
MEDIA STATEMENT

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

The National Treasury has today published the operating and capital budgets of municipalities as adopted by their respective councils on its website. These budgets give an overview of expected revenue and expenditure trends in local government over the next three years, referred to as the 2017/18 Medium Term Revenue and Expenditure Framework (MTREF). The revenue and expenditure numbers are aggregated from the annual budgets that municipal managers are legally required to submit to the National Treasury and the relevant provincial treasury.

The published information is presented in a variety of ways, including aggregated municipal budget totals for the 2017/18 financial year and over the medium term period. In addition, the information is presented per category of municipality and per province. Highlights include:

- *In aggregate, budgeted revenue for 2017/18 is R386 billion, which is expected to increase to R410 billion in 2018/19 and R438 billion in 2019/20.*
- *Total municipal expenditure in 2017/18 is estimated to be R417 billion, increasing to R439 billion in 2018/19 and R467 billion in 2019/20. Expenditure for 2017/18 is 5.8 per cent higher than the 2016/17 MTREF.*
- *In the 2017/18 financial year, a net deficit of R3.3 billion is expected, a position that remains in deficit of R1.4 billion in 2018/19 and R717 million in 2019/20.*
- *Municipal operating expenditure on the trading services consisting of water, electricity, waste water management and waste management is budgeted to increase from R166 billion in 2016/17 to R174 billion in 2017/18. In 2017/18 this equates to just over half the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R110 billion of the aggregated operating expenditure of R346 billion or 32 per cent. Bulk purchases are expected to grow to R127 billion by 2019/20 representing 32.2 per cent of total operating expenditure; bulk purchase of electricity from Eskom is a significant contributing factor to this growth.*
- *Reporting on operational repairs and maintenance figures has been institutionalised as part of Section 71 in-year reporting. R21.5 billion will be allocated in 2017/18 to*

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

- *Capital expenditure has increased by 1.7 per cent compared to the 2016/17 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 16.9 per cent in 2017/18, 15.8 per cent in 2018/19 and 15.9 per cent in 2019/20.*
- *Total capital expenditure for 2017/18 is R70.6 billion and comprises R31.7 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will increase to R32.1 billion and increase to R33.9 billion in the outer years of the MTREF.*
- *The 2017/18 capital budget reflects a R45.3 billion investment in new infrastructure which is 64.1 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R25.3 billion or 35.9 per cent of the capital budget.*

The National Treasury publishes local government MTREF information on an annual basis. Regularly published budget information enables communities to hold their municipal councils to account. The information is also used by National Treasury as the basis for the In-year Management, Monitoring and Reporting System for Local Government (IYM). The Section 71 reports published by the National Treasury give an account of actual revenue collection and spending by municipalities per quarter against their budgeted figures. All this information feeds into the Municipal Money open local government data portal and can be accessed as follows: www.municipalmoney.gov.za. In addition, the Municipal Money raw data can be accessed directly from <http://municipaldata.treasury.gov.za>.

To improve the quality of reporting, the Municipal Budget and Reporting Regulations promulgated in 2009 prescribed new budget reporting formats for municipalities. In terms of the 2009 regulations, municipalities must submit their 2017/18 MTREF budgets in the prescribed A1 Schedules as per the regulations.

All of the 257 municipalities conformed to the prescribed reporting formats as per the Municipal Budget and Reporting Regulations. Also the number of municipalities whose electronically submitted budgets reconciled with the actual budget approved by their councils has increased. While **231** of **257** (90 per cent) municipalities managed to achieve this reconciliation last year, for the 2017/18 MTREF **238** of **257** (93 per cent) municipalities were verified as reconciling. Efforts will continue to ensure all municipalities meet requirements and to further improve the quality of budget information.

Annexure A sets out the full list of information that can be found on the website, and a high level summary of information in terms of category of municipality and per province. **Annexure B** contains a sets key graphs articulating in numbers in graphical format. Go to www.treasury.gov.za/mfma for more information.

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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 2017/18, 2018/19 and 2019/20 financial years for all municipalities and are summarized in a variety of ways including analyses per municipal category and per province.
- This information is deemed to be critical for policy makers, researchers and sector specialists. It is anticipated that the dissemination of this information will assist in improving municipal accountability and will also serve as the basis for strengthening the In-year Management, Monitoring and Reporting System for Local Government (IYM)(Section 71 of the MFMA).
- In terms of the process, Municipal Managers and Chief Financial Officers are required to submit their adopted budgets and supporting schedules as well as budget related electronic returns to the National Treasury by the latest 29 September 2017. Any queries on the figures in these statements should therefore be referred to the relevant Municipal Manager or Chief Financial Officer.
- A municipal budget must be funded in terms of Section 18 of the MFMA before a municipal Council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year and cash backed surpluses of previous years. It is a common practice amongst most municipalities when preparing their annual budgets to overstate or inflate revenue projections, either to reflect a surplus or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Hence, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue and therefore finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
- This 2017/18 MTREF publication covers 256 municipalities.

The full list of information published:

- Aggregated/consolidated municipal 2017/18 MTREF information;
- A set of related graphs;
- Summary of expenditure by function;
- Summary of large expenditure items;
- A. Medium-term budget (three-year budget perspective of the summarised operational and capital appropriations);
- B. Municipal Budget and Reporting Regulations format (Summary of financial dimensions);
- C. Municipal Budget and Reporting Regulations format (Detail of schedules A2 to A10):
 - o Schedule A2 (Standard Classification);
 - o Schedule A4 (Statement of Financial Performance);
 - o Schedule A5 (Capital Budget);
 - o Schedule A6 (Statement of Financial Position);
 - o Schedule A7 (Cash Flow Budget/Position);
 - o Schedule A9 (Asset Management);
 - o Schedule A10 (Free Basic Services); and
 - o Combined Schedules A1 to A10.
- D. Changes to Baseline;
- E. Summary of Growth Rates;
- F. Budgeted Ratios;
- G. Additional Information;
- H. Outcome of Municipal Budget Benchmarking; and
- I. Audited results for 2015/16.

HIGH LEVEL ANALYSIS OF THE 2017/18 MTREF:

1. The analysis below is restricted to the aggregated expenditure by category of municipality, an overview of the budgets of the eight metropolitan councils, the secondary cities (next top 19 municipalities in terms of budget size) and a summary of municipal budgets per province. The supporting tables published on the National Treasury's website provide more information by type of expenditure item and other operational information. Information on each municipality's 2017/18 budget and MTREF is also published on the National Treasury website.

Aggregated operating and capital budget

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

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

¹Excludes Taxation

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

Source: National Treasury Local Government Database

2. Total revenue is estimated to be R386 billion, R410 billion and R438 billion while total expenditure estimates are R417 billion, R439 billion and R467 billion for each of the respective financial years of the 2017/18 Medium-term Revenue and Expenditure Framework (MTREF).
3. External loans (borrowing) and internally generated funds have been excluded from total revenue in the table above. Although a funding source for the capital budget, the inclusion of borrowing would artificially inflate total revenue as would internally generated funds. Municipalities generate internal funding in two ways; either by historic cash backed reserves (generated in previous financial years through revenue) or current year surpluses (generated through current revenue – operating surpluses).
4. Over the MTREF period municipalities intend to raise external loans (borrowing) of R41 billion to fund infrastructure development while contributing R43 billion through internally generated funding to infrastructure development.
5. It appears as if municipalities will not generate enough revenue to cover their operational expenses in 2017/18. The operational deficit is R3.3 billion which has decreased to R1.4 billion in 2018/19 and to R717 million in 2019/20.

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

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

¹Excludes taxation

Source: National Treasury Local Government database

6. It needs to be noted that municipalities are on the 'accrual' basis of accounting and as a result the operating statement of financial performance represents the intended billings and other revenue receipts and not actual collections (cash in the bank). The degree to which billings and other revenue translate into actual cash is highly dependent on the management of the municipal revenue value chain and credit control processes.

Aggregated operating and capital budget per municipal category

Table 3: Aggregated Operating and Capital revenue per category, 2016/17 - 2019/20

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

¹Revenue excludes capital transfers

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

Source: National Treasury Local Government Database

7. Table 3 shows the aggregated budgeted revenue by category of municipality over the 2017/18 MTREF period. In aggregate, the budgeted total revenue for 2017/18 has increased by 5.8 per cent from R365 billion in 2016/17 to R438 billion in 2019/20. Operating revenue increased by 5.9 per cent while capital growth is 4.9 per cent when compared to 2016/17. The increase in operating revenue appears to be over optimistic given the current economic climate and the actual collection rate realised by municipalities.
8. In the outer years of the 2017/18 MTREF period, aggregated growth is 5.9 per cent and 6.5 per cent respectively. Capital revenue shows a decrease of 1.2 per cent in 2018/19 and an increase of 4.4 per cent in 2019/20.
9. Total gross revenue raised by Category A (metros) municipalities accounts for 58.8 per cent of the total aggregated revenue in 2017/18. This increases to 60 per cent by 2019/20 indicating that the eight metros account for slightly less than two-thirds of total aggregated revenue raised by local government. This supports the notion that metros have a larger fiscal capacity (ability to raise/bill revenue) when compared to other categories of municipalities.
10. The percentage share of total aggregated revenue for Category B and C municipalities starts to decline slightly over the 2017/18 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 33.5 per cent of total aggregated revenue while Category C (districts) municipalities contribute approximately 7 per cent.
11. District municipalities are primarily funded from the National Fiscus and are highly grant dependent with only some districts being allocated the powers and functions to provide water services. Hence, the growth in the revenue of district municipalities will be modest.
12. Table 4 shows the total budgeted expenditure by category of municipality over the 2017/18 MTREF period. In aggregate, budgeted total municipal expenditure has grown by 18.4 per cent from R394.5 billion in 2016/17 to R467.1 billion in the 2019/20 financial year with growth in operating expenditure contributing 21.3 per cent and growth in capital expenditure is 4.8 per cent.

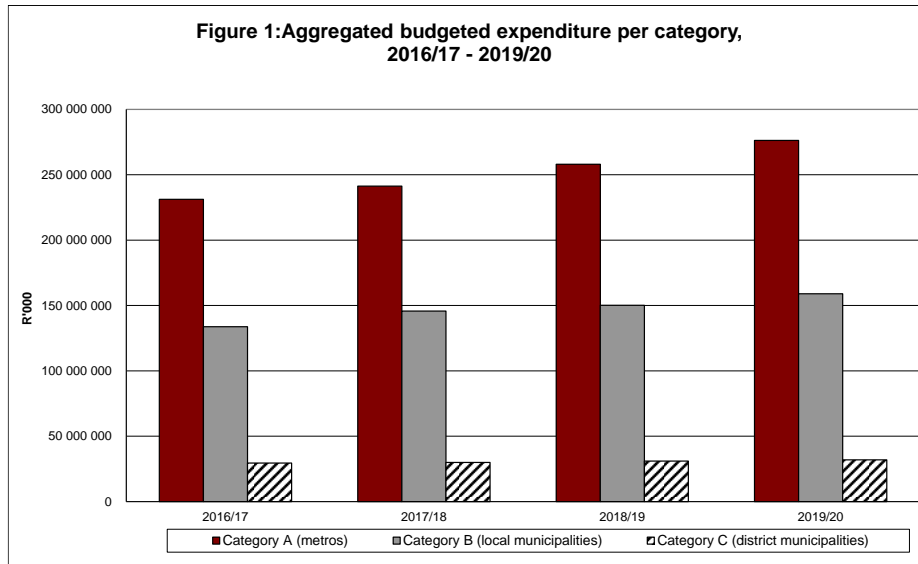
Table 4: Aggregated Operating and Capital expenditure per category, 2016/17 - 2019/20

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

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

Source: National Treasury Local Government Database

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



14. The total expenditure budget of the eight metros as a share of the total local government budget for the 2017/18 financial year constitutes 57.9 per cent, whereas local municipalities represent 35 per cent. District municipalities represent only 7.2 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing an estimated 59.1 per cent to total expenditure by 2019/20.
15. The contribution of capital expenditure to the total expenditure remains between 15 and 18 per cent with 17.6 per cent in 2016/17, 16.9 per cent in 2017/18, 15.9 per cent in 2018/19 to 15.6 per cent in 2019/20. This performance is well within the National Treasury norm of between 10 and 20 per cent and suggests that in general municipalities are improving on their ability to plan for a longer term.
16. Operating expenditure in aggregate represents 83.1 per cent in 2017/18, increases to 84.1 per cent in 2018/19 and 84.4 per cent in 2019/20 of the overall budget of municipalities. The minor increases in operating expenditure for the outer years of the MTREF do not appear to make sufficient provision for the anticipated increases in remuneration and the purchase of bulk electricity. These expenditure categories represent a large proportion of municipal operating expenditure.

Detailed capital expenditure and funding

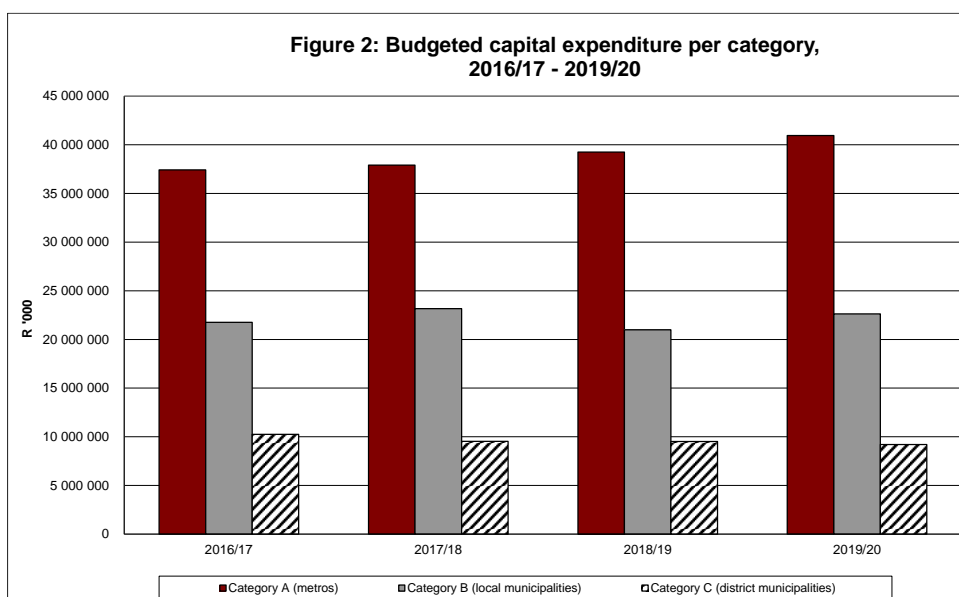
Table 5: Budgeted capital expenditure and funding, 2016/17 - 2019/20

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

Source: National Treasury Local Government Database

17. The 2017/18 capital budget reflects a R45.3 billion investment in new infrastructure which is 64.1 per cent of the total aggregated capital budget; 6.9 per cent less than in 2016/17. Investment in the renewal of existing assets is appropriated at R25.3 billion or 35.9 per cent of the capital budget, significantly higher than the previous year but remains consistently below the 60:40 ratio prescribed between new and renewal capital expenditure.
18. Monthly reporting on operational repairs and maintenance figures has now been institutionalised as part of Section 71 in-year reporting framework. R21.5 billion of operating expenditure will be allocated in 2017/18 to the repairs and maintenance of assets. This will increase to R23.2 billion

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



Aggregated operating and capital budget per municipality per province

19. Table 6 and 7 show the aggregated budgeted revenue and expenditure by province over the 2017/18 MTREF period.
20. A provincial analysis reveals that Gauteng with 11 municipalities (including three metros and two secondary cities) has the highest capital budget for 2017/18 estimated at R20.4 billion or 28.9 per cent of the total municipal capital budget. This is followed by KwaZulu-Natal with 54 municipalities (including one metro and three secondary cities) at an estimated R14.6 billion or 20.6 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R10.1 billion or 14.3 per cent. This trend remains unchanged over the duration of the MTREF.
21. The national per capita spending average is estimated to be R7 491 in 2017/18. Only two provinces will exceed this national average in 2017/18, namely Gauteng at R10 816 and Western Cape at R10 525 per capita. The trend line suggests increases over the MTREF reaching R8 394 per capita by 2019/20.
22. The high per capita spending in the Gauteng and Western Cape provinces are probably due to the fact that both of these provinces are home to a significant proportion of the country's economic activity – this tends to increase spending on traded items like electricity and water, which then distorts the per capita analysis. In addition, the per capita expenditure numbers will be higher in those provinces where service delivery backlogs are the lowest and there are a higher proportion of affluent households.
23. It should also be noted that this calculation is based on the Community Survey, 2016 released by Statistics South Africa.

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

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

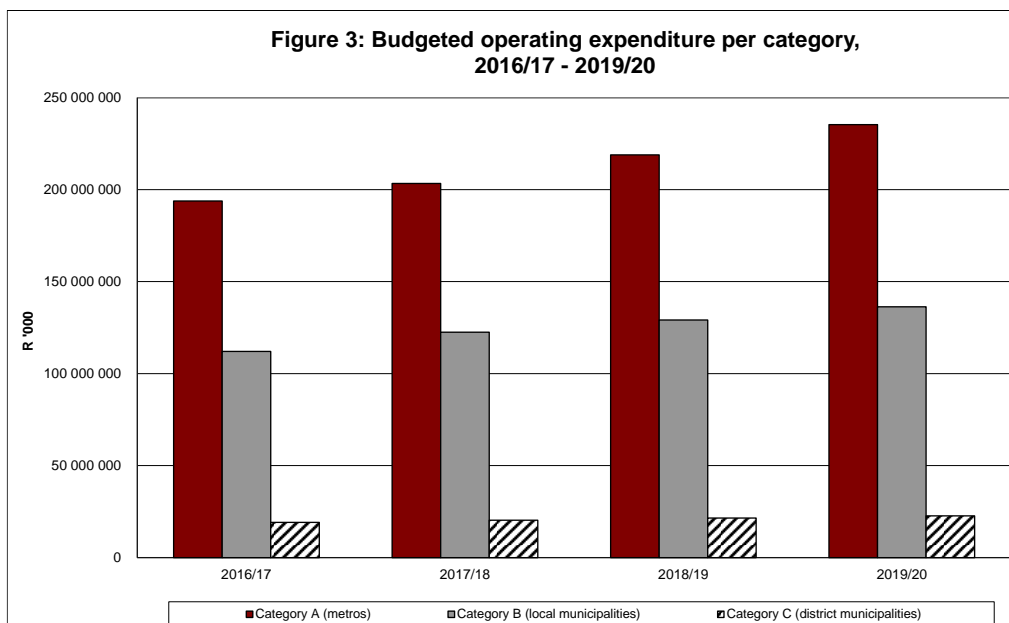
¹ Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

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

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

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



Aggregated operating and capital budget for metros

24. The aggregated budgeted revenue for all metros over the 2017/18 MTREF period is contained in Table 8. Total revenue increased from R212.5 billion in 2016/17, to R222.7 billion in 2017/18, R239.5 billion in 2018/19 and to R257.4 billion in 2019/20, reflecting a total increase of 7.5 and 7.4 per cent in the two outer years of the MTREF.
25. The table also shows the revenue budget of each metro as a percentage of the aggregated budget. The revenue comparison reflects the size of each metro relative to others. This generally remains constant over the MTREF with the City of Johannesburg topping the list at 23.7 per cent for 2017/18 followed by the Cape Town at 18.7 per cent and eThekweni at 16.8 per cent. Three metros, namely Nelson Mandela Bay, Buffalo City and Mangaung are comparatively small with total revenue at 4.5, 3.2 and 3.1 per cent respectively.

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

R thousand	2016/17			2017/18			2018/19			2019/20		
	Capital	Operating ¹	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 558 134	5 907 039	7 465 173	1 646 166	6 200 028	7 846 195	2 217 380	6 633 460	8 850 840	2 391 370	7 024 275	9 415 646
Cape Town	6 774 256	34 520 879	41 295 135	7 023 203	38 292 542	45 315 745	6 724 098	41 649 306	48 373 404	7 007 223	45 032 523	52 039 746
Ekurhuleni Metro	5 130 961	32 378 969	37 509 931	6 715 956	32 294 898	39 010 854	6 938 677	35 211 491	42 150 168	7 440 702	38 485 168	45 925 870
eThekweni	6 725 067	31 267 560	37 992 627	7 340 084	33 384 656	40 724 740	7 225 045	36 156 713	43 381 758	7 750 324	39 061 131	46 811 455
City Of Johannesburg	9 543 581	46 175 187	55 718 768	8 589 421	48 849 779	57 439 200	9 450 731	53 042 861	62 493 592	8 958 526	56 618 375	65 576 901
Mangaung	1 806 094	6 641 627	8 447 721	1 139 436	6 275 571	7 415 008	1 251 942	6 783 991	8 035 933	1 302 452	7 431 753	8 734 205
Nelson Mandela Bay	1 416 400	9 535 857	10 952 257	1 601 891	9 363 536	10 965 427	1 613 792	10 197 685	11 811 477	1 691 246	11 054 320	12 745 566
City Of Tshwane	4 465 209	30 209 869	34 675 078	3 860 284	30 226 013	34 086 298	3 823 936	31 964 001	35 787 937	4 406 281	33 967 882	38 374 163
Total	37 419 702	196 636 987	234 056 690	37 916 441	204 887 025	242 803 466	39 245 601	221 639 509	260 885 110	40 948 124	238 675 427	279 623 551
Less												
External loans / borrowing	10 055 854	-	10 055 854	11 425 976	-	11 425 976	11 683 540	-	11 683 540	13 047 551	-	13 047 551
Internally generated funds	11 523 863	-	11 523 863	8 639 890	-	8 639 890	9 661 178	-	9 661 178	9 213 788	-	9 213 788
Total revenue	15 839 986	196 636 987	212 476 973	17 850 576	204 887 025	222 737 601	17 900 883	221 639 509	239 540 392	18 686 785	238 675 427	257 362 212
% of total revenue												
Buffalo City	0.7%	2.5%	3.2%	0.7%	2.6%	3.2%	0.8%	2.5%	3.4%	0.9%	2.5%	3.4%
Cape Town	2.9%	14.7%	17.6%	2.9%	15.8%	18.7%	2.6%	16.0%	18.5%	2.5%	16.1%	18.6%
Ekurhuleni Metro	2.2%	13.8%	16.0%	2.8%	13.3%	16.1%	2.7%	13.5%	16.2%	2.7%	13.8%	16.4%
eThekweni	2.9%	13.4%	16.2%	3.0%	13.7%	16.8%	2.8%	13.9%	16.6%	2.8%	14.0%	16.7%
City Of Johannesburg	4.1%	19.7%	23.8%	3.5%	20.1%	23.7%	3.6%	20.3%	24.0%	3.2%	20.2%	23.5%
Mangaung	0.8%	2.8%	3.6%	0.5%	2.6%	3.1%	0.5%	2.6%	3.1%	0.5%	2.7%	3.1%
Nelson Mandela Bay	0.6%	4.1%	4.7%	0.7%	3.9%	4.5%	0.6%	3.9%	4.5%	0.6%	4.0%	4.6%
City Of Tshwane	1.9%	12.9%	14.8%	1.6%	12.4%	14.0%	1.5%	12.3%	13.7%	1.6%	12.1%	13.7%

¹ Operating revenue excluding capital transfers

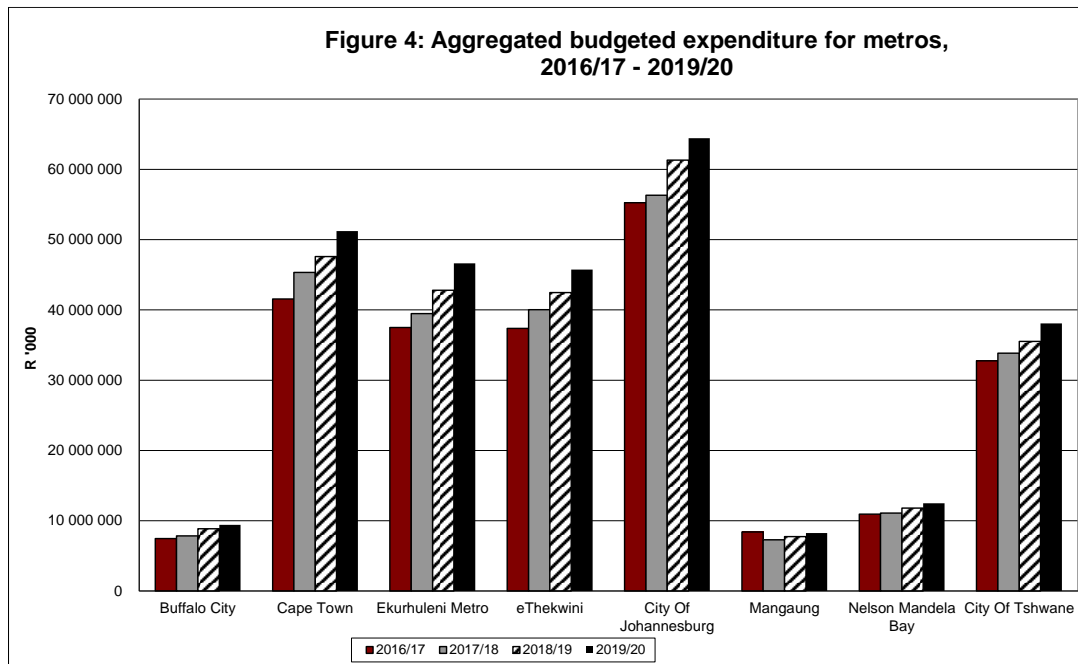
Source: National Treasury Local Government Database

26. The capital budget of the metros constitutes 53.7 per cent of the total municipal capital budget for 2017/18 and increases to 56.3 per cent of total municipal capital expenditure by 2019/20. This is about the same percentage as the previous year and highlights the overall importance of the metros in driving economic growth and job creation as metros are widely considered growth engines of the economy.

Table 9: Aggregated Operating and Capital expenditure for metros, 2016/17 - 2019/20

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

Source: National Treasury Local Government Database



27. Operating expenditure by metros accounts for more than half (58.7 per cent) of total municipal operating expenditure over the 2017/18 MTREF.
28. Table 9 also shows that the City of Johannesburg, eThekweni and Cape Town have the largest capital budgets at 3.6, 3.0 and 2.9 per cent of the aggregated total budget for metros. They are closely followed by the Ekurhuleni Metro at 2.8 per cent. When the City of Tshwane is benchmarked against the mentioned metros, its capital budget is a mere 1.6 per cent in 2017/18 and stays more or less the same over the MTREF.
29. The amount to be generated by metros through the sale (billing) of core municipal services is reflected in Table 10. The major drivers of revenue in 2017/18 are electricity (R72.6 billion), water (R24.7 billion), waste water management (R10.5 billion) and waste management (R6.7 billion). Over the MTREF, moderate increases are anticipated for electricity which is expected to grow by 8.1 per cent in 2018/19 and 7.7 per cent in 2019/20. These increases in revenue are primarily due to the increase in the bulk price of electricity being passed through to customers which has been factored into the planning assumptions of metros.
30. Over the MTREF this increased revenue does not directly supplement the funding of municipalities as it is offset against the increases associated with bulk purchases.

Table 10: Aggregated budgeted operating revenue for metros for functions, 2016/17 - 2019/20

	Electricity	Water	Waste Water Management	Waste Management
R thousand				
2016/17				
Buffalo City	1 815 256	444 291	339 107	308 375
Cape Town	11 807 918	3 066 664	1 628 277	1 232 929
Ekurhuleni Metro	13 458 637	4 260 889	1 646 274	1 486 709
eThekweni	12 576 060	3 301 439	807 742	572 621
City Of Johannesburg	15 046 932	5 785 951	3 425 653	1 364 135
Mangaung	2 467 426	715 698	244 712	100 097
Nelson Mandela Bay	3 736 584	612 076	478 263	161 097
City Of Tshwane	11 445 635	4 075 549	937 495	1 261 245
Total revenue	72 354 448	22 262 558	9 507 522	6 487 206
2017/18				
Buffalo City	1 806 439	479 127	365 998	336 766
Cape Town	11 942 587	3 933 401	2 092 272	1 341 882
Ekurhuleni Metro	13 027 720	4 087 720	1 355 300	1 214 668
eThekweni	12 787 852	3 825 905	890 031	624 509
City Of Johannesburg	15 905 848	6 865 008	3 890 049	1 479 507
Mangaung	2 237 750	945 264	282 575	109 502
Nelson Mandela Bay	3 748 825	714 594	469 359	174 671
City Of Tshwane	11 159 243	3 799 292	1 180 473	1 410 373
Total revenue	72 616 264	24 650 310	10 526 057	6 691 879
2018/19				
Buffalo City	1 840 400	517 936	397 840	366 064
Cape Town	13 034 828	4 382 678	2 332 091	1 471 173
Ekurhuleni Metro	14 327 264	4 492 404	1 463 724	1 307 061
eThekweni	13 810 005	4 278 679	979 685	680 470
City Of Johannesburg	17 306 963	7 470 615	4 233 225	1 566 798
Mangaung	2 385 444	1 051 097	325 843	118 254
Nelson Mandela Bay	4 029 337	783 848	518 568	186 708
City Of Tshwane	11 794 985	4 015 703	1 247 851	1 512 373
Total revenue	78 529 226	26 992 959	11 498 826	7 208 901
2019/20				
Buffalo City	1 874 999	559 371	432 054	397 546
Cape Town	14 090 638	4 867 839	2 589 072	1 599 278
Ekurhuleni Metro	15 756 488	4 937 228	1 580 822	1 406 545
eThekweni	14 913 885	4 785 161	1 078 462	741 434
City Of Johannesburg	18 609 411	8 092 454	4 585 599	1 651 405
Mangaung	2 542 899	1 153 202	370 749	127 721
Nelson Mandela Bay	4 329 998	859 583	604 919	199 565
City Of Tshwane	12 454 910	4 240 405	1 317 827	1 621 915
Total revenue	84 573 229	29 495 243	12 559 504	7 745 409

Source: National Treasury Local Government Database

31. Table 11 provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R49.2 billion for the purchase of bulk electricity in 2017/18, with an annual growth of 7.3 per cent and 8.0 per cent in the outer years of the MTREF. This is well aligned to the multi-year price determination of 8 per cent as provided for in the current Multi-Year Price Determination approved by NERSA for ESKOM as a result of higher increases approved in preceding years (12.7 per cent for 2015/16 and 9.4 per cent for 2016/17) and is considerably more than the 0.31 per cent prescribed in the NERSA's consultation paper on tariff benchmarking as referred to in MFMA Budget Circular No 86 issued on 8 March 2017. It seems that most municipalities preferred to use the multi-year price determination.
32. When comparing the revenue generated from the sale of electricity to the expenditure incurred on bulk electricity purchases, it may appear as if metros generate a substantial profit from the sale of electricity. However, bulk purchases only constitute on average 67 per cent of the cost of managing and rendering the electricity function. Other operational costs include expenditure on personnel, materials, refurbishment, repairs and maintenance, distribution losses and overhead costs.
33. In illustrating the above point, the increases associated with the sale of electricity in the two outer years of the MTREF are similar to the budgeted increases associated with bulk purchases. There

is a small margin of about 1 per cent between the estimate revenue and the bulk purchases, indicating that the collection rate must be almost **100** per cent to absorb the increase in bulk costs.

34. The net profit on the sale of electricity and water are important revenue sources for metros. This profit margin has been under significant pressure due to the rapid and significant increase in the bulk price of electricity and water resulting in affordability challenges. Municipalities are experiencing a two-fold impact of the high electricity and water tariff increases; lower sale levels owing to changes in consumption patterns and increased bad debt as a result of affordability pressures.

Table 11: Bulk purchase expenditure for metros for functions, 2016/17 - 2019/20

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

Source: National Treasury Local Government Database

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

Aggregated operating and capital budget for secondary cities

36. Tables 12 and 13 depict the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2017 MTREF period.
37. The total budgeted revenue for secondary cities amounts to R55.3 billion in 2017/18 and increases to R62.6 billion by 2019/20. Growth in revenue in the outer years is 5.7 and 7 per cent.
38. The total expenditure budget of secondary cities amounts to R59.2 billion in 2017/18, R61.6 billion in 2018/19 and R65.4 billion in 2019/20 representing a growth of 4.1 per cent and 6.2 per cent in the two outer years of the MTREF. When comparing this to the growth in revenue it appears that the secondary cities are budgeting for surpluses.
39. The growth in operating expenditure is expected to increase by 6 per cent in the outer years of the 2017/18 MTREF. Although municipalities are attempting to buffer the impact of the economic downturn through identifying operational expenditure efficiencies, these increases seem low when considering the cost drivers applicable to local government such as remuneration, bulk and material purchases.
40. Spending on capital by secondary cities over the MTREF is decreasing from R7.8 billion in 2017/18 to R7.2 billion in 2018/19 but increasing to R7.7 billion in 2019/20. This could be an indication that insufficient provision has been made for the eradication of backlogs and that own funding of the capital program from operational surpluses is not available.

Table 12: Aggregated Operating and Capital revenue for secondary cities, 2016/17 - 2019/20

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

¹ Operating revenue excluding capital transfers

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

Source: National Treasury Local Government Database

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

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

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

Source: National Treasury Local Government Database

41. Secondary cities that have allocated the least of their aggregated budget to their capital budgets are Matjhabeng, Sol Plaatje, Emfuleni, Emalahleni (MP), Govan Mbeki and the City of Matlosana. All six municipalities have allocated 10 per cent or less than of their budgets to capital projects, similar to the previous year.
42. Over the medium term, the total budgets of the secondary cities exhibit some stability with an average growth of 5.3 per cent over the outer years of the MTREF period.

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

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

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

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

¹Excluding capital transfers and contributions

²Includes Taxation

Source: National Treasury Local Government Database

44. As seen in the above table, operating expenditure increases in total by 17.7 per cent when the preliminary outcome for 2016/17 and the MTREF budget for 2017/18 are compared to the operating revenue of 12.3 per cent. Increasing operating expenditure that exceeds revenue is a concern and is considered unsustainable.
45. Compared to the preliminary outcomes of 2016/17, salaries, wages and allowances will increase by 18.3 per cent and bulk purchases by 10.7 per cent. Increases in bulk purchases are largely attributed to the increase in the price of bulk electricity. The high increases associated with remuneration related expenditure as a result of Bargaining Council resolutions will have to be addressed through cost efficiencies in areas such as overtime and travelling allowances.
46. Bad and doubtful debt is expected to increase by 45.8 per cent which is 28.2 per cent lower than the 74 per cent increase in the 2016/17 MTREF. This is concerning as municipalities are providing for higher levels of defaulting debtors which raises questions around the efficiency of the management of the entire revenue value chain and the affordability of service charges and contradicts the assumptions made around collection rates in the budget preparation.

47. The increase in debt impairment suggests that municipalities are expecting to collect less revenue and bad debt is subsequently expected to grow. The fiscal effort of municipalities in collecting outstanding revenue will need to be carefully monitored and managed going forward.
48. The significant increase in doubtful debt further raises questions over the credibility of the appropriated internal funding of the capital budget. While municipalities have provided for the revenue through billings on the operating statement of financial performance there appears to be a high probability that the billings will not be collected as planned, directly implying that the funding will not be available to fund the capital budget.
49. There is an average increase of 10.3 per cent over the last two years of the MTREF in the total operating expenditure with the highest increase of 16.5 per cent noted in respect of bad and doubtful debt (debt impairment). This reflects the difficulty associated with the current economic climate and the increasing inability of consumers to pay for services. This percentage could however be slightly distorted owing to inaccurate budgeting. This is illustrated in the actual preliminary outcome of 2016/17 of R13.6 billion compared to the original budget for the same year of R17.2 billion, a difference of R3.6 billion. It is suspected that the budget appropriation for 2016/17 may be overstated and subsequently distorting the percentage growth.
50. Provisions in respect of bulk purchases are also expected to increase by 8.4 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
51. In respect of operating revenue items, the average increase is 8.8 per cent which is lower than the average operating expenditure and hence the municipalities are budgeting for deficits in the 3 years of the 2017/18 MTREF.
52. Capital budgets grow significantly by 29.8 per cent in 2017/18. Given the persistent trends in under-spending of capital budgets, capital projects will have to be properly and effectively managed to ensure implementation as planned. The increase of 64.5 per cent in external loans for the funding of the capital budget indicates the municipalities are overly optimistic about their borrowing capacity to fund their capital programs.
53. Grants and subsidies show an increase of 32.8 per cent when compared to the preliminary outcomes for 2016/17.
54. Over the MTREF period the average capital expenditure growth is increasing to an estimated 10.2 per cent.

Changes to Baseline

55. Table 15 highlights the extent to which municipalities have allocated additional resources in the 2017/18 MTREF and demonstrates at an aggregate level how municipalities have actually reprioritised items within their budgets. The table also compares the changes to the baseline against the 2017/18 forward estimates.

Table 15: Changes to baseline for 2017 MTREF

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

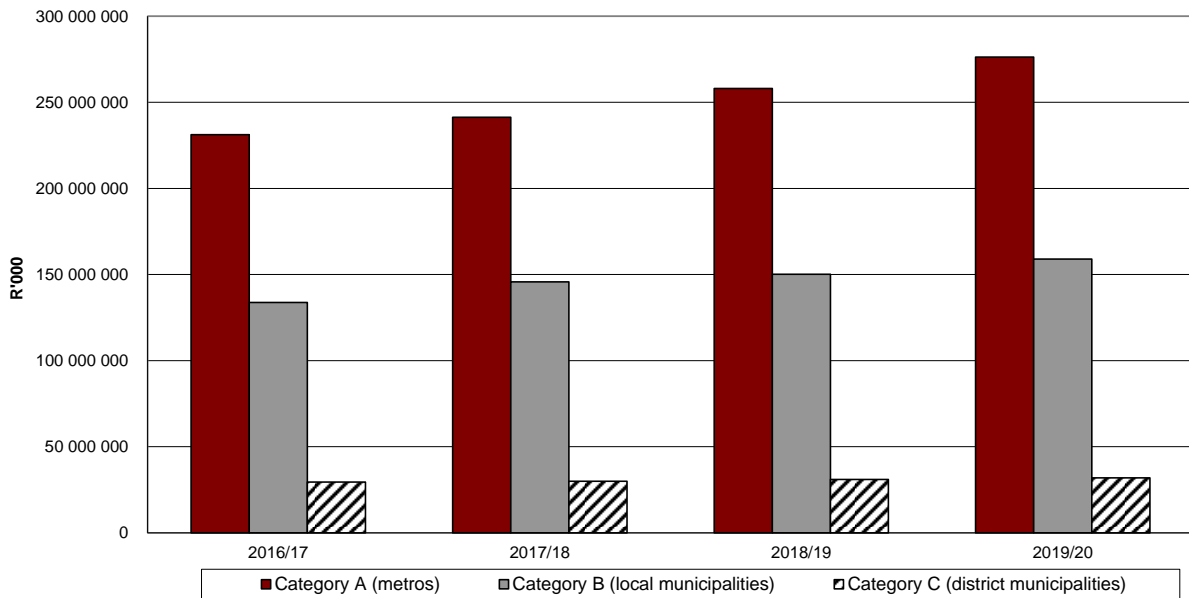
¹Excluding capital transfers and contributions

²Includes Taxation

Source: National Treasury Local Government Database

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

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



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

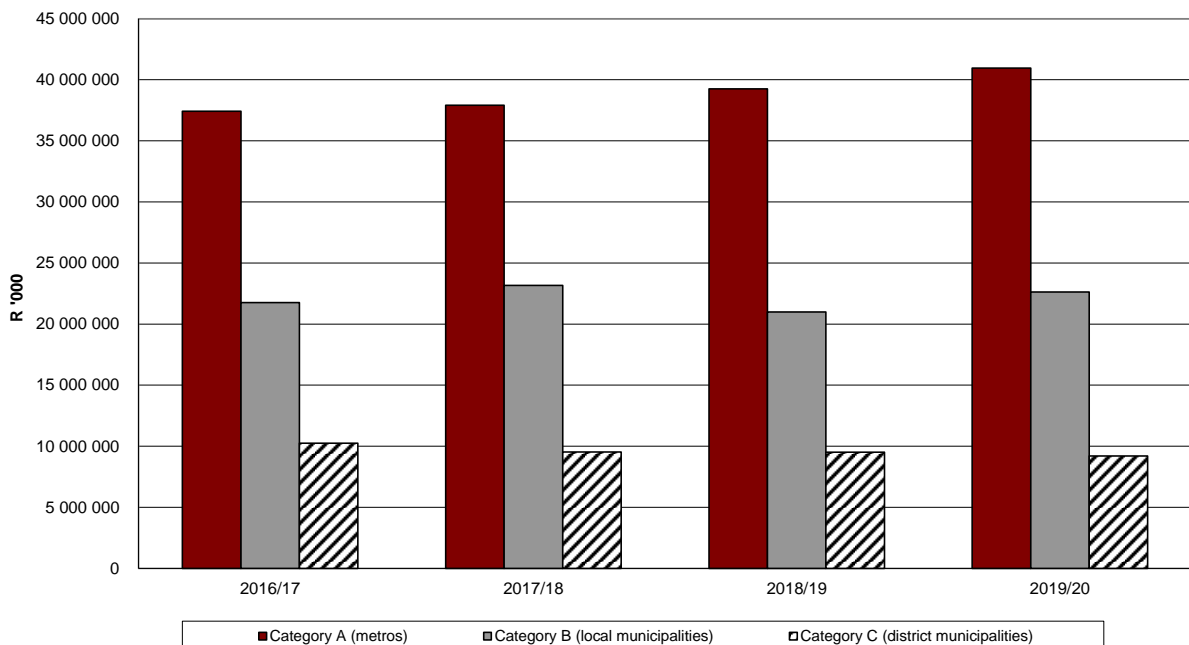


Figure 1.2: Budgeted operating expenditure per category, 2016/17 - 2019/20

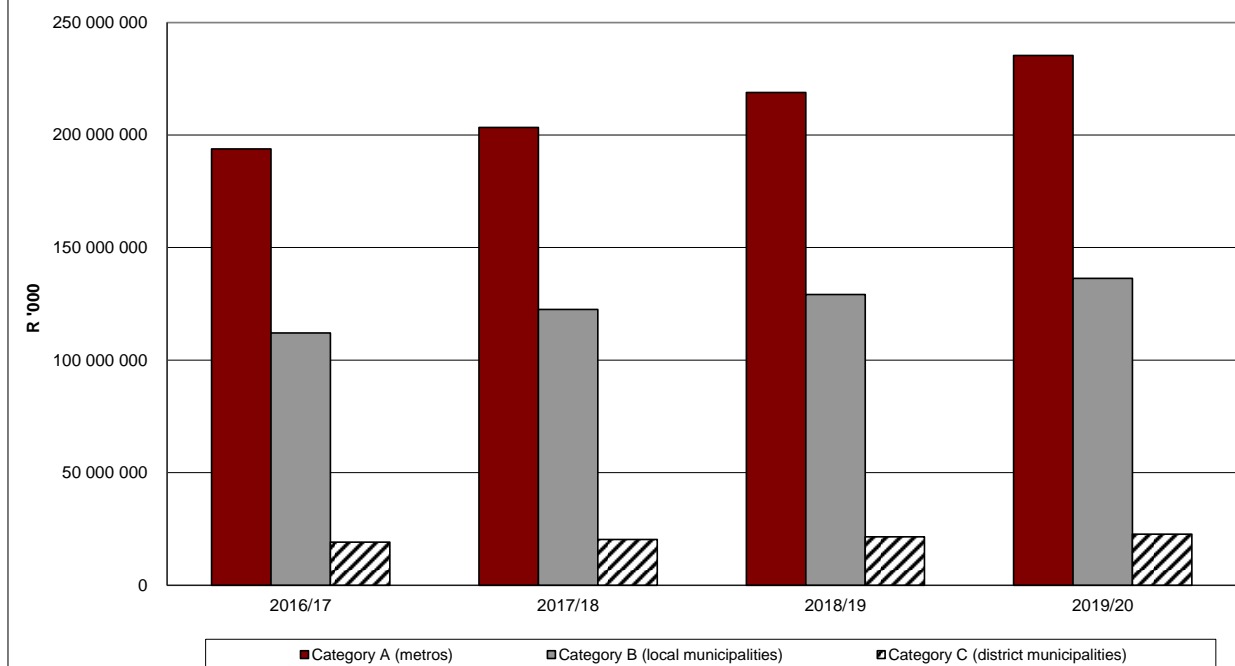


Figure 2: Total operating and capital expenditure per province, 2016/17 - 2019/20

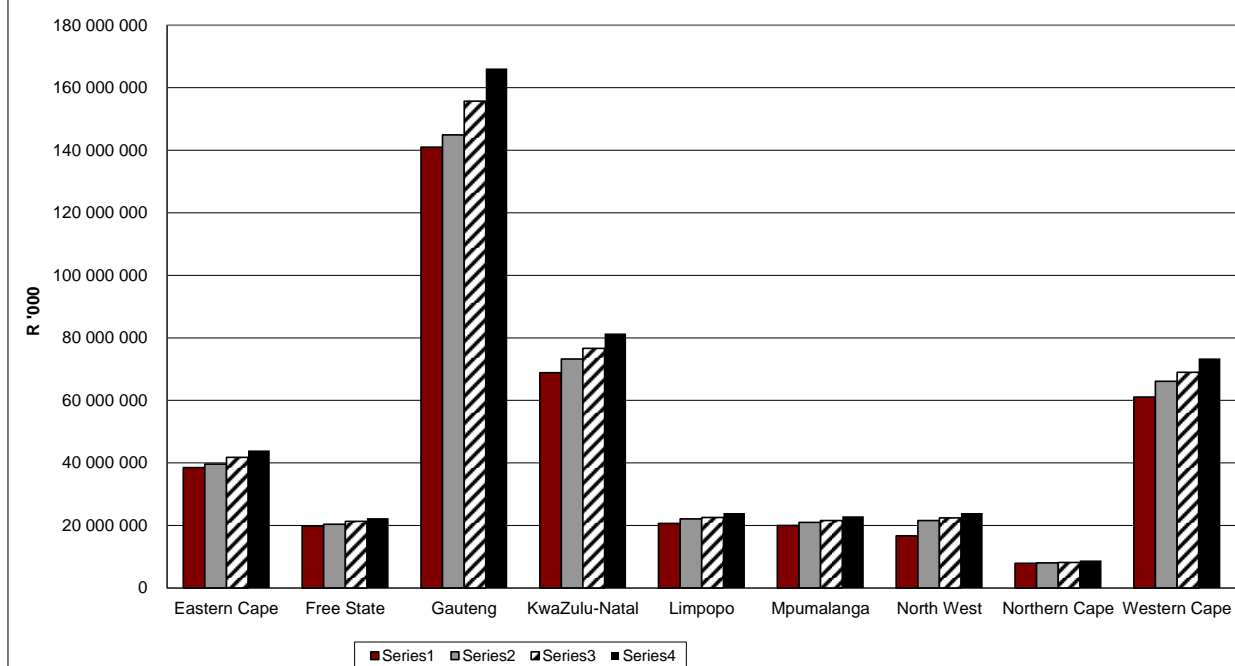


Figure 2.1: Budgeted capital expenditure per province, 2016/17 - 2019/20

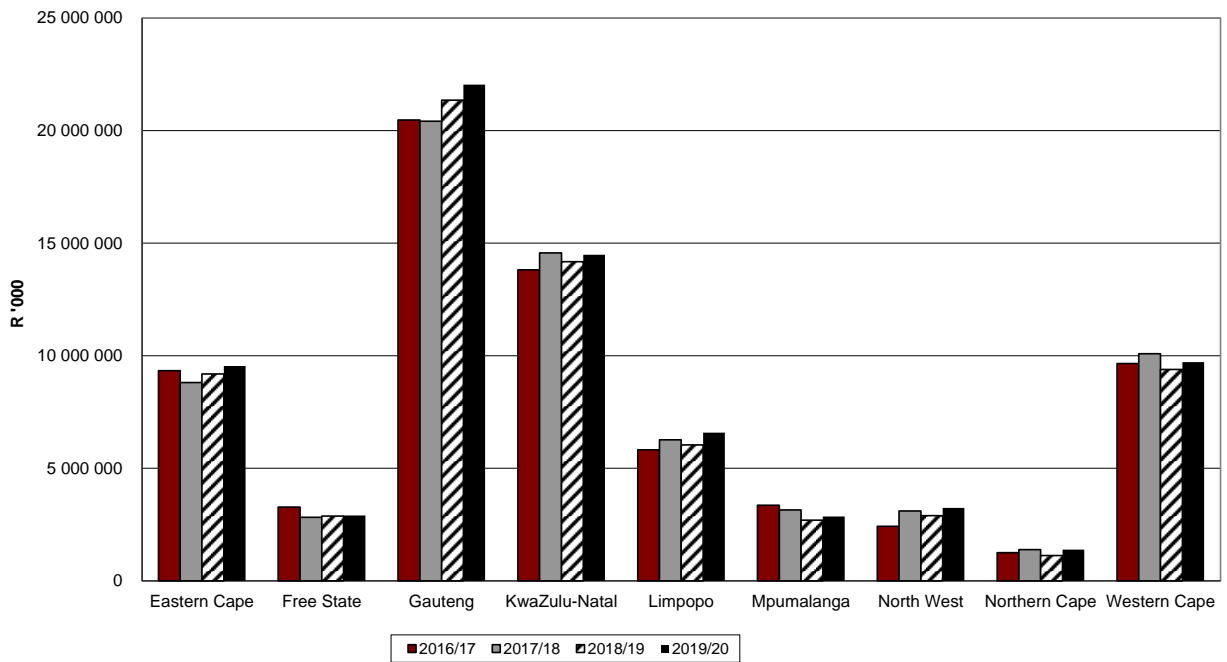
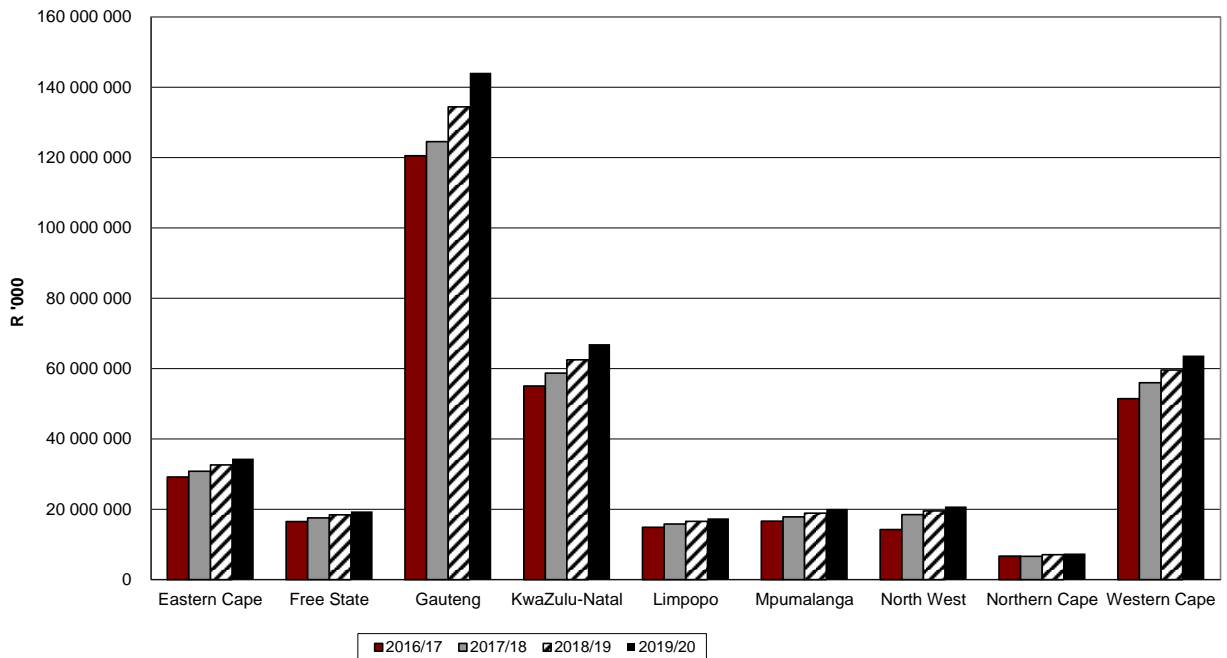
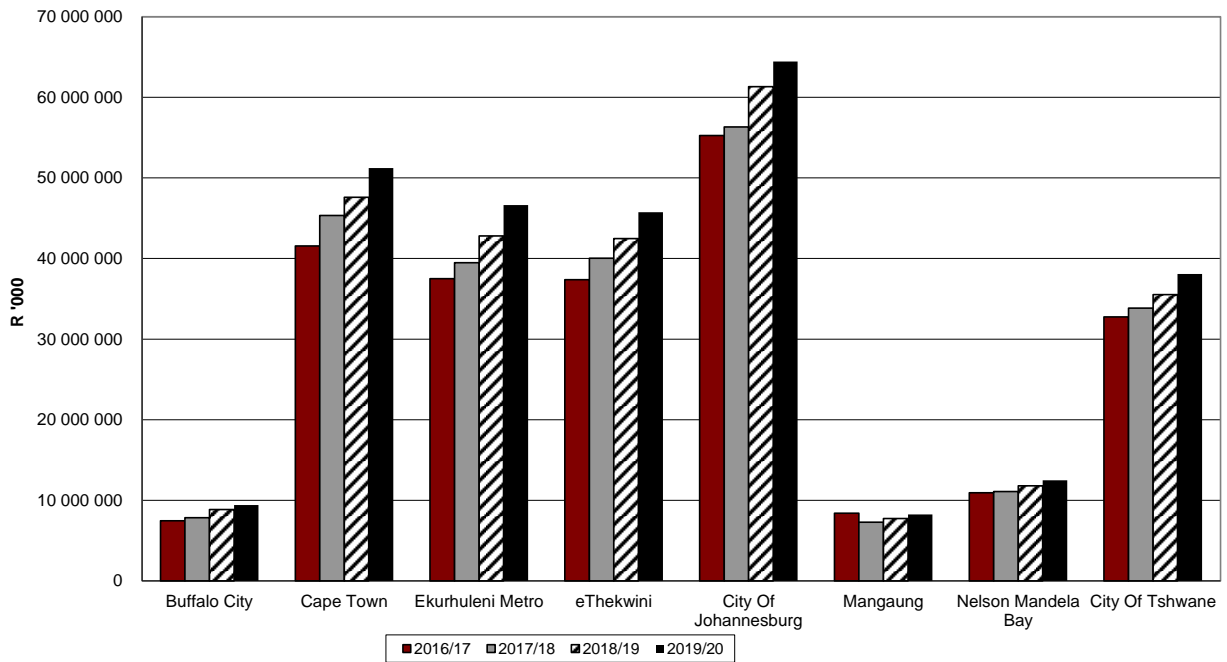


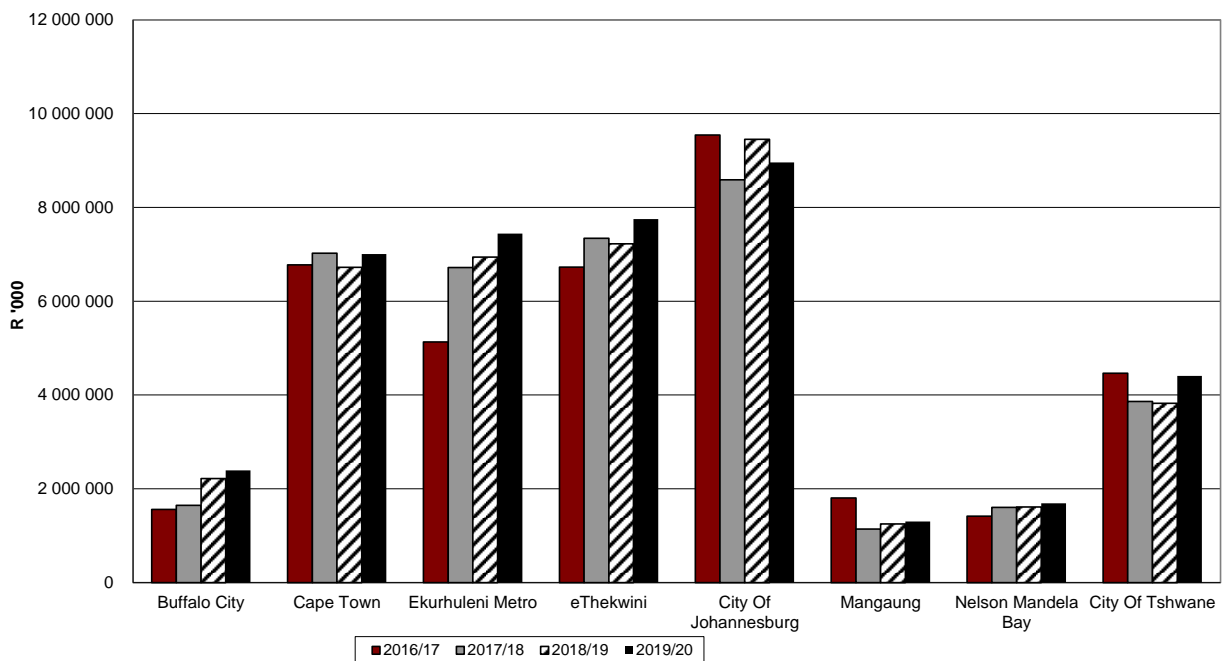
Figure 2.2: Budgeted operating expenditure per province, 2016/17 - 2019/20



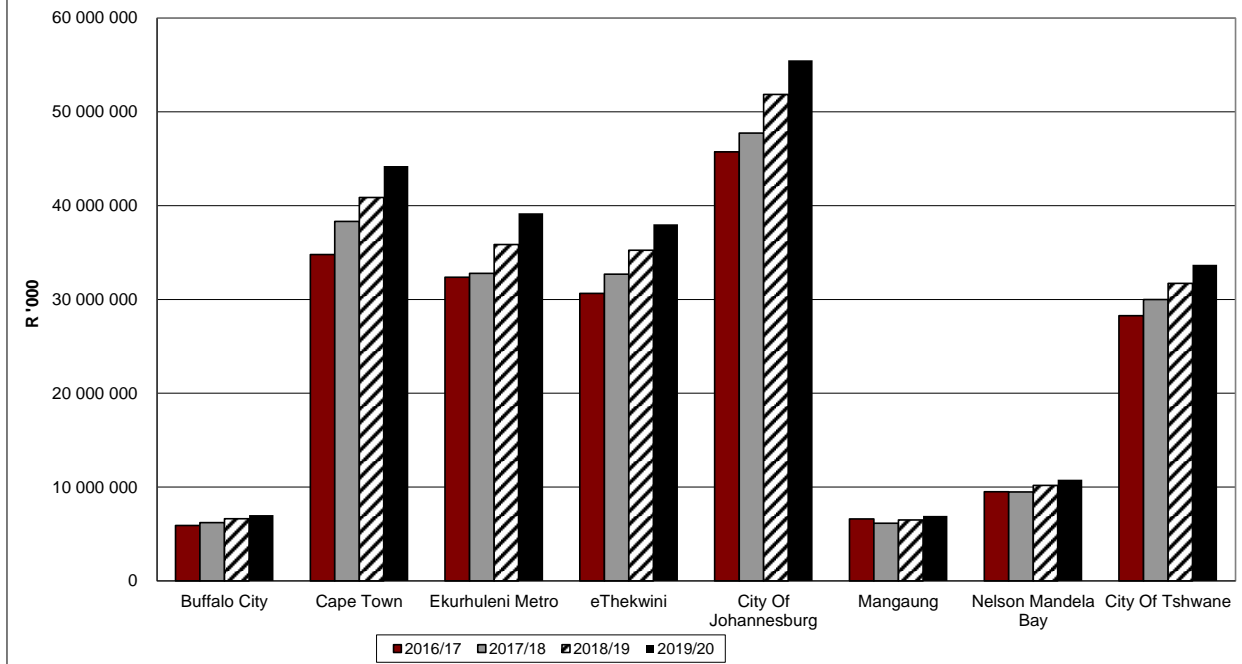
**Figure 3: Aggregated budgeted expenditure for metros,
2016/17 - 2019/20**



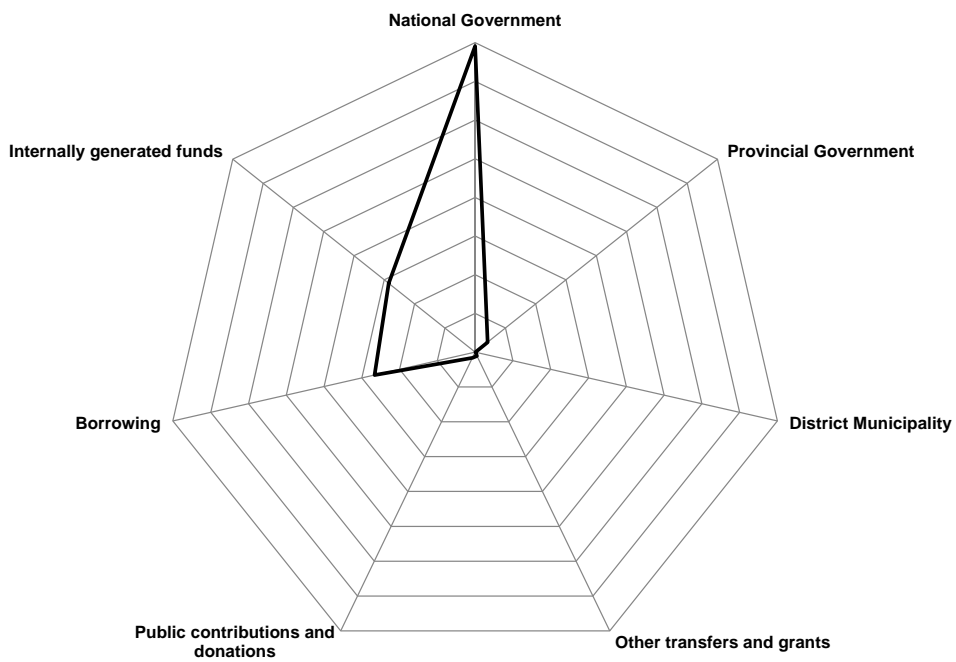
**Figure 3.1: Budgeted capital expenditure per metro,
2016/17 - 2019/20**



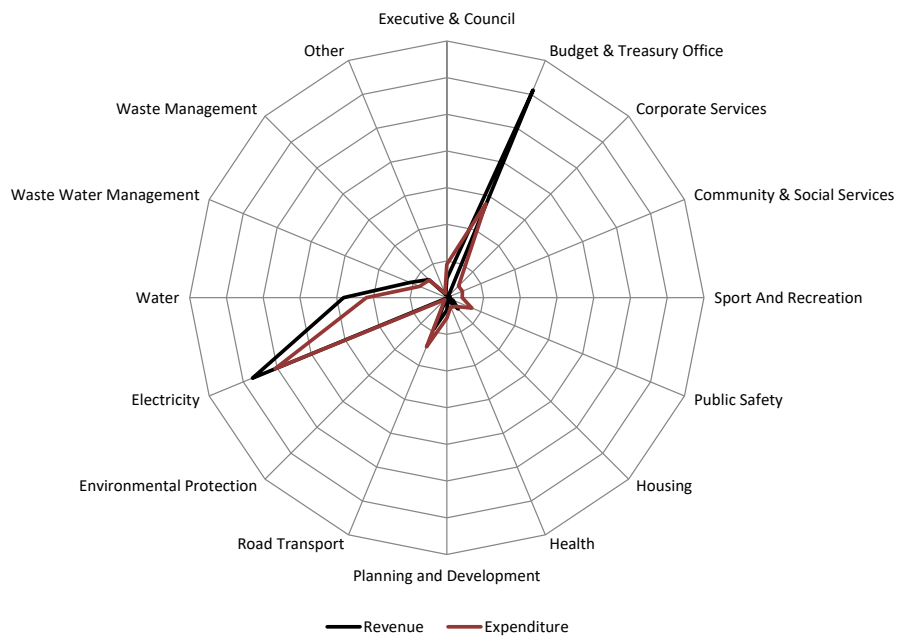
**Figure 3.2: Budgeted operating expenditure per metro,
2016/17 - 2019/20**



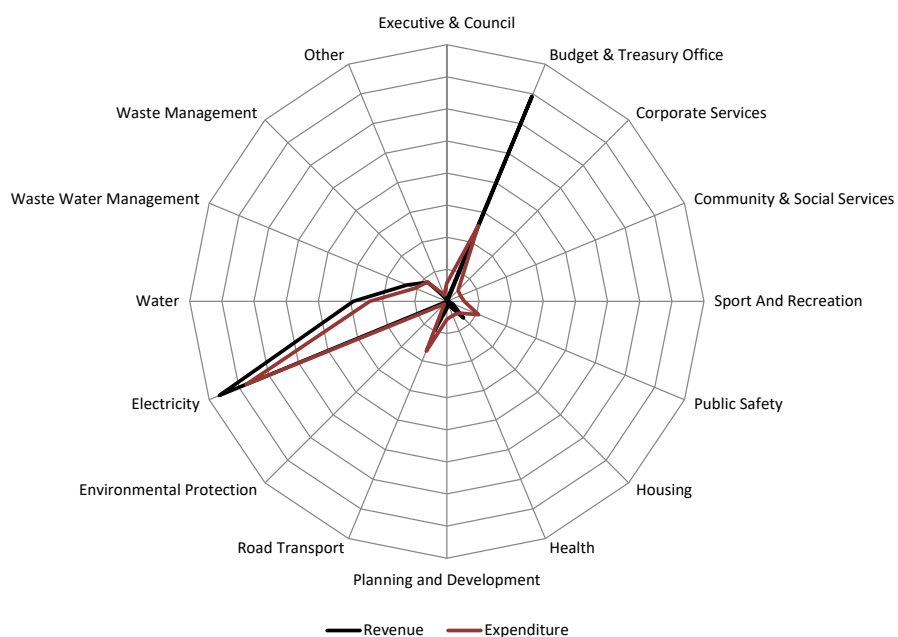
Capital funding contributions, 2017/18



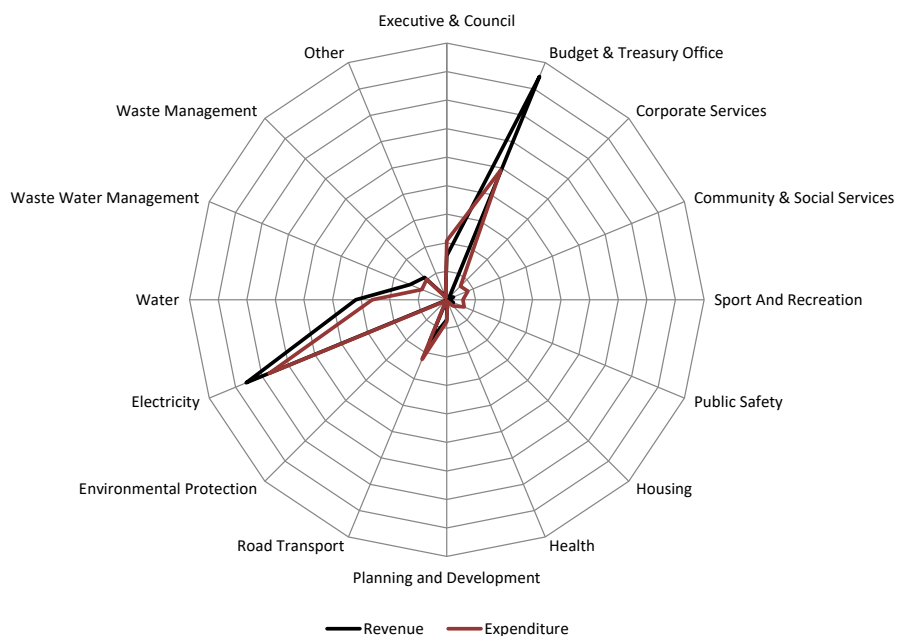
Aggregated operating revenue and expenditure by standard classification, 2017/18



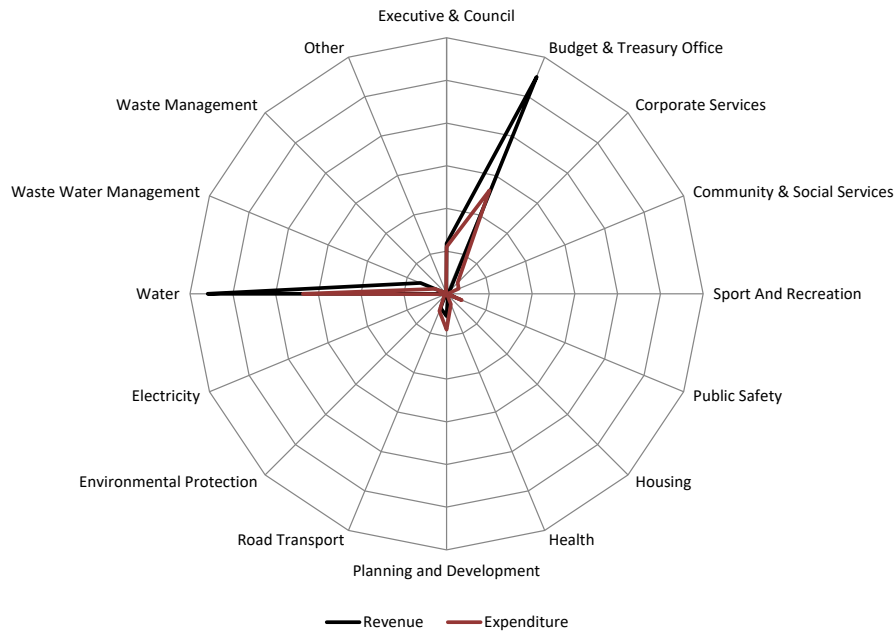
Category A operating revenue and expenditure by standard classification, 2017/18



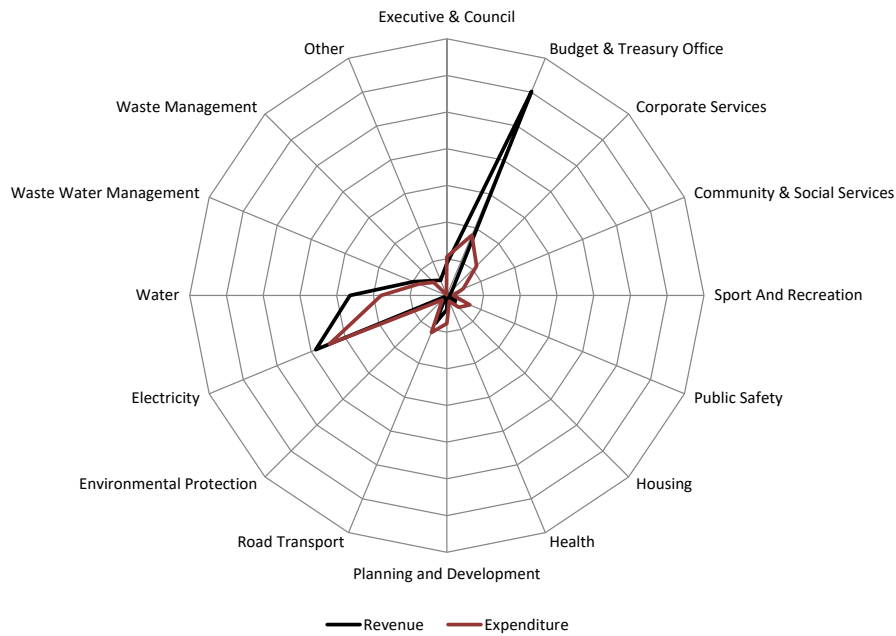
Category B operating revenue and expenditure by standard classification, 2017/18



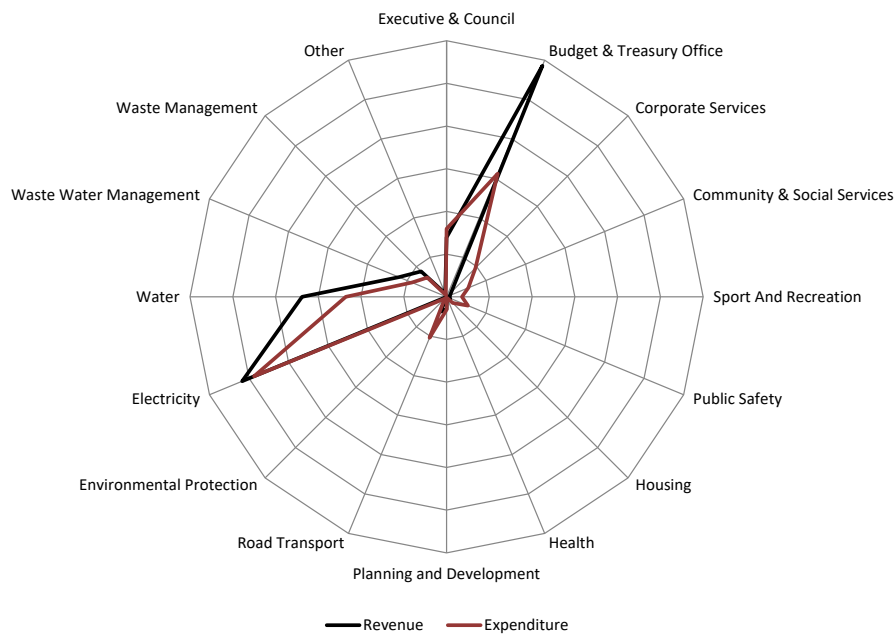
Category C operating revenue and expenditure by standard classification, 2017/18



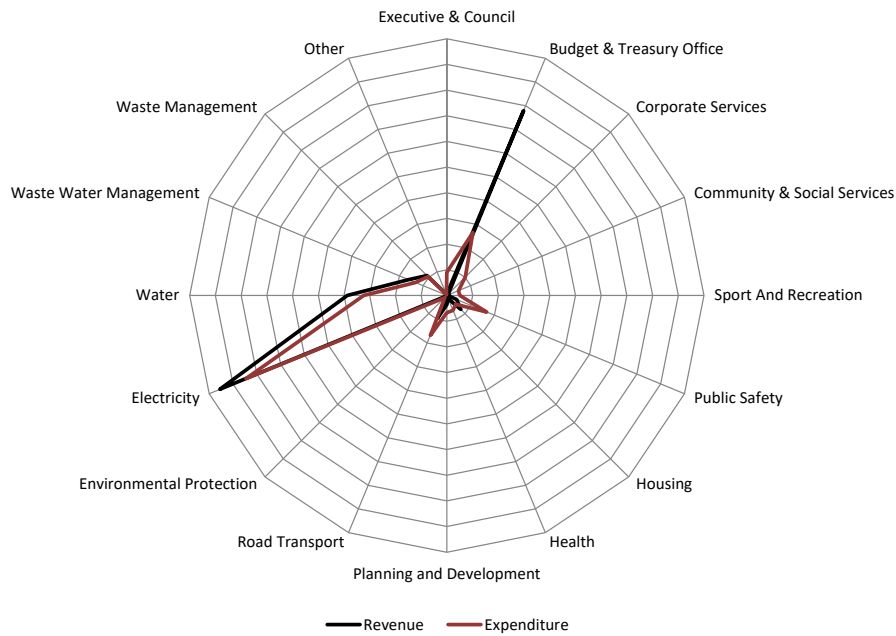
Eastern Cape operating revenue and expenditure by standard classification, 2017/18



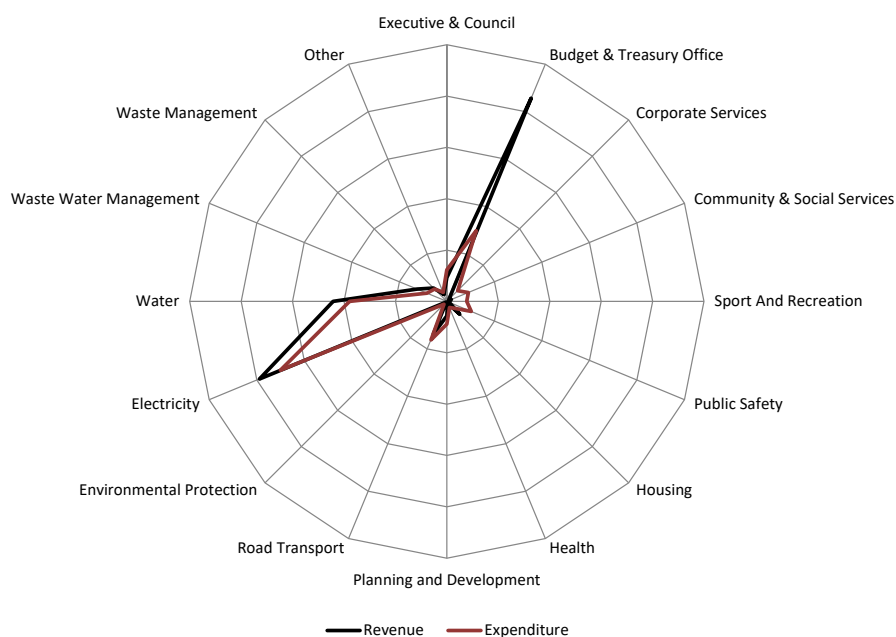
Free State operating revenue and expenditure by standard classification, 2017/18



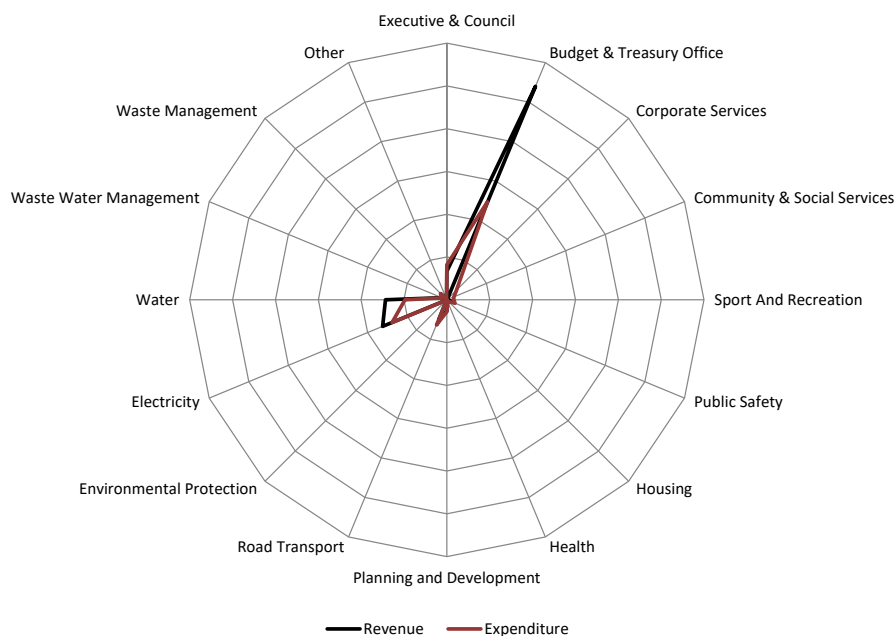
Gauteng operating revenue and expenditure by standard classification, 2017/18



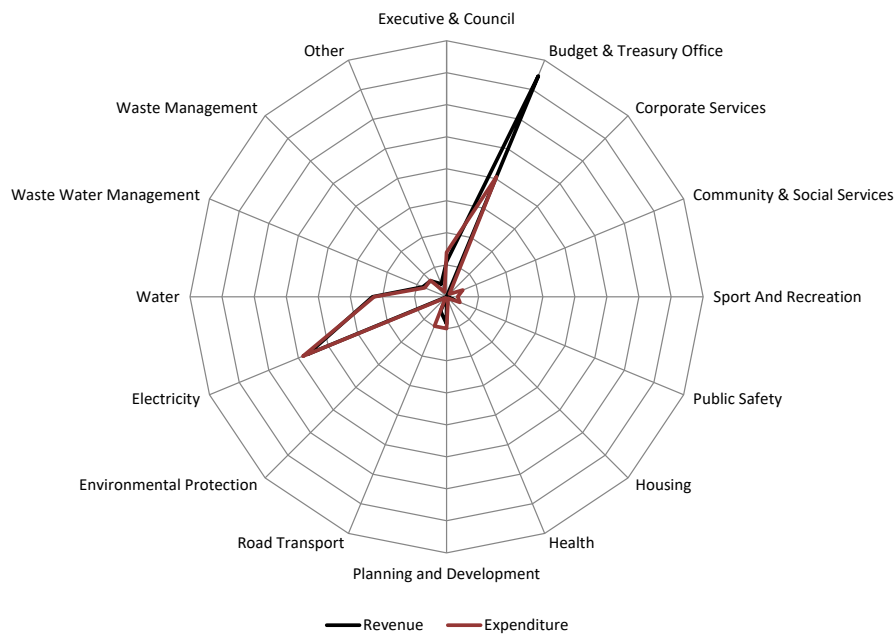
KwaZulu-Natal operating revenue and expenditure by standard classification, 2017/18



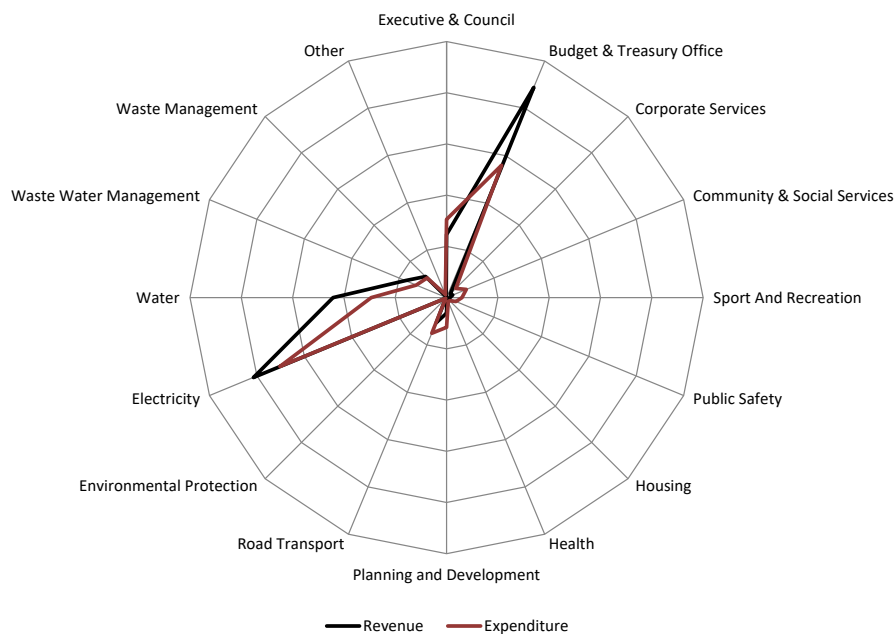
Limpopo operating revenue and expenditure by standard classification, 2017/18



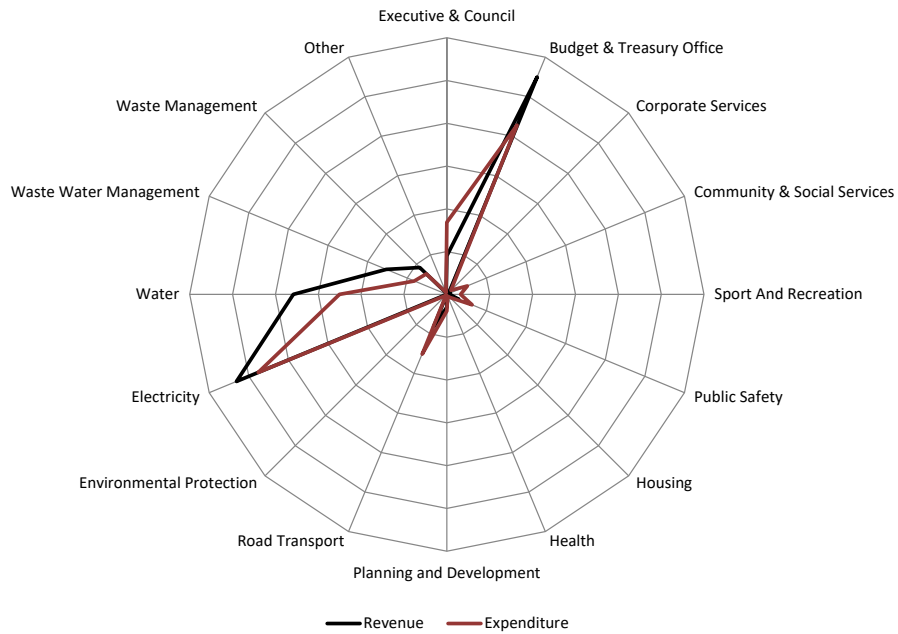
Mpumalanga operating revenue and expenditure by standard classification, 2017/18



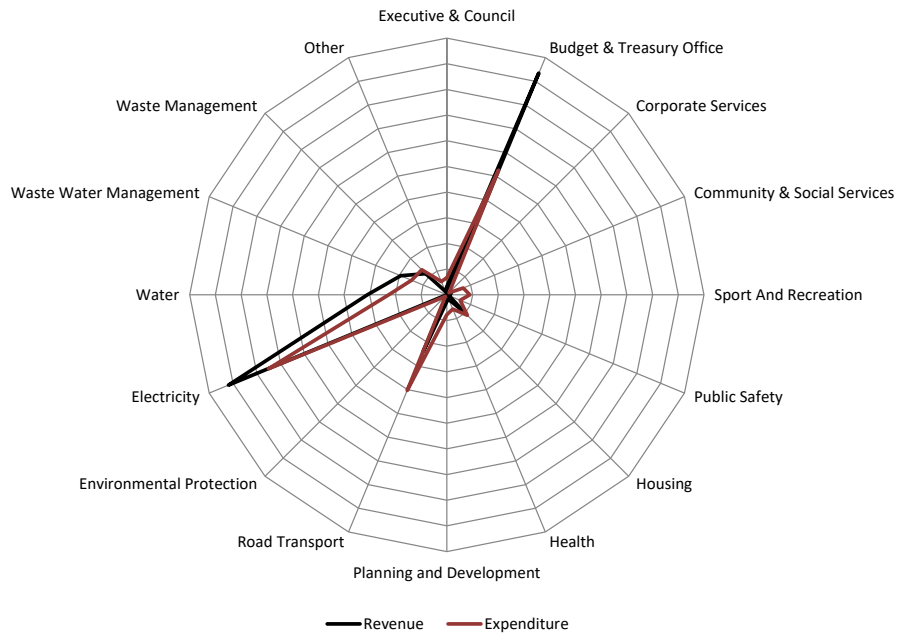
Northern Cape operating revenue and expenditure by standard classification, 2017/18



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



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



Planned capital expenditure, 2017/18

