

# **Local Government Budgets and Expenditure Review**

**2001/02 – 2007/08**





# **Local Government Budgets and Expenditure Review**

**2001/02 – 2007/08**

**National Treasury**

**Republic of South Africa**

October 2006

ISBN: 0-621-36912-8  
RP: 244/2006

To obtain copies please contact:

Communication Directorate  
National Treasury  
Private Bag X115  
Pretoria  
0001  
South Africa  
Tel: +27 12 315 5652  
Fax: +27 12 315 5045

For any queries, e-mail: [Tessa.Schoeman@treasury.gov.za](mailto:Tessa.Schoeman@treasury.gov.za)

This document is available on the National Treasury website at: [www.treasury.gov.za](http://www.treasury.gov.za). Other related and 2006 budget documents are also available on the website.

# Foreword

The *Local Government Budgets and Expenditure Review* sets out trends in revenue, budgets and expenditure for seven years. While most of the data are aggregated according to categories of municipalities, the publication also presents selected data for the 25 largest municipalities which comprise 68 per cent of combined local government budgets. This allows policy makers, analysts and the public to compare and benchmark municipalities.

From a service delivery perspective, the Review reasserts the good progress the country has made in realising the goal of a *better life for all*. After a decade of democracy, more South Africans have access to electricity, water, sanitation and other municipal services. For those households that cannot afford to pay for basic services, Government provides them for free. By 2005 about 8,8 million household were receiving free basic services. However, the data presented in this Review also shows that there are areas of the country that do not yet have access to services. Coincidentally, these are the areas where capacity constraints may be more severe, both from a financial and technical point of view.

In relation to finances, the data presented in this *Review* confirm that there are wide variations among South Africa's municipalities. Metropolitan municipalities are mainly self-funding while a large number of local municipalities rely on national transfers to execute the functions assigned to them by the Constitution. A notable positive development is that capital budgets and expenditure have grown faster in absolute terms and as a share of total local government budgets during the period covered in this *Review*. However, the bulk of the growth in capital budgets has been funded from increases in national capital transfers which rose from R2,2 billion in 2001/02 to R5,3 billion in 2004/05. The Review also shows that all categories of municipalities face similar challenges with respect to debt collection. Between 2001/02 and 2004/05, combined outstanding debts of municipalities rose by R21 billion to R37 billion.

Combined with capacity challenges, some of the financial trends contained in this *Review* underline the need for stepping up technical support to local government in order to ensure that the sphere can be placed in a position to fulfil its developmental mandate. The trends also point to a possible need for much more differentiated approaches to the funding of municipalities.

We expect the Review to be a valuable source of information for Councils, Legislatures and Parliament.

Production of these *Reviews* is always a collective effort. I wish to express my sincere appreciation to the national departments responsible for the various functions covered in this publication, to the municipalities that provided the data and to the team in the National Treasury who pulled all of this together.

**Lesetja Kganyago**  
**Director-General: National Treasury**

## Technical notes

These notes are intended to assist readers and analysts who will use this *Review*.

### General points on the data

The data presented in this review are based on actual revenue, budget and expenditure figures submitted by 59 municipalities to the Auditor General and National Treasury. Where no actual figures were submitted, budget figures as approved by municipalities and submitted to National Treasury are used.

Some of the figures contained in this *Review* may not tally with those published in the approved budgets of municipalities due to adjustment budgets that may have been passed in the intervening period.

For most of the analysis in this publication past trends in metropolitan municipalities are based on actual revenue and expenditure figures as submitted by these municipalities.

The figures on local and district municipalities in tables in the body of the document will not always tally with those in the schedules. This is because the schedules use budget information only, while the tables in the text use actual revenue and expenditure figures where these were submitted by the municipality or uses budget information where actual revenue and expenditure figures were not provided.

All efforts were made to avoid duplication and double counting in relation to districts and the local municipalities.

The following municipalities' actual information was used in the publication.

### Eastern Cape

Amatole	DC12
Buffalo City	EC125
Cacadu	DC10
Lukhanji	EC134
Makana	EC104
Nelson Mandela Bay	EC000
O .R. Tambo	DC15

### Free State

Lejweleputswa	DC18
Maluti-a-Phofung	FS194
Mangaung	FS172
Motheo	DC17
Tswelopele	FS183
Matjhabeng	FS184

**Gauteng**

City Of Johannesburg	GT001
City Of Tshwane	GT002
Ekurhuleni Metro	GT000
Mogale City	GT481
Randfontein	GT482
West Rand	DC48

**Kwazulu Natal**

Emnambithi/Ladysmith	KZ232
eThekweni	KZ000
KwaDukuza	KZ292
Mthonjaneni	KZ285
Ugu	DC21
Ulundi	KZ266
Umzinyathi	DC24
Umlalazi	KZ284
Amajuba	DC25
Abaqulusi	KZ263

**Limpopo**

Capricorn	DC35
Ba-Phalaborwa	NP334
Greater Giyani	NP331
Greater Marble Hall	NP03a4
Greater Sekhukhune	DC47
Greater Tzaneen	NP333
Makhudutamaga	NP03a2
Mogalakwena	NP367
Polokwane	NP354
Waterberg	DC36

**Mpumalanga**

Delmas	MP311
Ehlanzeni	DC32
Govan Mbeki	MP307
Mbombela	MP322
Steve Tshwete	MP313
Umjindi	MP323

**North West**

City Of Matlosana	NW403
Mafikeng	NW383
Potchefstroom	NW402
Rustenburg	NW373

**Northern Cape**

Emthanjeni	NC073
Frances Baard	DC9

**Western Cape**

Cape Agulhas	WC033
Cape Town	WC000
Central Karoo	DC5
Eden	DC4
Knysna	WC048
Saldanha Bay	WC014
Swartland	WC015
West Coast	DC1

**First Publication**

It is the first time that actual revenue and expenditure figures for local government are published by the National Treasury in a *Review* such as this one. In some instances the data are not verifiable, but we expect that this will improve in the period ahead as reporting on revenue and expenditures becomes institutionalised under the reporting requirements contained in the Municipal Finance Management Act.

**Financial period covered**

The data presented in this *Review* cover the period: 2001/02 – 2007/08. A financial year for the local government sphere starts on 1 July and ends on 30 June of the following year. However, in cases where national and provincial budget and spending figures are used they refer to the financial year for these spheres which commences on 1 April and ends on 31 March. The text always attempts to make this clear.

For any queries e-mail: [mfma@treasury.gov.za](mailto:mfma@treasury.gov.za).

# Contents

<b>1. Introduction .....</b>	<b>1</b>
Overview .....	1
The intergovernmental system .....	2
Challenges for the period ahead .....	4
Chapter overview .....	5
Conclusion .....	5
<b>2. Local government finances .....</b>	<b>7</b>
Introduction .....	7
Underlying budget trends .....	8
Summary of municipal expenditure: 2001/02 to 2007/08 .....	11
Conclusion .....	20
<b>3. Electricity .....</b>	<b>21</b>
Introduction .....	21
Institutional arrangements .....	21
Developments in the electricity supply industry .....	22
Electrification and free basis electricity .....	25
Regulatory environment .....	28
Restructuring electricity distribution .....	31
Current developments .....	36
Conclusion .....	37
<b>4. Water and sanitation .....</b>	<b>39</b>
Introduction .....	39
Overview of water services .....	40
Overview of recent reforms .....	41
Trends in expenditure and budgets .....	42
Service delivery .....	48
Conclusion .....	50
<b>5. Personnel issues .....</b>	<b>51</b>
Introduction .....	51
Legal framework and institutional arrangements .....	52
Municipal personnel costs: 2005/06 .....	53
Remuneration packages of municipal managers .....	55
Qualifications of senior management personnel .....	57
Work-related experience of senior management .....	58
Capacity-building initiatives in municipalities .....	58
Conclusion .....	59

<b>6. Financial management and MFMA implementation .....</b>	<b>61</b>
Introduction .....	61
What makes the MFMA special? .....	62
Implementation of priority areas .....	63
Improvements in budgeting .....	64
Improvements in reporting .....	66
Improving the oversight role of councillors .....	69
Improving accountability, measuring performance .....	70
Accounting standards .....	70
Capacity building .....	71
Technical assistance to municipalities .....	73
Other reforms .....	78
Improvements in supply chain management .....	79
Public private partnerships .....	80
Conclusion .....	81
<b>Annexure A: Consolidated set of local government tables .....</b>	<b>83</b>

# Tables

1.1	Division of revenue between spheres of government, 2002/03 to 2008/09 .....	4
2.1	Budgeted municipal expenditure, 1998/99 to 2005/06 .....	9
2.2	Budgets by category, 2005/06 .....	10
2.3	Operating and capital budgets for a sample of municipalities, 2004/05 to 2005/06 .....	11
2.4a	Operating expenditure for metros, 2001/02 to 2004/05 .....	13
2.4b	Capital expenditure for metros, 2001/02 to 2004/05 .....	13
2.5	Total budget working capital and outstanding consumer account for metros, 2002 to 2005 ..	15
2.6a	Operating expenditure for local municipalities: 2001/02 to 2008/09 .....	16
2.6b	Capital expenditure for local municipalities, 2001/02 to 2004/05 .....	16
2.7	Total budget working capital and outstanding consumer account for locals, 2002 to 2005 ...	18
2.8a	Operating expenditure for district municipalities, 2001/02 to 2004/05 .....	19
2.8b	Capital expenditure for district municipalities, 2001/02 to 2004/05 .....	19
2.9	Total budget working capital and outstanding consumer account for districts, 2002 to 2005	20
3.1	Total electricity sales by category (Eskom and municipalities), 2003 .....	22
3.2	Percentage of non-electrified households per province, 1995 to 2003 .....	25
3.3	Annual connections completed by municipalities and Eskom, 2003 .....	26
3.4	Households receiving free basic electricity from municipalities, 2003 to 2004 .....	27
3.5	Bulk electricity purchases and cost for 2004/05 .....	30
3.6	Electricity customers and sales for Eskom and municipalities, 2003 .....	31
3.7	Electricity customers by category in selected municipalities, 2004/05 .....	32
3.8	Size of electricity budgets of 12 largest electricity – distributing municipalities, 2004/05 ...	34
3.9	Comparison of staff numbers and average salaries between Eskom and municipalities, 2004/05 .....	36
4.1	Budget of the National Department of Water Affairs and Forestry, 2002/03 to 2008/09 .....	43
4.2	DWAF transfers to local government, 2002/03 to 2008/09 .....	43
4.3	Water and sanitation expenditure by category of municipality, 2001/02 to 2005/06 .....	45
4.4	Income and expenditure of water boards, 2003/04 to 2004/05 .....	46
4.5	Staffing at water boards as of 2004/05 .....	47
4.6	Water and sanitation services budgeted employee costs, 2002/03 to 2005/06 .....	48
4.7	Number of households receiving basic services .....	48
4.8	Number of households receiving free basic water .....	49
4.9	Households receiving free basic sewerage and sanitation .....	50
5.1	Salaries and wages as a percentage of expenditure, 2005/06 .....	53
5.2	Number of employees per sector, 2005/06 .....	53
5.3	Personnel expenditure as a percentage of total operating expenditure, 2005/06 .....	54
5.4	Senior management personnel costs, 2005/06 .....	55
5.5	Senior municipal management levels of qualifications .....	57
5.6	Senior municipal management levels of qualifications by sector/type .....	57
6.1	Municipalities by capacity per province, 2004 .....	63
6.2	Distribution of finance management grant per category, 2001/02 to 2008/09 .....	71
6.3	Recruitment and movement of interns by province, 2004 to 2005 .....	72

6.4	Annual reporting as of 15 May 2006 .....	74
6.5	Financial reporting, 2006/07 .....	75
6.6	Annual budgets, 2006/07 .....	77
6.7	Credit ratings of metropolitan municipalities.....	78
	<b>Annexure A: Local government tables .....</b>	<b>83</b>

## Figures

3.1	Eskom sales growth versus real GDP growth rate .....	23
3.2	Eskom peak and off-peak 2004/05 .....	24
4.1	Total use of water .....	41
4.2	Vertical division of MIG.....	44
4.3	Basic infrastructure component .....	45
5.1	Municipal managers' salaries .....	56
6.1	MFMA implementation plans received as of April 2006 .....	63
6.2	Budgets tabled and adopted, 2005/06 .....	65
6.3	Annual financial statements submitted to Auditor-General, 2001/02 through 2003/04 .....	68
6.4	Annual financial statements submitted by municipalities to Auditor-General, 2004/05 .....	68