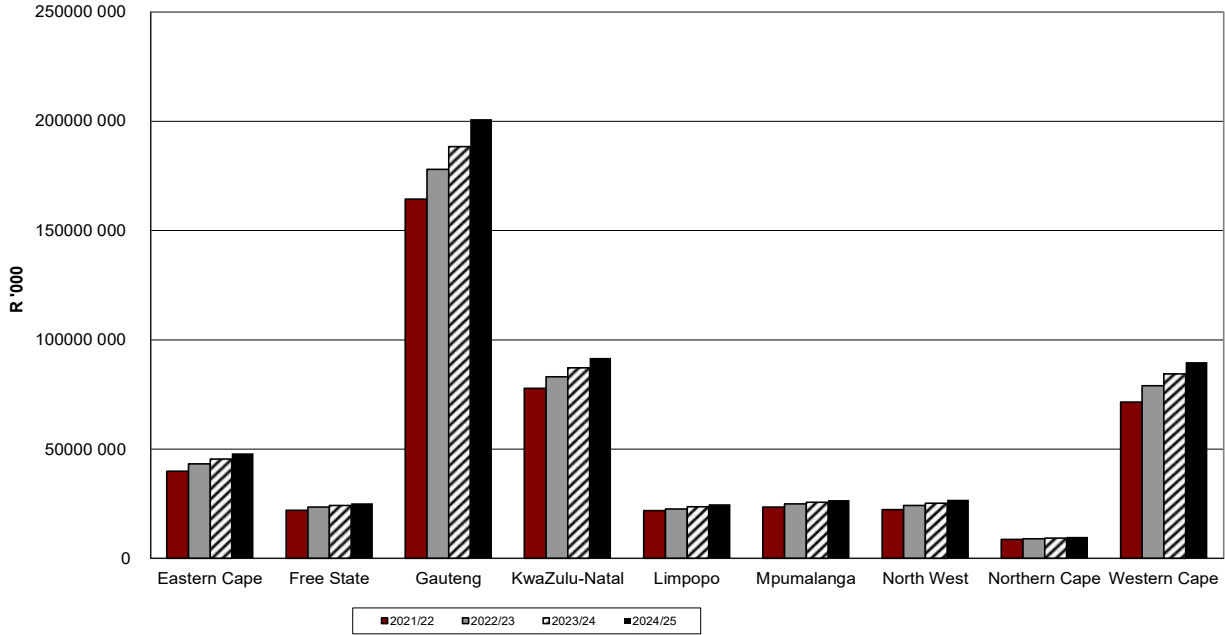


Figure 3: Aggregated budgeted expenditure for metros, 2021/22 - 2024/25

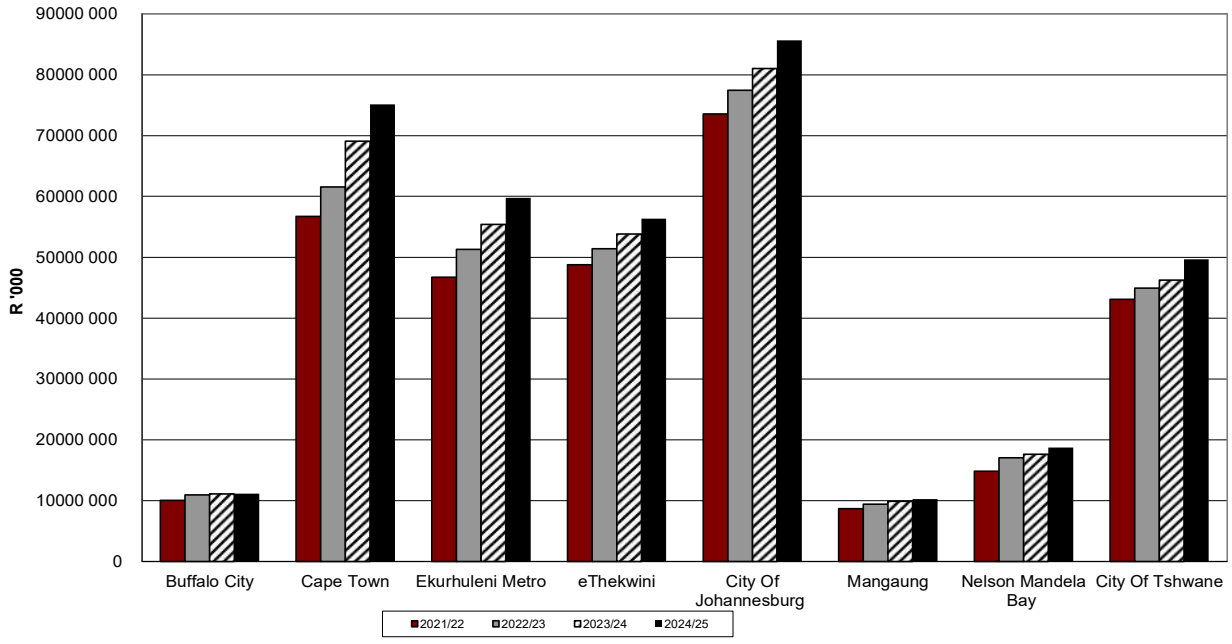


Figure 3.1: Budgeted capital expenditure per metro, 2021/22 - 2024/25

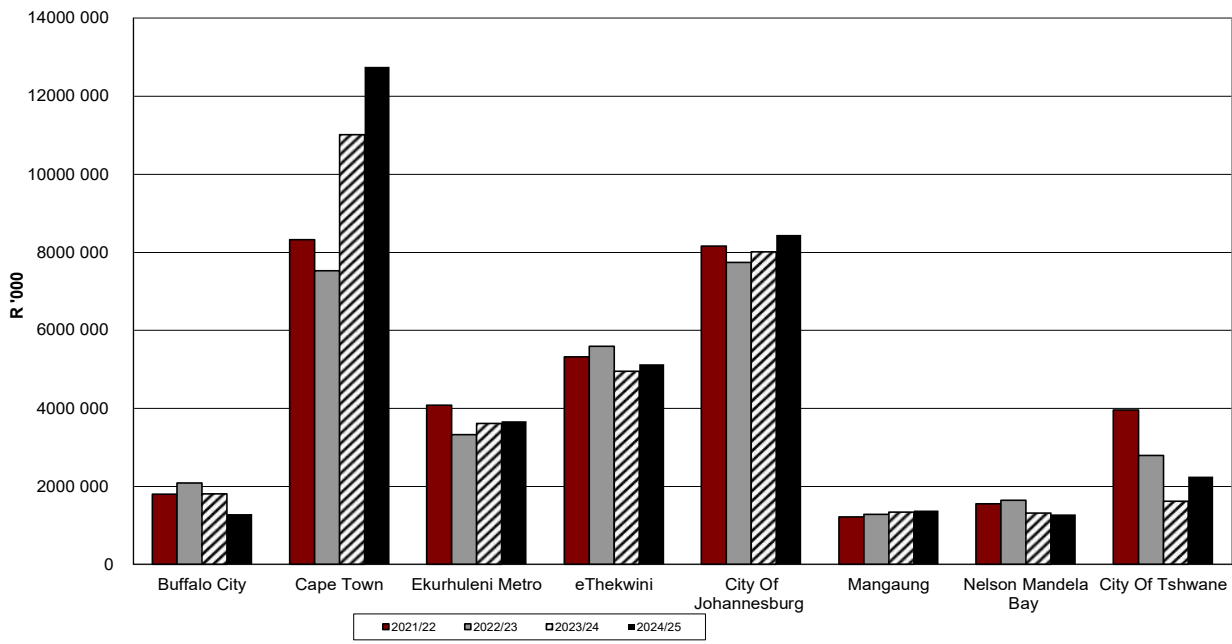
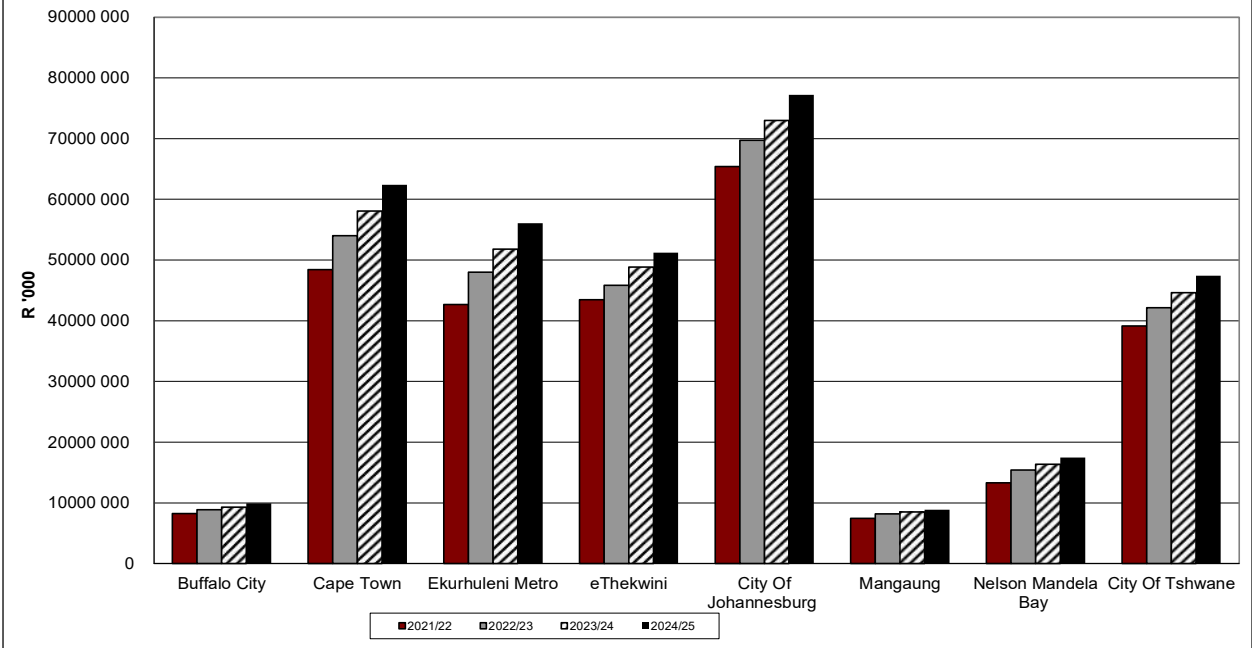
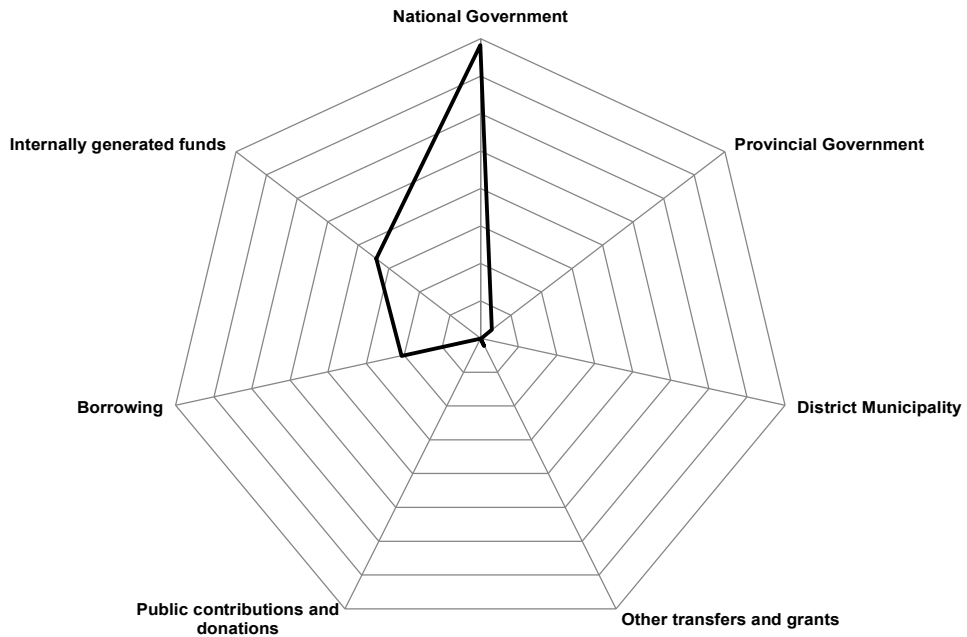


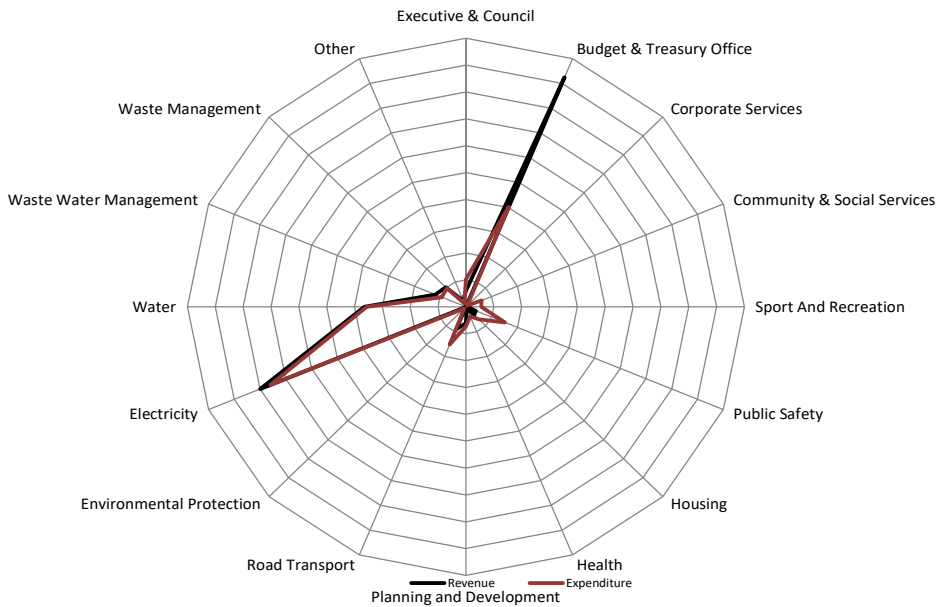
Figure 3.2: Budgeted operating expenditure per metro, 2021/22 - 2024/25



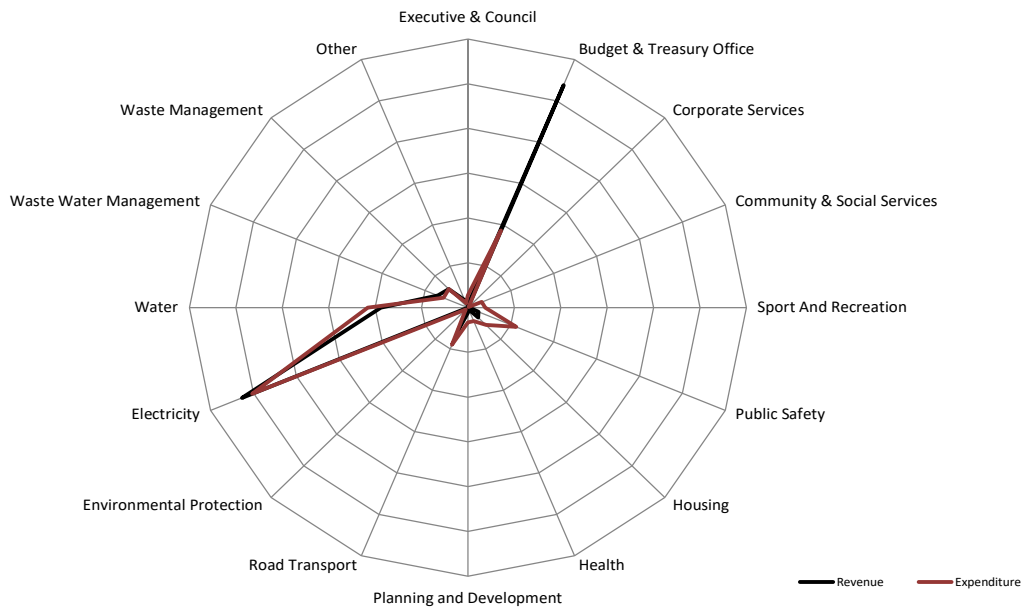
Capital funding contributions, 2022/23



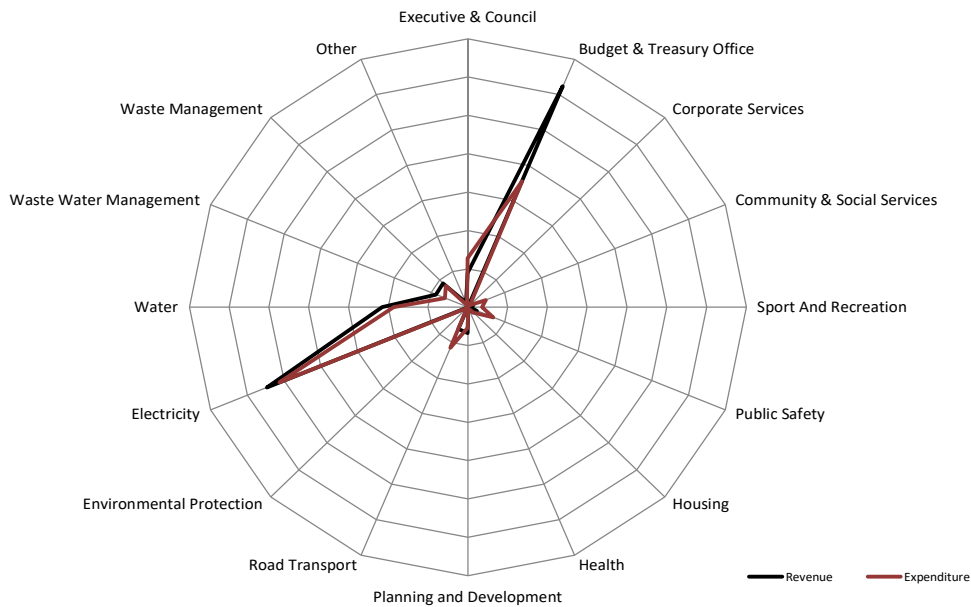
Aggregated operating revenue and expenditure by standard classification, 2022/23



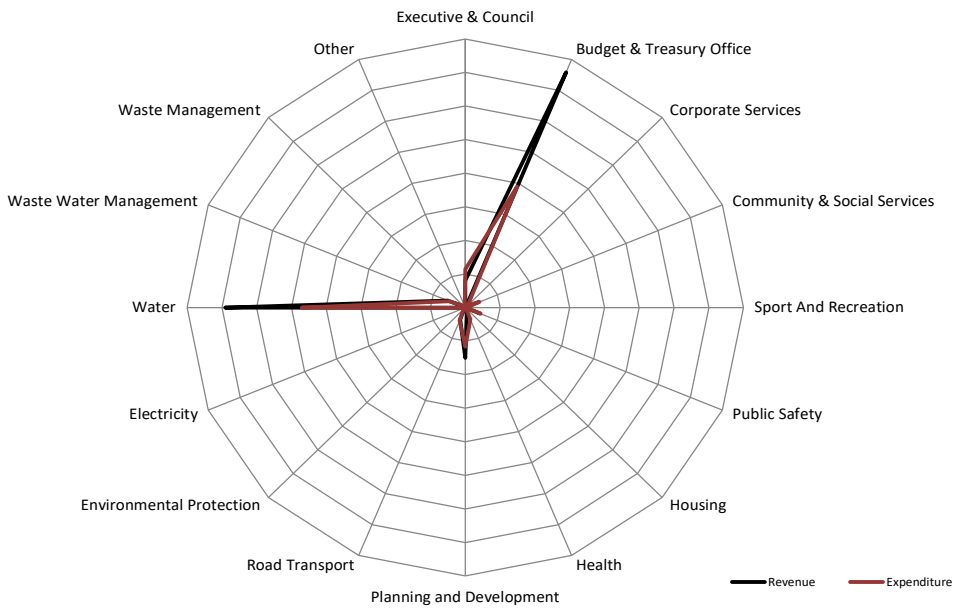
Category A operating revenue and expenditure by standard classification, 2022/23



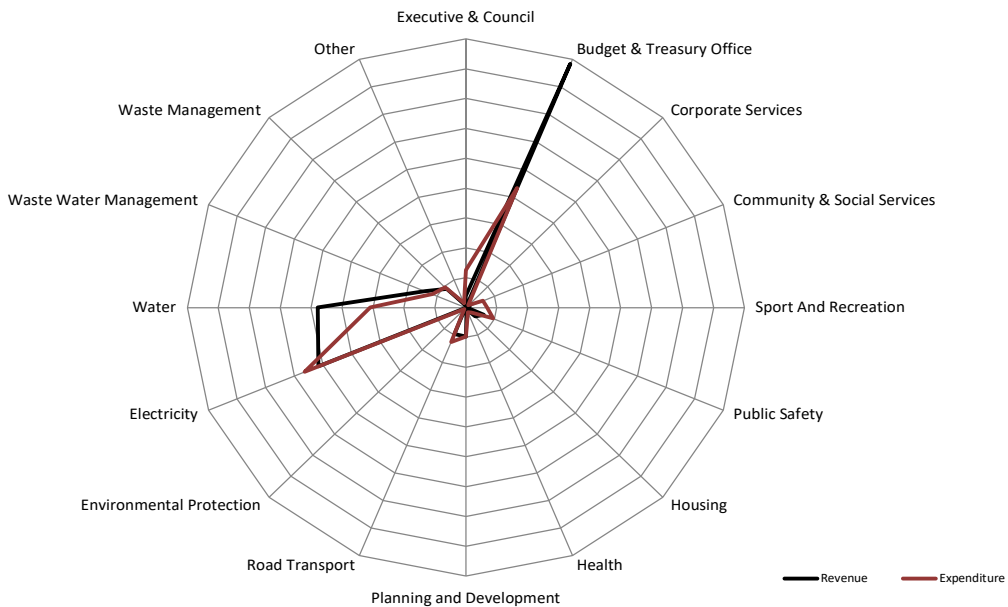
Category B operating revenue and expenditure by standard classification, 2022/23



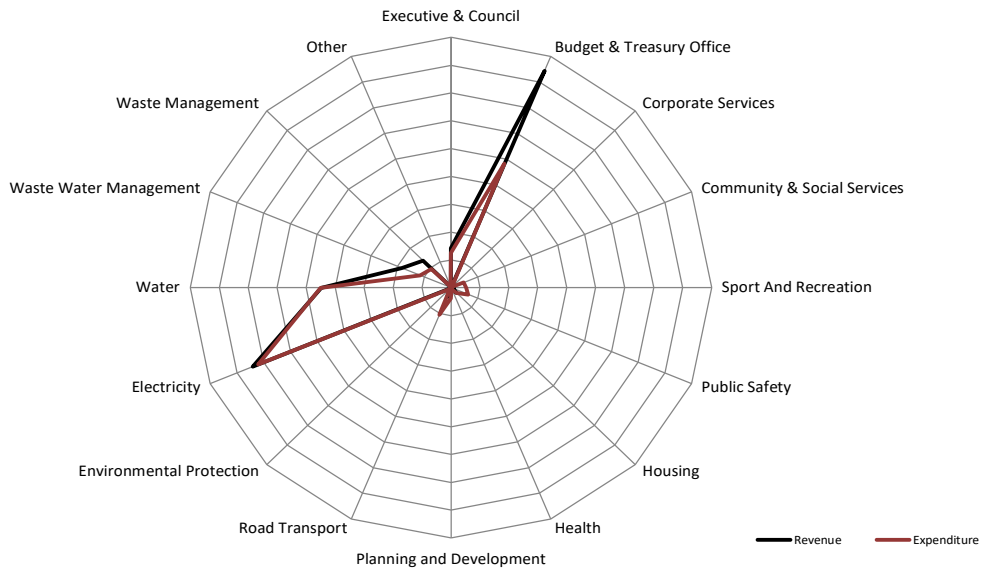
Category C operating revenue and expenditure by standard classification, 2022/23



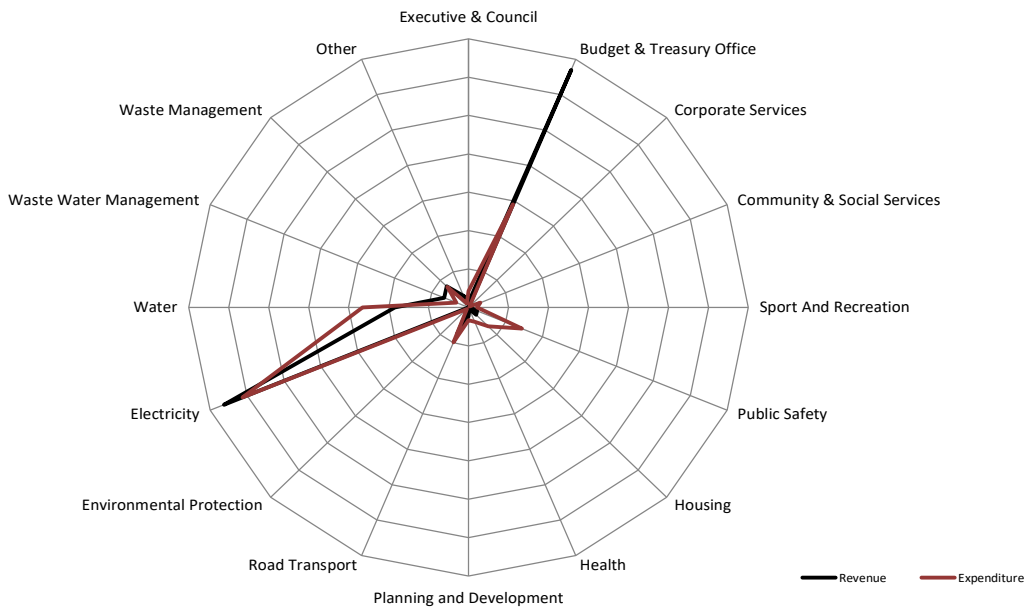
Eastern Cape operating revenue and expenditure by standard classification, 2022/23



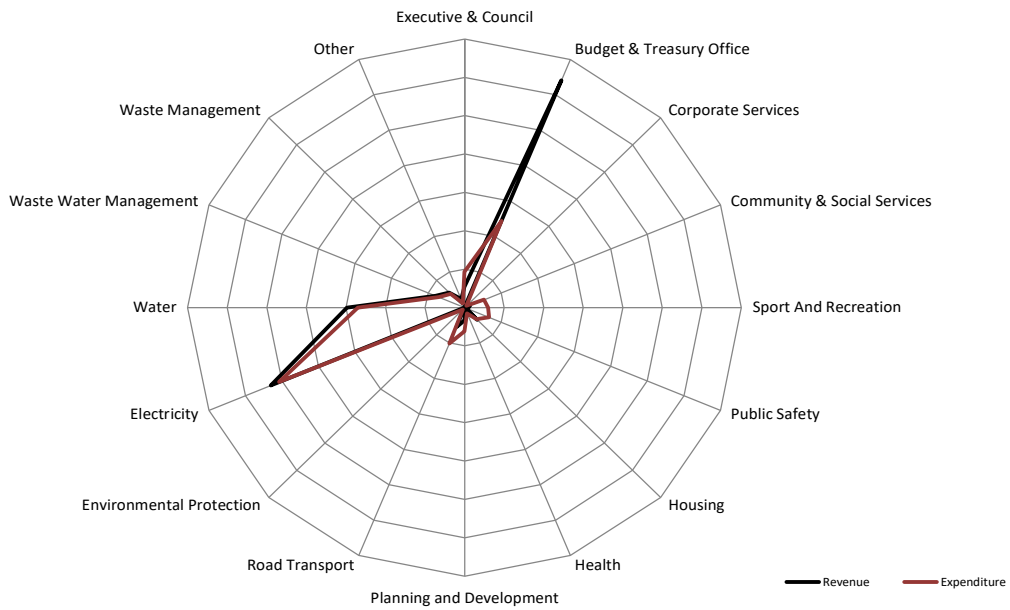
Free State operating revenue and expenditure by standard classification, 2022/23



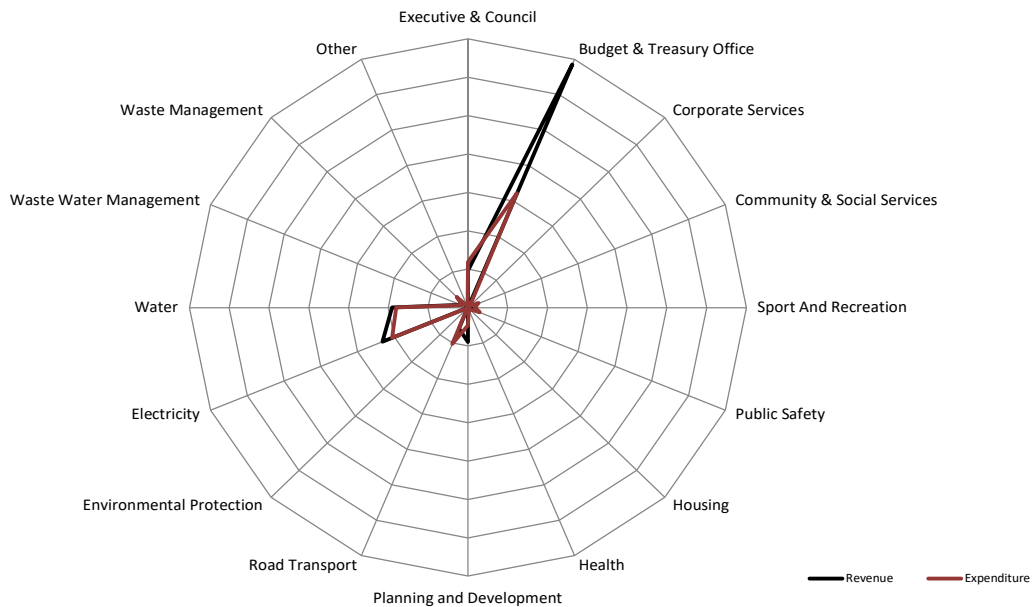
Gauteng operating revenue and expenditure by standard classification, 2022/23



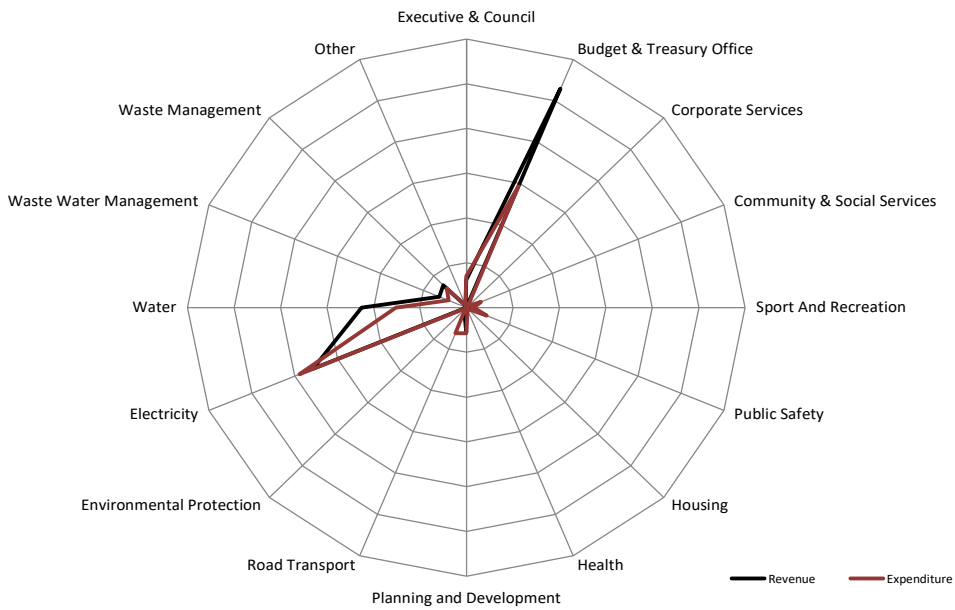
KwaZulu-Natal operating revenue and expenditure by standard classification, 2022/23



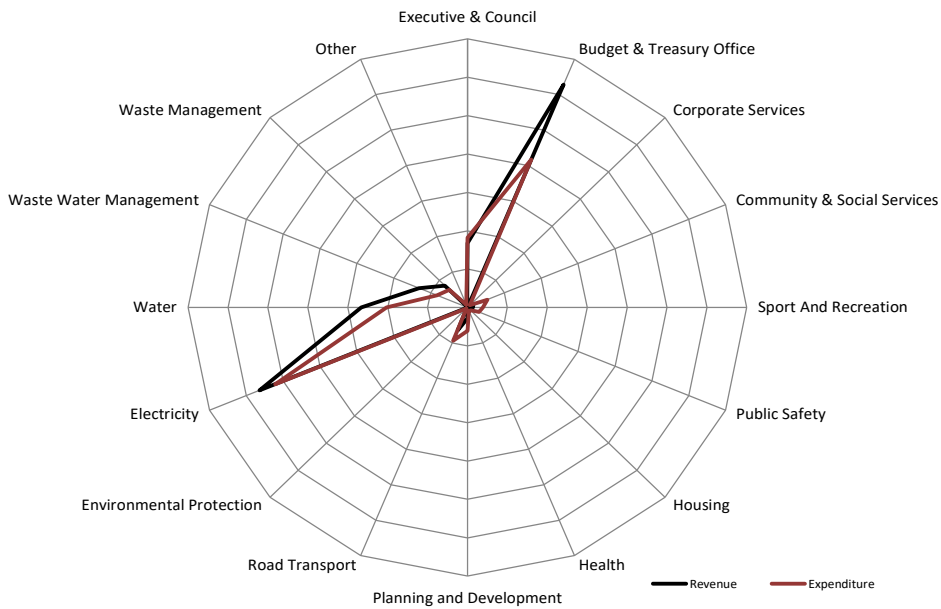
Limpopo operating revenue and expenditure by standard classification, 2022/23



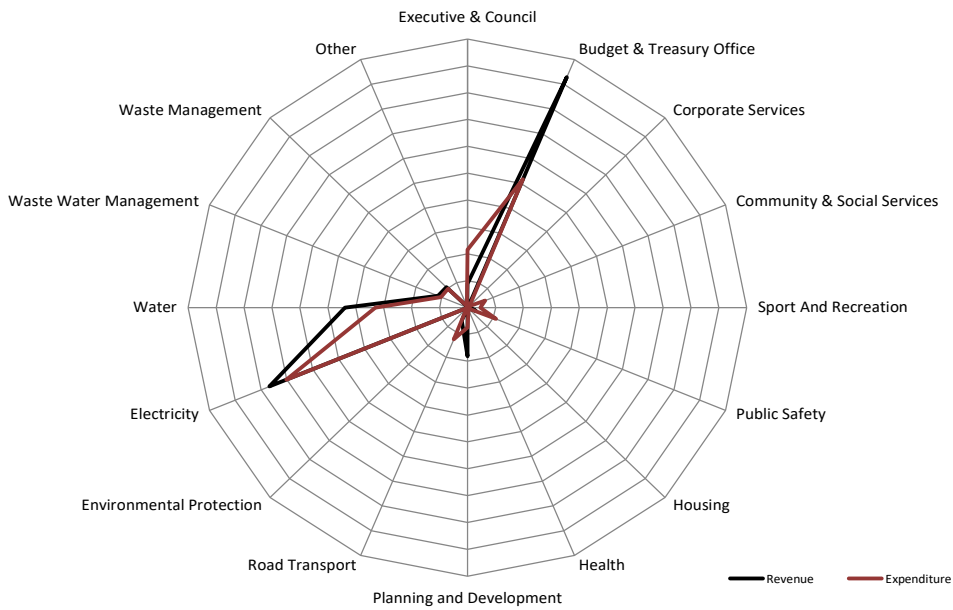
Mpumalanga operating revenue and expenditure by standard classification, 2022/23



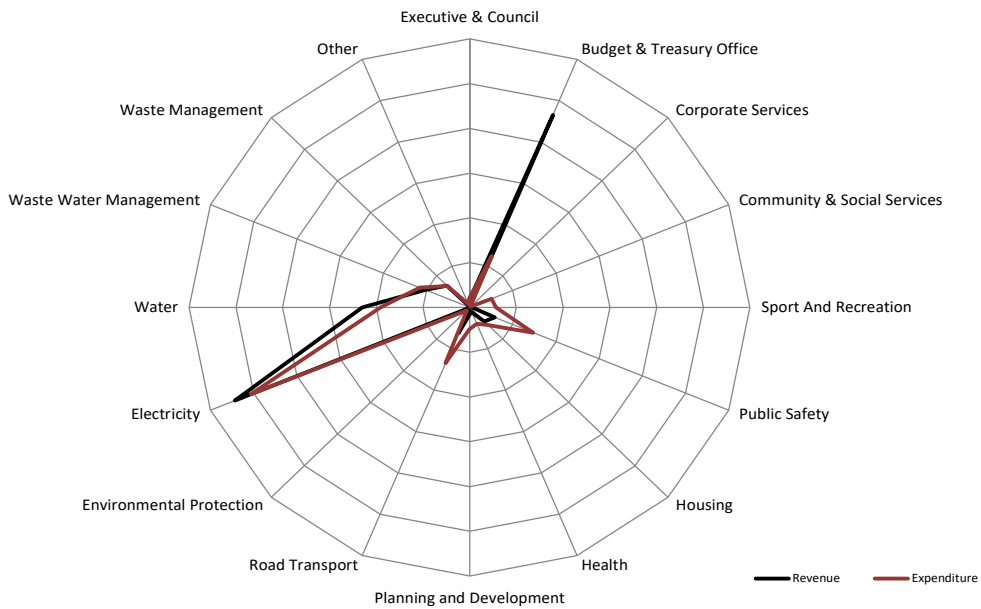
Northern Cape operating revenue and expenditure by standard classification, 2022/23



North West operating revenue and expenditure by standard classification, 2022/23



Western Cape operating revenue and expenditure by standard classification, 2022/23



Planned capital expenditure, 2022/23

