

2008

Local Government Budgets and

Expenditure Review:

2003/04 – 2009/10

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2003/04 – 2009/10**

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Foreword

The *Local Government Budgets and Expenditure Review* is a valuable resource that assists analysts, policy makers, elected representatives, citizens, academics and practitioners in assessing the impact of government policies and the resources allocated to implement them. It supports Parliament, provincial legislatures and municipal councils in assessing progress made in implementing government programmes funded through the equitable share and conditional grants allocated to municipalities, as well as municipal own revenue raised from local communities. The Review will also assist political office bearers and all South Africans in evaluating future plans for critical municipal services such as water, sanitation, electricity, refuse removal, municipal transport, roads and community and recreational facilities. In this way, the Review serves as both an accountability and future planning document.

This Review contains both financial and non-financial information relating to key municipal functions. While it is evident that the ability of municipalities and municipal entities to collect financial data has improved, it must be acknowledged that a lot still needs to be done to improve local government non-financial data. Only when this is done will it be possible to evaluate the efficiency of spending with greater accuracy. Steps are already being taken in this regard.

The set of 72 indicators published by the Presidency in July 2007, and the collaborative effort among key government stakeholders to co-ordinate data collection across all spheres of government, in accordance with Cabinet Resolution of 2003, should contribute towards improving government's ability to collect, use and publish non-financial information for local government.

Revenue and expenditure trends in this Review show that local government expenditure is growing strongly in real terms. Service delivery is accordingly improving, particularly in the metropolitan municipalities and other big cities, and so is access and equity to municipal services. All this contributes significantly to supporting economic growth, delivering basic municipal services and creating jobs. The Review also identifies a range of challenges that will need to be addressed to ensure faster service delivery in the period ahead.

The compilation of this Review is a collaborative effort among officials of government. I wish to thank all of them for their contributions.

Lesetja Kganyago
Director-General: National Treasury

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Technical notes

The notes set out below are intended to assist readers, analysts and users by giving context to the information in the Review.

General notes on numbers

Although the financial data in the Review covers a seven year horizon (i.e. 2003/04 to 2009/10), the data may not always be strictly comparable. The key reasons for this are as follows:

- Before 2005, municipalities were gradually changing from fund accounting to Generally Accepted Municipal Accounting Practice (so called old GAMAP). Thereafter, some municipalities have been implementing revised GAMAP, with the highly capacitated municipalities implementing at least eleven standards of Generally Recognised Accounting Practice (GRAP). The basis of accounting prior to and after 2005 has, therefore been significantly different. Moreover, some municipalities adopted the new basis of accounting earlier than others, thus affecting the comparability of data over the seven-year horizon in the Review.
- As a result of the changes in the basis of accounting, some amounts recorded under certain items changed due to a change in accounting practice rather than real change in the substance of the transactions and the financial circumstances. This means that amounts were reclassified rather than changed due to the nature of the transactions. This exercise was undertaken by National Treasury and, in our opinion, this is the best set of financial information available given the circumstances. The aim was to prepare a set of numbers that will provide a high level comparison across all the 283 municipalities.
- With the phased implementation of the MFMA, the clause relating to preparation of consolidated financial statements was delayed for all municipalities, but the municipalities and entities were encouraged to adopt it early. This means that in some instances the data of municipal entities may be included in the consolidated numbers and in other instances this may not be the case.
- Since the abolishment of the RSC levies in 2006, the equitable share calculation includes the RSC replacement grant for metros and district municipalities. Equitable share figures may therefore seem inflated from 2006/07 onwards.

Data sources and reliability

The main sources of data for the Review, and the extent of their reliability, are as follows:

- The 2003/04 to 2005/06 numbers were obtained from the audited annual financial statements and, where applicable, the consolidated annual financial statements of the municipalities and municipal entities. Where available, the previous years' restated numbers from the annual financial statements were used as these take into account the adjustments required by the auditors. However, such restated numbers were not available in all instances, in which case the numbers applicable for that financial year were used. Every effort has been made to compile a reliable set of numbers, but there may still be some shortcomings in the dataset.
- 2006/07 numbers were obtained from two sources, namely (1) the audited annual financial statements of municipalities where they were available at the time of capturing and drafting of the publication and (2) the pre-audit in-year results submitted to councils and National Treasury as part of the monitoring on budget implementation where the annual financial statements have not been finalised. Whereas the reliability of the audited financial statements is high as mentioned above, the reliability of the in-year reports is fairly low. This is expected to significantly improve

with the new budget and in-year reporting formats and regulations and as the coverage is extended to all 283 municipalities.

- The Medium Term Revenue and Expenditure Framework (MTREF) estimates are based on the budget and related documents of municipalities and their entities as approved by respective municipal Councils and municipal entities' Boards. The quality of this data is not of the desired standard as the multi-year planning and budgeting reforms are not yet sufficiently institutionalised in all municipalities. The budget reform programme and continued efforts to strengthen MFMA implementation are designed to address this deficiency.
- Data from official publications of other government departments and state owned enterprises have been used. Key sources are the Budget Review (2007), Stats SA Census 2001 and the 2007 Community Survey, the national spatial development strategy, latest Auditor-General reports, the provincial budget statements; South African Reserve Bank Quarterly Bulletins, the Department of water Affairs and Forestry's water resource strategy; Eskom's annual report; the National Energy Regulator of South Africa (NERSA); EDI Holdings; the national Department of Transport; and the Council for Scientific and Industrial Research. These data sources are generally very reliable.
- Non-government sources such as reports from the South African Cities' Network and the Bond Exchange of South Africa have also been used. These sources are usually secondary and reliability depends to some extent on the interpretations and judgements of the writers of these reports.

Because of the re-demarcated processes since 2005 and the abolition of the cross-boundary municipalities, the municipal specific data used in the Review are not comparable over the whole seven-year period for the municipalities affected by redemarcation. The data for the period 2003/04 to 2005/06 are based on the old municipal boundaries, while the data for the 2006/07 to 2009/10 period are based on the new municipal boundaries. However, the redemarcation does not impact on the comparability of aggregated data.

Service delivery information is based on the old municipal boundaries, as reporting on the financial and non-financial performance of municipalities goes up to the period ending 30 June 2007.

Financial years

A financial year for the municipalities and municipal entities starts from 1 July and ends on 30 June of the following year.

Per capita estimates

Except for instances where it is stated otherwise, estimates of per capita spending are based on Census 2001 and 2007 Community Survey results. Such estimates will be different from those that are calculated using data from other sources.

Real growth rates

When comparing monetary values from one year to another, it is common to adjust the growth rates for inflation. Real growth rates in this publication are calculated using the CPIX.

Rounding of numbers

Appropriation of funds and reporting of expenditure is done in terms of Rand thousands. The majority of the tables in this publication are in Rand millions. As a result of rounding off, some minor deviations may occur.

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