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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Enquiries: Communications Unit • Email: media@treasury.gov.za • Tel: (012) 315 5046 • 40 Church Square, PRETORIA, 0002 • www.treasury.gov.za

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LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2023/24 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 2023/24 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 2023/24 is R582.3 billion, which is expected to increase to R624.1 billion in 2024/25 and R670.3 billion in 2025/26;
- Total municipal expenditure in 2023/24 is estimated to be R612 billion, increasing to R646.9 billion in 2024/25 and R692 billion in 2025/26. Total expenditure for 2023/24 is 9.8 per cent higher than the adopted budget for 2022/23 financial year;
- Municipalities will realise operating deficits on the operating budgets in the 2023/24 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 2023/24 MTREF as operating surpluses will be realised;
- A net surplus of R2.3 billion is projected in the 2023/24 financial year after considering revenue from external loans and internally generated funds. This is an improvement compared to a deficit of R8.3 billion in the 2022/23 adjusted budget and will result in a net surplus of R8.8 billion in 2024/25 and R12.6 billion in 2025/26.
- The main cost drivers are employee related costs and materials and bulk purchases representing 27.7 per cent and 33 per cent of the operating expenditure respectively.



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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 9 per cent to R76 billion in 2023/24 compared to the original budget for the 2022/23 financial year. Capital expenditure represented 12.5 per cent of the total expenditure in 2022/23 and is projected to slightly decrease to 12.4 per cent in 2023/24 and further decreases to 11.5 per cent in 2025/26;
- Trading services represent 51.3 per cent of the total capital expenditure of R76 billion in 2023/24; increases to 54.6 per cent in 2024/25 and slightly decreases to 53.5 per cent in 2025/26;
- The 2023/24 capital expenditure budget reflects a R46.7 billion investment in new infrastructure which is 61.4 per cent of the total aggregated capital budget. Investment in the renewal and upgrading of existing assets is much lower at R12.3 billion (16.2 per cent) and R17 billion (22.3 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 R34.4 billion to repairs and maintenance of assets in 2023/24. This will increase to R35.6 billion in 2024/25 and to R37.8 billion in 2025/26.

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 facilitates 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,



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municipalities had to submit their 2023/24 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 2023/24 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: 29 November 2023



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NOTE TO EDITORS:

- Section 24(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires the Accounting Officer of a municipality to submit the municipality's adopted annual budget to National Treasury and the relevant provincial treasury once approved by the Council.
- The publication of annual municipal budgets is a continuation of efforts by the National Treasury to disseminate as much local government financial information as possible in the public domain. The information and financial data that is the subject of this publication contain national aggregated municipal budget amounts for the 2023/24, 2024/25 and 2025/26 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 2023. 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 it 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 2023/24 MTREF publication covers 257 municipalities.



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ANNEXURE A

The full list of information published:

- Aggregated/Consolidated municipal 2023/24 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 2023/24;
 - Capital budget 2023/24;
 - Operating budget 2024/25;
 - Capital budget 2024/25;
 - Operating budget 2025/26; and
 - Capital budget 2025/26.
- *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):



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- 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



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- Information per province.
- *mSCOA framework assorted results.*



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ANNEXURE B

HIGH LEVEL ANALYSIS OF THE 2023/24 MTREF:

1. The analysis below is restricted to the aggregated budgets by category of the 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 2023/24 budget and MTREF is also published on the National Treasury website.
2. Table 1 below reflects the aggregated operating and capital budget for the 2023/24 MTREF. Total revenue is projected to increase from R537.6 billion in the adjusted budget of the 2022/23 financial year to R582.3 billion in 2023/24 and thereafter increases to R670.3 billion by 2025/26. On the contrary, total expenditure is projected to increase from R571.3 billion in the adjusted budget of the 2022/23 financial year to R616.2 billion in 2023/24, thereafter increases to R695.5 billion by 2025/26.
3. It should be noted that the total revenue excludes external loans (borrowing) and internally generated funds used to fund the capital budget. Therefore, the total expenditure is higher than revenue and results in a deficit. However, these funding sources are considered in determining the net surplus/ (deficit).

Aggregated operating and capital budget



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Table 1: Aggregated Operating and Capital budgets, 2022/23 - 2025/26

Description	Original Budget	Adjusted Budget	2023/24 Medium Term Revenue & Expenditure Framework		
	2022/23	2022/23	2023/24	2024/25	2025/26
R thousands					
REVENUE:					
Total Revenue (excluding capital transfers and contributions)	535 991 007	491 404 568	535 991 007	577 048 096	621 766 868
Capital Revenue					
Transfers recognised - capital	42 209 347	46 231 113	46 297 699	47 046 449	48 562 041
Public contributions & donations	-	-	-	-	-
Total Capital Revenue	42 209 347	46 231 113	46 297 699	47 046 449	48 562 041
Total Revenue	578 200 353	537 635 681	582 288 705	624 094 545	670 328 909
EXPENDITURE:					
Total Operating Expenditure ¹	535 942 511	499 423 119	540 188 400	575 056 911	616 204 269
Capital expenditure	69 766 458	71 886 737	76 009 039	75 469 393	79 252 713
Total Expenditure	605 708 969	571 309 856	616 197 440	650 526 304	695 456 982
Surplus / (deficit)	(27 508 615)	(33 674 175)	(33 908 734)	(26 431 759)	(25 128 073)
FINANCING:					
External loans / borrowing	10 348 260	8 817 250	13 127 198	14 544 757	17 159 042
Internally generated funds ²	17 090 568	16 565 780	23 071 143	20 680 152	20 544 324
Total financing	27 438 828	25 383 029	36 198 341	35 224 909	37 703 367
Net surplus / (deficit)	(69 787)	(8 291 145)	2 289 606	8 793 150	12 575 293

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

- Although external loans (borrowings) and internally generated funds are a funding source for the capital budget, the inclusion thereof would artificially inflate total revenue. 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).
- Municipalities budgeted to fund infrastructure investment through external loans (borrowing) of R44.8 billion and internally generated funding of R64.3 billion over the 2023/24 MTREF. It is noted that the use of borrowing as a funding source increased in the 2023/24 financial year compared to the adopted budget of 2022/23. It appears that borrowing allocations in the adopted budgets are unrealistic given the reduction during the adjustments budget.
- It is notable, that in aggregate municipalities will realise operating deficits on the operating budgets in the 2023/24 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 2023/24 MTREF as operating surpluses will be realised. A



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net surplus of R2.3 billion is projected in the 2023/24 financial year after considering revenue from external loans and internally generated funds. This is an improvement compared to a deficit of R8.3 billion in the 2022/23 adjusted budget and will result in a net surplus of R8.8 billion in 2024/25 and R12.6 billion in 2025/26.

7. Municipalities are reducing their contribution from internally generated funds towards the capital budget while increasing external loans over the MTREF. However, it is noted that the operating surpluses are projected to increase over the MTREF. It is observed from the previous financial years that municipalities do not realise the surpluses that they budget for as some tend to overstate the revenue. The decision to fund infrastructure from borrowing will assist municipalities to be financially sustainable given the pressures on the operating budgets.
8. 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.
9. 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 during the municipal financial year and are reported on in the quarterly Section 71 publications.
10. Table 2 below reflects the summary of the operating budget by a major source of revenue and the main cost drivers over the 2023/24 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 into collecting billed revenue and ensuring the implementation of revenue management measures such as issuing accurate bills and implementing credit control where required.
11. Property rates and service charges represents 67.5 per cent (R1.2 trillion) of the projected operating revenue over the 2023/24 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.



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Table 2: Consolidated budget summary for all municipalities for the 2023 MTREF

Description	Current year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
	Adopted budget	Adjusted budget	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26
R thousands					
Financial Performance					
Property rates	85 409 250	86 552 452	92 381 804	97 935 808	103 302 614
Service charges	243 512 260	242 022 684	269 222 102	296 788 958	326 719 761
Investment revenue	3 528 688	4 290 515	4 526 463	4 455 422	4 487 762
Transfers recognised - operational	100 134 021	100 809 058	107 619 054	113 269 211	119 913 669
Other own revenue	103 406 788	57 729 859	62 241 585	64 598 697	67 343 061
Total Revenue (excluding capital transfers and contributions)	535 991 007	491 404 568	535 991 007	577 048 096	621 766 868
Employee costs	141 737 054	140 106 009	149 429 644	157 658 863	165 936 414
Remuneration of councillors	4 859 559	4 911 432	5 061 550	5 349 148	5 590 642
Depreciation & asset impairment	35 942 203	36 801 099	38 404 208	40 283 967	42 158 739
Finance charges	10 625 204	11 145 266	10 183 936	11 009 277	11 920 973
Materials and bulk purchases	156 004 099	157 346 698	178 225 461	198 863 052	221 256 512
Transfers and grants	3 809 501	4 031 630	4 320 894	3 784 359	3 976 044
Other expenditure	138 792 551	145 080 984	154 562 708	158 108 246	165 364 945
Total Expenditure	535 942 511	499 423 119	540 188 400	575 056 911	616 204 269
Surplus/(Deficit)	48 496	(8 018 551)	(4 197 394)	1 991 185	5 562 600
Transfers recognised - capital	43 189 258	47 118 477	48 653 756	48 785 976	50 815 542
Contributions recognised - capital & contributed assets	95 081	152 080	148 703	127 385	96 392
Surplus/(Deficit) after capital transfers & contributions	43 332 835	39 252 006	44 605 066	50 904 546	56 474 533
Share of surplus/ (deficit) of associate	1 616	550 047	539 389	531 319	567 880
Surplus/(Deficit) for the year	43 334 450	39 802 054	45 144 455	51 435 864	57 042 413
Capital expenditure & funds sources					
Capital expenditure	69 766 458	71 886 737	76 009 039	75 469 393	79 252 713
Transfers recognised - capital	42 209 347	46 231 113	46 297 699	47 046 449	48 562 041
Public contributions & donations	-	-	-	-	-
Borrowing	10 348 260	8 817 250	13 127 198	14 544 757	17 159 042
Internally generated funds	17 090 568	16 565 780	23 071 143	20 680 152	20 544 324
Total sources of capital funds	69 648 175	71 614 142	82 496 039	82 271 359	86 265 407

Source: National Treasury Local Government database

12. The main cost drivers are employee related costs and materials and bulk purchases representing 27.7 per cent and 33 per cent of the operating expenditure respectively. Contracted services are also a main cost driver and are 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 R140.1 billion in the 2022/23 adjusted budget to R149.4 billion in 2022/23 and further increase to R169.5 billion in 2025/26. Municipal budgets are under immense pressure due to the high employee related costs and some municipalities are struggling to afford their wage bill given the decline in revenue collection.



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13. Remuneration of councillors increased by 3.1 per cent from R4.9 billion in the 2022/23 adjusted budget to R5.1 billion in 2023/24 and further increases to R5.6 billion in 2025/26. 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.
14. 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

15. Table 3 below indicates the aggregated budgeted revenue (operating and capital) by category of municipality over the 2023/24 MTREF period. In aggregate, the total budgeted operating revenue for 2023/24 increased by 9.9 per cent from R487.6 billion in 2022/23 to R536 billion. The average increase in operating revenue is 7.7 per cent in the outer years of the 2023/24 MTREF. The increase appears realistic given the current economic climate.

Table 3: Aggregated Operating and Capital Revenue per category, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	31 929 952	292 733 035	324 662 987	36 131 555	321 660 861	357 792 416	37 234 307	348 500 657	385 734 964	42 315 787	379 277 297	421 593 084
Category B	28 129 748	167 370 872	195 500 619	35 935 075	184 045 647	219 980 721	35 355 142	197 068 097	232 423 239	34 169 020	209 177 442	243 346 461
Category C	9 548 430	27 458 060	37 006 490	10 429 410	30 284 499	40 713 909	9 681 910	31 479 341	41 161 251	9 780 601	33 312 129	43 092 730
Total	69 608 130	487 561 967	557 170 096	82 496 039	535 991 007	618 487 046	82 271 359	577 048 096	659 319 454	86 265 407	621 766 868	708 032 275
Less												
External loans / borrowing	10 348 260	-	10 348 260	13 127 198	-	13 127 198	14 544 757	-	14 544 757	17 159 042	-	17 159 042
Internally generated funds	17 089 785	-	17 089 785	23 071 143	-	23 071 143	20 680 152	-	20 680 152	20 544 324	-	20 544 324
Recalculated revenue¹	42 170 085	487 561 967	529 732 051	46 297 699	535 991 007	582 288 705	47 046 449	577 048 096	624 094 545	48 562 041	621 766 868	670 328 909
% of total revenue²												
Category A	5,7%	52,5%	58,3%	5,8%	52,0%	57,8%	5,6%	52,9%	58,5%	6,0%	53,6%	59,5%
Category B	5,0%	30,0%	35,1%	5,8%	29,8%	35,6%	5,4%	29,9%	35,3%	4,8%	29,5%	34,4%
Category C	1,7%	4,9%	6,6%	1,7%	4,9%	6,6%	1,5%	4,8%	6,2%	1,4%	4,7%	6,1%

¹Revenue excludes capital transfers

²2016 Municipal Demarcation (257 municipalities)

Source: National Treasury Local Government Database

16. Capital revenue is R82.5 billion in 2023/24 representing 13.3 per cent of total revenue of R618.5 billion. The capital expenditure does not balance with the funding due to the incorrect use of the mSCOA classification framework by the municipalities.
17. The increase in aggregated revenue fluctuates over the 2023/24 MTREF at 11 per cent in 2023/24, 6.6 per cent and 7.4 per cent in 2024/25 and 2025/26 respectively.



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18. The eight metros (Category A municipalities) account for more than 50 per cent of aggregated revenue raised by local government at 57.8 per cent in the 2023/24 financial year and increase to 59.5 per cent by 2025/26. 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 2022/23 MTREF. This could indicate the revenue challenges that the metros are experiencing due to the changing economic and social environment.
19. The percentage share of aggregated revenue for Category B municipalities slightly decreases over the 2023/24 MTREF period while the Category C municipalities' share is constant. Total revenue raised by Category B (local) municipalities is on average 35.1 per cent of aggregated revenue while Category C (districts) municipalities on average contribute 6.3 per cent.
20. District municipalities are primarily funded from the National Fiscus and are highly grant dependent with 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.
21. Table 4 below reflects the total budgeted expenditure by category of municipality over the 2023/24 MTREF period. In aggregate, budgeted municipal expenditure increased by 9.8 per cent from R557.4 billion in 2022/23 to R612 billion in the 2023/24 financial year. The increases in the previous years were mainly driven by the operating expenditure. However, it is observed that in the 2023/24 financial year the capital expenditure increased by 9 per cent while the operating expenditure increased by 9.9 per cent.

Table 4: Aggregated Operating and Capital expenditure per category, 2022/23 - 2025/26

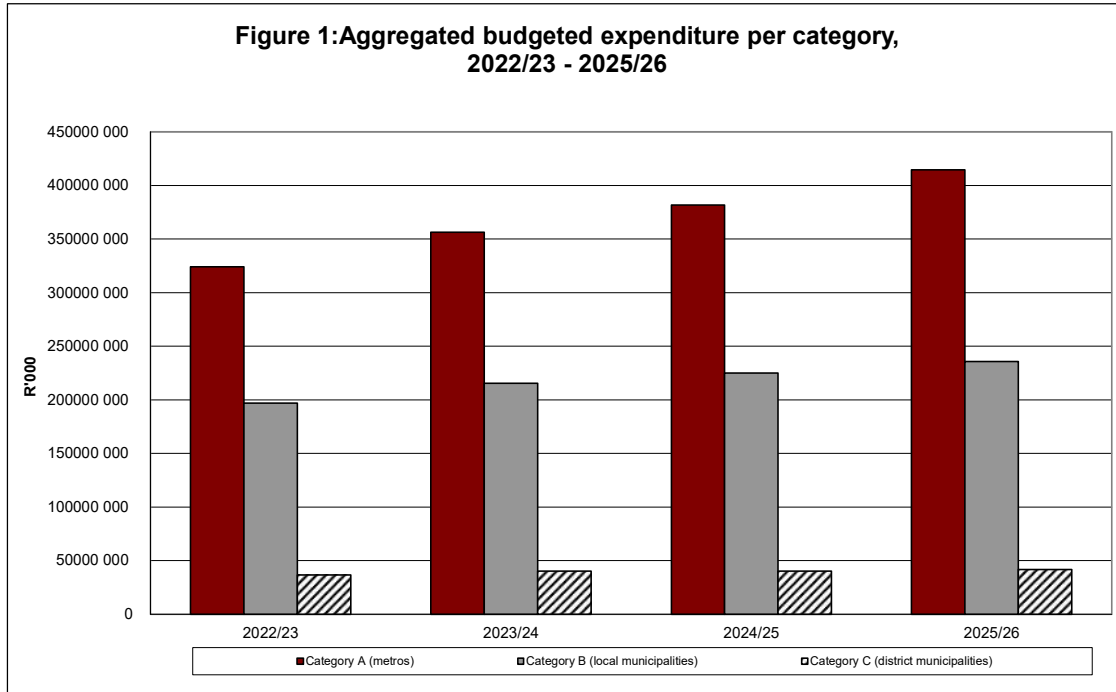
R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	31 981 008	292 108 921	324 089 928	36 185 962	320 014 553	356 200 515	37 291 598	344 436 589	381 728 187	42 376 742	372 048 654	414 425 396
Category B	28 160 483	168 651 795	196 812 277	29 322 837	186 276 029	215 598 866	28 444 678	196 491 914	224 936 592	27 052 419	208 721 896	235 774 315
Category C	9 584 922	26 952 594	36 537 516	10 500 241	29 651 929	40 152 170	9 733 117	30 449 218	40 182 336	9 823 553	31 981 395	41 804 947
Total expenditure	69 726 413	487 713 309	557 439 722	76 009 039	535 942 511	611 951 550	75 469 393	571 377 721	646 847 115	79 252 713	612 751 945	692 004 659
% of total expenditure¹												
Category A	5,7%	52,4%	58,1%	5,9%	52,3%	58,2%	5,8%	53,2%	59,0%	6,1%	53,8%	59,9%
Category B	5,1%	30,3%	35,3%	4,8%	30,4%	35,2%	4,4%	30,4%	34,8%	3,9%	30,2%	34,1%
Category C	1,7%	4,8%	6,6%	1,7%	4,8%	6,6%	1,5%	4,7%	6,2%	1,4%	4,6%	6,0%

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



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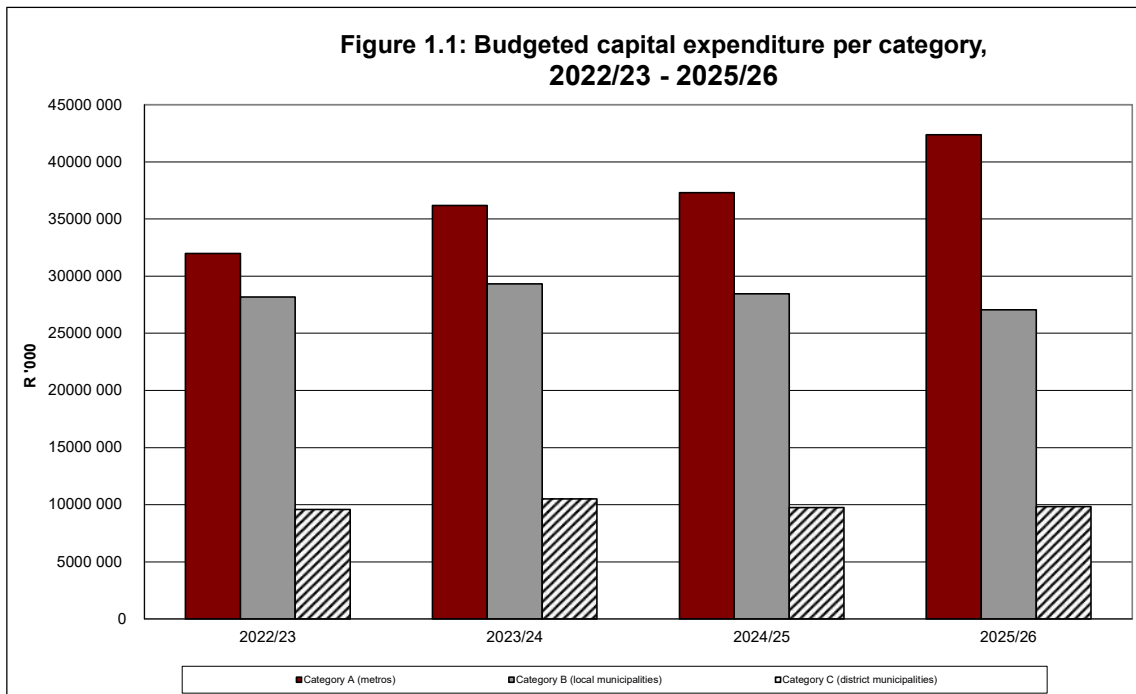


22. The operating expenditure is increasing at a higher rate than the capital expenditure over the 2023/24 MTREF. This results in less funding being available for investment in infrastructure which negatively impacts on the objective of investing in infrastructure to ensure economic growth.
23. The metros' share of the total local government expenditure budget is 58.2 per cent for the 2023/24 financial year, whereas local municipalities represent 35.2 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 59.9 per cent and 34.1 per cent of total expenditure respectively by 2025/26.
24. The percentage of capital expenditure to total expenditure is declining over the MTREF period. Capital expenditure represented 12.5 per cent of the total expenditure in 2022/23 and is projected to slightly decrease to 12.4 per cent in 2023/24 and further decreases to 11.5 per cent in 2025/26. 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 highlight the increasing risk of not investing in infrastructure while the condition is deteriorating. This eventually impacts municipalities' ability to deliver services.



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25. 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.
26. Operating expenditure in aggregate represents 87.6 per cent in 2023/24 and increases to 88.5 per cent by 2025/26. As indicated earlier in the report, the major cost drivers are employee related costs and bulk purchases which contribute 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 by addressing water and electricity losses to reduce the impact of the increasing operating expenditure on their sustainability.



Detailed capital expenditure and funding



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27. Table 5a below reflects the budgeted capital expenditure by standard classification and how it is funded over the 2023/24 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 good condition.
28. Municipalities are prioritising infrastructure spending on trading services which comprises of electricity, water, waste water management and waste management. Trading services represent 51.3 per cent of the total capital expenditure of R76 billion in 2023/24 and increases to 54.6 per cent in 2024/25 and slightly decreases to 53.5 per cent in 2025/26. 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.
29. Economic and environmental services (including road transport) is the second contributor to capital expenditure at 26.7 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).



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Table 5a: Budgeted capital expenditure and funding, 2022/23 - 2025/26

R thousands	Original Budget 2022/23	Adjusted Budget 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
			2023/24	2024/25	2025/26
Capital Expenditure - Standard Classification					
<i>Governance and Administration</i>	5 949 004	5 642 414	6 195 919	4 965 462	6 116 403
Executive & Council	448 287	389 881	659 370	346 898	339 105
Budget & Treasury Office	5 497 689	5 247 453	5 524 998	4 616 652	5 774 939
Corporate Services	3 028	5 080	11 551	1 912	2 360
<i>Community and Public Safety</i>	9 764 693	10 276 629	10 195 064	9 526 563	10 063 160
Community & Social Services	1 687 066	1 639 225	1 612 251	1 323 745	1 456 896
Sport And Recreation	1 276 309	1 527 543	1 485 281	1 241 688	1 325 184
Public Safety	829 910	870 343	903 544	560 529	565 942
Housing	5 695 386	6 002 903	5 967 511	6 124 650	6 475 621
Health	276 023	236 615	226 477	275 949	239 518
<i>Economic and Environmental Services</i>	18 986 009	20 077 716	20 299 373	19 519 577	20 376 825
Planning and Development	4 317 687	4 398 857	4 200 008	3 868 265	3 761 388
Road Transport	14 451 540	15 456 965	15 819 196	15 353 634	16 194 750
Environmental Protection	216 782	221 894	280 169	297 677	420 687
<i>Trading Services</i>	34 669 256	35 559 707	39 026 769	41 187 163	42 415 694
Electricity	8 753 557	8 773 007	9 308 471	9 830 244	9 991 146
Water	16 450 791	17 448 660	17 592 391	18 669 512	18 730 497
Waste Water Management	7 705 487	7 796 930	10 127 182	10 727 648	11 673 402
Waste Management	1 759 422	1 541 110	1 998 725	1 959 760	2 020 649
<i>Other</i>	397 496	330 270	291 915	270 629	280 631
Total Capital Expenditure	69 766 458	71 886 737	76 009 039	75 469 393	79 252 713
<i>Of which</i>					
Total New Assets	43 825 817	44 448 610	46 686 952	44 841 327	48 837 525
Total Renewal of Existing Assets	10 870 073	12 432 272	12 344 261	12 732 852	12 470 997
Total Upgrading of Existing Assets	15 070 568	15 005 854	16 977 826	17 895 214	17 944 191
Total Capital Expenditure	69 766 458	71 886 737	76 009 039	75 469 393	79 252 713
<i>Percentage of total capital expenditure</i>					
New assets	62,8%	63,7%	61,4%	59,4%	61,6%
Renewal of existing assets	15,6%	17,8%	16,2%	16,9%	15,7%
Upgrading of Existing Assets	21,6%	20,9%	22,3%	23,7%	22,6%
Funded by:					
National Government	39 174 407	42 332 691	43 747 208	45 075 084	46 686 188
Provincial Government	1 861 887	2 582 097	1 741 879	1 284 309	1 300 466
District Municipality	82 536	102 902	25 062	13 504	13 355
Other transfers and grants	1 090 517	1 213 423	783 549	673 553	562 031
Transfers recognised - capital	42 209 347	46 231 113	46 297 699	47 046 449	48 562 041
Borrowing	10 348 260	8 817 250	13 127 198	14 544 757	17 159 042
Internally generated funds	17 090 568	16 565 780	23 071 143	20 680 152	20 544 324
Total Capital Funding	69 648 175	71 614 142	82 496 039	82 271 359	86 265 407

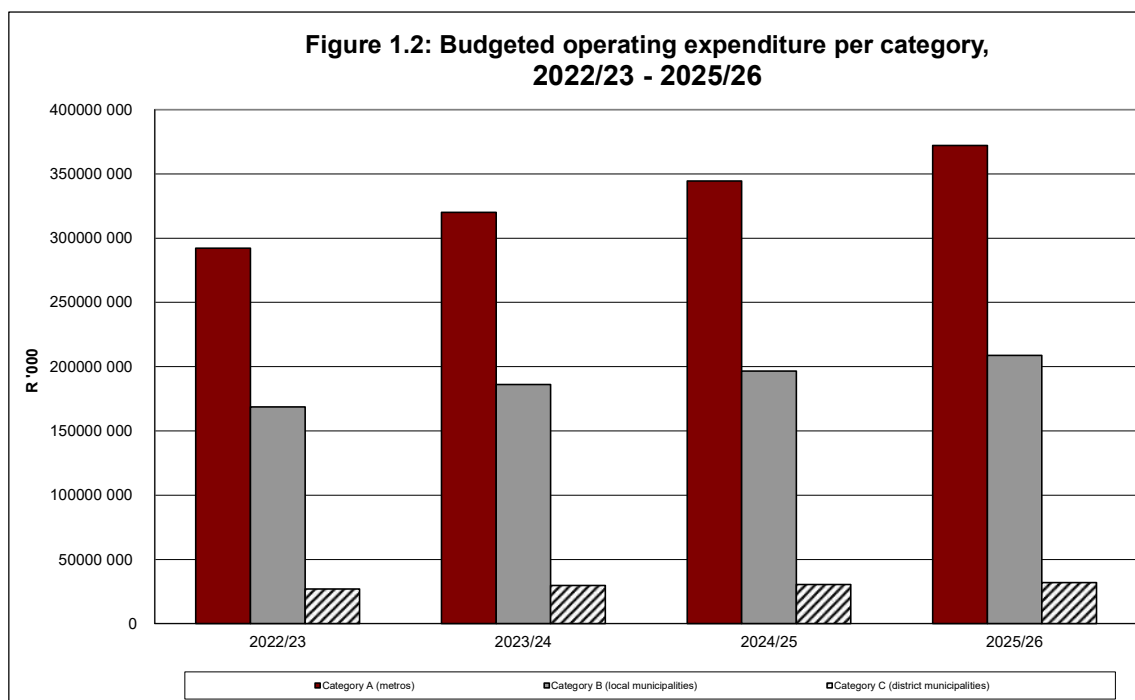
Source: National Treasury Local Government database

30. The investment in new infrastructure in 2023/24 is R46.7 billion which represents 61.4 per cent of the aggregated capital budget while investment in the renewal and upgrading of existing assets is much lower at R12.3 billion (16.2 per cent) and R17 billion (22.3 per cent)



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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 38.6 per cent of the capital budget. The allocation has remained constant compared to 38.7 per cent in the 2022/23 adjusted 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.



31. 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.
32. Municipalities allocations for renewal and upgrading of existing assets represent 76.9 per cent of depreciation in 2023/24 which is an increase compared to 75.2 per cent in the 2022/23 adjusted budgets. However, the allocation decreases to 72.6 per cent by 2025/26 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



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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.

33. 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, 2022/23 - 2025/26

R thousands	Original	Adjusted	2023/24 Medium Term Revenue & Expenditure Framework		
	Budget 2022/23	Budget 2022/23	2023/24	2024/25	2025/26
Repairs and Maintenance by Asset Class	27 721 990	29 857 777	34 445 718	35 628 673	37 836 301
<i>Roads Infrastructure</i>	4 173 693	4 390 532	4 397 373	4 539 429	4 788 421
<i>Storm water Infrastructure</i>	542 553	626 060	585 493	591 610	630 853
<i>Electrical Infrastructure</i>	6 466 020	7 269 750	8 112 409	7 976 395	8 716 483
<i>Water Supply Infrastructure</i>	3 758 944	4 175 854	4 788 426	5 195 387	5 583 495
<i>Sanitation Infrastructure</i>	2 436 938	2 773 212	2 913 480	3 315 456	3 523 286
<i>Solid Waste Infrastructure</i>	530 774	506 273	517 708	521 705	548 622
<i>Rail Infrastructure</i>	11 456	12 811	13 394	13 884	15 418
<i>Coastal Infrastructure</i>	25 897	22 659	69 293	74 034	79 821
<i>Information and Communication Infrastructure</i>	163 092	148 083	243 061	240 676	226 793
Infrastructure Total	18 109 366	19 925 233	21 640 637	22 468 576	24 113 191
<i>Community Facilities</i>	1 176 233	1 098 278	1 243 870	1 313 519	1 396 182
<i>Sport and Recreation Facilities</i>	318 775	342 589	351 548	377 208	405 524
Community Assets Total	1 495 008	1 440 867	1 595 417	1 690 728	1 801 706
Heritage Assets	6 777	5 350	5 737	5 428	5 645
<i>Revenue Generating</i>	29 125	48 693	47 628	49 836	54 711
<i>Non-revenue Generating</i>	46 824	25 371	20 756	22 911	24 160
Investment properties	75 948	74 064	68 384	72 747	78 871
<i>Operational Buildings</i>	2 046 220	2 047 660	2 507 528	2 512 240	2 717 663
<i>Housing</i>	191 617	196 580	263 829	255 163	269 148
Other Assets	2 237 837	2 244 239	2 771 357	2 767 402	2 986 812
Biological or Cultivated Assets	21 170	32 332	19 762	20 031	19 519
<i>Servitudes</i>	-	-	-	-	-
<i>Licences and Rights</i>	232 712	294 852	325 917	314 964	332 961
Intangible Assets	232 712	294 852	325 917	314 964	332 961
<i>Computer Equipment</i>	856 324	898 054	1 121 609	1 160 924	1 220 666
<i>Furniture and Office Equipment</i>	735 178	738 864	999 966	1 042 360	1 070 428
<i>Machinery and Equipment</i>	1 643 644	1 609 946	3 290 541	3 350 589	3 337 207
Transport Assets	2 308 025	2 593 975	2 606 390	2 734 924	2 869 296
<i>Land</i>	-	-	-	-	-
<i>Zoo's, Marine and Non-biological Animals</i>	130	-	100	100	100
Living Resources	-	-	-	-	-

Source: National Treasury Local Government database

34. The budget allocation for repairs and maintenance slightly increased from R29.9 billion in 2022/23 adjusted budget to R34.4 billion in 2023/24. Repairs and maintenance of



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infrastructure assets represents 62.8 per cent of the total allocation of which electrical infrastructure has the highest allocation.

35. 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.
36. Table 5c below reflects the total asset value which is used to measure this ratio. The total asset value increases over the MTREF period from R752.3 billion in 2023/24 to R795.4 billion in 2025/26 while repairs and maintenance as a percentage of PPE is 4.6 per cent for 2023/24 and 2024/25 and slightly increases to 4.8 per cent in 2025/26. The performance is below the norm of 8 per cent.
37. 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.
38. 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.



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Table 5c: Asset register summary, 2022/23 - 2025/26

Description	Original Budget	Adjusted Budget	2023/24 Medium Term Revenue & Expenditure Framework		
	2022/23	2022/23	2023/24	2024/25	2025/26
R thousands					
ASSET REGISTER SUMMARY - PPE (WDV)					
<i>Roads Infrastructure</i>	129 502 066	127 077 239	157 908 892	157 315 285	157 528 952
<i>Storm water Infrastructure</i>	10 546 647	11 227 449	9 615 546	9 035 027	9 298 568
<i>Electrical Infrastructure</i>	86 712 675	86 061 762	78 094 379	85 580 752	85 517 077
<i>Water Supply Infrastructure</i>	110 210 963	117 262 127	114 389 680	112 435 461	116 603 255
<i>Sanitation Infrastructure</i>	46 135 494	48 512 969	53 351 250	56 713 583	64 249 966
<i>Solid Waste Infrastructure</i>	4 881 362	4 359 623	6 313 295	6 425 176	6 502 761
<i>Rail Infrastructure</i>	690 549	673 646	789 020	795 454	781 890
<i>Coastal Infrastructure</i>	938 385	296 118	418 143	570 058	793 314
<i>Information and Communication Infrastructure</i>	2 337 360	2 368 941	5 813 041	6 025 115	6 156 628
Infrastructure	391 955 502	397 839 874	426 693 248	434 895 910	447 432 410
Community Assets	95 277 310	57 104 290	113 044 033	110 764 403	113 714 617
Heritage Assets	1 353 453	1 671 996	1 703 719	1 713 065	1 743 580
Investment properties	27 996 964	27 118 027	31 073 025	29 151 568	29 433 801
Other Assets	138 613 325	134 390 398	129 761 462	139 047 629	145 371 120
Biological or Cultivated Assets	465 705	568 887	391 741	403 101	413 939
Intangible Assets	7 408 959	5 885 750	7 269 664	7 209 765	9 076 251
Computer Equipment	1 918 597	1 179 972	2 460 773	2 014 026	1 638 366
Furniture and Office Equipment	1 624 495	1 923 110	3 199 556	3 016 126	3 671 009
Machinery and Equipment	11 737 595	11 409 329	11 788 242	12 227 377	12 745 592
Transport Assets	13 597 072	14 491 150	1 264 901	6 138 551	5 892 650
Land	28 563 899	30 006 408	23 640 617	23 984 512	24 218 085
Zoo's, Marine and Non-biological Animals	12 927	9 198	18 210	14 711	18 237
Living Resources	-	-	2 007	3 208	3 551
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	720 525 804	683 598 389	752 309 191	770 580 743	795 369 658

Source: National Treasury Local Government database

39. The capital expenditure budget is mainly funded from transfers from national, provincial government, district municipalities and other transfers. The allocations for this funding source are R46.3 billion or 56.1 per cent for 2023/24, R47 billion or 57.2 per cent for 2024/25 and R48.6 billion or 56.3 per cent for 2025/26. 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.
40. Internally generated funding represents 28 per cent of total capital funding for 2023/24 and decreases over the MTREF to 23.8 per cent by 2025/26. 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



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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.

41. Borrowing represents 15.9 per cent of total capital funding in 2023/24 and gradually increases in the outer years of the MTREF to 19.9 per cent by 2025/26. 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

42. Table 6 below reflects aggregated operating and capital revenue for the 2023/24 MTREF per province.

Table 6: Aggregated Operating and Capital revenue per province, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	9 790 979	42 902 509	52 693 488	9 942 551	46 453 372	56 395 924	9 348 943	49 555 533	58 904 476	9 562 383	52 829 691	62 392 074
Free State	3 259 822	23 504 889	26 764 711	3 296 201	25 163 091	28 459 292	3 171 986	26 653 827	29 825 813	3 387 698	28 214 018	31 601 716
Gauteng	15 480 022	178 457 645	193 937 667	21 129 381	195 921 310	217 050 691	22 076 145	211 999 514	234 075 660	22 783 991	230 200 665	252 984 656
KwaZulu-Natal	13 073 841	83 606 727	96 680 569	16 899 157	93 008 826	109 907 983	12 820 046	100 321 647	113 141 693	12 356 389	108 187 605	120 543 994
Limpopo	6 712 095	23 654 845	30 366 939	7 157 260	26 562 393	33 719 653	6 668 423	28 190 615	34 859 038	6 754 525	29 674 632	36 429 157
Mpumalanga	4 575 528	24 319 494	28 895 022	3 634 933	26 746 624	30 381 557	3 640 839	28 246 703	31 887 542	3 501 768	30 062 605	33 564 373
North West	3 588 050	24 393 002	27 981 052	3 075 029	26 448 249	29 523 278	3 061 504	28 092 352	31 153 857	2 973 284	29 148 924	32 122 208
Northern Cape	1 382 211	8 767 175	10 149 385	1 549 886	9 797 362	11 347 247	2 800 488	10 295 834	13 096 322	2 918 727	10 863 013	13 781 739
Western Cape	11 745 583	77 955 680	89 701 264	15 811 641	85 889 781	101 701 422	18 682 984	93 692 070	112 375 054	22 026 644	102 585 715	124 612 358
Total	69 608 130	487 561 967	557 170 096	82 496 039	535 991 007	618 487 046	82 271 359	577 048 096	659 319 454	86 265 407	621 766 868	708 032 275
Less												
External loans / borrowing	10 348 260	-	10 348 260	13 127 198	-	13 127 198	14 544 757	-	14 544 757	17 159 042	-	17 159 042
Internally generated funds	17 089 785	-	17 089 785	23 071 143	-	23 071 143	20 680 152	-	20 680 152	20 544 324	-	20 544 324
Recalculated revenue	42 170 085	487 561 967	529 732 051	46 297 699	535 991 007	582 288 705	47 046 449	577 048 096	624 094 545	48 562 041	621 766 868	670 328 909

¹Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

43. 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 R217.1 billion, R109.9 billion and R101.7 billion in 2023/24 respectively. The trend increases over the MTREF period. The province that contributes the least is Northern Cape at R11.3 billion in 2023/24. This indicates the socio-economic position of the various provinces.

44. Table 7 below reflects aggregated operating and capital expenditure per province for the 2023/24 MTREF.



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Table 7: Aggregated Operating and Capital expenditure budgets per province, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	9 865 808	43 291 784	53 157 592	10 038 790	47 760 487	57 799 278	9 460 516	50 335 194	59 795 710	9 661 440	53 743 063	63 404 504
Free State	3 289 017	23 458 752	26 747 769	3 324 984	25 338 687	28 663 671	3 187 907	26 780 744	29 968 651	3 403 620	28 102 421	31 506 040
Gauteng	15 480 472	178 032 266	193 512 739	14 423 413	193 526 039	207 949 453	15 070 772	207 703 390	222 774 162	15 571 781	223 000 404	238 572 185
KwaZulu-Natal	13 078 737	83 153 044	96 231 781	16 920 947	92 893 527	109 814 474	12 842 547	99 468 823	112 311 370	12 379 735	107 211 134	119 590 869
Limpopo	6 712 095	22 681 410	29 393 505	7 157 260	25 319 257	32 476 517	6 672 168	26 761 323	33 433 491	6 769 525	28 191 487	34 961 012
Mpumalanga	4 583 448	24 925 889	29 509 337	3 697 460	27 555 225	31 252 685	3 676 017	28 437 717	32 113 734	3 537 470	30 070 249	33 607 720
North West	3 589 580	24 261 390	27 850 969	3 081 209	26 608 577	29 689 787	3 065 004	27 019 410	30 084 414	2 976 966	28 509 752	31 486 719
Northern Cape	1 369 106	8 951 650	10 320 756	1 549 910	10 146 112	11 696 022	2 809 088	10 673 443	13 482 531	2 924 227	11 292 329	14 216 555
Western Cape	11 758 151	78 957 123	90 715 274	15 815 064	86 794 600	102 609 664	18 685 374	94 197 677	112 883 051	22 027 949	102 631 106	124 659 055
Total expenditure	69 726 413	487 713 309	557 439 722	76 009 039	535 942 511	611 951 550	75 469 393	571 377 721	646 847 115	79 252 713	612 751 945	692 004 659
Per capita spending												
Eastern Cape	1 410	6 187	7 597	1 435	6 826	8 261	1352	7194	8546	1 381	7 681	9 062
Free State	1 160	8 276	9 436	1 173	8 939	10 112	1125	9447	10572	1 201	9 914	11 114
Gauteng	1 155	13 286	14 442	1 076	14 443	15 519	1125	15501	16625	1 162	16 642	17 804
KwaZulu-Natal	1 182	7 515	8 697	1 529	8 395	9 924	1161	8989	10150	1 119	9 689	10 808
Limpopo	1 157	3 911	5 069	1 234	4 366	5 600	1151	4615	5785	1 167	4 861	6 029
Mpumalanga	1 057	5 749	6 806	853	6 355	7 208	848	6559	7406	816	6 935	7 751
North West	958	6 472	7 430	822	7 099	7 921	818	7208	8026	794	7 606	8 400
Northern Cape	1 147	7 499	8 645	1 298	8 499	9 797	2353	8941	11294	2 450	9 459	11 909
Western Cape	1 872	12 573	14 446	2 518	13 821	16 340	2976	15000	17976	3 508	16 343	19 851
Total	1 253	8 763	10 016	1 366	9 630	10 996	1356	10267	11623	1 424	11 010	12 434

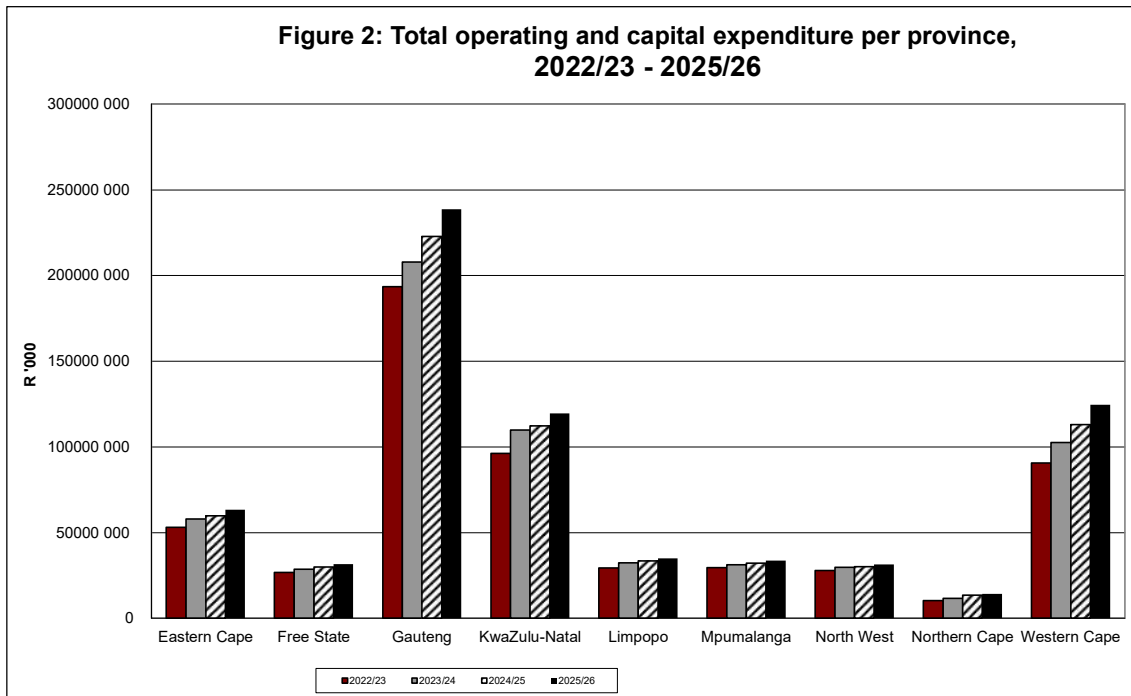
Source: National Treasury Local Government Database, StatsSA Community Survey 2016

45. Gauteng, KwaZulu-Natal and Western Cape provinces contributes the most to total local government expenditure. This indicates the importance of provinces in driving the country's economy. The total expenditure for Gauteng increases from R207.9 billion in 2023/24 to R238.6 billion in 2025/26 financial year. Operating expenditure for the province increased by 8.7 per cent from R178 billion in 2022/23 to R193.5 billion in 2023/24 while capital expenditure decreased by 6.8 per cent.
46. The operating expenditure by KwaZulu-Natal province increased by 11.7 per cent from R83.2 billion in 2022/23 to R92.9 billion in 2023/24 while the capital expenditure increased by 29.4 per cent. The Western Cape province's operating expenditure increased by 9.9 per cent from R79 billion in 2022/23 to R86.8 billion in 2023/24 while the capital expenditure increased by 34.5 per cent.
47. Table 7 above indicates that the national aggregate per capita spending is estimated at R10 996 in 2023/24, an increase from R10 016 in 2022/23. Only two provinces will exceed this national average in 2023/24, namely Gauteng at R15 519 and Western Cape at R16 340 per capita. The trend line suggests increases over the MTREF reaching R12 434 per capita by 2025/26. Free State is the closest to the national per capita spending at R10 112 in 2023/24.
48. It should also be noted that this calculation is based on the Community Survey, 2016 released by Statistics South Africa.



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- 49. 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.
- 50. The lowest level of per capita spending is in Limpopo estimated to be R5 600 in 2023/24 which increases over the MTREF to R6 029 by 2025/26.



Aggregated operating and capital budget for metros

- 51. Table 8 below depicts the metros operating and capital revenue over the 2023/24 MTREF. It further reflects each metro’s percentage contribution to aggregate revenue.



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Table 8: Aggregated Operating and Capital revenue budgets for metros, 2022/23 - 2025/26

	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
R thousand												
Buffalo City	2 086 362	8 871 639	10 958 001	1 219 326	9 415 557	10 634 883	1 167 806	10 102 818	11 270 624	1 193 097	10 895 462	12 088 558
Cape Town	7 527 791	53 434 043	60 961 834	11 034 869	58 890 332	69 925 201	14 038 852	64 199 221	78 238 073	18 197 810	70 334 895	88 532 705
City of Ekurhuleni	3 323 853	48 266 991	51 590 844	2 767 670	55 326 542	58 094 213	2 808 595	61 130 411	63 939 007	2 916 168	67 475 836	70 392 004
eThekweni	5 589 511	46 326 594	51 916 105	8 143 224	52 562 916	60 706 140	5 879 154	57 199 575	63 078 729	5 880 230	62 206 391	68 086 621
City Of Johannesburg	7 740 924	70 024 240	77 765 164	7 642 206	75 393 870	83 036 076	8 099 386	80 330 770	88 430 156	8 652 054	86 368 924	95 020 978
Mangaung	1 280 835	8 811 248	10 092 083	1 154 487	9 311 433	10 465 920	1 199 514	9 920 008	11 119 521	1 292 289	10 613 439	11 905 729
Nelson Mandela Bay	1 587 570	14 846 441	16 434 011	1 941 550	16 055 280	17 996 830	1 726 321	17 339 891	19 066 212	1 865 846	19 013 452	20 879 298
City Of Tshwane	2 793 105	42 151 840	44 944 945	2 228 222	44 704 931	46 933 153	2 314 678	48 277 962	50 592 640	2 318 292	52 368 898	54 687 190
Total	31 929 952	292 733 035	324 662 987	36 131 555	321 660 861	357 792 416	37 234 307	348 500 657	385 734 964	42 315 787	379 277 297	421 593 084
Less												9,3%
External loans / borrowing	7 614 833	-	7 614 833	10 576 338	-	10 576 338	12 500 000	-	12 500 000	15 830 000	-	15 830 000
Internally generated funds	8 998 846	-	8 998 846	7 621 589	-	7 621 589	6 720 745	-	6 720 745	6 978 683	-	6 978 683
Recalculated revenue	15 316 273	292 733 035	308 049 308	17 933 628	321 660 861	339 594 489	18 013 562	348 500 657	366 514 219	19 507 104	379 277 297	398 784 401
% of total revenue												
Buffalo City	0,6%	2,7%	3,4%	0,3%	2,6%	3,0%	0,3%	2,6%	2,9%	0,3%	2,6%	2,9%
Cape Town	2,3%	18,5%	18,8%	3,1%	18,5%	19,5%	3,6%	16,6%	20,3%	4,3%	16,7%	21,0%
City of Ekurhuleni	1,0%	14,9%	15,9%	0,8%	15,5%	16,2%	0,7%	15,8%	16,6%	0,7%	16,0%	16,7%
eThekweni	1,7%	14,3%	16,0%	2,3%	14,7%	17,0%	1,5%	14,8%	16,4%	1,4%	14,8%	16,1%
City Of Johannesburg	2,4%	21,6%	24,0%	2,1%	21,1%	23,2%	2,1%	20,8%	22,9%	2,1%	20,5%	22,5%
Mangaung	0,4%	2,7%	3,1%	0,3%	2,6%	2,9%	0,3%	2,6%	2,9%	0,3%	2,5%	2,8%
Nelson Mandela Bay	0,5%	4,6%	5,1%	0,5%	4,5%	5,0%	0,4%	4,5%	4,9%	0,4%	4,5%	5,0%
City Of Tshwane	0,9%	13,0%	13,8%	0,6%	12,5%	13,1%	0,6%	12,5%	13,1%	0,5%	12,4%	13,0%

¹Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

52. The aggregated budgeted revenue for all metros increased from R324.7 billion in 2022/23 to R357.8 billion in 2023/24. The above inflation increases in electricity and water tariffs 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 R385.7 billion in 2024/25 and to R421.6 billion in 2025/26, reflecting a total increase of 7.8 and 9.3 per cent in the two outer years of the MTREF respectively.
53. City of Johannesburg, Cape Town and eThekweni are the highest contributors to metros aggregated revenue at 23.2 per cent, 19.5 per cent and 17 per cent in 2023/24 respectively. Two metros, namely Mangaung and Buffalo City constitutes a small percentage of the total revenue at 2.9 per cent and 3 per cent respectively. The percentage contributions to aggregated revenue remains relatively constant over the MTREF with decreases projected by eThekweni and City of Johannesburg while Cape Town projected increases.
54. Table 9 below depicts metros operating and capital expenditure over the 2023/24 MTREF. It further reflects each metros percentage contribution to aggregate expenditure.

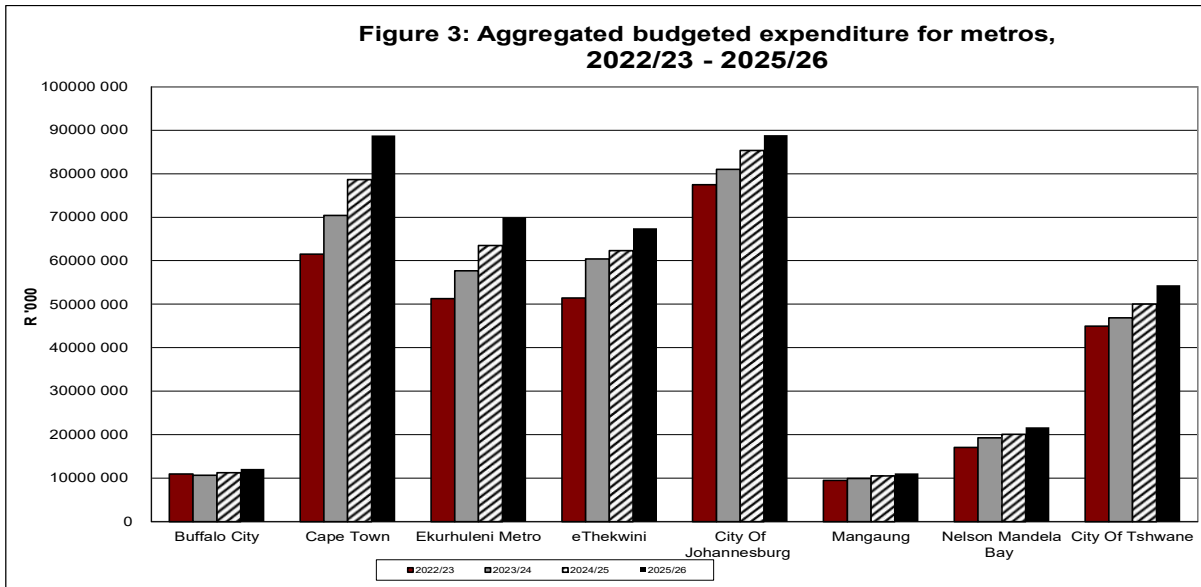


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Table 9: Aggregated Operating and Capital expenditure for metros, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	2 086 362	8 870 409	10 956 772	1 219 326	9 405 342	10 624 668	1 167 806	10 092 606	11 260 412	1 193 097	10 887 883	12 080 979
Cape Town	7 527 791	54 014 016	61 541 807	11 034 869	59 375 921	70 410 790	14 038 852	64 614 098	78 652 951	18 197 810	70 662 989	88 860 799
City of Ekurhuleni	3 323 853	47 969 108	51 292 961	2 767 670	54 927 662	57 695 332	2 808 595	60 711 988	63 520 583	2 916 168	67 037 753	69 953 922
eThekweni	5 589 511	45 817 130	51 406 641	8 143 224	52 289 469	60 432 693	5 879 154	56 409 836	62 288 990	5 880 230	61 617 940	67 498 170
City Of Johannesburg	7 740 924	69 734 280	77 475 204	7 642 206	73 379 686	81 021 892	8 099 386	77 251 993	85 351 379	8 652 054	80 234 881	88 886 935
Mangaung	1 280 835	8 157 202	9 438 037	1 154 487	8 746 025	9 900 511	1 199 514	9 287 786	10 487 299	1 292 289	9 795 364	11 087 653
Nelson Mandela Bay	1 638 626	15 397 727	17 036 354	1 995 957	17 272 542	19 268 499	1 783 612	18 330 617	20 114 230	1 926 802	19 780 855	21 707 657
City Of Tshwane	2 793 105	42 149 047	44 942 152	2 228 222	44 617 907	46 846 129	2 314 678	47 737 665	50 052 343	2 318 292	52 030 990	54 349 282
Total	31 981 008	292 108 921	324 089 928	36 185 962	320 014 553	356 200 515	37 291 598	344 436 589	381 728 187	42 376 742	372 048 654	414 425 396
% of total expenditure												
Buffalo City	0,6%	2,7%	3,4%	0,3%	2,6%	3,0%	0,3%	2,6%	2,9%	0,3%	2,6%	2,9%
Cape Town	2,3%	16,7%	19,0%	3,1%	16,7%	19,8%	3,7%	16,9%	20,6%	4,4%	17,1%	21,4%
City of Ekurhuleni	1,0%	14,8%	15,8%	0,8%	15,4%	16,2%	0,7%	15,9%	16,6%	0,7%	16,2%	16,9%
eThekweni	1,7%	14,1%	15,9%	2,3%	14,7%	17,0%	1,5%	14,8%	16,3%	1,4%	14,9%	16,3%
City Of Johannesburg	2,4%	21,5%	23,9%	2,1%	20,6%	22,7%	2,1%	20,2%	22,4%	2,1%	19,4%	21,4%
Mangaung	0,4%	2,5%	2,9%	0,3%	2,5%	2,8%	0,3%	2,4%	2,7%	0,3%	2,4%	2,7%
Nelson Mandela Bay	0,5%	4,8%	5,3%	0,6%	4,8%	5,4%	0,5%	4,8%	5,3%	0,5%	4,8%	5,2%
City Of Tshwane	0,9%	13,0%	13,9%	0,6%	12,5%	13,2%	0,6%	12,5%	13,1%	0,6%	12,6%	13,1%

Source: National Treasury Local Government Database



55. Metros aggregated expenditure budget is R356.2 billion in 2023/24 and increases to R414.4 billion by 2025/26. As highlighted earlier in the report, category A (metros) municipalities contribute 57.8 per cent of total municipal expenditure in 2023/24. 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.



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56. Operating expenditure by metros accounts for more than half (60.2 per cent in average) of total municipal operating expenditure over the 2023/24 MTREF while capital expenditure represents an average of 50.2 per cent of total municipal capital expenditure.
57. Cape Town, eThekweni and City of Johannesburg have the largest capital budgets at 3.1, 2.3 and 2.1 per cent of the aggregated budget for metros (operating and capital expenditure). Mangaung and Buffalo City's capital budgets are relatively low at 0.3 per cent and remain the same over the 2023/24 MTREF when benchmarked against the above-mentioned metros.
58. 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	2019/20	2020/21	2021/22	Current year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
	Audited Outcome (BR)	Audited Outcome (BR)	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26
R thousands								
Revenue - Functional								
<i>Trading services</i>	204 387 884	220 951 990	217 855 487	277 262 830	294 889 774	328 137 607	358 917 503	391 825 285
Energy sources	119 551 757	124 935 216	122 876 870	160 096 851	157 359 198	178 781 042	199 433 951	222 386 392
Water management	49 888 974	58 711 990	60 630 722	72 905 603	85 802 200	96 342 435	102 902 406	109 734 831
Waste water management	18 255 810	19 054 252	18 030 640	23 764 474	31 090 775	30 942 003	33 197 190	34 910 318
Waste management	16 691 342	18 250 531	16 317 256	20 495 902	20 637 601	22 072 128	23 383 956	24 793 744
Expenditure - Functional								
<i>Trading services</i>	221 462 322	237 721 749	236 757 054	261 420 771	267 398 998	297 720 498	324 769 200	354 383 541
Energy sources	119 705 553	129 749 923	131 080 355	151 977 675	151 444 604	171 973 245	191 069 059	212 164 148
Water management	64 628 758	69 122 569	67 645 342	71 240 079	76 922 849	82 977 282	88 568 548	94 515 643
Waste water management	18 304 811	18 896 465	18 459 127	18 648 224	19 328 468	22 151 982	23 565 318	24 975 630
Waste management	18 823 200	19 952 792	19 572 230	19 554 793	19 703 078	20 617 990	21 566 275	22 728 120
Surplus/(Deficit) for Trading Services	(17 074 439)	(16 769 760)	(18 901 567)	15 842 059	33 504 594	34 924 105	36 711 070	37 441 744

Source: National Treasury Local Government Database

59. 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.
60. The major sources of revenue in 2023/24 are energy sources at R178.8 billion, water management at R96.3 billion, waste water management at R30.9 billion and waste management at R22.1 billion. There is an increase of 13.6 per cent in revenue from energy sources in 2023/24 compared to R157.4 billion in the 2022/23 adjusted budget. This is due to the electricity tariff increase guideline of 15.1 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. The impact of load shedding has resulted in consumers using alternative energy sources.



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61. The metros have projected declining revenue from energy sources over the MTREF at 11.6 per cent in 2024/25 and 11.5 per cent in 2025/26. These may be due to declining demand for the service due to the use of alternative energy sources. It should also be noted that the 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.
62. 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 *m*SCOA 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.
63. The reporting in terms of the new accounting treatment improved in the 2023/24 MTREF with all metros submitting their data strings for water consumed.

Table 11: Bulk purchases expenditure for metros for functions, 2022/23 - 2025/26

R thousand	Electricity				Water			
	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
Buffalo City	2 160 427	2 512 494	2 832 586	3 193 457	191 651	210 555	231 325	254 142
Cape Town	12 350 900	14 099 100	16 926 356	19 743 055	3 621 933	4 128 223	4 403 858	4 755 458
City of Ekurhuleni	15 418 908	18 143 097	21 526 785	25 541 530	3 788 971	4 827 759	5 407 090	6 055 941
eThekweni	13 272 412	15 147 655	17 071 397	19 751 607	2 492 135	3 032 283	3 199 058	3 375 007
City Of Johannesburg	15 363 589	16 403 226	17 965 586	19 018 827	4 369 096	5 784 170	6 189 527	6 658 325
Mangaung	2 145 935	2 199 932	2 301 129	2 406 981	534 000	527 858	599 645	668 271
Nelson Mandela Bay	4 705 312	5 632 329	6 347 635	7 153 785	80 101	37 994	35 421	52 886
City Of Tshwane	12 121 755	14 377 613	16 203 570	18 147 999	4 296 921	3 827 369	4 094 620	4 370 079
Total expenditure	77 539 237	88 515 446	101 175 044	114 957 240	19 374 807	22 376 211	24 160 545	26 190 109

Source: National Treasury Local Government Database

64. Metros have budgeted R88.5 billion for the purchase of bulk electricity in 2023/24, with an annual increase of 14.3 per cent and 13.6 per cent in the outer years of the MTREF. The expenditure on electricity bulk purchases is projected to increase to R115 billion by 2025/26.
65. It may appear as if metros generate a substantial profit from the sale of electricity when the revenue generated from the sale of electricity is compared to the expenditure incurred on bulk electricity purchases. However, it must be noted that bulk is a major cost driver of the electricity function and that the revenue on table 10 includes capital transfers. Therefore, the high increases in cost of bulk purchases and reducing consumption minimises the profits where they are realised. In addition, there are other operational costs which include expenditure on personnel, materials, refurbishment, repairs and maintenance, distribution losses and overhead costs.



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66. 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

67. Table 12 below depicts secondary cities (top 19 municipalities) operating and capital revenue over the 2023/24 MTREF.

Table 12: Aggregated Operating and Capital revenue budgets for secondary cities, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total
Secondary cities	8 544 523	78 726 766	87 271 290	15 403 742	78 726 766	94 130 509	16 084 209	85 214 467	101 298 676	15 388 821	92 098 108	107 486 929
Matjhabeng	176 809	4 158 412	4 335 221	202 914	4 158 412	4 361 326	215 089	4 403 947	4 619 036	227 994	4 668 184	4 896 178
Emfuleni	422 019	7 960 575	8 382 593	539 953	7 960 575	8 500 527	587 686	8 662 006	9 249 692	531 753	9 401 890	9 933 644
Mogale City	424 391	3 942 644	4 367 035	7 159 623	3 942 644	11 102 267	7 560 612	4 404 250	11 964 861	7 685 525	4 698 748	12 384 274
Msunduzi	835 918	8 120 726	8 956 645	768 760	8 120 726	8 889 486	581 394	8 981 586	9 562 980	447 975	10 038 459	10 486 433
Newcastle	209 378	2 355 468	2 564 845	255 338	2 355 468	2 610 806	284 413	2 558 827	2 843 239	222 634	2 756 530	2 979 163
uMhlathuze	835 076	4 931 451	5 766 527	802 941	4 931 451	5 734 392	755 990	5 319 626	6 075 616	759 557	5 778 030	6 537 588
Polokwane	847 868	4 945 302	5 793 170	797 239	4 945 302	5 742 541	708 495	5 259 820	5 968 315	760 271	5 576 904	6 337 175
Govan Mbeki	163 882	3 087 553	3 251 435	123 427	3 087 553	3 210 980	98 034	3 383 477	3 481 512	99 452	3 706 300	3 805 751
Emalahleni (Mp)	221 891	4 709 690	4 931 581	241 269	4 709 690	4 950 958	205 418	4 970 870	5 176 288	209 017	5 254 536	5 463 553
Steve Tshwete	643 920	2 361 424	3 005 344	234 741	2 361 424	2 596 165	129 292	2 486 943	2 616 235	103 021	2 673 636	2 776 657
City of Mbombela	652 821	4 154 810	4 807 631	645 474	4 154 810	4 800 284	812 128	4 610 654	5 422 781	753 982	5 134 823	5 888 805
Sol Plaatje	190 043	2 719 604	2 909 647	249 473	2 719 604	2 969 077	653 283	2 932 962	3 586 245	728 146	3 164 843	3 892 989
Madibeng	449 264	2 556 367	3 005 631	361 808	2 556 367	2 918 175	377 886	2 742 366	3 120 252	394 802	2 916 817	3 311 619
Rustenburg	624 278	7 967 455	8 591 733	614 998	7 967 455	8 582 453	640 235	8 382 105	9 022 341	622 674	8 903 886	9 526 560
City Of Matlosana	217 038	4 214 556	4 431 593	231 469	4 214 556	4 446 025	189 116	4 501 342	4 690 458	190 215	4 753 899	4 944 115
J B Marks	302 063	2 145 574	2 447 637	189 042	2 145 574	2 334 616	137 758	2 310 539	2 448 297	125 478	2 453 425	2 578 904
Drakenstein	130 609	2 992 382	3 122 991	457 423	2 992 382	3 449 805	673 686	3 379 750	4 053 437	569 970	3 773 480	4 343 450
Stellenbosch	409 273	2 284 927	2 694 201	504 800	2 284 927	2 789 727	589 095	2 504 162	3 093 258	503 056	2 757 998	3 261 054
George	787 983	3 117 845	3 905 829	1 023 043	3 117 845	4 140 888	884 599	3 419 234	4 303 833	453 299	3 685 718	4 139 016
Less												
External loans / borrowing	1 328 044	-	1 328 044	1 183 254	-	1 183 254	1 098 229	-	1 098 229	750 072	-	750 072
Internally generated funds	1 980 466	-	1 980 466	8 603 007	-	8 603 007	9 055 224	-	9 055 224	8 903 180	-	8 903 180
Recalculated revenue	5 236 013	78 726 766	83 962 779	5 617 482	78 726 766	84 344 248	5 930 756	85 214 467	91 145 222	5 735 569	92 098 108	97 833 677

¹Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

68. The total budgeted revenue for secondary cities amounts to R84.3 billion in 2023/24 excluding borrowing and internally generated funds used for funding the capital expenditure. This represents an increase of R7.7 billion from 2022/23 and increases to R97.8 billion by 2025/26. The increase in revenue in the outer years is 8.1 and 7.3 per cent.

69. Mogale City, Msunduzi, Rustenburg and Emfuleni are the largest contributors to aggregated revenue at R11.1 billion, R8.9 billion, R8.6 billion and R8.5 billion in 2023/24 respectively. Mogale City contributes the largest to capital revenue at R7.2 billion in 2023/24,



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this is clear that there was incorrect reporting from the municipality given the budget size for 2022/23 and the fact that capital revenue exceeds operating revenue.

70. Table 13 below depicts the secondary cities operating and capital expenditure over the 2023/24 MTREF. The total expenditure budget of secondary cities increased from R79.5 billion in 2022/23 to R86.2 billion in 2023/24, R92.1 billion in 2024/25 and R96.8 billion in 2025/26 representing an increase of 6.9 per cent and 5.1 per cent in the two outer years of the MTREF. The secondary cities budgeted for operating surpluses over the 2023/24 MTREF.
71. Capital expenditure decreases from R8.7 billion in 2023/24 to R8.2 billion by 2025/26. 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, 2022/23 - 2025/26

R thousand	2022/23			2023/24			2024/25			2025/26		
	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total	Capital	Operating ¹	Total
Top 19 Municipalities	8 544 553	70 933 947	79 478 501	8 744 255	77 410 365	86 154 619	9 108 345	82 968 275	92 076 620	8 205 864	88 603 018	96 808 882
Matjhabeng	176 809	3 677 446	3 854 255	202 914	3 974 219	4 177 133	215 089	4 358 586	4 573 674	227 994	4 620 101	4 848 095
Emfuleni	422 019	6 817 079	7 239 098	539 963	7 634 265	8 174 227	587 686	8 305 532	8 893 218	531 753	9 106 869	9 638 622
Mogale City	424 391	3 600 016	4 024 407	450 885	4 066 603	4 517 488	551 788	4 271 288	4 823 076	469 865	4 512 439	4 982 304
Msunduzi	835 918	6 454 947	7 290 865	768 760	7 703 788	8 472 548	581 394	8 487 229	9 068 623	447 975	9 183 693	9 631 668
Newcastle	209 378	3 010 876	3 220 254	255 338	2 724 589	2 979 926	284 413	2 907 296	3 191 709	222 634	3 141 203	3 363 836
uMhlatuze	835 076	4 541 932	5 377 008	802 941	4 937 024	5 739 965	755 990	5 296 308	6 052 298	759 557	5 756 287	6 515 845
Polokwane	847 868	4 208 030	5 055 898	797 239	4 550 034	5 347 273	708 495	4 870 209	5 578 704	760 271	5 113 961	5 874 232
Govan Mbeki	163 882	2 775 340	2 939 222	172 677	3 019 754	3 192 431	130 994	3 315 321	3 446 315	132 154	3 612 800	3 744 954
Emalahleni (Mp)	221 891	4 198 123	4 420 014	241 269	4 909 490	5 150 758	205 418	5 169 159	5 374 577	209 017	5 425 963	5 634 980
Steve Tshwete	643 920	2 226 338	2 870 258	234 741	2 435 283	2 670 024	129 292	2 521 506	2 650 798	103 021	2 664 483	2 767 504
City of Mbombela	652 821	3 728 954	4 381 774	645 474	3 916 389	4 561 862	812 128	4 063 833	4 875 960	753 982	4 421 115	5 175 097
Sol Plaatje	190 043	2 465 128	2 655 171	249 473	2 691 252	2 940 725	653 283	2 893 175	3 546 458	728 146	3 118 156	3 846 302
Madibeng	449 264	2 549 946	2 999 210	361 808	2 551 637	2 913 445	377 886	2 685 040	3 062 926	394 802	2 810 861	3 205 663
Rustenburg	624 308	6 512 073	7 136 381	614 996	7 349 869	7 964 866	640 235	7 774 536	8 414 771	622 674	7 956 701	8 579 375
City Of Matlosana	217 038	3 941 528	4 158 565	231 469	4 287 708	4 519 177	189 116	4 458 143	4 647 259	190 215	4 626 932	4 817 148
J B Marks	302 063	2 378 102	2 680 165	189 042	2 270 095	2 459 137	137 758	2 342 462	2 480 220	125 478	2 496 046	2 621 524
Drakenstein	130 609	2 878 003	3 008 612	457 423	3 064 960	3 522 383	673 686	3 453 282	4 126 969	569 970	3 771 846	4 341 816
Stellenbosch	409 273	2 102 065	2 511 338	504 800	2 258 349	2 763 149	589 095	2 439 514	3 028 609	503 056	2 690 369	3 193 425
George	787 983	2 868 024	3 656 007	1 023 043	3 065 058	4 088 101	884 599	3 355 858	4 240 457	453 299	3 573 194	4 026 492

Source: National Treasury Local Government Database

72. Secondary cities that have allocated the least of their aggregated budget to their capital budgets in 2023/24 are Matjhabeng, City of Matlosana, Govan Mbeki, Emalahleni (MP), Emfuleni, Rustenburg, J B Marks, Sol Plaatje, Newcastle, Steve Tshwete and Msunduzi. These 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. This indicates lower spending by the secondary cities in infrastructure and holds potential risks to service delivery.
73. George and Stellenbosch have the largest allocations at 25 per cent and 18.3 per cent in 2023/24 respectively.



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Growth in Aggregated Operating and Capital Budgets compared to the 2022/23 Budgets

74. Table 14 below provides a comparison between the preliminary outcome for the 2022/23 financial year ended on 30 June 2023 as published in the Section 71 Quarter 4 publication which was released on 29 August 2023, the adopted budget for the 2023/24 financial year and the average growth in municipal budgets over the 2023/24 MTREF period.

Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2022/23

R thousands	2022/23			2023/24	2024/25	2025/26	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2022/23- 2023/24	2022/23- 2025/26
Operating Revenue¹								
Property rates	85 409 250	86 552 452	84 214 892	92 381 804	97 935 808	103 302 614	9,7%	7,0%
Service charges	243 512 260	242 022 684	229 364 122	269 222 102	296 788 958	326 719 761	17,4%	12,5%
Other own revenue	158 390 559	162 829 432	156 759 478	174 387 101	182 323 330	191 744 493	11,2%	6,9%
Total Revenue	487 312 069	491 404 568	470 338 492	535 991 007	577 048 096	621 766 868	14,0%	9,8%
Operating Expenditure								
Employee related costs	141 737 054	140 106 009	129 128 400	149 429 644	157 658 863	165 936 414	15,7%	8,7%
Debt impairment	18 995 239	29 562 664	17 465 203	42 882 033	45 116 335	47 295 703	145,5%	39,4%
Bulk purchases	117 174 670	116 552 601	104 536 680	134 073 217	151 491 361	170 512 948	28,3%	17,7%
Other expenditure	210 095 354	209 240 976	193 034 759	209 557 617	217 111 162	229 006 880	8,6%	5,9%
Total Expenditure	488 002 317	495 462 251	444 165 042	535 942 511	571 377 721	612 751 945	20,7%	11,3%
Operating Surplus/(Deficit)	(690 248)	(4 057 683)	26 173 450	48 496	5 670 374	9 014 923		
Capital Funding								
External loans	10 348 260	8 817 250	6 417 269	13 127 198	14 544 757	17 159 042	104,6%	38,8%
Internal contributions	17 090 568	16 565 780	11 871 135	23 071 143	20 680 152	20 544 324	94,3%	20,1%
Transfers and subsidies	42 209 347	46 231 113	34 133 299	46 297 699	47 046 449	48 562 041	35,6%	12,5%
Other	-	-	-	-	-	-	-	-
Total funding	69 648 175	71 614 142	52 421 704	82 496 039	82 271 359	86 265 407	57,4%	18,1%
Capital Expenditure								
Water	15 826 335	17 341 748	14 227 565	17 549 370	19 417 041	18 941 003	23,3%	10,0%
Electricity	10 109 986	8 221 482	8 776 569	8 778 991	9 128 175	9 426 545	0,0%	2,4%
Housing	2 143 853	2 456 382	1 277 199	2 890 457	2 729 306	2 509 365	126,3%	25,2%
Roads, pavements, bridges and storm water	15 000 410	17 235 584	(14 411 041)	17 596 412	16 380 300	17 854 614	(222,1%)	(207,4%)
Other	26 685 874	26 631 540	41 980 404	29 193 810	27 814 572	30 521 186	(30,5%)	(10,1%)
Total expenditure	69 766 458	71 886 737	51 850 696	76 009 039	75 469 393	79 252 713	46,6%	15,2%

¹Excluding capital transfers and contributions

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

75. Total operating expenditure increased by 20.7 per cent in 2023/24 compared to the preliminary outcome for 2022/23 while operating revenue increased by 14 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.

76. Employee related costs increased by 15.7 per cent and bulk purchases by 28.3 per cent. Increases in bulk purchases are largely attributed to the increase in the price of bulk electricity.



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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.

77. Debt impairment is expected to increase by 145.5 per cent in 2023/24 and an average of 39.4 per cent over the last two years of the MTREF. This is an indication that municipalities are expecting lower revenue collection levels in the 2023/24 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.
78. Capital expenditure budgets increased by 46.6 per cent from 2022/23 to 2023/24 and an average of 15.2 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

79. Table 15 below highlights the extent to which municipalities have changed the budget allocations in the 2023/24 MTREF compared to the two outer years of the 2022/23 MTREF. The deviation to the changes to baseline for operating and capital budgets is limited to 5 per cent and 10 per cent respectively.



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Table 15: Changes to baseline for 2023 MTREF

	2023/24			2024/25			2025/26 2023/24 Draft Medium term estimates	% change to baseline		% share of total change to baseline	
	2022/23 Medium term estimates	2023/24 Draft Medium term estimates	Changes to baseline	2023/24 Medium term estimates	2024/25 Draft Medium term estimates	Changes to baseline		2023/24	2024/25	2023/24	2024/25
R thousands											
Operating Revenue¹											
Property rates	89 816 612	92 381 804	2 565 191	94 765 606	97 935 808	3 170 201	103 302 614	2,9%	3,3%	27,0%	38,8%
Service charges	262 341 096	269 222 102	6 881 006	282 453 717	296 788 958	14 335 241	326 719 761	2,6%	5,1%	72,5%	175,3%
Other own revenue	165 104 751	174 387 101	9 282 350	174 429 594	182 323 330	7 893 736	191 744 493	5,6%	4,5%	97,9%	96,5%
Total Revenue	514 262 459	535 991 007	18 728 548	551 648 917	577 048 096	25 399 178	621 766 868	3,6%	4,6%	197,4%	310,6%
Operating Expenditure											
Employee related costs	148 472 479	149 429 644	957 165	156 565 124	157 658 863	1 093 739	165 936 414	0,6%	0,7%	6,5%	7,6%
Debt impairment	20 398 105	42 882 033	22 483 927	21 841 460	45 116 335	23 274 876	47 295 703	110,2%	106,6%	152,1%	162,3%
Bulk purchases	127 247 904	134 073 217	6 825 313	137 916 842	151 491 361	13 574 519	170 512 948	5,4%	9,8%	46,2%	94,6%
Other expenditure	218 027 733	209 557 617	(8 470 116)	228 506 442	217 111 162	(11 395 280)	229 006 880	(3,9%)	(5,0%)	(57,3%)	(79,4%)
Total Expenditure	514 146 222	535 942 511	21 796 289	544 829 868	571 377 721	26 547 854	612 751 945	4,2%	4,9%	147,4%	185,1%
Operating Surplus/(Deficit)	3 116 237	48 496	(3 067 741)	6 819 050	5 670 374	(1 148 675)	9 014 923				
Capital Funding											
External loans	12 993 016	13 127 198	134 182	13 875 036	14 544 757	669 722	17 159 042	1,0%	4,8%	1,3%	7,0%
Internal contributions	14 544 502	23 071 143	8 526 641	13 949 564	20 680 152	6 730 588	20 544 324	58,6%	48,2%	82,6%	70,8%
Transfers and subsidies	40 575 170	46 297 699	5 722 528	42 046 624	47 046 449	4 999 825	48 562 041	14,1%	11,9%	55,4%	52,6%
Other	-	-	-	-	-	-	-	-	-	-	-
Total funding	68 112 688	82 496 039	14 383 352	69 871 224	82 271 359	12 400 135	86 265 407	21,1%	17,7%	139,3%	130,4%
Capital Expenditure											
Water	17 419 752	17 549 370	129 617	17 317 350	19 417 041	2 099 692	18 941 003	0,7%	12,1%	1,5%	31,6%
Electricity	8 194 248	8 778 991	584 743	8 148 566	9 128 175	979 610	9 426 545	7,1%	12,0%	6,9%	14,8%
Housing	2 046 692	2 890 457	843 765	2 106 395	2 729 306	622 911	2 509 365	41,2%	29,6%	10,0%	9,4%
Roads, pavements, bridges and storm water	14 590 142	17 596 412	3 006 270	16 403 332	16 380 300	(23 032)	17 854 614	20,6%	(0,1%)	35,6%	(0,3%)
Other	25 980 576	29 193 810	3 213 234	25 999 512	27 814 572	1 815 060	30 521 186	12,4%	7,0%	38,0%	27,3%
Total expenditure	68 231 411	76 009 039	7 777 629	69 975 153	75 469 393	5 494 240	79 252 713	11,4%	7,9%	92,0%	82,7%

¹Excluding capital transfers and contributions

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

80. Operating revenue for 2023/24 increased by R18.7 billion (3.6 per cent) and operating expenditure by R21.8 billion (4.2 per cent) compared to the projection in the 2022/23 MTREF while the increase for 2022/25 is R25.4 billion (4.6 per cent) for operating revenue and R26.5 billion (4.9 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.
81. Bulk purchases increased compared to the 2022/23 MTREF. This expenditure item is mainly caused by the increases in bulk electricity tariffs as there is no growth in consumption. Overall, there is an increase in expenditure while municipalities projected a decrease in other expenditure compared to the 2022/23 MTREF.
82. Capital expenditure increased by R7.8 million (11.4 per cent) and R5.5 billion (7.9 per cent) in 2023/24 and 2024/25 respectively compared to the 2022/23 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 2023/24 is not multi-year as the deviation is higher than 10 per cent.



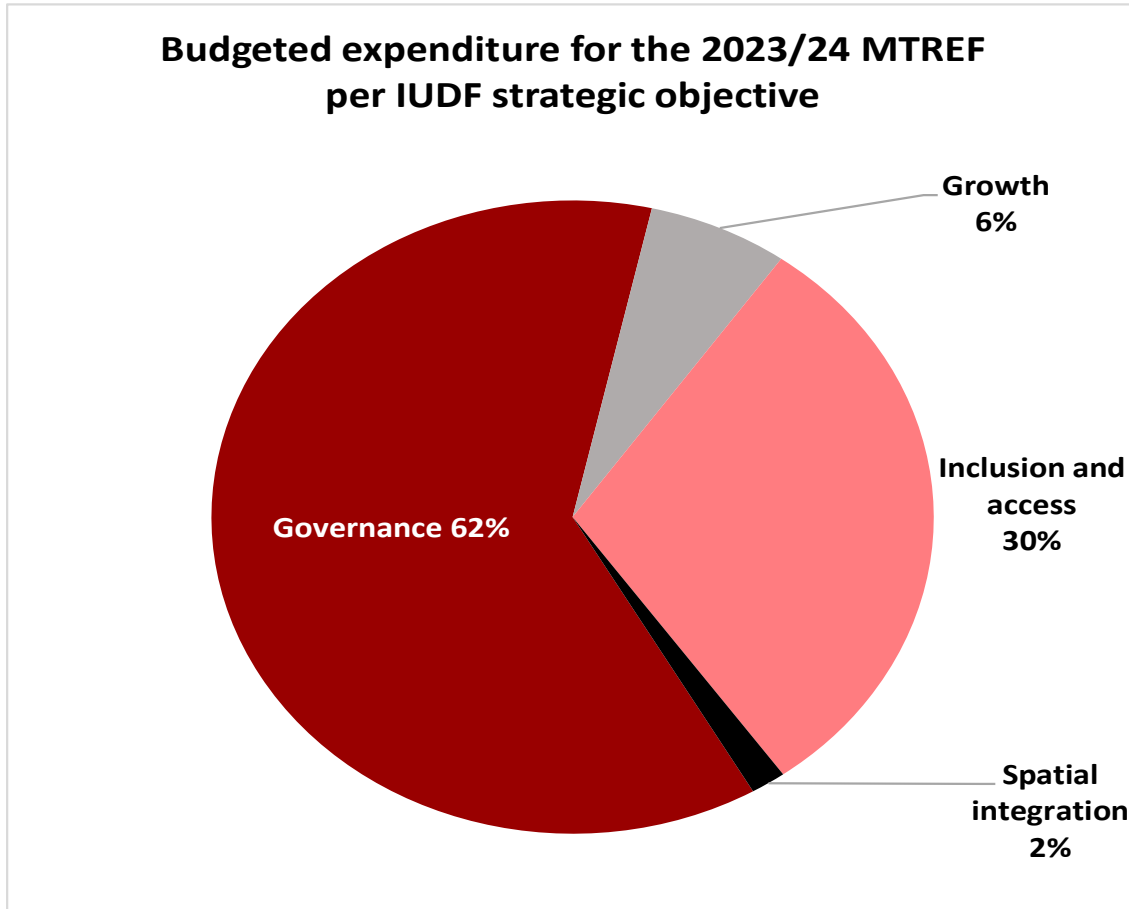
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Analysis in the mSCOA framework

83. The mSCOA classification framework requires municipalities to unpack their Integrated Development Plans (IDP) into operational and capital projects and to link those projects to the IUDF (Integrated Urban Development Framework) and MTSF (Medium Term Strategic Objectives) as well as their own strategic objectives. In this way a link between measurable outputs and outcome indicators can be established.
84. Municipalities submit their adopted budgets by the latest 30 June each year. Accompanying the adopted budgets are the lists of the capital and operational projects that will be implemented in the coming municipal financial year. These projects are all linked at the prescribed project level and a unique project number that is used to ringfence the costs associated to the project per municipality.
85. The project detail data file links each project to four specific strategic objectives of which two are prescribed (MTSF and the IUDF) and two objectives that are unique to the municipality and describes their focus areas for the coming year.
86. Using the different dimensions available in the mSCOA framework, the municipal 2023/24 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 62 per cent and 30 per cent of the municipal budgets for the 2023/24 financial year will be spent on governance and inclusion and access respectively.



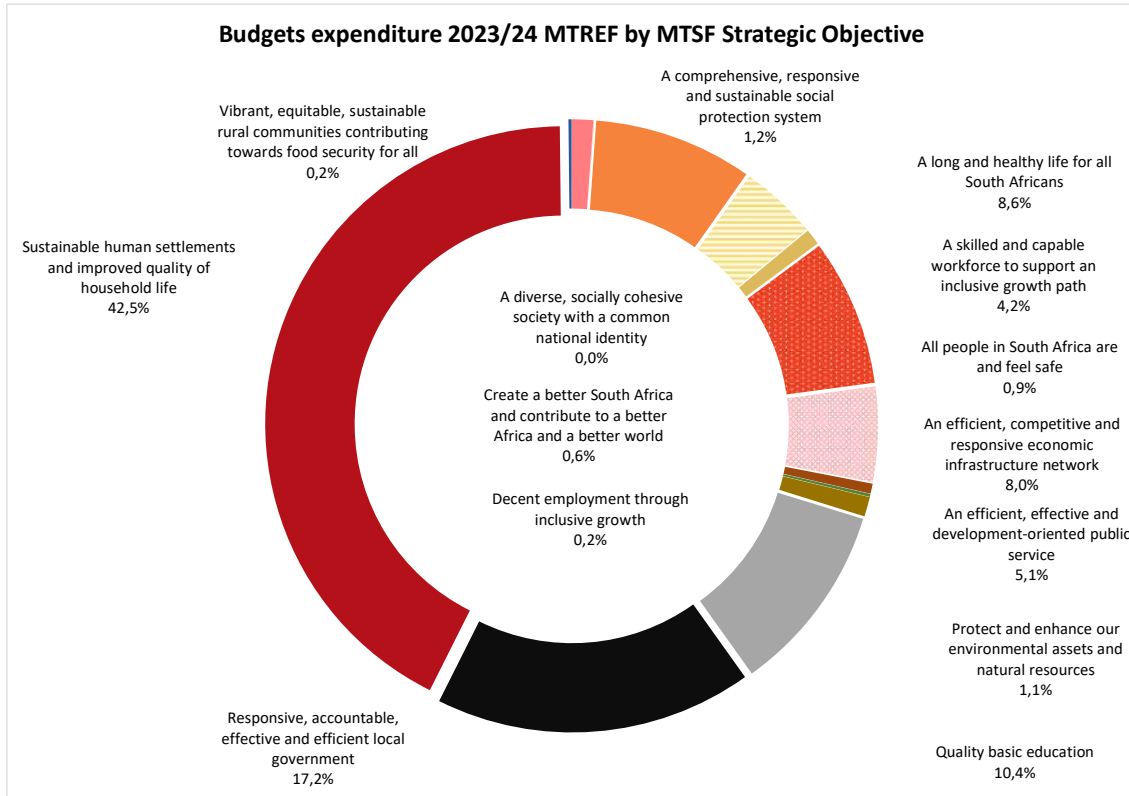
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87. The figure below indicates spending per MTSF strategic objectives and reflects that 42.5 per cent of the municipal budgets for 2023/24 will be spend on sustainable human settlements and improved quality of household life while 17.2 per cent will be spend on responsive, accountable, effective and efficient local government.



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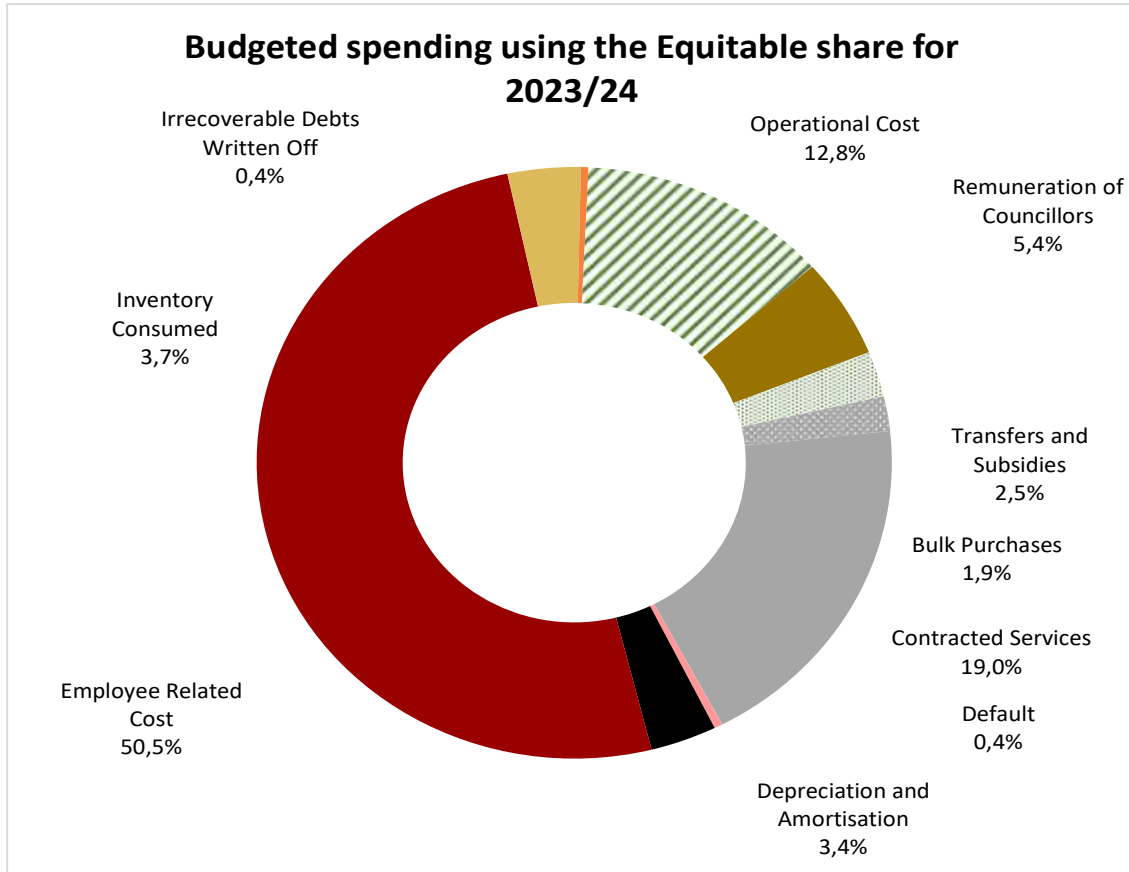


Utilisation of the Local Government Equitable share

- 88. 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.
- 89. The expenditure that is funded through the Equitable share is determined by linking two of the *m*SCOA segments namely the Fund and Expenditure segments. The figure below indicates that 50.5 per cent of the equitable share allocation for 2023/24 will be spent on employee related costs.



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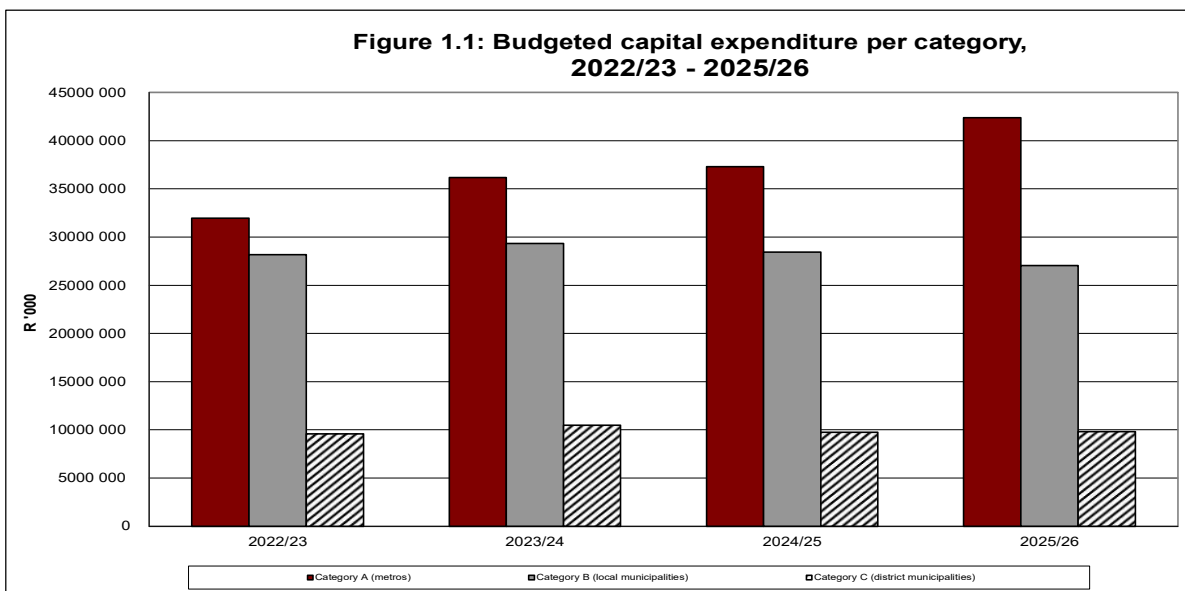
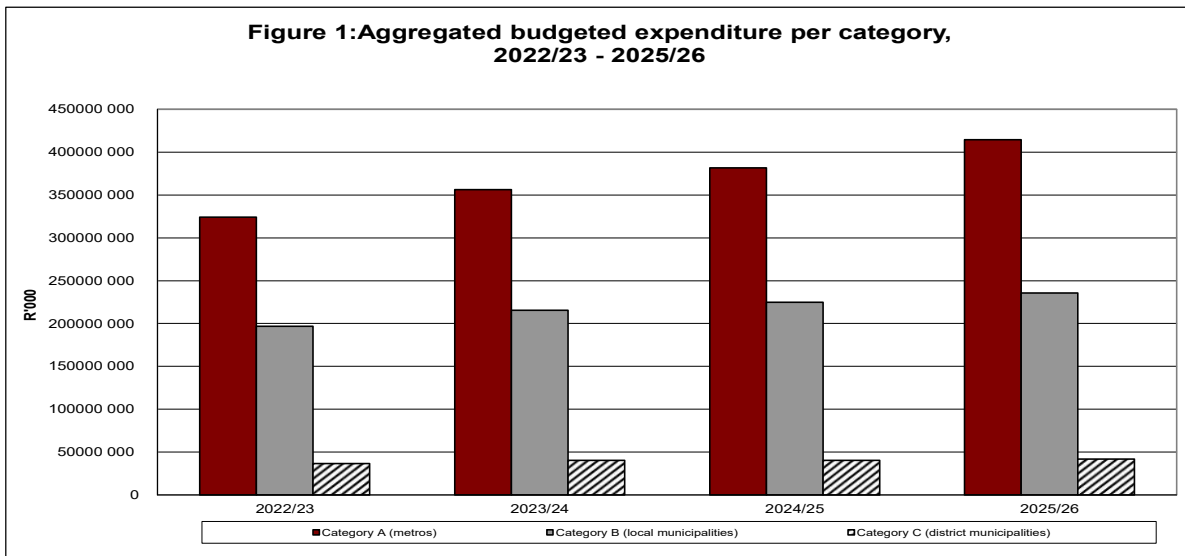


90. More detail is available on the MFMA website.



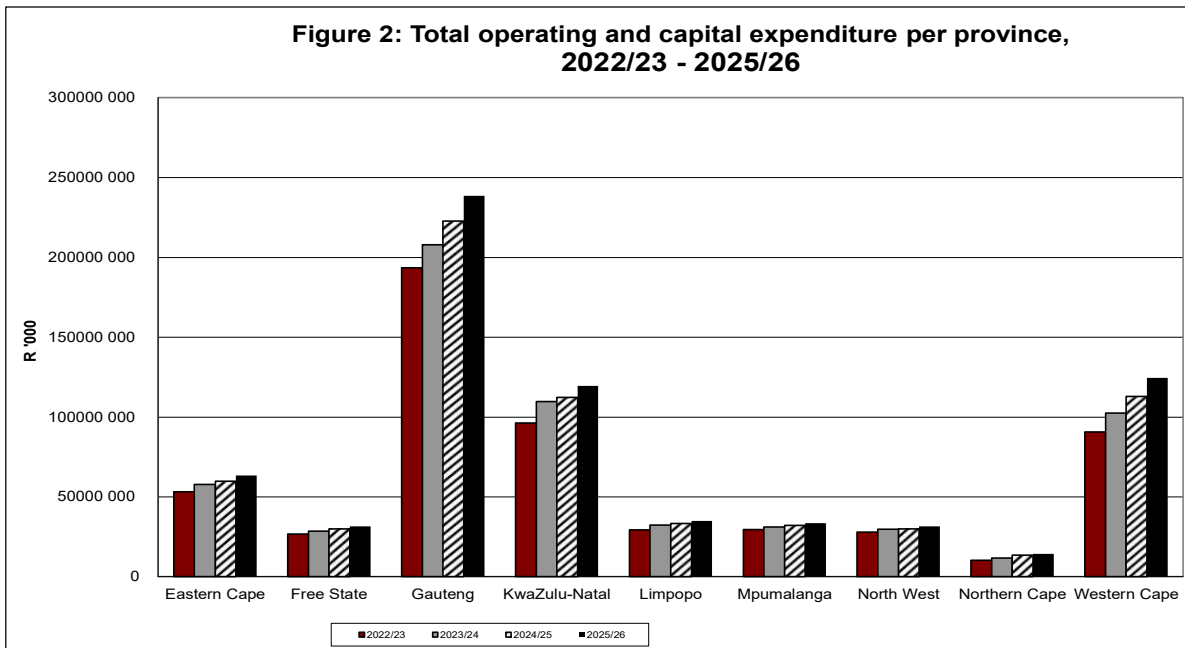
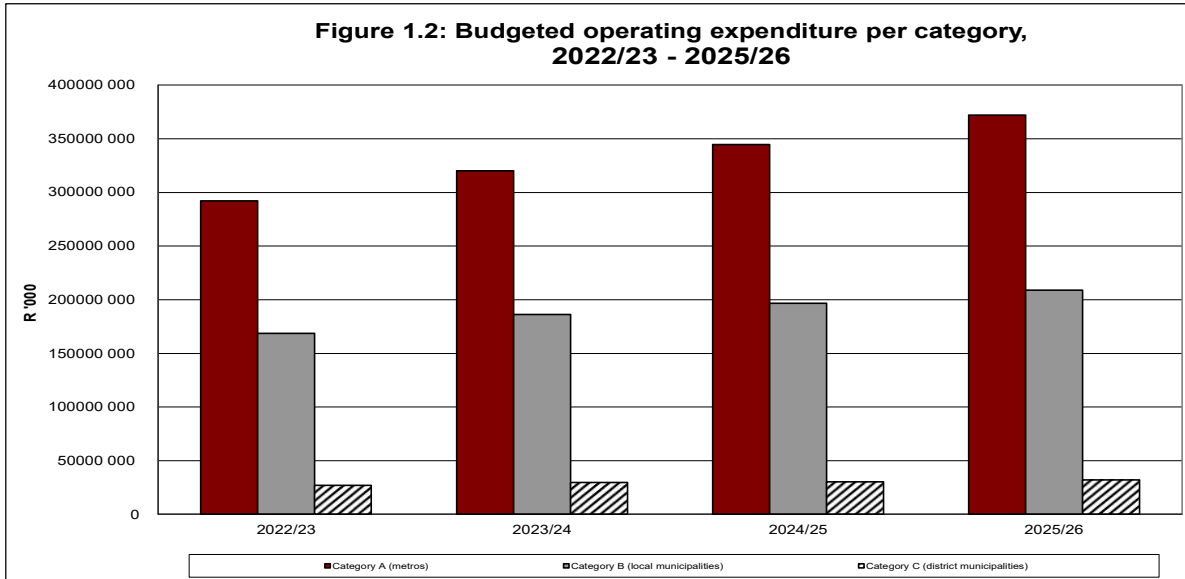
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ANNEXURE C



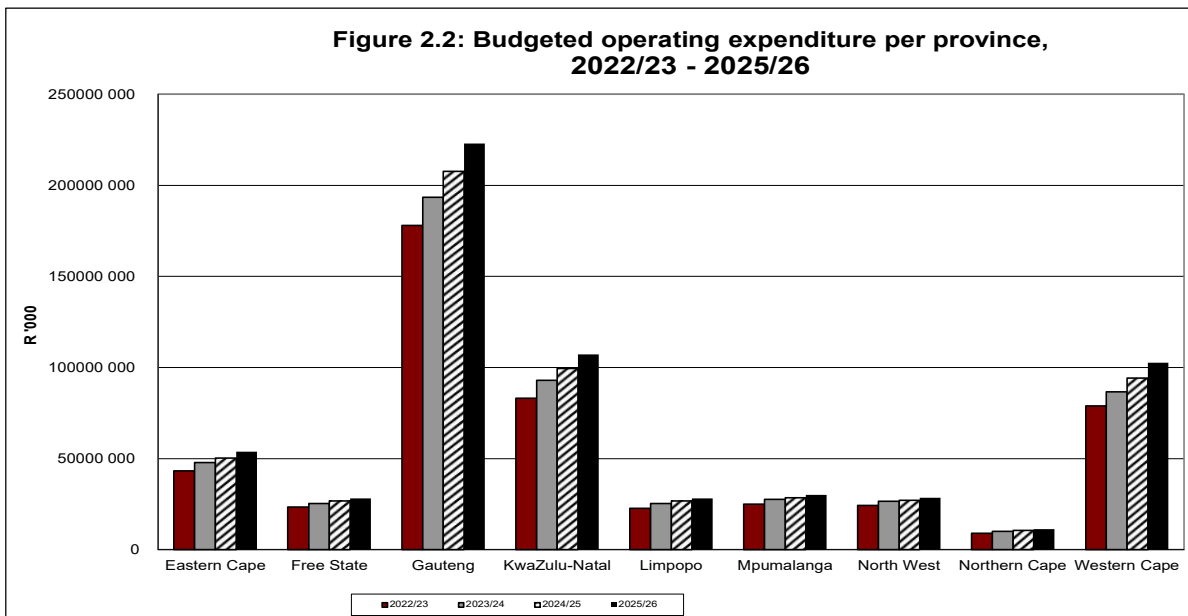
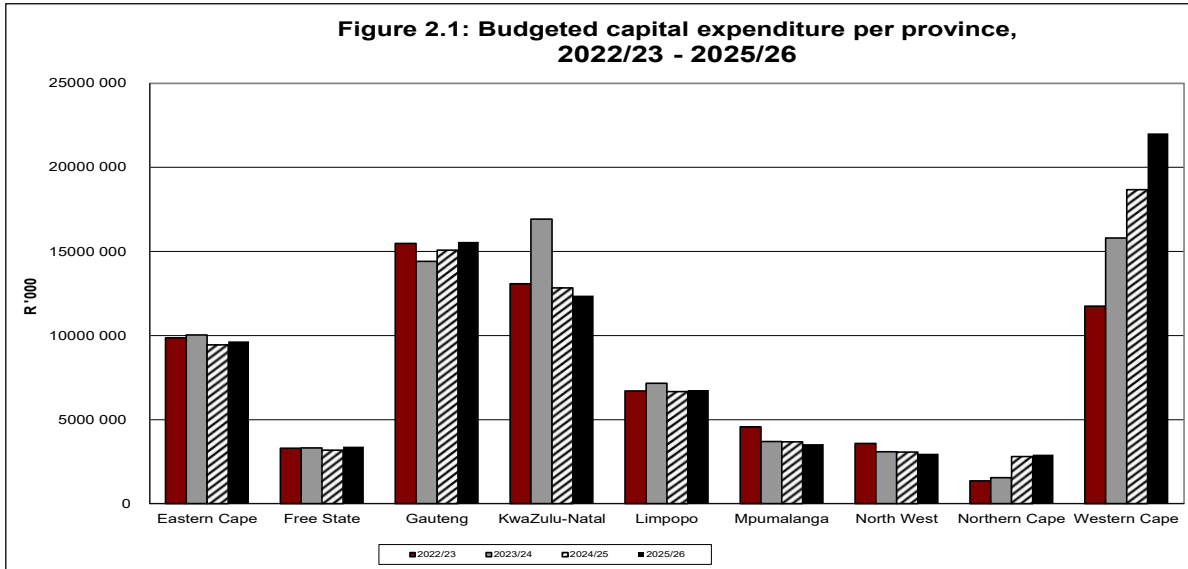


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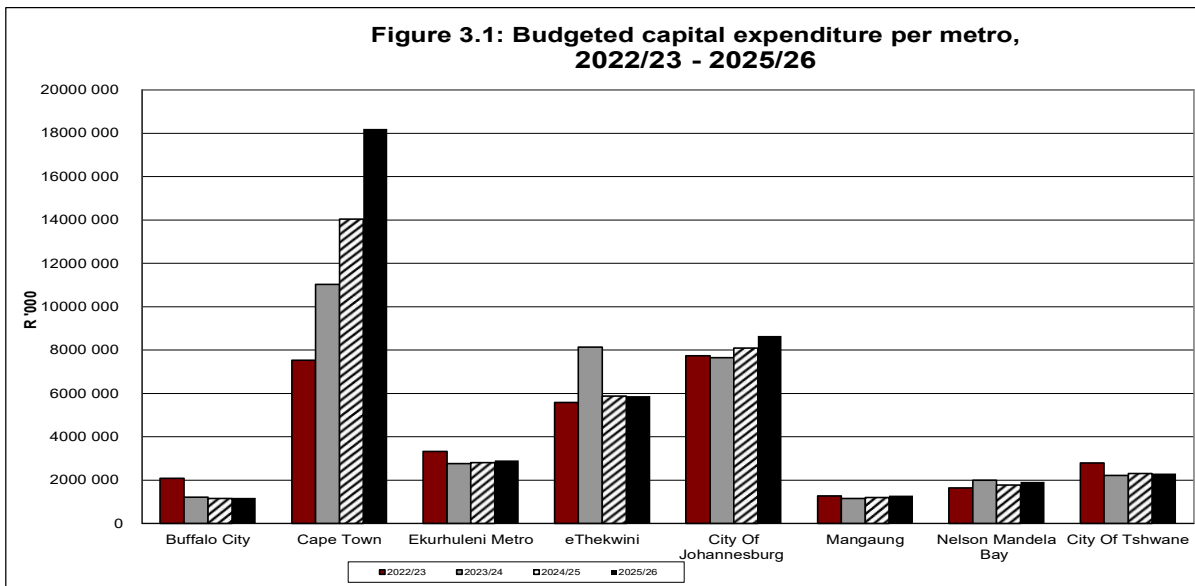
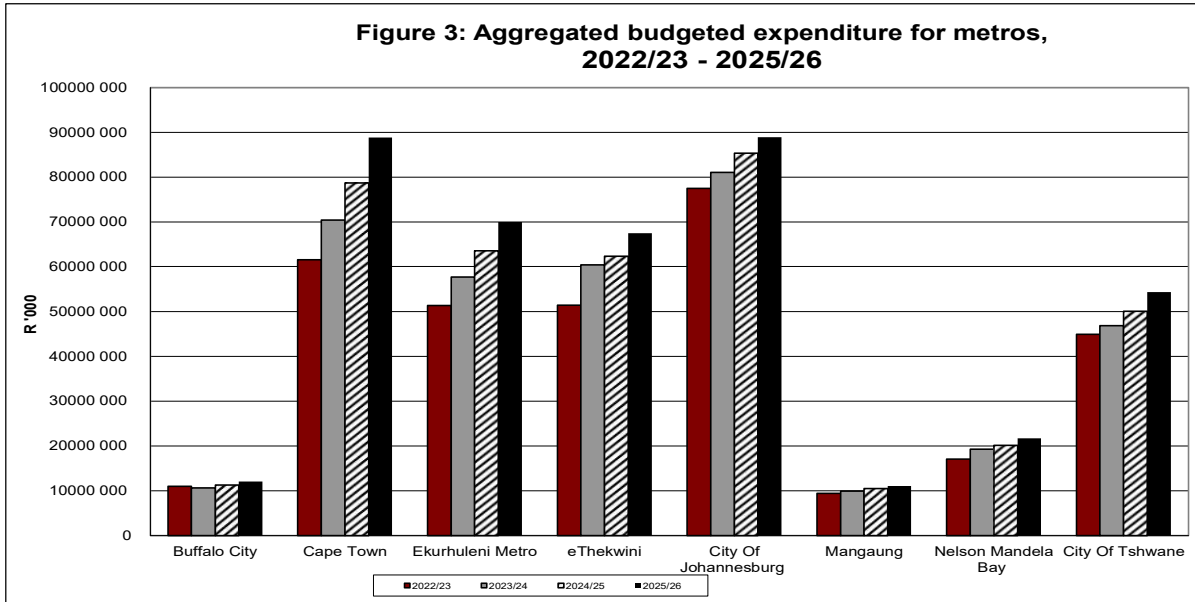


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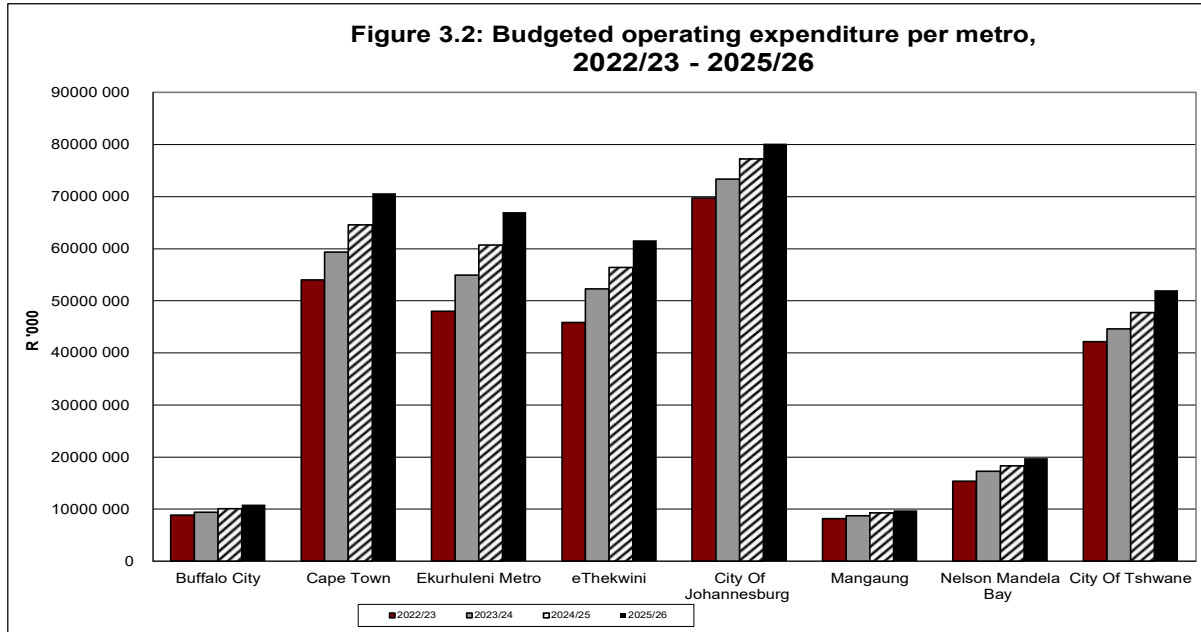


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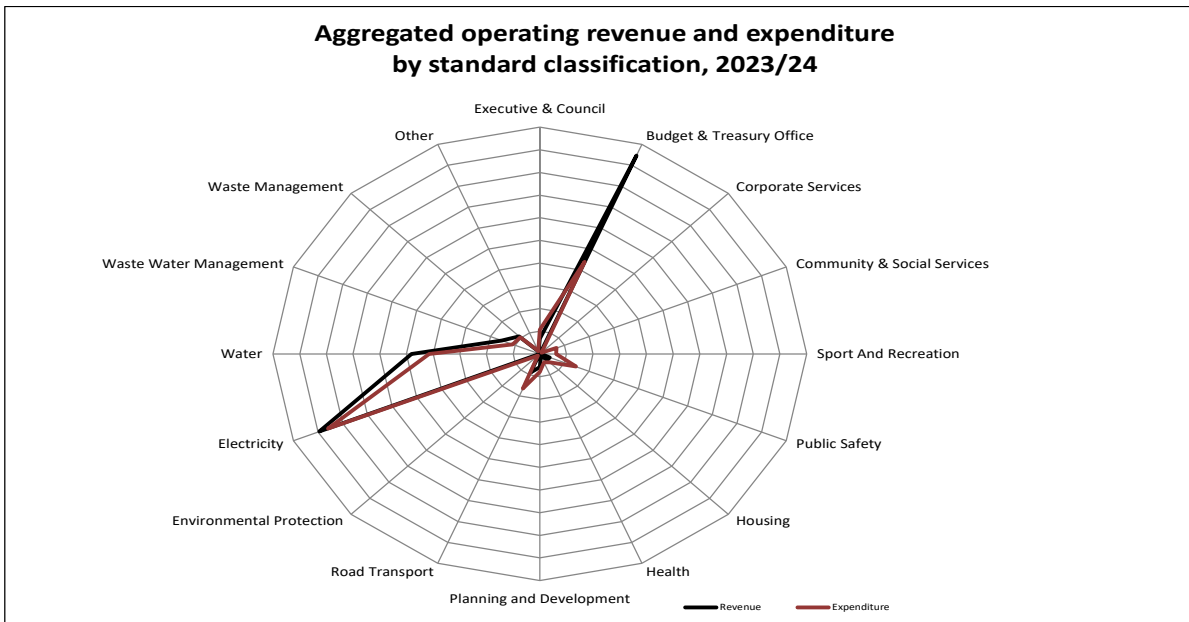
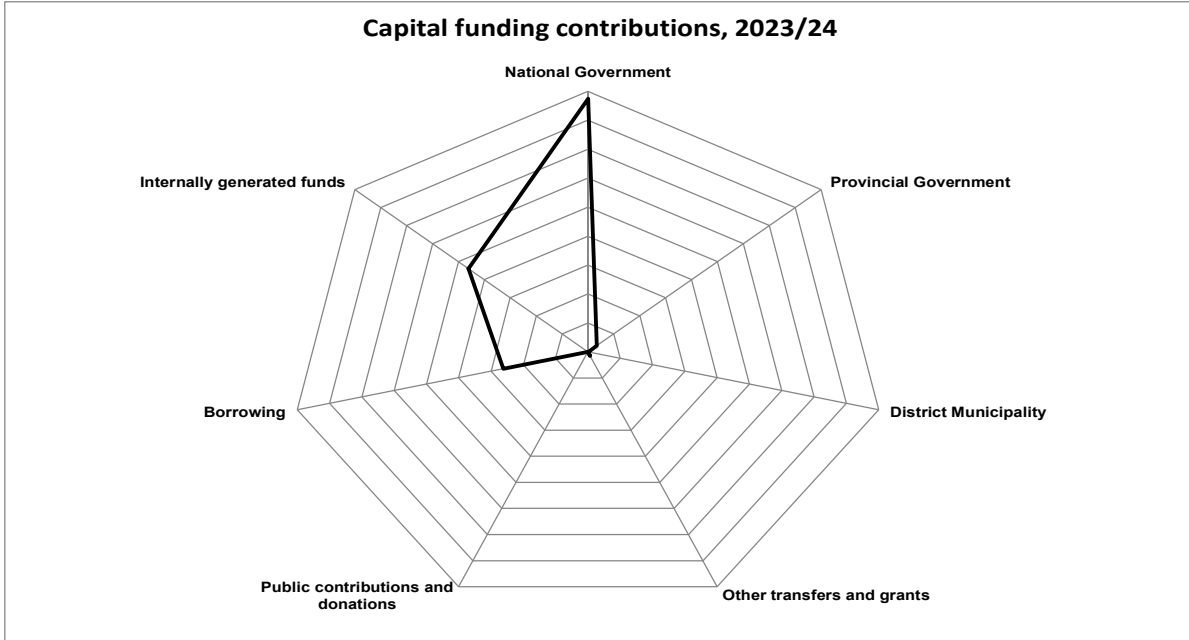


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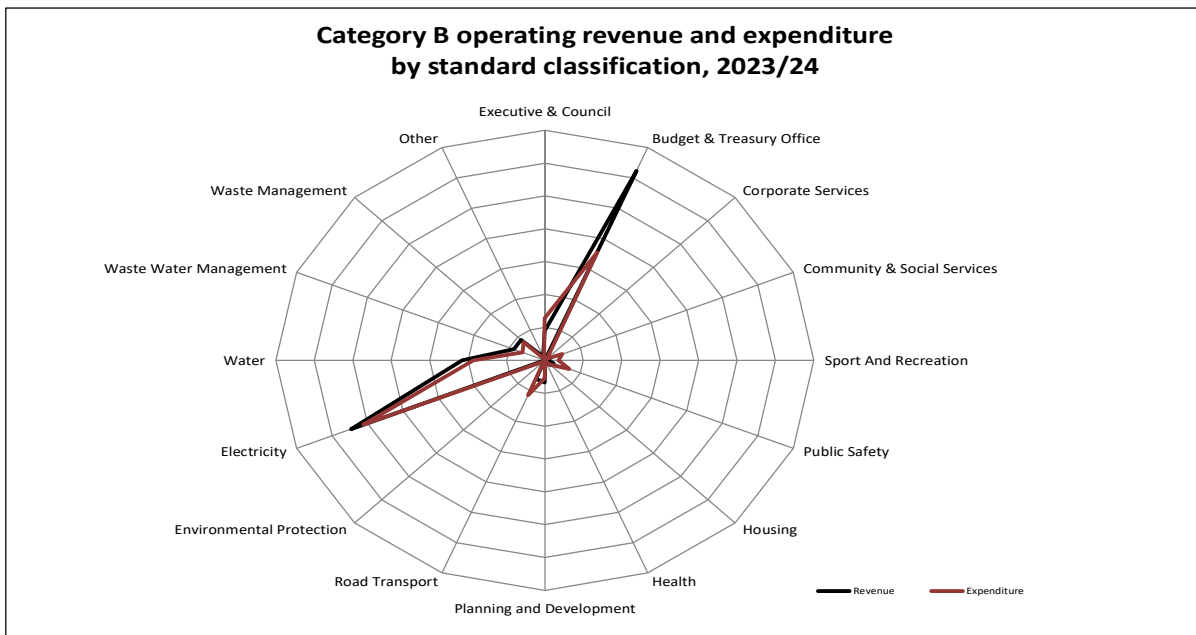
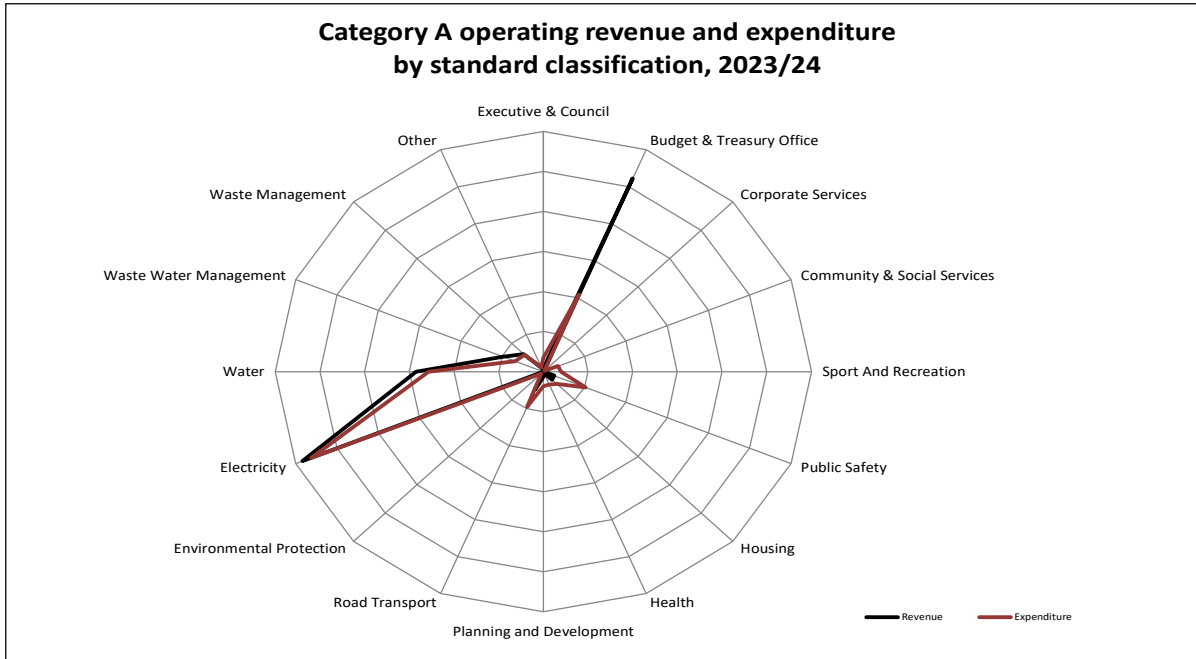


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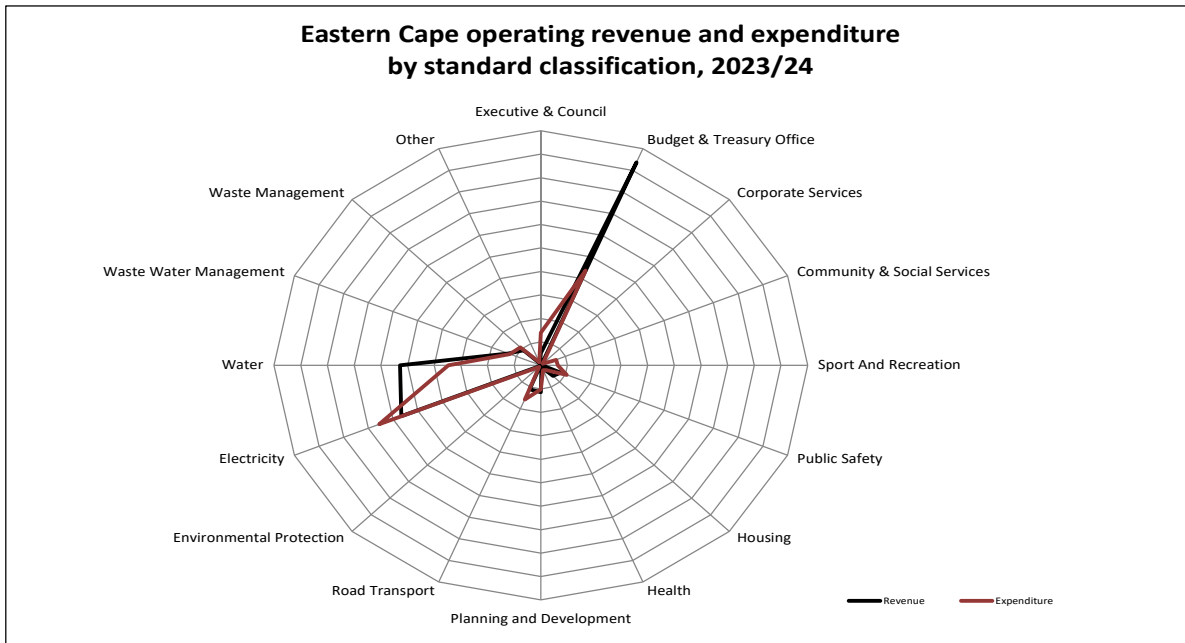
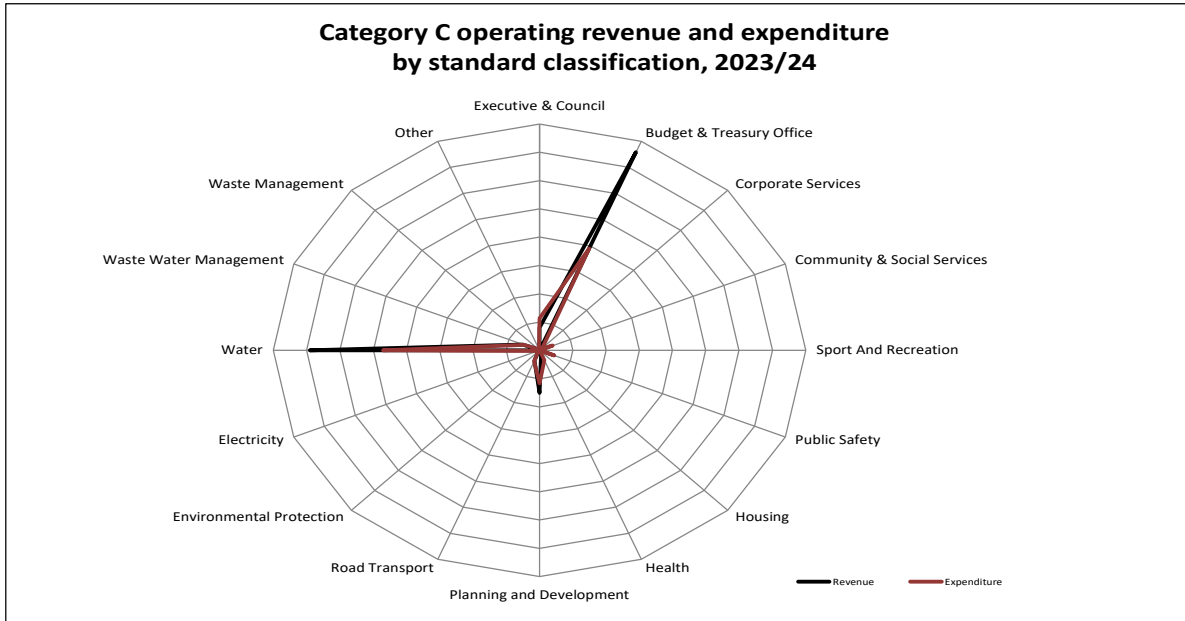


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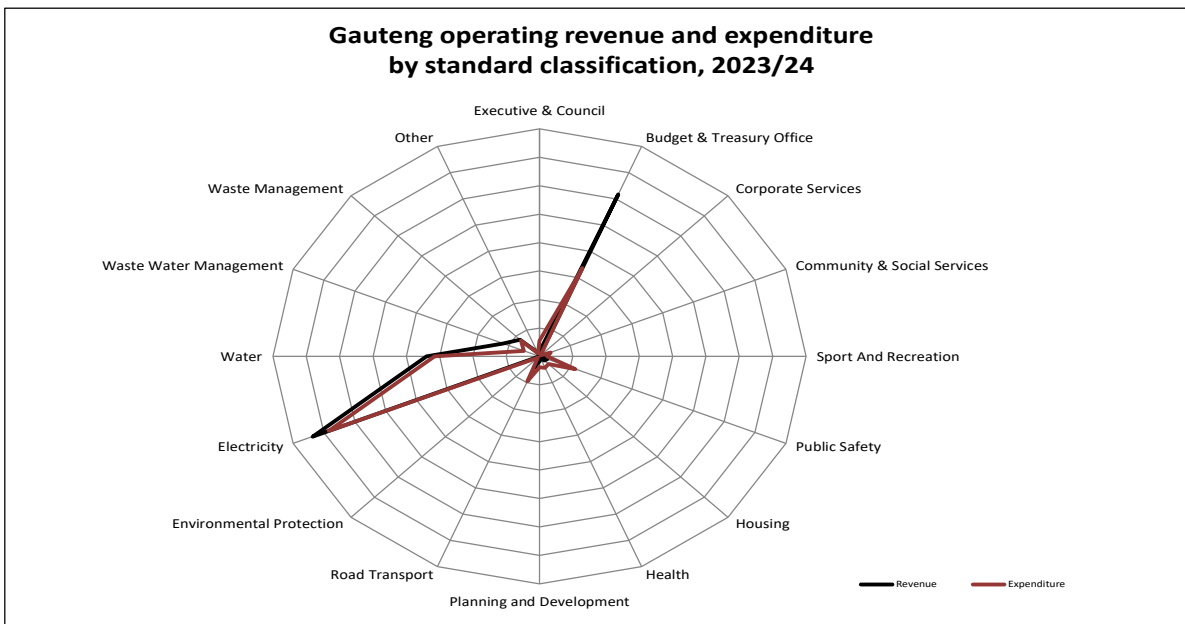
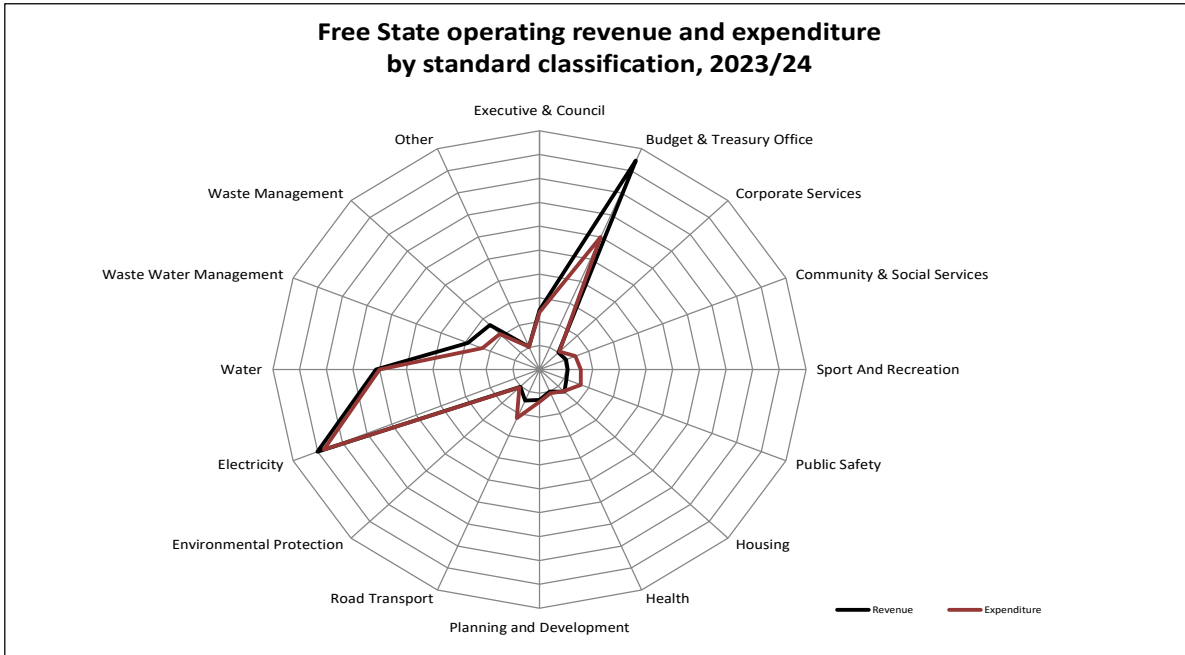


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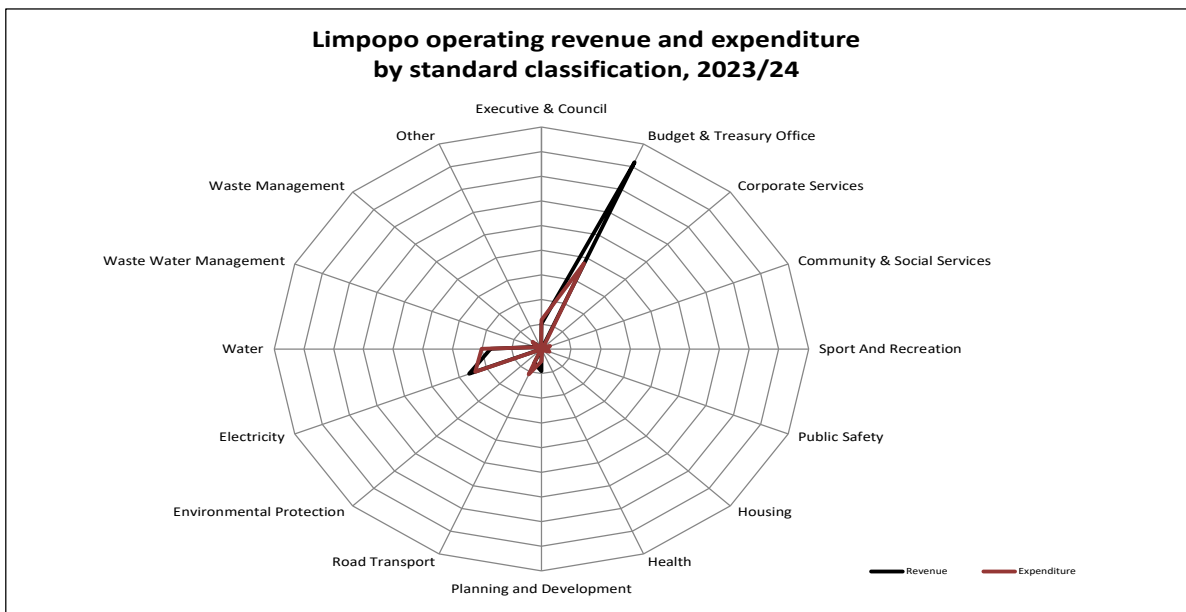
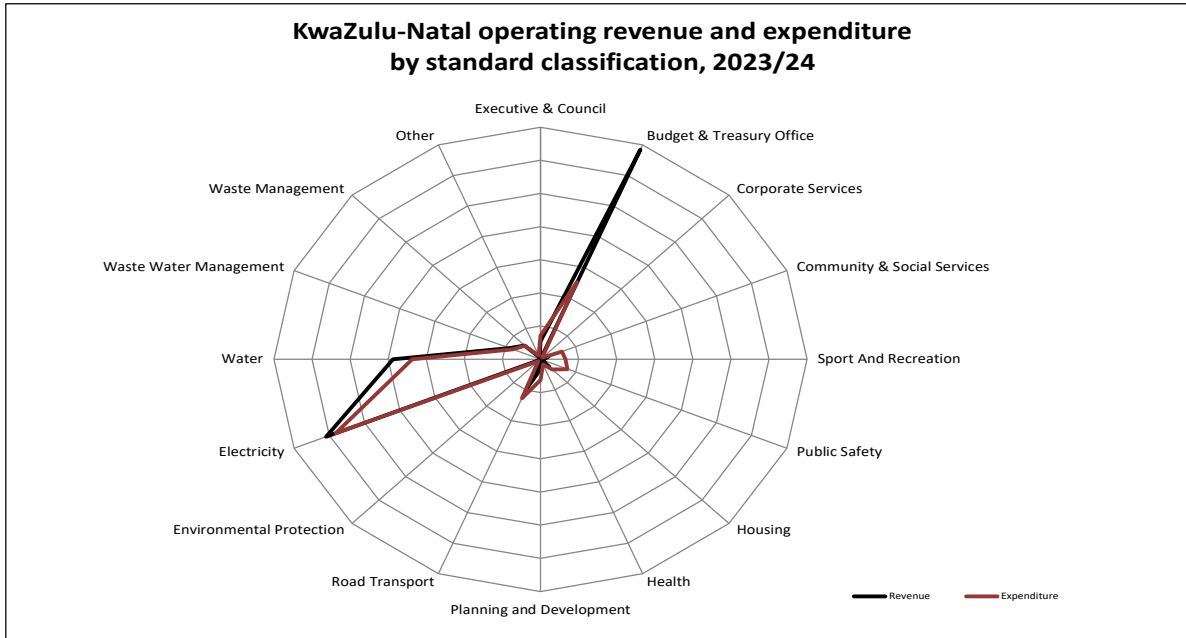
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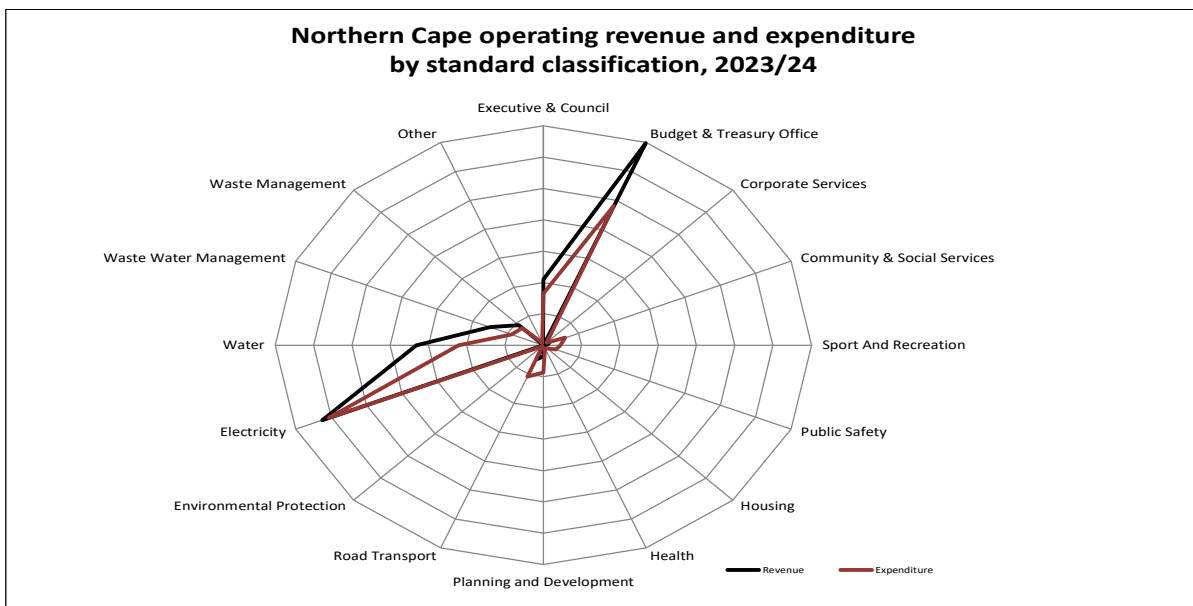
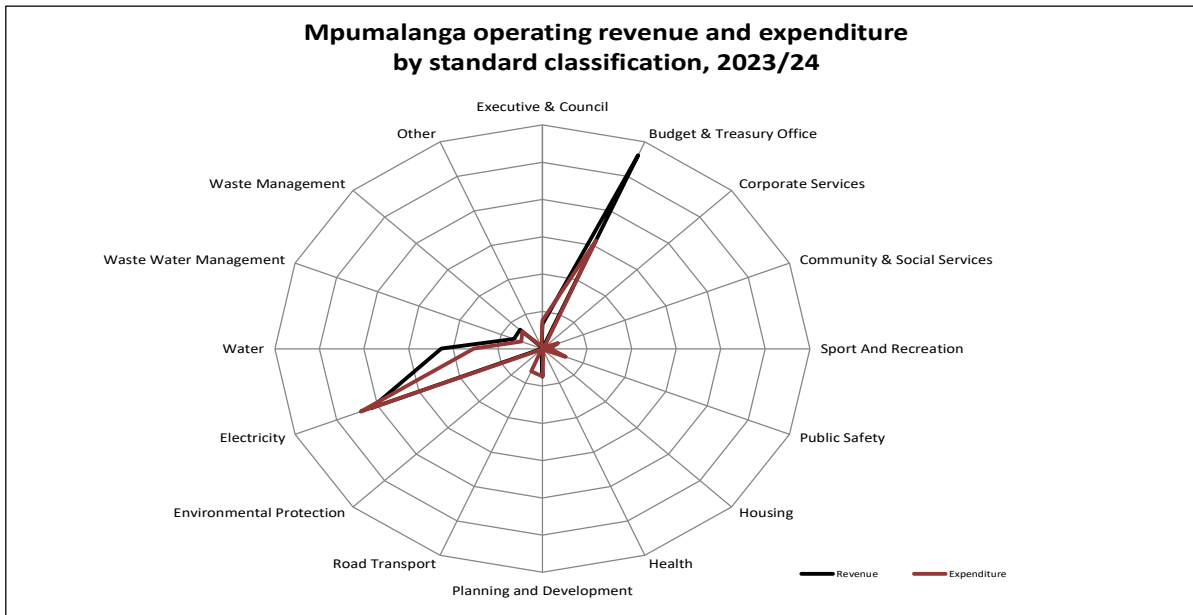


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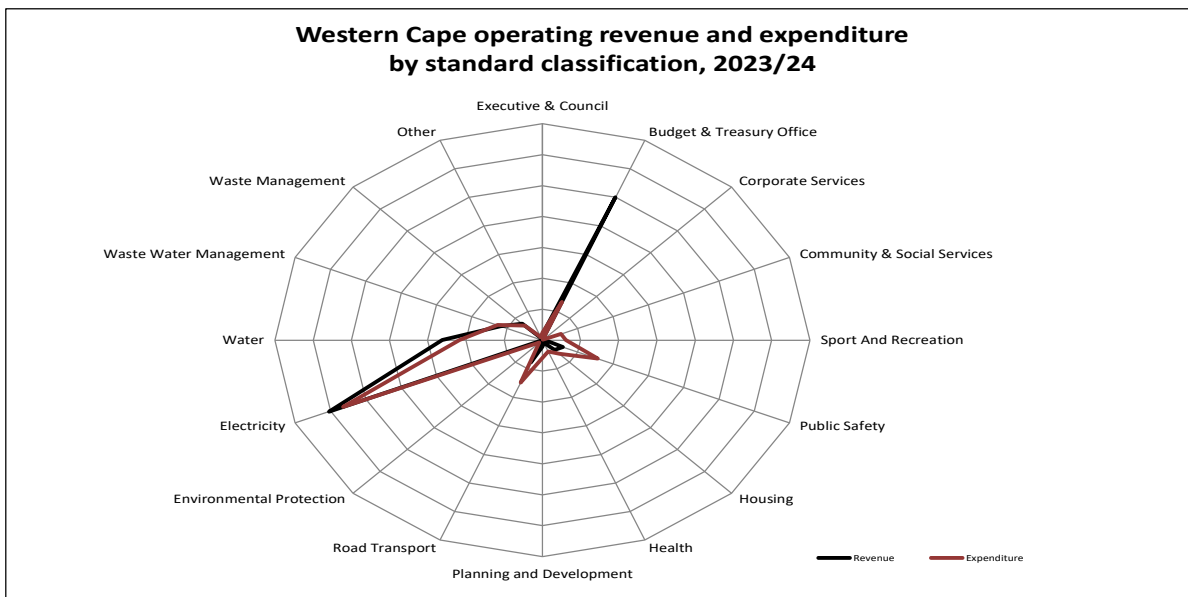
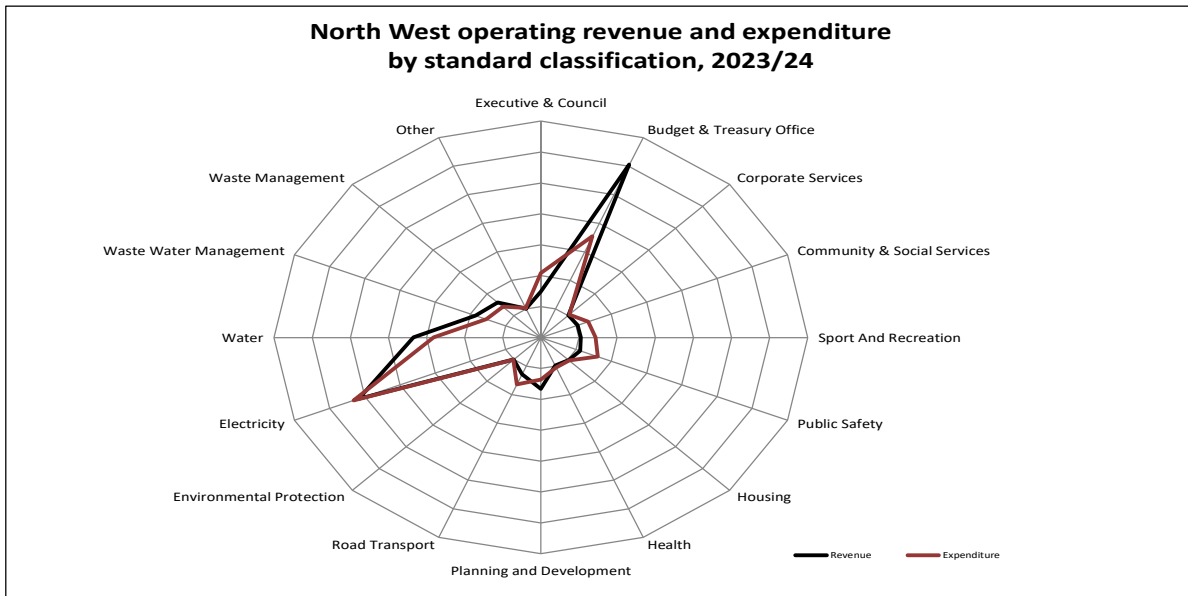
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