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Local Government Budgets and

Expenditure Review:

2006/07 – 2012/13

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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 outcomes approach adopted by the Presidency to measure and monitor government performance and the collaborative effort among key government stakeholders to co-ordinate data collection across all spheres of government should contribute towards improving government's ability to collect, use and publish non-financial information on local government.

Revenue and expenditure trends in this *Review* show that local government expenditure continues growing strongly in real terms. Access to service delivery is accordingly improving, particularly in the metropolitan municipalities and other big cities. 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.

Lungisa Fuzile
Director-General: National Treasury

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. 2006/07 to 2012/13), the data may not always be strictly comparable. The key reasons for this are as follows:

- The Municipal Budget and Reporting Regulations came into effect on 1 July 2009. These regulations made some changes to the functional and standard classification of municipal accounts. Good progress has been made with the implementation of the new budget formats, but it will take time to ensure complete alignment of accounting information with the new classifications. Indeed this process is only likely to be fully completed with the implementation of a standard chart of accounts for local government.
- As a result of the changes in the budget formats, 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. And since 2009/10 the metros' share of the RSC levy grant has been removed as it has been replaced by the general fuel levy sharing with metros, which metros now report under 'other revenues' as it is an own revenue source.

Data sources and reliability

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

- The 2006/07 to 2008/09 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.
- 2009/10 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 moderate. 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 their respective municipal Councils and municipal entities' Boards. The quality of this data improved significantly with the implementation of the Municipal Budget and Reporting Regulations, but is still 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 continues 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 (2010 and 2011), 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' water resource strategy and other reports, Eskom's annual report; the National Energy Regulator of South Africa (NERSA), the national Department of Transport; Human Sciences Research Council and the Council for Scientific and Industrial Research. These data sources are generally very reliable.
- Non-government sources such as reports from the United Nations, the World Bank, HIS Global Insights, 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.

The data for the entire 2006/07 to 2012/13 period are based on the 283 municipalities and the municipal boundaries as they existed from 2006/07 to just prior to the municipal elections held on 18 May 2011.

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, and in certain instances the rounded figures do not sum exactly to the total line.

Classification of municipalities

To facilitate the analysis, the 283 municipalities are divided into groups according to the methodology adopted by the Department of Cooperative Governance, as developed by the Palmer Development Group (PDG). For further details see Chapter 12 Delivering municipal services in rural areas.

Contents

Chapter 1	Introduction.....	1
	Introduction	1
	Objectives of this publication	2
	Main themes for the 2011 Review	3
	Key issues identified	4
	A summary of the chapters	6
	Conclusion	8
Chapter 2	The socio-economic and fiscal context of local government.....	9
	Introduction	9
	Socio-economic trends and local government	10
	The economic outlook and local government	13
	National fiscal policy and local government	16
	Applying the differentiated approach to local government	20
	Governance: the key to effective municipalities	22
	Conclusion	26
Chapter 3	Intergovernmental relations and the local government fiscal framework.....	27
	Introduction	27
	Intergovernmental relations and the role of local government	28
	The local government fiscal framework	36
	Services and the local government fiscal framework	46
	Municipalities' role in the management of resources	47
	Conclusion	48
Chapter 4	Revenue and expenditure trends in local government.....	49
	Introduction	49
	Local government in the system of public finance	50
	Trends in intergovernmental transfers to local government.....	51
	Revenue trends.....	57
	Expenditure trends.....	62
	Key issues in revenue and expenditure management.....	68
	Conclusion	71

Chapter 5	Financial Management and MFMA Implementation	73
	Introduction	73
	Reforms in municipal financial management	74
	Strengthening planning and budgeting	77
	Strengthening oversight through improved transparency	83
	Institutional strengthening and capacity building	87
	Conclusion	90
Chapter 6	Leveraging private finance.....	91
	Introduction	91
	Municipal infrastructure investment requirements.....	92
	Sources of infrastructure finance	93
	Developing the municipal borrowing market	101
	Conclusion	103
Chapter 7	Managing municipal personnel	105
	Introduction	105
	Trends in local government employment	107
	Building municipal capacity	110
	Sector employment trends	114
	Municipal remuneration.....	116
	Performance management.....	119
	Conclusion	121
Chapter 8	Water and Sanitation services	123
	Introduction	123
	Water availability and demand	124
	Water resource management.....	125
	The water services sector	127
	Access to water and sanitation	130
	Funding of basic water and sanitation infrastructure.....	132
	Factors influencing the efficient provision of water services	137
	Conclusion	141
Chapter 9	Electricity	143
	Introduction	143
	Overview of the generation and transmission of electricity	144
	Electricity distribution	147
	Financing electricity distribution	150

	Promoting household access to electricity	157
	Conclusion	160
Chapter 10	Roads	161
	Introduction	161
	Institutional arrangements for roads	162
	The state of the country's roads.....	164
	Funding and expenditure on road infrastructure and maintenance	170
	Policy and funding developments in the roads sector.....	173
	Conclusion	173
Chapter 11	Solid waste services	175
	Introduction	175
	Institutional arrangements for solid waste services	176
	Access to solid waste services	181
	Financing solid waste services	183
	Waste minimisation, recycling and energy recovery.....	188
	Conclusion	190
Chapter 12	Delivering municipal services in rural areas	191
	Introduction	191
	Defining rural areas and municipalities.....	192
	The demographic, social and economic context of rural municipalities.....	194
	Rural development and local government	196
	Local economic development activities by municipalities	199
	Financing rural municipalities	205
	Conclusion	209
Chapter 13	Cities and the management of the built environment	211
	Introduction	211
	The demographic, economic and spatial context of cities	213
	Public expenditure on the built environment.....	216
	Institutional and fiscal arrangements for managing cities	224
	Reconsidering the fiscal framework for large cities.....	226
	Conclusion	230

ANNEXURES

Annexure A	Aggregate municipal operating and capital budgets and expenditure, 2006/07 – 2012/13.....	234
Annexure B	Aggregate national transfers and conditional grants to local government, 2006/07 – 2012/13.....	236
Annexure C	Aggregate municipal personnel spending, 2006/07 – 2012/13	238
Annexure D	Aggregate salaries and benefits of councillors and senior managers, 2010/11	239
Annexure E	Aggregate personnel numbers as at 30 June 2010.....	240

Tables

Table 2.1	Division of nationally raised revenue, 2007/08 – 2013/14.....	17
Table 2.2	Public sector borrowing requirements, 2007/08 – 2013/14.....	18
Table 3.1	Priority functions of local government.....	33
Table 3.2	Sources of local government funding.....	36
Table 4.1	Local government revenue and expenditure to GDP, 2006/07 – 2012/13.....	50
Table 4.2	Public sector infrastructure expenditure and estimates, 2006/07 – 2012/13.....	50
Table 4.3	Division of nationally raised revenues, 2006/07 – 2012/13.....	51
Table 4.4	Transfers to local government, 2006/07 – 2012/13.....	52
Table 4.5	Equitable share and RSC levy replacement grant transfers, 2006/07 – 2012/13.....	53
Table 4.6	Infrastructure transfers to local government, 2006/07 – 2012/13.....	54
Table 4.7	Capacity-building and other current transfers to local government, 2006/07 – 2012/13.....	55
Table 4.8	Provincial transfers to local government, 2006/07 – 2012/13.....	56
Table 4.9	Municipal operating revenue, 2006/07 – 2012/13.....	58
Table 4.10	Debtors age analysis, 31 December 2009 and 31 December 2010.....	61
Table 4.11	Municipal capital funding, 2006/07 – 2012/13.....	61
Table 4.12	Municipal operating expenditure, 2006/07 – 2012/13.....	63
Table 4.13	Municipal per capita spending by province, 2006/07 – 2012/13.....	64
Table 4.14	Municipal capital expenditure, 2006/07 – 2012/13.....	65
Table 4.15	Actual spending of national conditional grants to local government, 2006/07 – 2009/10.....	68
Table 5.1	Over and under spending of operating budget for the 4 th quarter ended 30 June 2010.....	82
Table 5.2	Over and under spending of capital budget for the 4 th quarter ended 30 June 2010.....	83
Table 5.3	Participation in the formal programme - MFMP.....	89
Table 5.4	MFMP as at 30 September 2010.....	90
Table 7.1	Local government's contribution to employment by category of municipality, 2006 and 2009.....	107
Table 7.2	Total employment in local government by category and by metro, 2006 – 2009.....	108
Table 7.3	Growth in municipal positions in key sectors, 2006 and 2009.....	109
Table 7.4	Metro personnel vacancies, 2006 – 2009.....	112
Table 7.5	Vacancies in category B and C municipalities, 2008/09.....	113
Table 7.6	Vacant posts for section 57 managers, 2006 – 2009.....	114

Table 7.7	Percentage of municipal workers employed in key sectors, 2009	114
Table 7.8	Filling positions in key sectors, 2008 and 2009.....	115
Table 7.9	Municipal personnel expenditure by category, 2006/07 – 2012/13.....	116
Table 7.10	Municipal personnel expenditure as % of total operating expenditure (excl bulk purchases), 2006/07 – 2012/13	118
Table 7.11	Average cost per employee by category of municipality, 2006 to 2009 ..	119
Table 8.1	Reconciliation of requirements for and availability of water for the year 2025	124
Table 8.2	Water and sanitation expenditure and grants per capita.....	133
Table 8.3	Number of households receiving free basic water and sanitation, 2007 – 2009	133
Table 8.4	Budgeted water expenditure by category of municipality, 2006/07 – 2012/13	134
Table 8.5	Budgeted sanitation expenditure by category of municipality, 2006/07 – 2012/13	135
Table 9.1	Electricity sales by category for Eskom and municipalities, 2006	149
Table 9.2	Budgeted electricity operating revenue, 2006/07 – 2012/13.....	150
Table 9.3	Budgeted electricity operating revenue as a percentage of total budgeted operating revenue, 2006/07 – 2012/13	151
Table 9.4	Electricity operating expenditure by category of municipality, 2006/07 -2012/13	153
Table 9.5	Electricity distribution losses, 2005/06 – 2009/10	154
Table 9.6	Budgeted capital expenditure on the electricity function, 2006/07 – 2012/13	155
Table 9.7	Consumer units receiving free basic electricity services from municipalities, 2008 and 2009.....	159
Table 10.1	South Africa Road Network (2010)	165
Table 10.2	Vehicle population per province, 2008 and 2009	168
Table 10.3	Projects per sector and sphere of government	171
Table 10.4	Metro roads infrastructure expenditure, 2006/07 – 2012/13	172
Table 10.5	Secondary cities roads infrastructure expenditure, 2006/07 – 2012/13 ..	172
Table 11.1	Current allocation of solid waste functions between role players.....	177
Table 11.2	Municipalities performing solid waste functions, 2005 and 2009	179
Table 11.3	Access to refuse removal services, 2005 – 2009.....	181
Table 11.4	Households with inadequate access to services by municipal context ..	181
Table 11.5	Operating revenue for the solid waste function by category of municipality, 2006/07 – 2012/13	183
Table 11.6	Monthly account for an average household, 2009/10	184
Table 11.7	Budgeted operating expenditure for the solid waste function by category or municipality, 2006/07 – 2012/13	185

Table 11.8	Municipal waste fleets, 2007	186
Table 11.9	Cost implications of increased distance to disposal sites	187
Table 11.10	Capital budgets for the solid waste function by category of municipality, 2006/07 – 2012/13	187
Table 11.11	General waste generation by province in 1997 (estimated) and 2010 (projected)	189
Table 12.1	Classification of municipalities into categories for analysis	193
Table 12.2	Demographic profile of urban and rural municipalities	194
Table 12.3	Basic service levels	197
Table 12.4	Neighbourhood development partnership grant awards per type of municipality	201
Table 12.5	EPWP work opportunities created, 2003/04 – 2009/10.....	201
Table 13.1	Distribution of backlogs across municipal type	216
Table 13.2	Municipal expenditure on housing, 2006/07 – 2012/13	218
Table 13.3	Delivery of bus subsidised services, 2009/10	219
Table 13.4	Public transport infrastructure and systems grant allocations, 2006/07 – 2012/13	220
Table 13.5	Expenditure of the public transport infrastructure and systems grant, 2006/07 – 2012/13	221
Table 13.6	Passenger rail transport outputs, 2009/10	222
Table 13.7	Selected performance and operations indicators	222
Table 13.8	Municipal capital expenditure community assets, 2006/07 – 2012/13 ...	223
Table 13.9	Municipal expenditure relative to NDPG award as at 31 March 2010.....	224

Figures

Figure 2.1	GVA per capita by type of municipality, 2009.....	11
Figure 2.2	Share of economic sector by type of municipality, 2009	12
Figure 2.3	Percentage growth by economic sector, 2006 – 2009	14
Figure 2.4	Buildings plans passed versus investment in municipal infrastructure, 1998-2009	15
Figure 2.5	Revenue trends per major source, 2005/06 – 2011/12	18
Figure 2.6	Trust in government institutions, 2004 to 2009	23
Figure 2.7	Service delivery protests, 2004 to 2010	23
Figure 3.1	A model of municipal service delivery and finances	46
Figure 4.1	Infrastructure grants' contribution to municipal capital budgets	54
Figure 4.2	Aggregated own revenue of municipalities.....	60
Figure 4.3	Municipal own contribution to capital expenditure, 2006 to 2012.....	62
Figure 5.1	Municipal financial management and accountability cycle	76
Figure 5.2	Compliance with municipal budget tabling and approval deadlines, 2005 to 2010	79
Figure 5.3	Funding compliance of municipalities' approved 2010/11 budgets	81
Figure 5.4	Municipal audit opinions, 2006/07 – 2009/10	85
Figure 6.1	Municipal infrastructure investment requirement, 2009.....	92
Figure 6.2	Trends in the municipal borrowing market	93
Figure 8.1	The use of water per main economic sector	125
Figure 8.2	Percentage of households with access to piped water by province, 2001 - 2007	131
Figure 8.3	Percentage of households with access to flush toilets, 2001 – 2007	132
Figure 8.4	Average domestic water tariffs in 2009/10	136
Figure 8.5	Standard international water association water balance: national, 2009	138
Figure 9.1	Generation capacity to be added in terms of government's current build programme, 2010 to 2020	145
Figure 9.2	Targeted and achieved MW savings per year from Eskom's demand side management programme	147
Figure 9.3	Number of households with access to electricity, 2006 – 2009.....	157

Figure 10.1	State of the paved roads per province.....	165
Figure 10.2	Summary of paved and gravel road conditions under the different jurisdictions	166
Figure 10.3	State of the paved roads in metros	167
Figure 12.1	Number of rural local municipalities per province.....	193
Figure 12.2	Share of GVA by sector in rural and urban areas	195
Figure 12.3	Distribution of national service backlogs between urban and rural municipalities in 2007	197
Figure 12.4	Number of consumers receiving services in B4 municipalities.....	198
Figure 12.5	GVA vs own revenue per municipal category, 2008/09	207
Figure 13.1	Urban population projections to 2050	213
Figure 13.2	GVA per capita by type of municipality	214
Figure 13.3	Expenditure on housing and housing delivery, 2005 – 2009	217

