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## **MEDIA STATEMENT**

### **LOCAL GOVERNMENT ADOPTED OPERATING AND CAPITAL BUDGETS FOR 2018/19 MTREF**

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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 2018/19 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 2018/19 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 2018/19 is R404.6 billion, which is expected to increase to R431.5 billion in 2019/20 and R462.5 billion in 2020/21.*
- *Total municipal expenditure in 2018/19 is estimated to be R441.6 billion, increasing to R467.9 billion in 2019/20 and R495 billion in 2020/21. Expenditure for 2018/19 is 5.7 per cent higher than the 2017/18 MTREF.*
- *In the 2018/19 financial year, a net deficit of R4.7 billion is expected, a position that remains in deficit of R2.8 billion in 2019/20 and show a surplus of R41.3 million in 2020/21.*
- *Municipal operating expenditure on the trading services consisting of water, electricity, waste water management and waste management is budgeted to increase from R174.7 billion in 2017/18 to R184.3 billion in 2018/19. In 2018/19 this equates to half of the total operating expenditure of municipalities.*
- *Bulk purchases of electricity and water total R115.8 billion of the aggregated operating expenditure of R368.2 billion or 31.4 per cent. Bulk purchases are expected to grow to R134.7 billion by 2020/21 representing 32.1 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. R27.4 billion will be allocated in 2018/19 to*

*repairs and maintenance of assets from operating expenditure. This will increase to R29.5 billion in 2019/20 and R31.7 billion in 2020/21.*

- *Capital expenditure has increased by 3.9 per cent compared to the 2017/18 MTREF. Of the overall budget of municipalities, capital expenditure in aggregate represents 16.6 per cent in 2018/19, 15.9 per cent in 2019/20 and 15.2 per cent in 2020/21.*
- *Total capital expenditure for 2018/19 is R73.4 billion and comprises R33.6 billion for trading services (electricity, water, waste water management and waste management). Expenditure on the four trading services will increase to R36.5 billion and to R37.2 billion in the outer years of the MTREF.*
- *The 2018/19 capital budget reflects a R47.4 billion investment in new infrastructure which is 64.6 per cent of the total capital budget. Investment in the renewal of existing assets will be approximately R26 billion or 35.4 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](http://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 2018/19 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 **238** of **257** (93 per cent) municipalities managed to achieve this reconciliation last year, for the 2018/19 MTREF **251** of **257** (97.7 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](http://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 2018/19, 2019/20 and 2020/21 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 28 September 2018. 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 2018/19 MTREF publication covers 257 municipalities.

**The full list of information published:**

- Aggregated/Consolidated municipal 2018 MTREF information;
- A set of related graphs;
- Summary of expenditure per function;
- Summary of large expenditure items;
- *A. Medium-term budget (three-year budget perspective of the summarised operational and capital appropriations):*
  - Operating budget 2018/19;
  - Capital budget 2018/19;
  - Operating budget 2019/20;
  - Capital budget 2019/20;
  - Operating 2020/21; and
  - Capital budget 2020/21.
- *B. Municipal Budget and Reporting Regulations format (Summary of financial dimensions):*
  - Schedule A1: Consolidated for all municipalities;
  - Schedule A1: Per province;
  - Schedule A1: Metros; and
  - Schedule A1: Secondary Cities.
- *C. Municipal Budget and Reporting Regulations format (Detail of schedules A2 to A10):*
  - Schedule A2 (Standard Classification):
    - Schedule A2: Consolidated for all municipalities;
    - Schedule A2: Per province;
    - Schedule A2: Metros; and
    - Schedule A2: Secondary Cities.
  - Schedule A4 (Statement of Financial Performance):
    - Schedule A4: Consolidated for all municipalities;
    - Schedule A4: Per province;
    - Schedule A4: Metros; and
    - Schedule A4: Secondary Cities.
  - Schedule A5 (Capital Budget):
    - Schedule A5: Consolidated for all municipalities;
    - Schedule A5: Per province;
    - Schedule A5: Metros; and
    - Schedule A5: Secondary Cities.
  - Schedule 6 (Statement of Financial Position):
    - Schedule A6: Consolidated for all municipalities;
    - Schedule A6: Per province;
    - Schedule A6: Metros; and
    - Schedule A6: Secondary Cities.
  - Schedule A7 (Cash Flow Budget/Position):
    - Schedule A7: Consolidated for all municipalities;
    - Schedule A7: Per province;
    - Schedule A7: Metros; and
    - Schedule A7: Secondary Cities.
  - Schedule A9 (Asset Management):

- Schedule A9: Consolidated for all municipalities;
  - Schedule A9: Per province;
  - Schedule A9: Metros; and
  - Schedule A9: Secondary Cities.
- Schedule A10 (Free Basic Services):
  - Schedule A10: Consolidated for all municipalities;
  - Schedule A10: Per province;
  - Schedule A10: Metros; and
  - Schedule A10: Secondary Cities.
- Combined Schedules A1 to A10:
  - Metros;
  - Local municipalities; and
  - District municipalities.
- *D. Changes to Baseline:*
  - Sum of changes to baseline; and
  - Information per province.
- *E. Summary of Growth Rates:*
  - Sum of growth in municipal budgets, and
  - Information per province.
- *F. Budgeted Ratios:*
  - Ratios based on municipal budgets.
- *G. Additional Information:*
  - Average tariff increases; and
  - Budgeted wage increases.
- *H. Outcome of Municipal Budget Benchmarking:*
  - Consolidated for all municipalities; and
  - Per province.
- *I. Audited results for 2016/17*
- *mSCOA framework assorted results*
- *Summarised financial results, 2008 - 2018*

## HIGH LEVEL ANALYSIS OF THE 2018/19 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 2018/19 budget and MTREF is also published on the National Treasury website.

### Aggregated operating and capital budget

**Table 1: Aggregated Operating and Capital budgets, 2017/18 - 2020/21**

Description	Original Budget	Adjusted Budget	2018/19 Medium Term Revenue & Expenditure Framework		
	2017/18	2017/18	2018/19	2019/20	2020/21
R thousands					
Total Revenue	385 591 168	381 943 009	404 573 381	431 501 919	462 467 176
Total Expenditure <sup>1</sup>	416 500 978	417 635 306	441 609 437	467 978 697	495 010 872
Surplus / (deficit)	(30 909 810)	(35 692 297)	(37 036 056)	(36 476 778)	(32 543 696)
FINANCING:					
External loans / borrowing	13 327 264	13 571 724	16 195 667	16 111 125	15 973 536
Internally generated funds <sup>2</sup>	14 253 266	14 953 464	16 154 174	17 515 903	16 611 459
Total financing	27 580 530	28 525 188	32 349 841	33 627 028	32 584 995
Net surplus / (deficit)	(3 329 280)	(7 167 109)	(4 686 214)	(2 849 750)	41 299

<sup>1</sup>Excludes Taxation

<sup>2</sup> 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 R404.6 billion, R431.5 billion and R462.5 billion while total expenditure estimates are R441.6 billion, R467.9 billion and R495 billion for each of the respective financial years of the 2018/19 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 R48.3 billion to fund infrastructure development while contributing R50.3 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 2018/19 and 2019/20. The operational deficit is R4.7 billion and is expected to decrease to R2.8 billion in 2019/20 and to a R41.3 million surplus in 2020/21.

**Table 2: Consolidated budget summary for all municipalities for the 2018 MTREF**

Description	Current year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
<b>R thousands</b>					
<b><u>Financial Performance</u></b>					
Property rates	58 073 374	58 417 170	63 418 380	67 866 299	72 595 973
Service charges	174 098 607	169 213 409	180 455 803	195 777 481	211 278 227
Investment revenue	4 765 505	4 152 695	4 309 935	4 465 007	4 611 172
Transfers recognised - operational	76 566 063	79 848 914	85 385 720	91 525 612	98 591 695
Other own revenue	29 045 054	27 454 665	29 942 304	31 226 355	32 832 186
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>342 548 602</b>	<b>339 086 853</b>	<b>363 512 141</b>	<b>390 860 753</b>	<b>419 909 253</b>
Employee costs	99 464 317	99 112 077	109 285 582	116 858 025	125 167 099
Remuneration of councillors	3 991 169	3 981 883	4 333 085	4 579 833	4 843 545
Depreciation & asset impairment	29 994 911	30 716 973	31 565 323	33 796 575	35 805 667
Finance charges	9 722 678	8 660 798	8 913 746	10 115 111	10 957 786
Materials and bulk purchases	109 760 001	108 187 352	115 796 260	125 677 242	134 711 051
Transfers and grants	4 077 617	4 345 899	4 184 555	4 467 589	4 631 710
Other expenditure	88 867 189	91 248 980	94 119 804	98 216 128	103 751 096
<b>Total Expenditure<sup>1</sup></b>	<b>345 877 882</b>	<b>346 253 962</b>	<b>368 198 356</b>	<b>393 710 503</b>	<b>419 867 954</b>
<b>Surplus/(Deficit)</b>	<b>(3 329 280)</b>	<b>(7 167 109)</b>	<b>(4 686 214)</b>	<b>(2 849 750)</b>	<b>41 299</b>
Transfers recognised - capital	41 447 343	40 831 421	39 589 846	39 514 577	41 048 102
Contributions recognised - capital & contributed assets	683 170	193 010	328 305	314 643	343 357
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>38 801 233</b>	<b>33 857 322</b>	<b>35 231 938</b>	<b>36 979 470</b>	<b>41 432 758</b>
Share of surplus/ (deficit) of associate	-	0	-	-	0
<b>Surplus/(Deficit) for the year</b>	<b>38 801 233</b>	<b>33 857 322</b>	<b>35 231 938</b>	<b>36 979 470</b>	<b>41 432 758</b>
<b><u>Capital expenditure &amp; funds sources</u></b>					
<b>Capital expenditure</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>
Transfers recognised - capital	42 207 765	41 988 643	40 319 286	39 963 474	41 865 752
Public contributions & donations	834 801	867 512	741 954	677 693	692 171
Borrowing	13 327 264	13 571 724	16 195 667	16 111 125	15 973 536
Internally generated funds	14 253 266	14 953 464	16 154 174	17 515 903	16 611 459
<b>Total sources of capital funds</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>

<sup>1</sup>Excludes 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, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	37 916 441	204 887 025	242 803 466	38 928 050	218 990 645	257 918 695	42 619 076	237 115 960	279 735 036	43 452 903	255 998 130	299 451 032
Category B	23 169 679	117 722 794	140 892 473	25 050 595	123 802 164	148 852 759	22 578 746	131 836 694	154 415 440	22 291 420	140 213 656	162 505 077
Category C	9 536 975	19 938 784	29 475 759	9 432 437	20 719 333	30 151 769	9 070 373	21 908 099	30 978 472	9 398 595	23 697 467	33 096 062
<b>Total</b>	<b>70 623 096</b>	<b>342 548 602</b>	<b>413 171 698</b>	<b>73 411 081</b>	<b>363 512 141</b>	<b>436 923 223</b>	<b>74 268 194</b>	<b>390 860 753</b>	<b>465 128 947</b>	<b>75 142 917</b>	<b>419 909 253</b>	<b>495 052 171</b>
Less												
External loans / borrowing	13 327 264	-	13 327 264	16 195 667	-	16 195 667	16 111 125	-	16 111 125	15 973 536	-	15 973 536
Internally generated funds	14 253 266	-	14 253 266	16 154 174	-	16 154 174	17 515 903	-	17 515 903	16 611 459	-	16 611 459
<b>Recalculated revenue<sup>1</sup></b>	<b>43 042 565</b>	<b>342 548 602</b>	<b>385 591 168</b>	<b>41 061 240</b>	<b>363 512 141</b>	<b>404 573 381</b>	<b>40 641 167</b>	<b>390 860 753</b>	<b>431 501 919</b>	<b>42 557 923</b>	<b>419 909 253</b>	<b>462 467 176</b>
<b>% of total revenue<sup>2</sup></b>												
Category A	9.2%	49.6%	58.8%	8.9%	50.1%	59.0%	9.2%	51.0%	60.1%	8.8%	51.7%	60.5%
Category B	5.6%	28.5%	34.1%	5.7%	28.3%	34.1%	4.9%	28.3%	33.2%	4.5%	28.3%	32.8%
Category C	2.3%	4.8%	7.1%	2.2%	4.7%	6.9%	2.0%	4.7%	6.7%	1.9%	4.8%	6.7%

<sup>1</sup>Revenue excludes capital transfers

<sup>2</sup>Percentage 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 above shows the aggregated budgeted revenue by category of municipality over the 2018/19 MTREF period. In aggregate, the total budgeted revenue for 2018/19 has increased by 19.8 per cent from R413.2 billion in 2017/18 to R495.1 billion in 2020/21. Operating revenue increased by 22.6 per cent while capital growth is 6.4 per cent when compared to 2017/18. The increase in operating revenue appears to be over optimistic given the current economic climate and the actual collection rate realized by municipalities as reflected in their audit outcomes.
8. In the outer years of the 2018/19 MTREF period, aggregated revenue growth is 6.5 per cent and 6.4 per cent respectively. Capital revenue shows an increase of 1.2 per cent in both 2019/20 and 2020/21.
9. Total gross revenue raised by Category A (metros) municipalities accounts for 59 per cent of the total aggregated revenue in 2018/19. This increases to 60.5 per cent by 2020/21 indicating that the eight metros account for almost two-thirds of total aggregated revenue raised by local government. This supports the notion that metros have a larger fiscal capacity (ability to raise 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 2018/19 MTREF period. Total revenue raised by Category B (local) municipalities is on average approximately 33.4 per cent of total aggregated revenue while Category C (districts) municipalities contribute approximately 6.7 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 below shows the total budgeted expenditure by category of municipality over the 2018/19 MTREF period. In aggregate, budgeted total municipal expenditure has grown by 18.8 per cent from R416.9 billion in 2017/18 to R495 billion in the 2020/21 financial year with growth in operating expenditure contributing 21.3 per cent and growth in capital expenditure is 6.4 per cent.

**Table 4: Aggregated Operating and Capital expenditure per category, 2017/18 - 2020/21**

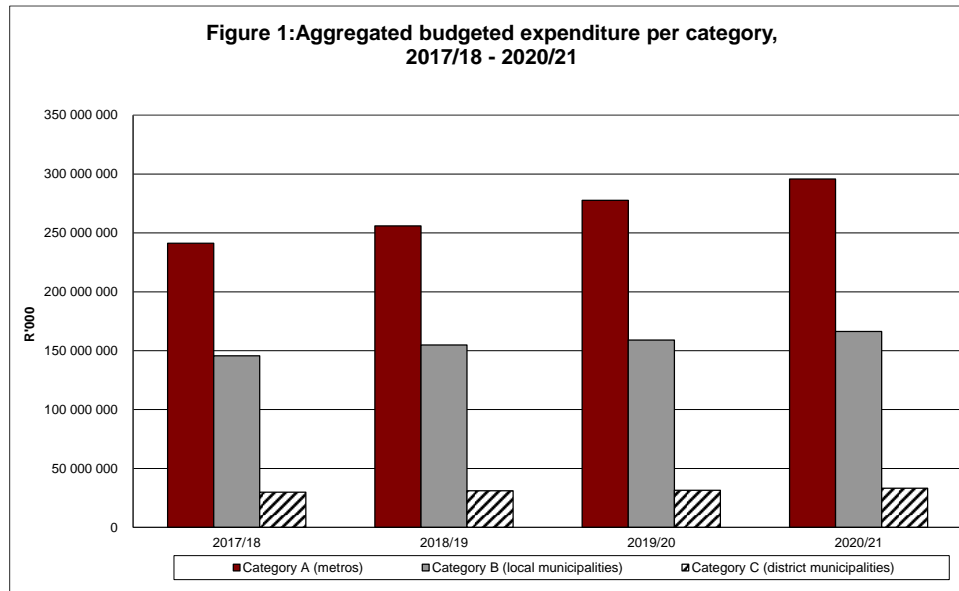
R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Category A	37 916 441	203 362 646	241 279 088	38 928 050	217 102 808	256 030 858	42 619 076	235 047 648	277 666 724	43 452 903	252 335 875	295 788 778
Category B	23 169 679	122 539 452	145 709 131	25 050 595	129 747 422	154 798 017	22 578 746	136 508 365	159 087 111	22 291 420	144 040 713	166 332 133
Category C	9 536 975	20 372 586	29 909 562	9 432 437	21 655 958	31 088 395	9 070 373	22 422 889	31 493 262	9 398 595	23 807 297	33 205 892
<b>Total</b>	<b>70 623 096</b>	<b>346 274 685</b>	<b>416 897 781</b>	<b>73 411 081</b>	<b>368 506 188</b>	<b>441 917 270</b>	<b>74 268 194</b>	<b>393 978 903</b>	<b>468 247 097</b>	<b>75 142 917</b>	<b>420 183 885</b>	<b>495 326 802</b>
Less												
Taxation	-	396 803	396 803	-	307 833	307 833	-	268 400	268 400	-	315 931	315 931
<b>Total expenditure</b>	<b>70 623 096</b>	<b>345 877 882</b>	<b>416 500 978</b>	<b>73 411 081</b>	<b>368 198 356</b>	<b>441 609 437</b>	<b>74 268 194</b>	<b>393 710 503</b>	<b>467 978 697</b>	<b>75 142 917</b>	<b>419 867 954</b>	<b>495 010 872</b>
<b>% of total expenditure<sup>1</sup></b>												
Category A	9.1%	48.8%	57.9%	8.8%	49.1%	57.9%	9.1%	50.2%	59.3%	8.8%	50.9%	59.7%
Category B	5.6%	29.4%	35.0%	5.7%	29.4%	35.0%	4.8%	29.2%	34.0%	4.5%	29.1%	33.6%
Category C	2.3%	4.9%	7.2%	2.1%	4.9%	7.0%	1.9%	4.8%	6.7%	1.9%	4.8%	6.7%

<sup>1</sup>Percentage 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 increase by 3.9 per cent in 2018/19 but shows slower increases over the MTREF, with the capital spending of the metros rising from R38.9 billion in 2018/19 to R43.5 billion by 2020/21. The erratic budgeting for capital infrastructure by Category B municipalities is concerning while Category C municipalities show a 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 2018/19 financial year constitutes 57.9 per cent, whereas local municipalities represent 35 per cent. District municipalities represent only 7 per cent of total expenditure. These trends remain largely constant over the MTREF period with metros contributing an estimated 59.7 per cent to the total expenditure by 2020/21.
15. The contribution of capital expenditure to the total expenditure remains between in the interval 15 to 17 per cent with 17 per cent in 2017/18, 16.6 per cent in 2018/19, 15.9 per cent in 2019/20 to 15.2 per cent in 2020/21. 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 per cent in 2017/18, increases to 83.4 per cent in 2018/19, 84.1 per cent in 2019/20 and 84.8 per cent in 2020/21 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, 2017/18 - 2020/21

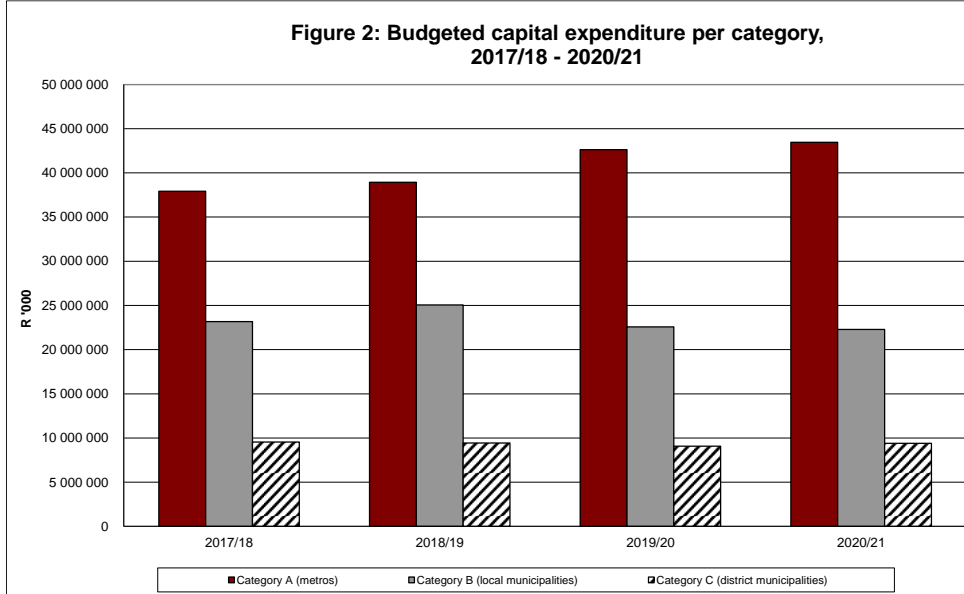
R thousands	Original Budget 2017/18	Adjusted Budget 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
			2018/19	2019/20	2020/21
<b>Capital Expenditure - Standard Classification</b>					
<i>Governance and Administration</i>	7 371 242	8 586 023	8 509 766	7 341 681	6 761 171
Executive & Council	2 355 166	2 528 531	2 215 192	1 914 978	2 364 861
Budget & Treasury Office	3 969 475	4 924 220	6 095 877	5 243 134	4 299 355
Corporate Services	1 046 602	1 133 272	198 697	183 569	96 955
<i>Community and Public Safety</i>	11 139 777	10 485 956	11 419 929	10 750 953	10 404 217
Community & Social Services	2 112 200	1 908 968	1 963 260	1 706 833	1 549 405
Sport And Recreation	1 372 966	1 392 014	1 705 364	1 395 363	1 409 238
Public Safety	1 011 654	1 063 424	912 188	736 656	709 760
Housing	6 306 304	5 769 459	6 576 591	6 589 420	6 370 095
Health	336 653	352 091	262 525	322 682	365 717
<i>Economic and Environmental Services</i>	19 772 563	19 265 952	19 205 700	19 205 451	20 256 554
Planning and Development	3 034 444	3 336 534	2 546 821	3 058 417	3 319 725
Road Transport	16 645 829	15 758 538	16 500 419	15 970 845	16 477 393
Environmental Protection	92 289	170 880	158 460	176 189	459 436
<i>Trading Services</i>	31 740 033	32 446 612	33 572 355	36 489 162	37 234 026
Electricity	8 044 251	7 203 743	7 892 435	8 245 689	8 851 225
Water	16 327 504	18 109 812	17 470 766	18 656 681	19 152 235
Waste Water Management	6 063 081	6 065 033	6 799 968	7 815 604	7 383 325
Waste Management	1 305 198	1 068 025	1 409 186	1 771 188	1 847 241
<i>Other</i>	599 480	596 800	703 331	480 947	486 950
<b>Total Capital Expenditure</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>
<i>Of which</i>					
Total New Assets	45 295 193	47 847 001	47 403 727	46 782 564	47 355 861
Total Renewal of Existing Assets	25 327 903	23 534 343	26 007 354	27 485 630	27 787 056
<b>Total Capital Expenditure</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>
<i>Percentage of total capital expenditure</i>					
New assets	64.1%	67.7%	64.6%	63.0%	63.0%
Renewal of existing assets	35.9%	33.3%	35.4%	37.0%	37.0%
<b>Funded by:</b>					
National Government	39 563 937	38 993 756	37 884 064	38 185 399	40 165 976
Provincial Government	2 041 918	2 672 933	2 172 510	1 529 781	1 424 322
District Municipality	52 710	50 513	48 220	34 691	32 489
Other transfers and grants	549 200	271 440	214 493	213 603	242 965
<b>Transfers recognised - capital</b>	<b>42 207 765</b>	<b>41 988 643</b>	<b>40 319 286</b>	<b>39 963 474</b>	<b>41 865 752</b>
Public contributions and donations	834 801	867 512	741 954	677 693	692 171
Borrowing	13 327 264	13 571 724	16 195 667	16 111 125	15 973 536
Internally generated funds	14 253 266	14 953 464	16 154 174	17 515 903	16 611 459
<b>Total Capital Funding</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>
<b>Repairs and Maintenance by Asset Class</b>					
Infrastructure - Road Transport	4 304 619	2 701 073	5 529 437	5 821 872	6 105 837
Infrastructure - Electricity	4 248 128	2 809 000	4 947 523	5 376 945	5 798 108
Infrastructure - Water	3 477 010	2 568 502	4 300 774	4 874 049	5 239 224
Infrastructure - Sanitation	1 888 544	1 222 987	2 816 073	3 044 942	3 241 093
Infrastructure - Other	613 131	352 090	469 626	519 321	561 911
<b>Infrastructure</b>	<b>14 531 433</b>	<b>9 653 653</b>	<b>18 063 433</b>	<b>19 637 129</b>	<b>20 946 173</b>
Community	1 038 266	1 218 879	1 728 338	1 841 631	1 931 025
Heritage assets	14 053	9 180	13 545	14 315	15 140
Investment properties	90 074	40 440	108 319	108 623	109 187
Other assets	5 866 409	4 493 816	7 485 067	7 861 172	8 655 828
<b>Total Repairs and Maintenance</b>	<b>21 540 234</b>	<b>15 415 968</b>	<b>27 398 703</b>	<b>29 462 871</b>	<b>31 657 353</b>

Source: National Treasury Local Government Database

17. In 2017/18, R31.7 billion has been allocated to total trading services, which comprises electricity, water, waste water management and waste management. This was adjusted to R32.4 billion during the year with more focus on water services. For the 2018/19 MTREF the total allocations

for services are R33.6 billion or 45.7 per cent, R36.5 billion or 49.1 per cent and R37.2 billion or 49.6 per cent of the aggregated capital budget in each of the respective financial years.

18. Monthly reporting on operational repairs and maintenance figures has been institutionalised as part of Section 71 in-year reporting framework. The R21.5 billion of operating expenditure allocated in 2017/18 to the repairs and maintenance of assets has been adjusted downward to R15.4 billion. This will increase to R27.4 billion, R29.5 billion and R31.7 billion over the 2018/19 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 2018/19 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 2018/19 estimated at R20.2 billion or 27.6 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 R14.2 billion or 19.3 per cent and the Western Cape with 30 municipalities (including one metro and three secondary cities) at R11.9 billion or 16.2 per cent. This trend remains unchanged over the duration of the MTREF.
21. The Eastern Cape, which is predominantly rural but with two metros, is ranked fourth in terms of the size of their capital budget with capital appropriations of R9.1 billion in 2018/19.
22. In table 7 the national per capita spending average is estimated to be R7 940 in 2018/19, an Increase from R7 491 in 2017/18. Only two provinces will exceed this national average in 2018/19, namely Gauteng at R11 440 and Western Cape at R11 236 per capita. The trend line suggests increases over the MTREF reaching R8 900 per capita by 2020/21.
23. 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.
24. 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, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating <sup>1</sup>	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	8 805 888	29 686 854	<b>38 492 742</b>	9 097 631	31 313 869	<b>40 411 500</b>	9 273 772	27 052 401	<b>36 326 173</b>	9 068 466	35 630 642	<b>44 699 108</b>
Free State	2 821 395	16 800 636	<b>19 622 031</b>	3 339 386	17 162 171	<b>20 501 557</b>	3 641 505	15 875 075	<b>19 516 580</b>	3 470 769	19 428 028	<b>22 898 797</b>
Gauteng	20 419 616	125 408 823	<b>145 828 439</b>	20 239 619	134 713 091	<b>154 952 710</b>	20 987 611	136 036 675	<b>157 024 286</b>	21 624 841	154 603 036	<b>176 227 877</b>
KwaZulu-Natal	14 570 998	58 805 827	<b>73 376 825</b>	14 164 647	62 172 519	<b>76 337 167</b>	14 052 981	57 823 648	<b>71 876 629</b>	14 049 575	71 706 748	<b>85 756 323</b>
Limpopo	6 261 795	16 386 863	<b>22 648 658</b>	6 605 561	17 671 618	<b>24 277 179</b>	6 330 627	13 817 615	<b>20 148 242</b>	6 656 881	20 279 428	<b>26 936 309</b>
Mpumalanga	3 152 048	16 717 571	<b>19 869 619</b>	3 333 575	17 870 294	<b>21 203 869</b>	3 235 633	17 243 295	<b>20 478 928</b>	3 442 346	20 935 230	<b>24 377 576</b>
North West	3 107 218	16 988 909	<b>20 096 127</b>	3 275 482	17 451 731	<b>20 727 213</b>	2 932 456	15 955 320	<b>18 887 776</b>	2 990 563	19 819 257	<b>22 809 820</b>
Northern Cape	1 391 803	6 304 117	<b>7 695 920</b>	1 433 466	6 848 703	<b>8 282 169</b>	1 162 939	6 216 757	<b>7 379 696</b>	962 933	7 720 126	<b>8 683 059</b>
Western Cape	10 092 333	55 449 003	<b>65 541 336</b>	11 921 714	58 308 144	<b>70 229 858</b>	12 650 670	61 325 390	<b>73 976 060</b>	12 876 544	69 786 758	<b>82 663 302</b>
<b>Total</b>	<b>70 623 096</b>	<b>342 548 602</b>	<b>413 171 698</b>	<b>73 411 081</b>	<b>363 512 141</b>	<b>436 923 223</b>	<b>74 268 194</b>	<b>351 346 175</b>	<b>425 614 370</b>	<b>75 142 917</b>	<b>419 909 253</b>	<b>495 052 171</b>
Less												
External loans / borrowing	13 327 264	-	<b>13 327 264</b>	16 195 667	-	<b>16 195 667</b>	16 111 125	-	<b>16 111 125</b>	15 973 536	-	<b>15 973 536</b>
Internally generated funds	14 253 266	-	<b>14 253 266</b>	16 154 174	-	<b>16 154 174</b>	17 515 903	-	<b>17 515 903</b>	16 611 459	-	<b>16 611 459</b>
<b>Recalculated revenue</b>	<b>43 042 565</b>	<b>342 548 602</b>	<b>385 591 168</b>	<b>41 061 240</b>	<b>363 512 141</b>	<b>404 573 381</b>	<b>40 641 167</b>	<b>351 346 175</b>	<b>391 987 342</b>	<b>42 557 923</b>	<b>419 909 253</b>	<b>462 467 176</b>

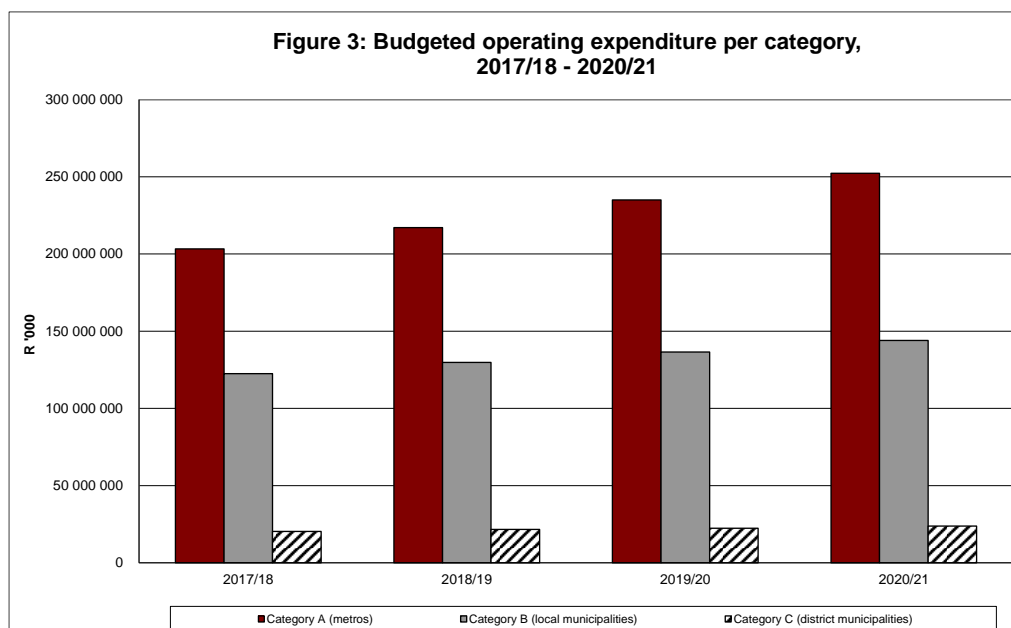
<sup>1</sup> Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

**Table 7: Aggregated Operating and Capital expenditure for municipalities per provinces, 2017/18 - 2020/21**

R thousand	Community Survey 2016	2017/18			2018/19			2019/20			2020/21		
		Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Eastern Cape	6 996 976	8 805 888	30 792 297	<b>39 598 186</b>	9 097 631	32 546 064	<b>41 643 695</b>	9 273 772	34 470 856	<b>43 744 628</b>	9 068 466	36 627 912	<b>45 696 378</b>
Free State	2 834 714	2 821 395	17 549 597	<b>20 370 993</b>	3 339 386	18 233 619	<b>21 573 005</b>	3 641 505	19 215 124	<b>22 856 629</b>	3 470 769	20 345 298	<b>23 816 068</b>
Gauteng	13 399 724	20 419 616	124 510 694	<b>144 930 310</b>	20 239 619	133 047 010	<b>153 286 629</b>	20 987 611	142 819 335	<b>163 806 946</b>	21 624 841	152 902 509	<b>174 527 349</b>
KwaZulu-Natal	11 065 240	14 570 998	58 688 407	<b>73 259 405</b>	14 164 647	63 263 739	<b>77 428 386</b>	14 052 981	67 133 646	<b>81 186 628</b>	14 049 575	71 913 366	<b>85 962 942</b>
Limpopo	5 799 091	6 261 795	15 798 928	<b>22 060 723</b>	6 605 561	17 297 347	<b>23 902 907</b>	6 330 627	18 114 928	<b>24 445 555</b>	6 656 881	19 161 906	<b>25 818 787</b>
Mpumalanga	4 335 964	3 152 048	17 850 732	<b>21 002 781</b>	3 333 575	19 176 749	<b>22 510 324</b>	3 235 633	20 449 880	<b>23 685 513</b>	3 442 346	21 558 896	<b>25 001 241</b>
North West	3 748 435	3 107 218	18 461 735	<b>21 568 953</b>	3 275 482	18 980 696	<b>22 256 178</b>	2 932 456	19 914 153	<b>22 846 609</b>	2 990 563	21 043 769	<b>24 034 332</b>
Northern Cape	1 193 780	1 391 803	6 621 198	<b>8 013 001</b>	1 433 466	7 322 086	<b>8 755 553</b>	1 162 939	7 758 184	<b>8 921 123</b>	962 933	8 212 033	<b>9 174 966</b>
Western Cape	6 279 730	10 092 333	56 001 098	<b>66 093 431</b>	11 921 714	58 638 879	<b>70 560 592</b>	12 650 670	64 102 795	<b>76 753 466</b>	12 876 544	68 418 197	<b>81 294 740</b>
<b>Total</b>	<b>55 653 654</b>	<b>70 623 096</b>	<b>346 274 685</b>	<b>416 897 781</b>	<b>73 411 081</b>	<b>368 506 188</b>	<b>441 917 270</b>	<b>74 268 194</b>	<b>393 978 903</b>	<b>468 247 097</b>	<b>75 142 917</b>	<b>420 183 885</b>	<b>495 326 802</b>
Less													
Taxation		-	396 803	<b>396 803</b>	-	307 833	<b>307 833</b>	-	268 400	<b>268 400</b>	-	315 931	<b>315 931</b>
<b>Total expenditure</b>		<b>70 623 096</b>	<b>345 877 882</b>	<b>416 500 978</b>	<b>73 411 081</b>	<b>368 198 356</b>	<b>441 609 437</b>	<b>74 268 194</b>	<b>393 710 503</b>	<b>467 978 697</b>	<b>75 142 917</b>	<b>419 867 954</b>	<b>495 010 872</b>
<b>Per capita spending</b>													
Eastern Cape		1 259	4 401	5 659	1 300	4 651	5 952	1 325	4 927	6 252	1 296	5 235	6 531
Free State		995	6 191	7 186	1 178	6 432	7 610	1 285	6 779	8 063	1 224	7 177	8 402
Gauteng		1 524	9 292	10 816	1 510	9 929	11 440	1 566	10 658	12 225	1 614	11 411	13 025
KwaZulu-Natal		1 317	5 304	6 621	1 280	5 717	6 997	1 270	6 067	7 337	1 270	6 499	7 769
Limpopo		1 080	2 724	3 804	1 139	2 983	4 122	1 092	3 124	4 215	1 148	3 304	4 452
Mpumalanga		727	4 117	4 844	769	4 423	5 192	746	4 716	5 463	794	4 972	5 766
North West		829	4 925	5 754	874	5 064	5 937	782	5 313	6 095	798	5 614	6 412
Northern Cape		1 166	5 546	6 712	1 201	6 134	7 334	974	6 499	7 473	807	6 879	7 686
Western Cape		1 607	8 918	10 525	1 898	9 338	11 236	2 015	10 208	12 222	2 050	10 895	12 946
<b>Total</b>		<b>1 269</b>	<b>6 222</b>	<b>7 491</b>	<b>1 319</b>	<b>6 621</b>	<b>7 940</b>	<b>1 334</b>	<b>7 079</b>	<b>8 414</b>	<b>1 350</b>	<b>7 550</b>	<b>8 900</b>

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



## Aggregated operating and capital budget for metros

25. The aggregated budgeted revenue for all metros over the 2018/19 MTREF period is contained in Table 8. Total revenue decreased from R242.8 billion in 2017/18, to R242.4 billion in 2018/19, increases to an estimated R279.7 billion in 2019/20 and to R299.5 billion in 2020/21, reflecting a total increase of 15.4 and 7 per cent in the two outer years of the MTREF which may not be realistic in the current economic climate.
26. 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 24 per cent for 2018/19 followed by the Cape Town at 19 per cent and City of Ekurhuleni at 16.5 per cent. Three metros, namely Nelson Mandela Bay, Buffalo City and Mangaung are comparatively small with total revenue at 4.6, 3.1 and 2.6 per cent respectively.

**Table 8: Aggregated Operating and Capital revenue for metros, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating <sup>1</sup>	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 646 166	6 200 028	<b>7 846 195</b>	1 753 142	6 517 222	<b>8 270 364</b>	2 288 875	7 047 200	<b>9 336 075</b>	2 174 843	7 609 195	<b>9 784 038</b>
Cape Town	7 023 203	38 292 542	<b>45 315 745</b>	8 456 748	39 735 877	<b>48 192 626</b>	9 855 952	44 403 239	<b>54 259 191</b>	10 149 854	48 706 729	<b>58 856 582</b>
City of Ekurhuleni	6 715 956	32 294 898	<b>39 010 854</b>	6 904 213	35 317 657	<b>42 221 869</b>	7 130 995	38 254 245	<b>45 385 241</b>	7 057 515	41 534 420	<b>48 591 935</b>
eThekweni	7 340 084	33 384 656	<b>40 724 740</b>	7 110 162	35 175 463	<b>42 285 625</b>	7 688 341	38 032 998	<b>45 721 339</b>	7 774 881	41 241 451	<b>49 016 332</b>
City Of Johannesburg	8 589 421	48 849 779	<b>57 439 200</b>	7 810 236	53 046 409	<b>60 856 646</b>	8 533 864	57 058 093	<b>65 591 957</b>	9 018 475	61 198 064	<b>70 216 539</b>
Mangaung	1 139 436	6 275 571	<b>7 415 008</b>	1 130 454	6 304 424	<b>7 434 878</b>	1 155 900	6 796 660	<b>7 952 560</b>	1 165 299	7 294 027	<b>8 459 326</b>
Nelson Mandela Bay	1 601 891	9 363 536	<b>10 965 427</b>	1 740 079	10 363 386	<b>12 103 465</b>	1 974 862	11 096 207	<b>13 071 069</b>	1 951 681	11 937 206	<b>13 888 887</b>
City Of Tshwane	3 860 284	30 226 013	<b>34 086 298</b>	4 023 015	32 530 207	<b>36 553 222</b>	3 990 285	34 427 318	<b>38 417 603</b>	4 160 354	36 477 039	<b>40 637 393</b>
<b>Total</b>	<b>37 916 441</b>	<b>204 887 025</b>	<b>242 803 466</b>	<b>38 928 050</b>	<b>218 990 645</b>	<b>257 918 695</b>	<b>42 619 076</b>	<b>237 115 960</b>	<b>279 735 036</b>	<b>43 452 903</b>	<b>255 998 130</b>	<b>299 451 032</b>
Less									<b>8.5%</b>			<b>7.0%</b>
External loans / borrowing	11 425 976	-	<b>11 425 976</b>	13 191 148	-	<b>13 191 148</b>	14 782 743	-	<b>14 782 743</b>	14 489 092	-	<b>14 489 092</b>
Internally generated funds	8 639 890	-	<b>8 639 890</b>	9 555 559	-	<b>9 555 559</b>	11 111 134	-	<b>11 111 134</b>	11 117 772	-	<b>11 117 772</b>
<b>Recalculated revenue</b>	<b>17 850 576</b>	<b>204 887 025</b>	<b>222 737 601</b>	<b>16 181 342</b>	<b>218 990 645</b>	<b>235 171 987</b>	<b>16 725 199</b>	<b>237 115 960</b>	<b>253 841 159</b>	<b>17 846 039</b>	<b>255 998 130</b>	<b>273 844 168</b>
<b>% of total revenue</b>												
Buffalo City	0.7%	2.6%	3.2%	0.7%	2.5%	3.2%	0.8%	2.5%	3.3%	0.7%	2.5%	3.3%
Cape Town	2.9%	15.8%	18.7%	3.3%	15.4%	18.7%	3.5%	15.9%	19.4%	3.4%	16.3%	19.7%
City of Ekurhuleni	2.8%	13.3%	16.1%	2.7%	13.7%	16.4%	2.5%	13.7%	16.2%	2.4%	13.9%	16.2%
eThekweni	3.0%	13.7%	16.8%	2.8%	13.6%	16.4%	2.7%	13.6%	16.3%	2.6%	13.8%	16.4%
City Of Johannesburg	3.5%	20.1%	23.7%	3.0%	20.6%	23.6%	3.1%	20.4%	23.4%	3.0%	20.4%	23.4%
Mangaung	0.5%	2.6%	3.1%	0.4%	2.4%	2.9%	0.4%	2.4%	2.8%	0.4%	2.4%	2.8%
Nelson Mandela Bay	0.7%	3.9%	4.5%	0.7%	4.0%	4.7%	0.7%	4.0%	4.7%	0.7%	4.0%	4.6%
City Of Tshwane	1.6%	12.4%	14.0%	1.6%	12.6%	14.2%	1.4%	12.3%	13.7%	1.4%	12.2%	13.6%

<sup>1</sup> Operating revenue excluding capital transfers

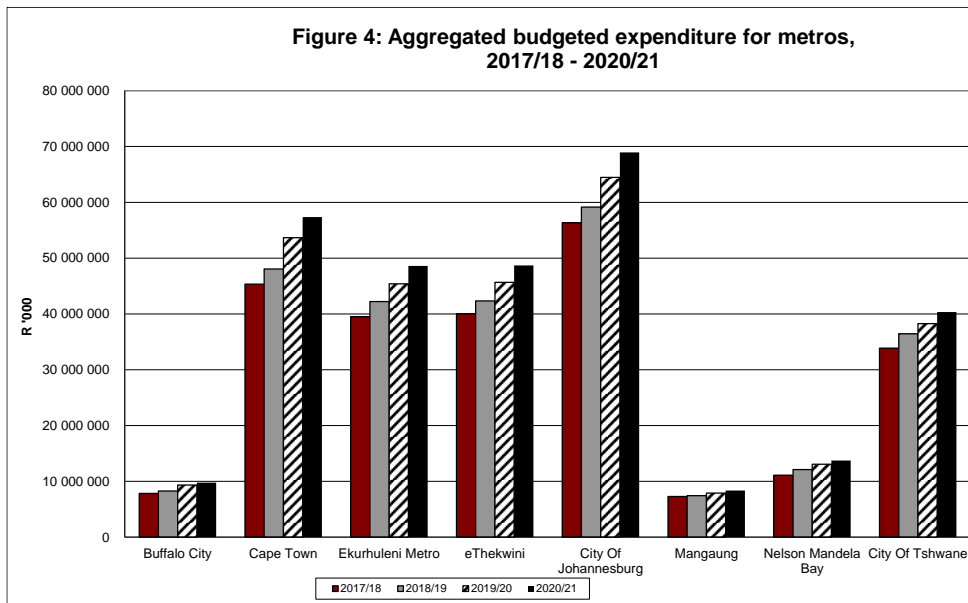
Source: National Treasury Local Government Database

27. The capital budget of the metros constitutes 53 per cent of the total municipal capital budget for 2018/19 and increases to 57.8 per cent of total municipal capital expenditure by 2020/21. 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, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Buffalo City	1 646 166	6 198 140	<b>7 844 306</b>	1 753 142	6 513 298	<b>8 266 440</b>	2 288 875	7 039 395	<b>9 328 270</b>	2 174 843	7 601 676	<b>9 776 519</b>
Cape Town	7 023 203	38 322 274	<b>45 345 477</b>	8 456 748	39 604 509	<b>48 061 257</b>	9 855 952	43 793 988	<b>53 649 941</b>	10 149 854	47 196 893	<b>57 346 746</b>
City of Ekurhuleni	6 715 956	32 773 094	<b>39 489 050</b>	6 904 213	35 316 496	<b>42 220 709</b>	7 130 995	38 251 545	<b>45 382 540</b>	7 057 515	41 531 936	<b>48 589 451</b>
eThekwini	7 340 084	32 697 271	<b>40 037 355</b>	7 110 162	35 227 111	<b>42 337 273</b>	7 688 341	37 968 893	<b>45 657 234</b>	7 774 881	40 928 871	<b>48 703 752</b>
City Of Johannesburg	8 589 421	47 740 117	<b>56 329 538</b>	7 810 236	51 344 950	<b>59 155 186</b>	8 533 864	55 918 359	<b>64 452 223</b>	9 018 475	59 932 137	<b>68 950 612</b>
Mangaung	1 139 436	6 147 612	<b>7 287 049</b>	1 130 454	6 303 844	<b>7 434 298</b>	1 155 900	6 733 942	<b>7 889 841</b>	1 165 299	7 181 202	<b>8 346 502</b>
Nelson Mandela Bay	1 601 891	9 488 809	<b>11 090 701</b>	1 740 079	10 375 088	<b>12 115 167</b>	1 974 862	11 079 494	<b>13 054 357</b>	1 951 681	11 769 632	<b>13 721 314</b>
City Of Tshwane	3 860 284	29 995 329	<b>33 855 613</b>	4 023 015	32 417 512	<b>36 440 527</b>	3 990 285	34 262 032	<b>38 252 318</b>	4 160 354	36 193 527	<b>40 353 882</b>
<b>Total</b>	<b>37 916 441</b>	<b>203 362 646</b>	<b>241 279 088</b>	<b>38 928 050</b>	<b>217 102 808</b>	<b>256 030 858</b>	<b>42 619 076</b>	<b>235 047 648</b>	<b>277 666 724</b>	<b>43 452 903</b>	<b>252 335 875</b>	<b>295 788 778</b>
Less												
Taxation	-	396 803	<b>396 803</b>	-	307 833	<b>307 833</b>	-	268 400	<b>268 400</b>	-	315 931	<b>315 931</b>
<b>Total revenue</b>	<b>37 916 441</b>	<b>202 965 843</b>	<b>240 882 285</b>	<b>38 928 050</b>	<b>216 794 976</b>	<b>255 723 025</b>	<b>42 619 076</b>	<b>234 779 248</b>	<b>277 398 324</b>	<b>43 452 903</b>	<b>252 019 944</b>	<b>295 472 847</b>
<b>% of total expenditure</b>												
Buffalo City	0.7%	2.6%	3.3%	0.7%	2.5%	3.2%	0.8%	2.5%	3.4%	0.7%	2.6%	3.3%
Cape Town	2.9%	15.9%	18.8%	3.3%	15.5%	18.8%	3.5%	15.8%	19.3%	3.4%	16.0%	19.4%
City of Ekurhuleni	2.8%	13.6%	16.4%	2.7%	13.8%	16.5%	2.6%	13.8%	16.3%	2.4%	14.0%	16.4%
eThekwini	3.0%	13.6%	16.6%	2.8%	13.8%	16.5%	2.8%	13.7%	16.4%	2.6%	13.8%	16.5%
City Of Johannesburg	3.6%	19.8%	23.3%	3.1%	20.1%	23.1%	3.1%	20.1%	23.2%	3.0%	20.3%	23.3%
Mangaung	0.5%	2.5%	3.0%	0.4%	2.5%	2.9%	0.4%	2.4%	2.8%	0.4%	2.4%	2.8%
Nelson Mandela Bay	0.7%	3.9%	4.6%	0.7%	4.1%	4.7%	0.7%	4.0%	4.7%	0.7%	4.0%	4.6%
City Of Tshwane	1.6%	12.4%	14.0%	1.6%	12.7%	14.2%	1.4%	12.3%	13.8%	1.4%	12.2%	13.6%

Source: National Treasury Local Government Database



28. Operating expenditure by metros accounts for more than half (58.9 per cent on average) of total municipal operating expenditure over the 2018/19 MTREF.
29. Table 9 also shows that in 2018/19 Cape Town, City of Johannesburg and eThekweni have the largest capital budgets at 3.3, 3.1 and 2.8 per cent of the aggregated total budget for metros. They are closely followed by the City of Ekurhuleni at 2.7 per cent. When the City of Tshwane is benchmarked against the mentioned metros, its capital budget is a mere 1.6 per cent in 2018/19 and regresses to 1.4 per cent over the MTREF.
30. The amount to be generated by metros through the sale (billing) of core municipal services is reflected in Table 10. The revenue figures include capital transfers. The major drivers of revenue in 2018/19 are electricity (R118.8 billion), water (R56.8 billion), waste water management (R22.5 billion) and waste management (R15.2 billion). Over the MTREF, moderate increases are anticipated for electricity which is expected to grow by 7.3 per cent in 2019/20 and 6.9 per cent in 2020/21. 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.
31. 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: Budgeted Financial Performance (revenue and expenditure by standard classification)**

Standard Classification Description	2014/15	2015/16	2016/17	Current year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
<b>R thousands</b>								
<b>Revenue - Standard</b>								
<b>Trading Services</b>	<b>149 650 137</b>	<b>167 614 337</b>	<b>180 982 577</b>	<b>206 495 460</b>	<b>203 829 049</b>	<b>213 361 849</b>	<b>230 945 753</b>	<b>248 110 928</b>
Electricity	88 577 044	97 706 506	105 987 649	114 551 275	112 723 596	118 843 358	127 664 017	136 808 753
Water	36 495 790	42 614 249	45 316 390	56 219 189	55 816 638	56 809 322	62 159 800	67 287 581
Waste Water Management	14 623 693	16 251 222	17 429 305	21 731 843	21 280 776	22 482 091	24 803 025	26 591 670
Waste Management	9 953 610	11 042 360	12 249 234	13 993 152	14 008 039	15 227 078	16 318 912	17 422 924
<b>Total Revenue - Standard</b>	<b>293 228 978</b>	<b>320 353 087</b>	<b>350 484 864</b>	<b>384 679 116</b>	<b>380 111 284</b>	<b>403 430 293</b>	<b>430 689 973</b>	<b>461 300 712</b>
<b>Expenditure - Standard</b>								
<b>Trading Services</b>	<b>135 860 179</b>	<b>149 025 725</b>	<b>162 470 008</b>	<b>174 700 531</b>	<b>170 109 625</b>	<b>184 323 618</b>	<b>198 406 359</b>	<b>213 014 919</b>
Electricity	81 511 750	88 586 510	98 096 769	101 207 947	98 115 075	105 989 045	113 679 296	121 578 128
Water	32 223 969	36 324 224	39 864 845	43 798 160	43 412 153	49 253 778	53 832 123	58 018 314
Waste Water Management	11 244 950	12 544 889	12 135 515	16 061 338	15 370 847	15 002 483	16 038 875	17 319 777
Waste Management	10 879 511	11 570 102	12 372 880	13 633 086	13 211 549	14 078 311	14 856 065	16 098 699
<b>Total Expenditure - Standard</b>	<b>275 502 671</b>	<b>299 764 768</b>	<b>330 070 537</b>	<b>346 274 685</b>	<b>346 606 690</b>	<b>368 506 188</b>	<b>393 978 903</b>	<b>420 183 885</b>
<b>Surplus/(Deficit) for Trading Services</b>	<b>13 789 958</b>	<b>18 588 612</b>	<b>18 512 569</b>	<b>31 794 929</b>	<b>33 504 594</b>	<b>34 924 105</b>	<b>36 711 070</b>	<b>35 096 009</b>

Source: National Treasury Local Government Database

32. Table 11 provides information on the projected expenditure by metros on bulk purchases for electricity and water over the MTREF. Metros have budgeted R52.7 billion for the purchase of bulk electricity in 2018/19, with an annual growth of 8.2 per cent and 7.2 per cent in the outer years of the MTREF. The National Energy Regulator of South Africa (NERSA) published their "Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2018/19 Financial Year" on 28 February 2018. The NERSA document proposed a 6.84 per cent guideline increase for municipal electricity tariffs for 2018/19. This is based on a bulk tariff increase for municipalities of 7.32 per cent
33. It is estimated that expenditure in relation to bulk purchases of electricity will be R61.1 billion by 2020/21.
34. 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.
35. 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.
36. 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, 2017/18 - 2020/21**

R thousand	Electricity				Water			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
Buffalo City	1 352 869	1 451 899	1 558 178	1 672 237	225 297	246 611	269 940	295 476
Cape Town	8 094 800	8 341 400	8 991 000	9 691 800	445 335	1 145 732	1 905 898	2 047 235
City of Ekurhuleni	9 193 632	10 028 837	11 031 721	12 024 576	3 027 824	3 450 508	3 897 693	4 402 835
eThekweni	8 430 809	8 909 962	9 622 609	10 392 260	2 227 169	2 380 800	2 797 292	3 241 741
City Of Johannesburg	10 465 014	11 309 464	12 304 686	13 154 426	2 949 126	3 374 456	3 624 166	3 910 476
Mangaung	1 376 931	1 469 051	1 549 849	1 635 091	506 603	539 809	568 418	599 681
Nelson Mandela Bay	2 871 187	3 036 475	3 265 082	3 362 518	134 260	145 458	154 340	163 769
City Of Tshwane	7 462 684	8 140 956	8 670 119	9 146 975	2 381 931	2 586 913	2 742 128	2 892 945
<b>Total expenditure</b>	<b>49 247 927</b>	<b>52 688 045</b>	<b>56 993 243</b>	<b>61 079 883</b>	<b>11 897 546</b>	<b>13 870 286</b>	<b>15 959 875</b>	<b>17 554 158</b>

Source: National Treasury Local Government Database

37. 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***

38. Tables 12 and 13 depict the aggregated budgeted revenue and expenditure for the secondary cities (top 19 municipalities) over the 2018 MTREF period.
39. The total budgeted revenue for secondary cities amounts to R52.1 billion in 2018/19 (a decrease from R55.3 billion in 2017/18) and increases to R63.6 billion by 2020/21. Growth in revenue in the outer years is 14.9 and slows to 6.2 per cent.
40. The total expenditure budget of secondary cities increased from R59.2 billion in 2017/18 to R62.6 billion in 2018/19, R64.3 billion in 2019/20 and R67.7 billion in 2020/21 representing a growth of 2.6 per cent and accelerates to 5.4 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 although the estimated revenue increases may not be realistic in the current economic climate.
41. 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.
42. Spending on capital by secondary cities over the MTREF is decreasing from R8.6 billion in 2018/19 to R7.5 billion in 2019/20 but increasing again to R7.7 billion in 2020/21. 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, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating <sup>1</sup>	Total	Capital	Operating <sup>1</sup>	Total	Capital	Operating <sup>1</sup>	Total	Capital	Operating <sup>1</sup>	Total
<b>Top 19 Municipalities</b>	<b>7 802 129</b>	<b>50 645 617</b>	<b>58 447 746</b>	<b>8 644 705</b>	<b>47 250 156</b>	<b>55 894 861</b>	<b>7 497 695</b>	<b>55 269 704</b>	<b>62 767 398</b>	<b>7 694 190</b>	<b>58 873 533</b>	<b>66 567 723</b>
Matjhabeng	181 215	2 324 173	<b>2 505 388</b>	163 406	2 326 892	<b>2 490 298</b>	126 750	2 600 477	<b>2 727 227</b>	132 355	2 758 592	<b>2 890 947</b>
Emfuleni	423 589	6 028 010	<b>6 451 599</b>	287 613	5 239 696	<b>5 527 308</b>	391 248	5 780 423	<b>6 171 670</b>	370 185	6 112 236	<b>6 482 421</b>
Mogale City	293 878	2 580 168	<b>2 874 046</b>	386 739	2 508 741	<b>2 895 481</b>	335 523	2 945 916	<b>3 281 438</b>	405 403	3 134 474	<b>3 539 877</b>
Msunduzi	698 424	4 937 882	<b>5 636 306</b>	571 382	4 627 696	<b>5 199 078</b>	514 145	5 368 354	<b>5 882 499</b>	567 606	5 770 272	<b>6 337 878</b>
Newcastle	252 778	1 742 062	<b>1 994 840</b>	205 576	1 606 296	<b>1 811 871</b>	219 568	1 855 818	<b>2 075 386</b>	56 000	1 922 300	<b>1 978 300</b>
uMhlathuze	521 255	2 895 441	<b>3 416 696</b>	525 161	2 925 650	<b>3 450 811</b>	531 999	3 240 633	<b>3 772 632</b>	550 712	3 473 628	<b>4 024 339</b>
Polokwane	1 230 118	3 292 262	<b>4 522 380</b>	1 912 547	2 836 089	<b>4 748 636</b>	1 373 983	3 885 281	<b>5 259 264</b>	1 741 102	4 148 460	<b>5 889 562</b>
Govan Mbeki	104 396	1 687 472	<b>1 791 868</b>	133 448	1 684 296	<b>1 817 744</b>	156 571	1 840 595	<b>1 997 165</b>	165 514	1 932 624	<b>2 098 138</b>
Emalahleni (Mp)	245 503	2 917 169	<b>3 162 671</b>	241 812	2 874 076	<b>3 115 888</b>	188 785	3 222 322	<b>3 411 106</b>	219 090	3 423 113	<b>3 642 203</b>
Steve Tshwete	282 175	1 357 202	<b>1 639 377</b>	374 410	1 418 144	<b>1 792 553</b>	389 403	1 577 191	<b>1 966 594</b>	333 910	1 688 971	<b>2 022 881</b>
City of Mbombela	607 134	2 734 077	<b>3 341 211</b>	630 592	2 263 499	<b>2 894 091</b>	606 907	2 900 590	<b>3 507 498</b>	650 581	3 111 135	<b>3 761 716</b>
Sol Plaatje	232 066	1 944 729	<b>2 176 794</b>	333 242	1 773 312	<b>2 106 553</b>	276 236	2 197 574	<b>2 473 810</b>	129 917	2 348 463	<b>2 478 380</b>
Madibeng	301 005	1 688 185	<b>1 989 190</b>	285 258	1 504 742	<b>1 790 000</b>	297 797	1 913 000	<b>2 210 797</b>	317 703	2 056 000	<b>2 373 703</b>
Rustenburg	581 219	4 717 778	<b>5 298 997</b>	829 492	4 272 402	<b>5 101 894</b>	697 068	5 062 815	<b>5 759 883</b>	722 216	5 397 151	<b>6 119 366</b>
City Of Matlosana	213 747	2 955 774	<b>3 169 521</b>	220 390	2 551 750	<b>2 772 140</b>	175 073	2 884 490	<b>3 059 562</b>	166 508	3 068 124	<b>3 234 632</b>
J B Marks	241 498	1 572 913	<b>1 814 411</b>	132 447	1 392 125	<b>1 524 571</b>	135 440	1 611 568	<b>1 747 008</b>	89 163	1 722 880	<b>1 812 043</b>
Drakenstein	633 142	2 107 107	<b>2 740 248</b>	454 040	2 164 393	<b>2 618 433</b>	280 037	2 503 637	<b>2 783 673</b>	327 662	2 646 102	<b>2 973 763</b>
Stellenbosch	418 057	1 427 946	<b>1 846 002</b>	528 041	1 537 742	<b>2 065 783</b>	467 662	1 766 924	<b>2 234 586</b>	352 306	1 893 311	<b>2 245 617</b>
George	340 932	1 735 267	<b>2 076 199</b>	429 111	1 742 616	<b>2 171 727</b>	333 502	2 112 097	<b>2 445 599</b>	396 258	2 265 698	<b>2 661 957</b>
Less												
External loans / borrowing	1 231 284	-	<b>1 231 284</b>	2 141 645	-	<b>2 141 645</b>	718 565	-	<b>718 565</b>	1 000 572	-	<b>1 000 572</b>
Internally generated funds	1 874 682	-	<b>1 874 682</b>	1 663 513	-	<b>1 663 513</b>	2 211 178	-	<b>2 211 178</b>	2 005 758	-	<b>2 005 758</b>
<b>Recalculated revenue</b>	<b>4 696 163</b>	<b>50 645 617</b>	<b>55 341 780</b>	<b>4 839 547</b>	<b>47 250 156</b>	<b>52 089 703</b>	<b>4 567 952</b>	<b>55 269 704</b>	<b>59 837 656</b>	<b>4 687 860</b>	<b>58 873 533</b>	<b>63 561 393</b>

<sup>1</sup> Operating revenue excluding capital transfers

Source: National Treasury Local Government Database

**Table 13: Aggregated Operating and Capital expenditure for secondary cities, 2017/18 - 2020/21**

R thousand	2017/18			2018/19			2019/20			2020/21		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
<b>Top 19 Municipalities</b>	<b>7 802 129</b>	<b>51 377 325</b>	<b>59 179 454</b>	<b>8 644 705</b>	<b>53 977 908</b>	<b>62 622 613</b>	<b>7 497 695</b>	<b>56 768 610</b>	<b>64 266 304</b>	<b>7 694 190</b>	<b>60 023 398</b>	<b>67 717 588</b>
Matjhabeng	181 215	2 322 822	<b>2 504 037</b>	163 406	2 415 436	<b>2 578 842</b>	126 750	2 545 924	<b>2 672 674</b>	132 355	2 676 722	<b>2 809 077</b>
Emfuleni	423 589	5 864 496	<b>6 288 085</b>	287 613	5 457 847	<b>5 745 460</b>	391 248	5 621 022	<b>6 012 270</b>	370 185	5 952 751	<b>6 322 936</b>
Mogale City	293 878	2 519 890	<b>2 813 768</b>	386 739	2 699 164	<b>3 085 903</b>	335 523	2 823 090	<b>3 158 613</b>	405 403	2 972 466	<b>3 377 868</b>
Msunduzi	698 424	4 904 829	<b>5 603 253</b>	571 382	4 928 912	<b>5 500 294</b>	514 145	5 218 616	<b>5 732 761</b>	567 606	5 595 082	<b>6 162 688</b>
Newcastle	252 778	1 816 269	<b>2 069 047</b>	205 576	2 234 510	<b>2 440 085</b>	219 568	2 185 080	<b>2 404 648</b>	56 000	2 280 464	<b>2 336 464</b>
uMhlathuze	521 255	2 882 744	<b>3 403 999</b>	525 161	3 016 497	<b>3 541 657</b>	531 999	3 207 989	<b>3 739 988</b>	550 712	3 442 297	<b>3 993 008</b>
Polokwane	1 230 118	2 902 258	<b>4 132 376</b>	1 912 547	3 348 689	<b>5 261 236</b>	1 373 983	3 553 431	<b>4 927 414</b>	1 741 102	3 762 240	<b>5 503 342</b>
Govan Mbeki	104 396	1 655 807	<b>1 760 203</b>	133 448	1 700 171	<b>1 833 618</b>	156 571	2 004 363	<b>2 160 933</b>	165 514	2 104 580	<b>2 270 094</b>
Emalahleni (Mp)	245 503	3 077 035	<b>3 322 538</b>	241 812	3 266 197	<b>3 508 009</b>	188 785	3 402 903	<b>3 591 687</b>	219 090	3 587 898	<b>3 806 989</b>
Steve Tshwete	282 175	1 421 172	<b>1 703 347</b>	374 410	1 556 717	<b>1 931 127</b>	389 403	1 634 022	<b>2 023 425</b>	333 910	1 746 578	<b>2 080 488</b>
City of Mbombela	607 134	2 682 858	<b>3 289 992</b>	630 592	3 210 279	<b>3 840 872</b>	606 907	3 334 792	<b>3 941 699</b>	650 581	3 518 220	<b>4 168 801</b>
Sol Plaatje	232 066	1 936 491	<b>2 168 556</b>	333 242	2 046 855	<b>2 380 097</b>	276 236	2 188 175	<b>2 464 411</b>	129 917	2 338 932	<b>2 468 849</b>
Madibeng	301 005	2 293 154	<b>2 594 159</b>	285 258	2 385 364	<b>2 670 622</b>	297 797	2 436 314	<b>2 734 111</b>	317 703	2 522 808	<b>2 840 511</b>
Rustenburg	581 219	4 627 538	<b>5 208 757</b>	829 492	4 772 532	<b>5 602 025</b>	697 068	5 028 718	<b>5 725 786</b>	722 216	5 330 419	<b>6 052 634</b>
City Of Matlosana	213 747	3 277 018	<b>3 490 765</b>	220 390	3 119 078	<b>3 339 468</b>	175 073	3 143 161	<b>3 318 234</b>	166 508	3 301 964	<b>3 468 472</b>
J B Marks	241 498	1 711 554	<b>1 953 052</b>	132 447	1 812 442	<b>1 944 888</b>	135 440	1 928 067	<b>2 063 507</b>	89 163	2 053 352	<b>2 142 515</b>
Drakenstein	633 142	2 182 693	<b>2 815 835</b>	454 040	2 334 693	<b>2 788 733</b>	280 037	2 580 374	<b>2 860 410</b>	327 662	2 684 171	<b>3 011 833</b>
Stellenbosch	418 057	1 486 676	<b>1 904 732</b>	528 041	1 716 330	<b>2 244 371</b>	467 662	1 819 071	<b>2 286 732</b>	352 306	1 925 231	<b>2 277 536</b>
George	340 932	1 812 023	<b>2 152 954</b>	429 111	1 956 195	<b>2 385 306</b>	333 502	2 113 497	<b>2 446 999</b>	396 258	2 227 225	<b>2 623 483</b>
Less												
Taxation	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>7 802 129</b>	<b>51 377 325</b>	<b>59 179 454</b>	<b>8 644 705</b>	<b>53 977 908</b>	<b>62 622 613</b>	<b>7 497 695</b>	<b>56 768 610</b>	<b>64 266 304</b>	<b>7 694 190</b>	<b>60 023 398</b>	<b>67 717 588</b>

Source: National Treasury Local Government Database

43. Secondary cities that have allocated the least of their aggregated budget to their capital budgets are Matjhabeng, Emfuleni, Newcastle, Emalahleni (MP), Govan Mbeki, J B Marks and the City of Matlosana. All seven municipalities have allocated less than 10 per cent of their budgets to capital projects, similar to the previous year.

### *Growth in Aggregated Operating and Capital Budgets compared to the 2017/18 Budgets*

44. Table 14 provides a comparison between the preliminary outcome for the 2017/18 financial year concluded on 30 June 2018 as published in the Section 71 Quarter 4 publication which was released on 23 August 2018, the adopted budget for the 2018/19 financial year and the average growth in municipal budgets over the 2018 MTREF period.

**Table 14: Growth in municipal budgets compared to S71 Preliminary Outcome for 2017/18**

R thousands	2017/18			2018/19	2019/20	2020/21	% Growth rates: Estimated actual (Nominal)	
	Adopted Budget	Revised Budget	Preliminary outcome	Medium term estimates			2017/18- 2018/19	2017/18- 2020/21
<b>Operating Revenue<sup>1</sup></b>								
Property rates	58 073 374	58 417 170	60 286 864	63 418 380	67 866 299	72 595 973	5.2%	6.4%
Service charges	174 098 607	169 213 409	180 114 689	180 455 803	195 777 481	211 278 227	0.2%	5.5%
Other own revenue	110 376 621	111 456 274	113 920 168	119 637 958	127 216 973	136 035 053	5.0%	6.1%
<b>Total Revenue</b>	<b>342 548 602</b>	<b>339 086 853</b>	<b>354 321 720</b>	<b>363 512 141</b>	<b>390 860 753</b>	<b>419 909 253</b>	<b>2.6%</b>	<b>5.8%</b>
<b>Operating Expenditure</b>								
Employee related costs	99 752 194	99 585 790	97 975 831	109 407 292	116 981 658	125 290 615	11.7%	8.5%
Debt impairment	19 795 974	18 414 534	12 497 298	21 045 411	22 487 446	23 990 945	68.4%	24.3%
Bulk purchases	97 355 515	94 461 373	93 198 777	103 820 512	112 640 914	120 858 137	11.4%	9.0%
Other expenditure	128 974 199	133 792 265	111 353 604	133 925 141	141 600 486	149 728 259	20.3%	10.4%
<b>Total Expenditure<sup>2</sup></b>	<b>345 877 882</b>	<b>346 253 962</b>	<b>315 025 511</b>	<b>368 198 356</b>	<b>393 710 503</b>	<b>419 867 954</b>	<b>16.9%</b>	<b>10.0%</b>
<b>Operating Surplus/(Deficit)</b>	<b>(3 329 280)</b>	<b>(7 167 109)</b>	<b>39 296 209</b>	<b>(4 686 214)</b>	<b>(2 849 750)</b>	<b>41 299</b>		
<b>Capital Funding</b>								
External loans	13 276 655	13 521 748	8 720 752	16 008 161	15 991 911	15 930 785	83.6%	22.2%
Internal contributions	10 149 388	8 820 711	6 331 037	9 660 603	11 224 904	11 277 990	52.6%	21.2%
Transfers and subsidies	42 207 765	41 988 643	39 877 352	40 319 286	39 963 474	41 865 752	1.1%	1.6%
Other	4 989 288	7 050 241	3 826 421	7 423 031	7 087 905	6 068 391	94.0%	16.6%
<b>Total funding</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>58 755 560</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>	<b>24.9%</b>	<b>8.5%</b>
<b>Capital Expenditure</b>								
Water	22 112 500	23 588 063	16 964 495	25 319 613	26 339 974	27 035 249	49.3%	16.8%
Electricity	7 866 930	7 201 717	5 915 575	7 581 255	8 117 312	8 614 015	28.2%	13.3%
Housing	1 790 023	1 211 679	1 995 916	171 693	80 206	97 845	(91.4%)	(63.4%)
Roads, pavements, bridges and storm water	14 200 214	14 773 650	12 280 276	15 948 821	16 557 780	17 385 669	29.9%	12.3%
Other	24 653 429	24 606 234	21 599 298	24 389 699	23 172 922	22 010 139	12.9%	0.6%
<b>Total expenditure</b>	<b>70 623 096</b>	<b>71 381 344</b>	<b>58 755 560</b>	<b>73 411 081</b>	<b>74 268 194</b>	<b>75 142 917</b>	<b>24.9%</b>	<b>8.5%</b>

<sup>1</sup>Excluding capital transfers and contributions

<sup>2</sup>Includes Taxation

Source: National Treasury Local Government Database

45. As seen in the above table, operating expenditure increases in total by 17 per cent when the preliminary outcome for 2017/18 and the MTREF budget for 2018/19 are compared. Note that the operating revenue of increases by only 2.6 per cent. Increasing operating expenditure that exceeds revenue is a concern and is considered unsustainable.
46. Compared to the preliminary outcomes of 2017/18, salaries, wages and allowances will increase of 11.7 per cent and bulk purchases by 11.4 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.
47. Bad and doubtful debt is expected to increase by 68.4 per cent which is 22.6 per cent more than the 45.8 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.
48. 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.
49. 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.

50. There is an average increase of 10.1 per cent over the last two years of the MTREF in the total operating expenditure with the highest increase of 24.3 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 2017/18 of R12.5 billion compared to the original budget for the same year of R19.8 billion, a difference of R7.3 billion. It is suspected that the budget appropriation for 2017/18 may be overstated and subsequently distorting the percentage growth.
51. Provisions in respect of bulk purchases are also expected to increase by 9 per cent over the MTREF period owing primarily to the increases associated with bulk electricity purchases.
52. In respect of operating revenue items, the average increase is 5.8 per cent which is lower than the average operating expenditure and hence the municipalities are budgeting for deficits in the 3 years of the 2018 MTREF.
53. Capital budgets grow significantly by 24.9 per cent from 2017/18 to 2018/19. 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 83.6 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.
54. Grants and subsidies show a small increase of 1.1 per cent when compared to the preliminary outcomes for 2017/18.
55. Over the MTREF period the average capital expenditure growth is increasing to an estimated 8.5 per cent.

### ***Changes to Baseline***

56. Table 15 highlights the extent to which municipalities have allocated additional resources in the 2018/19 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 2018/19 forward estimates.

**Table 15: Changes to baseline for 2018 MTREF**

	2018/19			2019/20			2020/21	% change to baseline		% share of total change to baseline	
	2017/18 Medium term estimates	2018/19 Draft Medium term estimates	Changes to baseline	2017/18 Medium term estimates	2018/19 Draft Medium term estimates	Changes to baseline	2018/19 Draft Medium term estimates	2018/19	2019/20	2018/19	2019/20
<b>R thousands</b>											
<b>Operating Revenue<sup>1</sup></b>											
Property rates	62 281 329	63 418 380	1 137 051	66 638 600	67 866 299	1 227 699	72 595 973	1.8%	1.8%	(27.8%)	(53.2%)
Service charges	187 851 698	180 455 803	(7 395 895)	202 013 689	195 777 481	(6 236 209)	211 278 227	(3.9%)	(3.1%)	180.8%	270.0%
Other own revenue	117 469 954	119 637 958	2 168 004	124 517 963	127 216 973	2 699 010	136 035 053	1.8%	2.2%	(53.0%)	(116.9%)
<b>Total Revenue</b>	<b>367 602 981</b>	<b>363 512 141</b>	<b>(4 090 840)</b>	<b>393 170 252</b>	<b>390 860 753</b>	<b>(2 309 499)</b>	<b>419 909 253</b>	<b>(1.1%)</b>	<b>(0.6%)</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Operating Expenditure</b>											
Employee related costs	107 252 005	109 407 292	2 155 287	114 849 401	116 981 658	2 132 257	125 290 615	2.0%	1.9%	(214.5%)	(559.1%)
Debt impairment	20 445 919	21 045 411	599 491	21 474 482	22 487 446	1 012 964	23 990 945	2.9%	4.7%	(59.7%)	(265.6%)
Bulk purchases	104 282 734	103 820 512	(462 222)	112 208 304	112 640 914	432 609	120 858 137	(0.4%)	0.4%	46.0%	(113.4%)
Other expenditure	137 530 258	134 232 974	(3 297 285)	145 828 114	141 868 886	(3 959 228)	150 044 189	(2.4%)	(2.7%)	328.2%	1038.1%
<b>Total Expenditure<sup>2</sup></b>	<b>369 510 916</b>	<b>368 506 188</b>	<b>(1 004 728)</b>	<b>394 360 300</b>	<b>393 978 903</b>	<b>(381 398)</b>	<b>420 183 885</b>	<b>(0.3%)</b>	<b>(0.1%)</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Operating Surplus/(Deficit)</b>	<b>(1 907 935)</b>	<b>(4 994 047)</b>	<b>(3 086 112)</b>	<b>(1 190 048)</b>	<b>(3 118 150)</b>	<b>(1 928 102)</b>	<b>(274 632)</b>				
<b>Capital Funding</b>											
External loans	12 957 197	16 008 161	3 050 963	14 059 536	15 991 911	1 932 375	15 930 785	23.5%	13.7%	83.2%	129.7%
Internal contributions	10 628 999	9 660 603	(968 396)	10 254 113	11 224 904	970 792	11 277 990	(9.1%)	9.5%	(26.4%)	65.2%
Transfers and subsidies	41 530 375	40 319 286	(1 211 089)	43 988 252	39 963 474	(4 024 778)	41 865 752	(2.9%)	(9.1%)	(33.0%)	(270.2%)
Other	4 626 830	7 423 031	2 796 202	4 476 956	7 087 905	2 610 950	6 068 391	60.4%	58.3%	76.2%	175.3%
<b>Total funding</b>	<b>69 743 401</b>	<b>73 411 081</b>	<b>3 667 680</b>	<b>72 778 856</b>	<b>74 268 194</b>	<b>1 489 338</b>	<b>75 142 917</b>	<b>5.3%</b>	<b>2.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Capital Expenditure</b>											
Water	22 406 679	25 319 613	2 912 934	23 150 584	26 339 974	3 189 391	27 035 249	13.0%	13.8%	79.4%	214.1%
Electricity	8 020 922	7 581 255	(439 667)	9 113 688	8 117 312	(996 376)	8 614 015	(5.5%)	(10.9%)	(12.0%)	(66.9%)
Housing	1 608 895	171 693	(1 437 202)	1 638 016	80 206	(1 557 810)	97 845	(89.3%)	(95.1%)	(39.2%)	(104.6%)
Roads, pavements, bridges and storm water	13 723 286	15 948 821	2 225 535	14 716 226	16 557 780	1 841 554	17 385 669	16.2%	12.5%	60.7%	123.6%
Other	23 983 619	24 389 699	406 080	24 160 343	23 172 922	(987 421)	22 010 139	1.7%	(4.1%)	11.1%	(66.3%)
<b>Total expenditure</b>	<b>69 743 401</b>	<b>73 411 081</b>	<b>3 667 680</b>	<b>72 778 856</b>	<b>74 268 194</b>	<b>1 489 338</b>	<b>75 142 917</b>	<b>5.3%</b>	<b>2.0%</b>	<b>100.0%</b>	<b>100.0%</b>

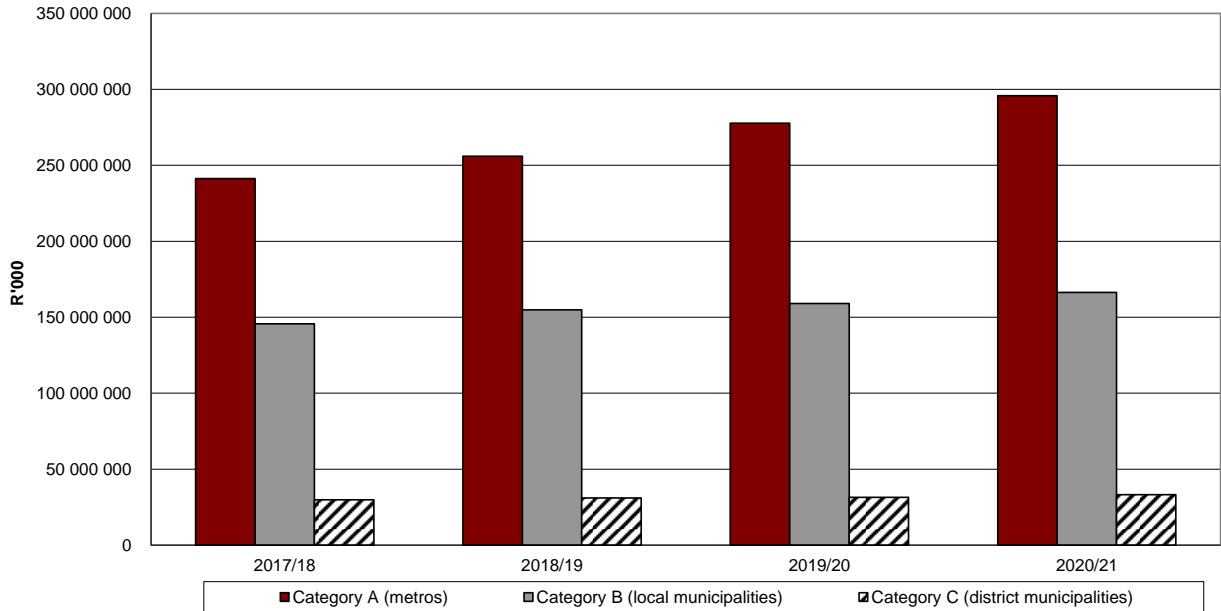
<sup>1</sup>Excluding capital transfers and contributions

<sup>2</sup>Includes Taxation

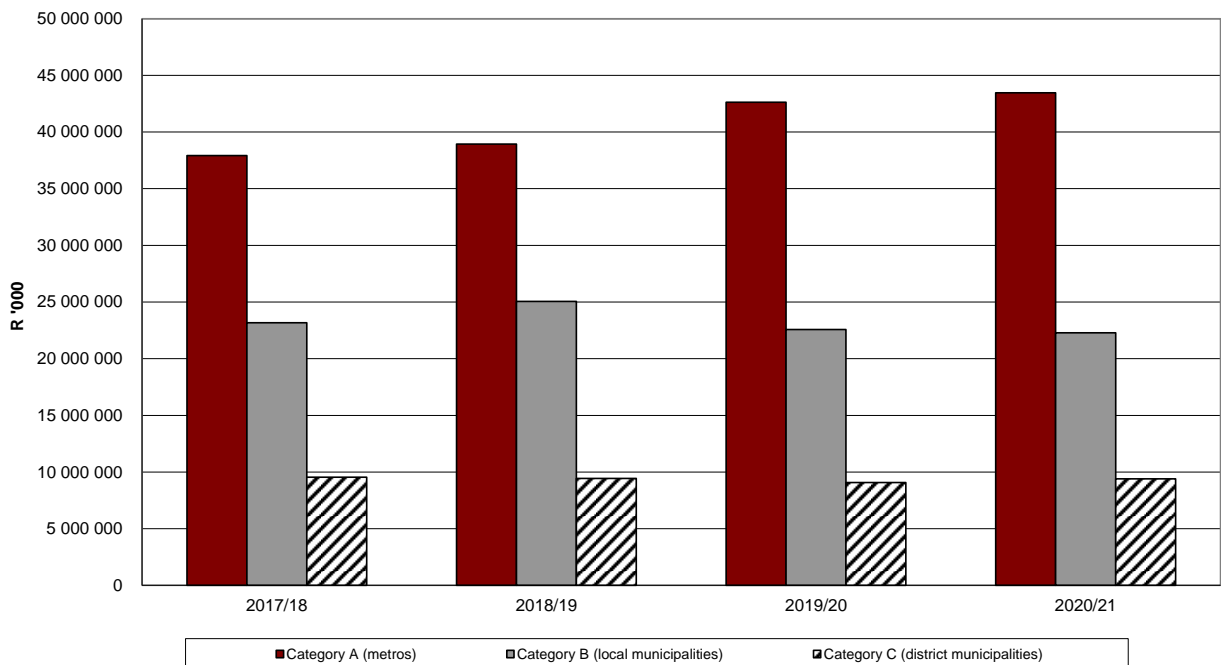
Source: National Treasury Local Government Database

57. Compared to the 2017/18 MTREF forecast, budgeted operating revenue for 2018/19 has decreased by R4.1 billion and operating expenditure by R1 billion. An additional R3.7 billion was allocated to capital expenditure in the 2018/19 financial year.
58. For the 2019/20 financial year, the operating revenue will decrease further by R2.3 billion and operating expenditure by R381.4 million. An additional R1.5 billion will be set aside for capital expenditure.
59. Against operating expenditure, bulk purchases can be observed as decreasing by 0.4 per cent to the baseline in the 2018/19 financial year and increase by 0.4 per cent in the 2019/20 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.
60. Changes to the baseline in respect of operating revenue for the 2018/19 financial year can be observed in the Property rates and Other revenue at 1.8 per cent increases and Service charges which decreases at around 3.9 per cent.
61. The capital expenditure baseline in the 2018/19 financial year is related to an anticipated increase of 5.3 per cent.
62. From a funding perspective, the increased capital expenditure will be supported by an increase in external loans funding of 23.5 per cent. The internal contributions have decreased by 9.1 per cent and corresponds with the deficit budgets over the 2018/19 MTREF.

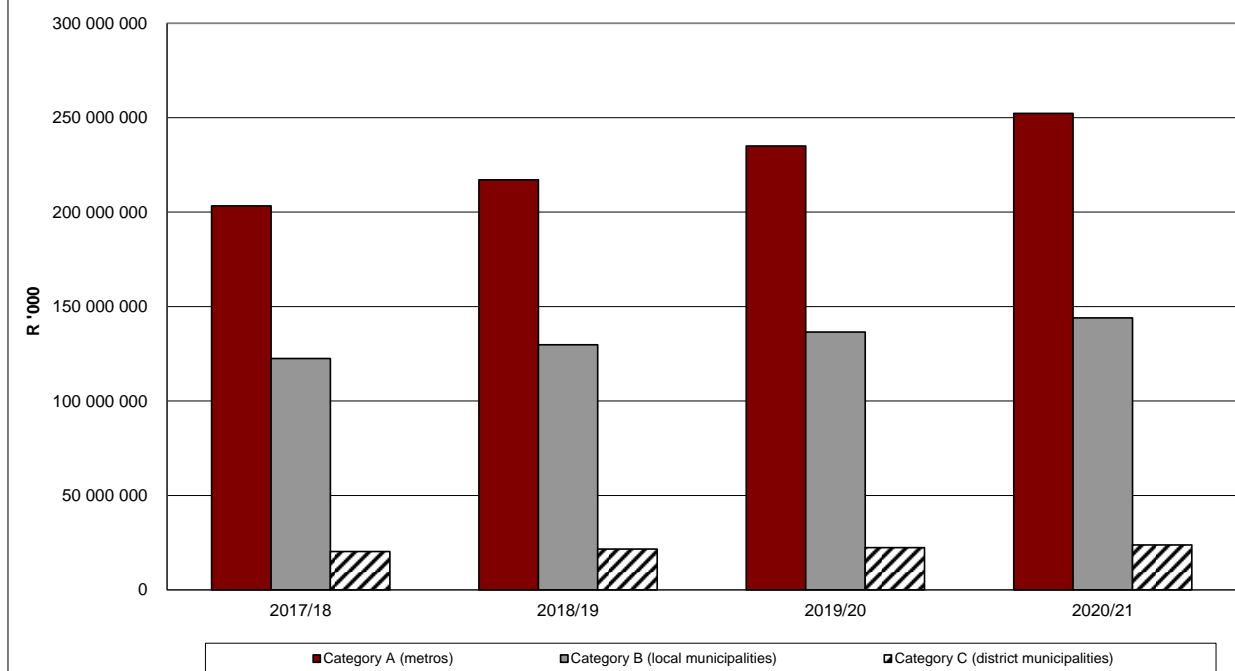
**Figure 1: Aggregated budgeted expenditure per category,  
2017/18 - 2020/21**



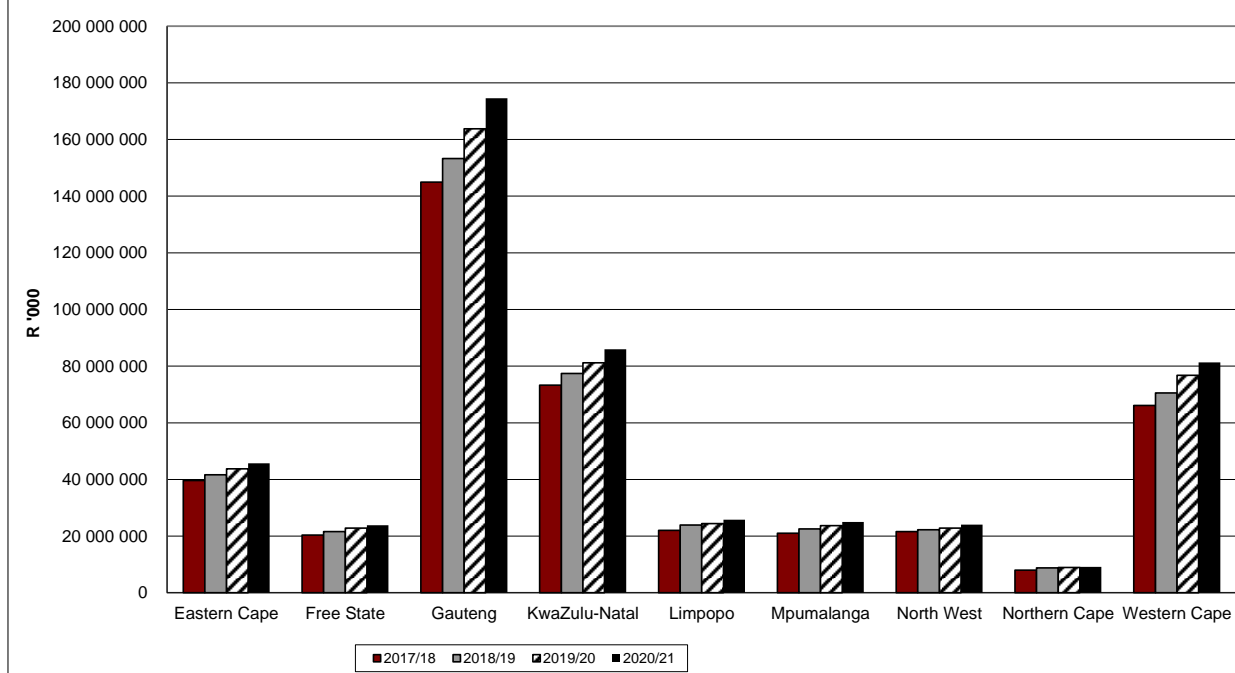
**Figure 2: Budgeted capital expenditure per category,  
2017/18 - 2020/21**



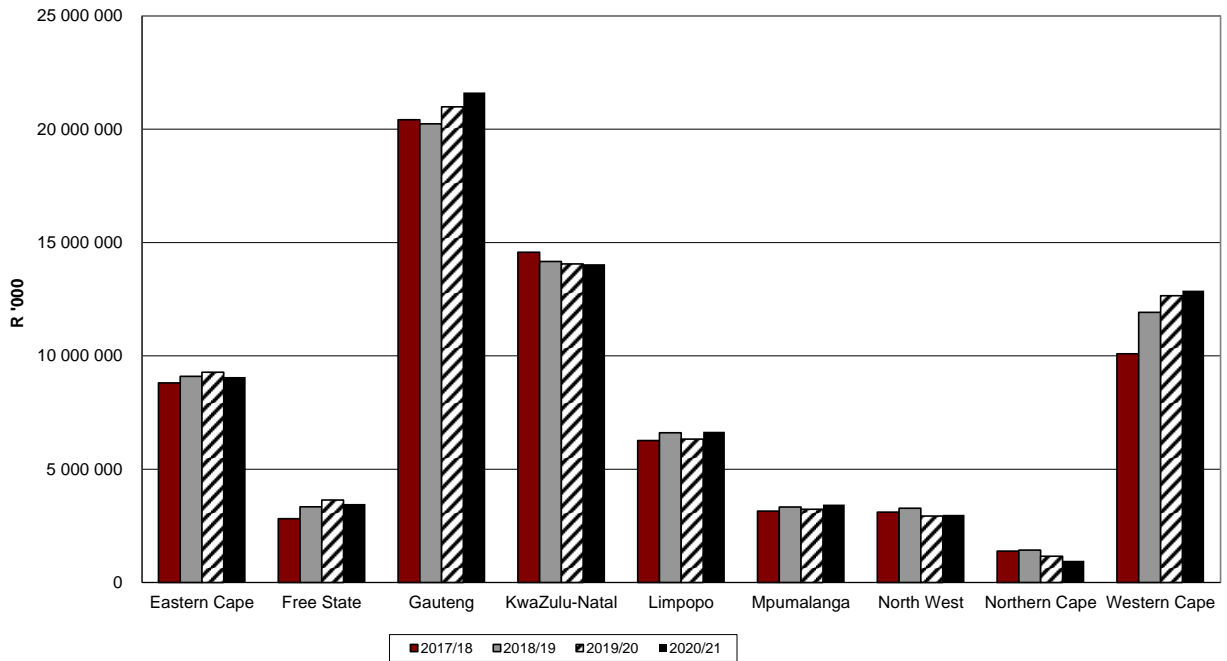
**Figure 3: Budgeted operating expenditure per category, 2017/18 - 2020/21**



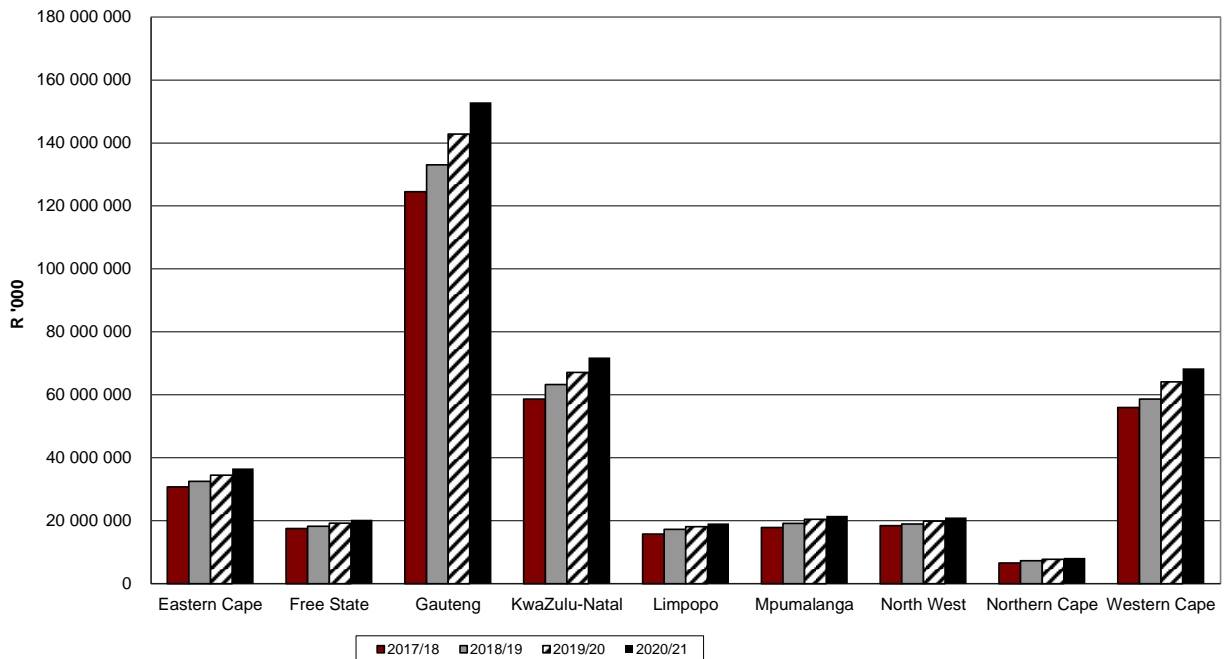
**Figure 2: Total operating and capital expenditure per province, 2017/18 - 2020/21**



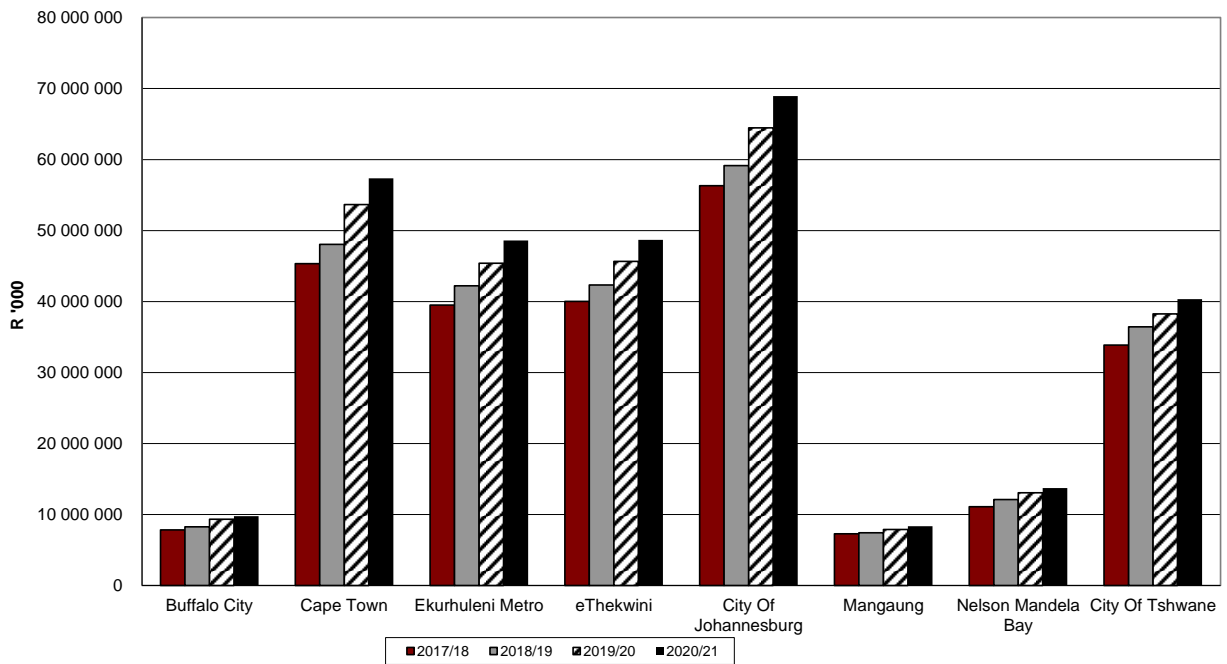
**Figure 2.1: Budgeted capital expenditure per province, 2017/18 - 2020/21**



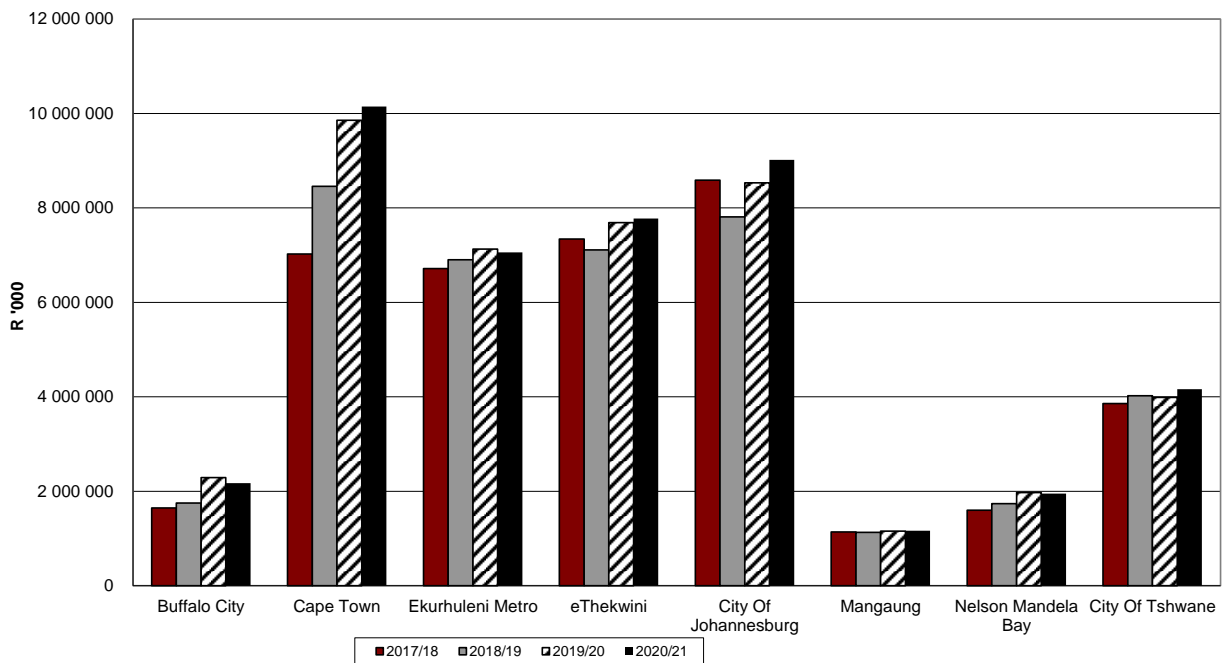
**Figure 2.2: Budgeted operating expenditure per province, 2017/18 - 2020/21**



**Figure 3: Aggregated budgeted expenditure for metros,  
2017/18 - 2020/21**

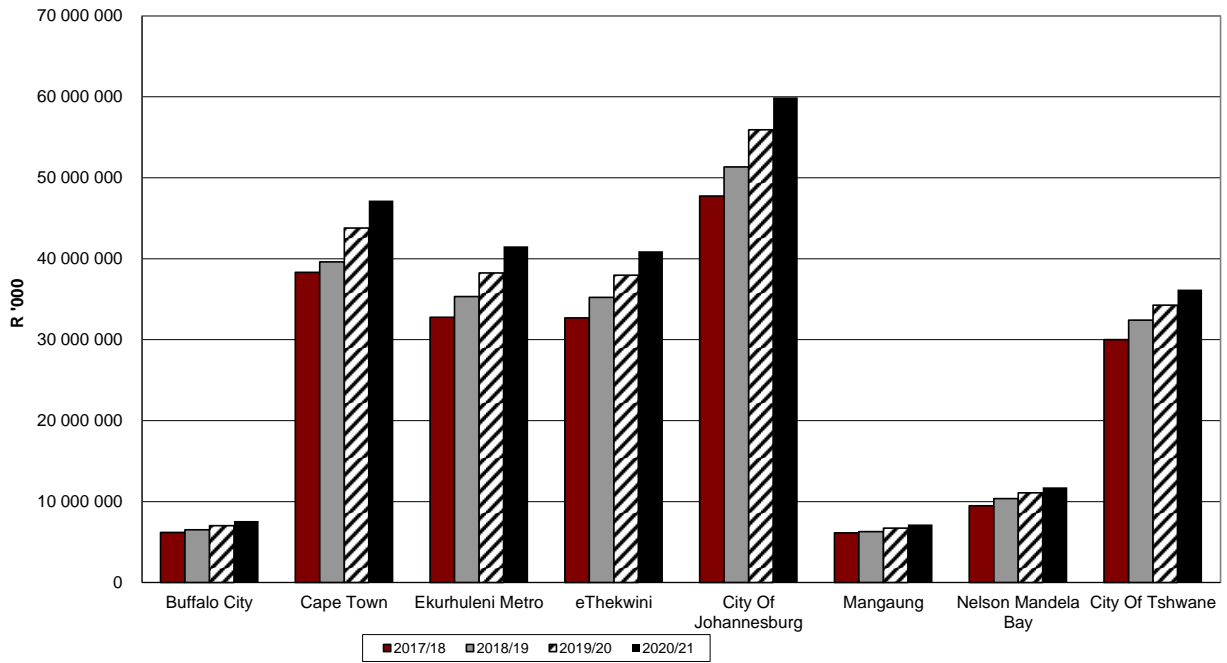


**Figure 3.1: Budgeted capital expenditure per metro,  
2017/18 - 2020/21**

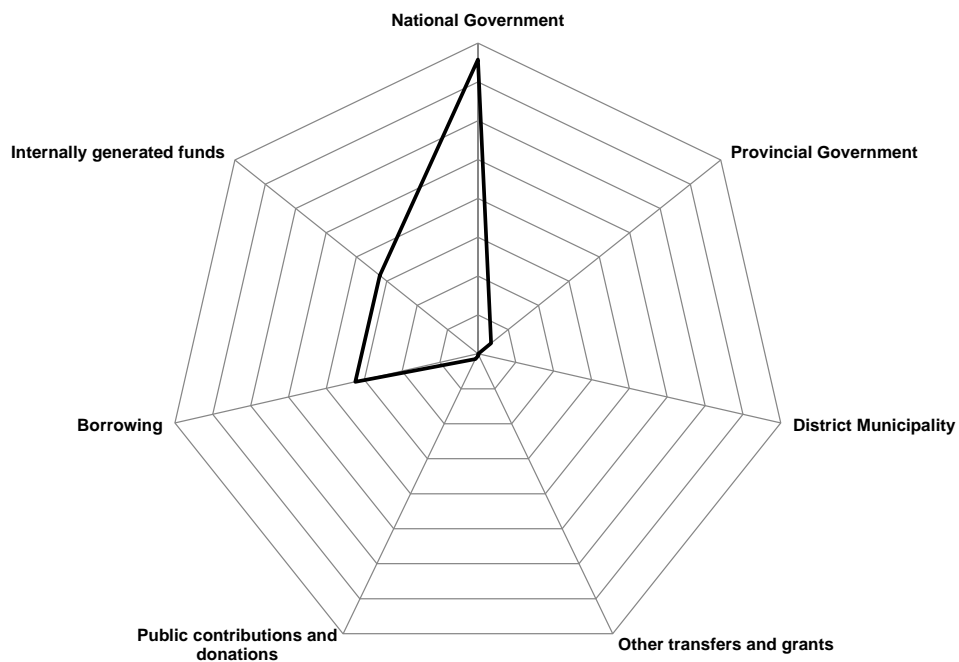




**Figure 3.2: Budgeted operating expenditure per metro,  
2017/18 - 2020/21**



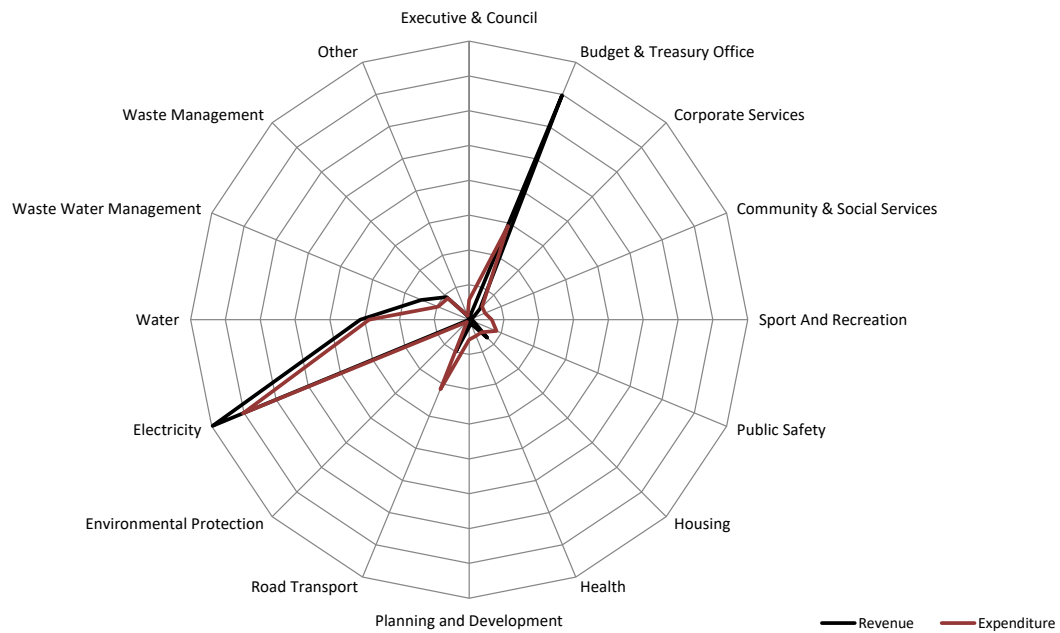
### Capital funding contributions, 2018/19



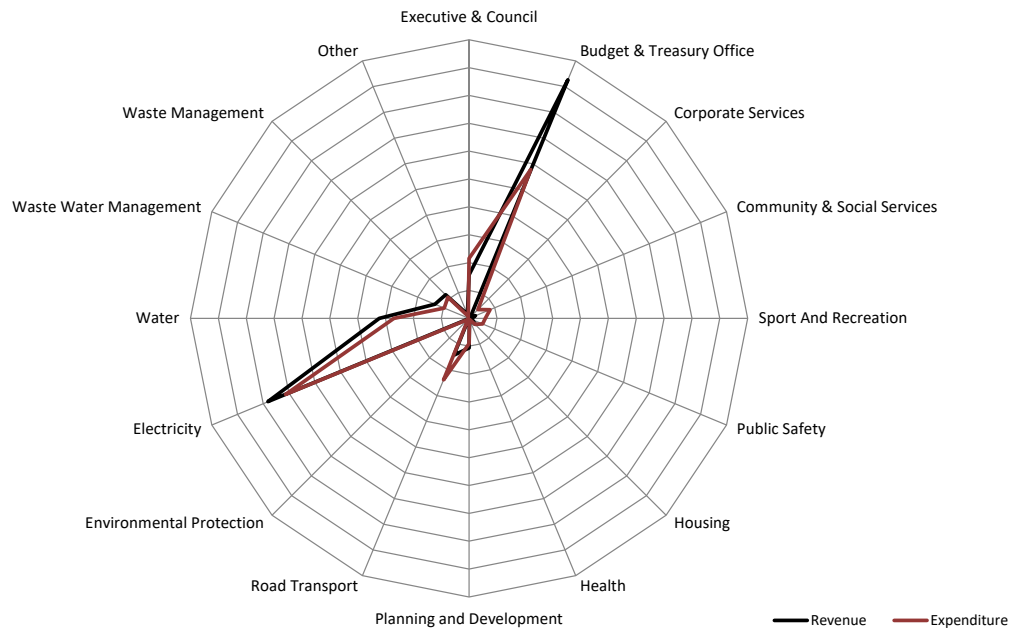
### Aggregated operating revenue and expenditure by standard classification, 2018/19



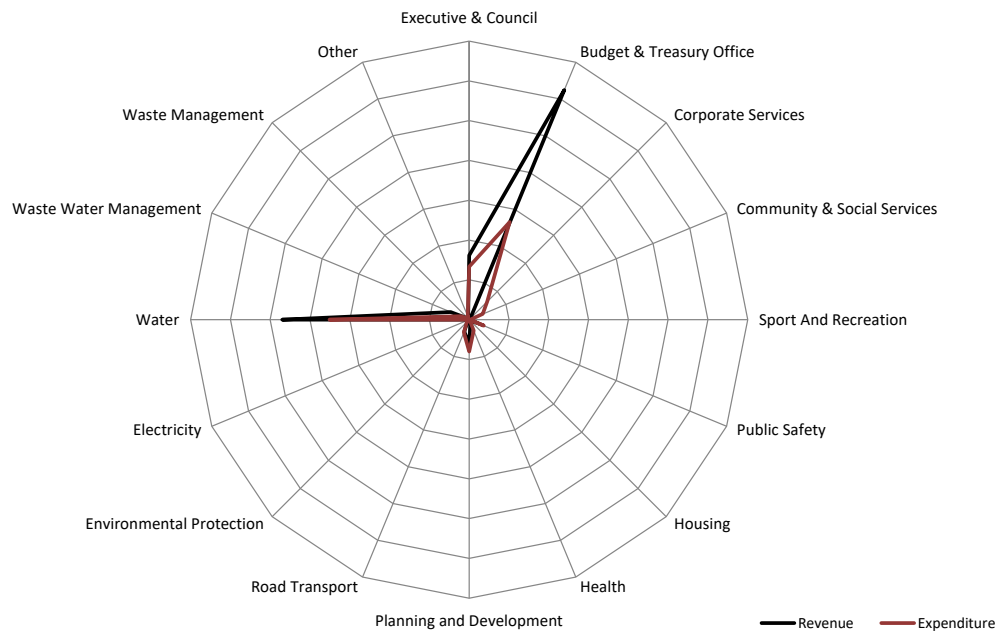
### Category A operating revenue and expenditure by standard classification, 2018/19



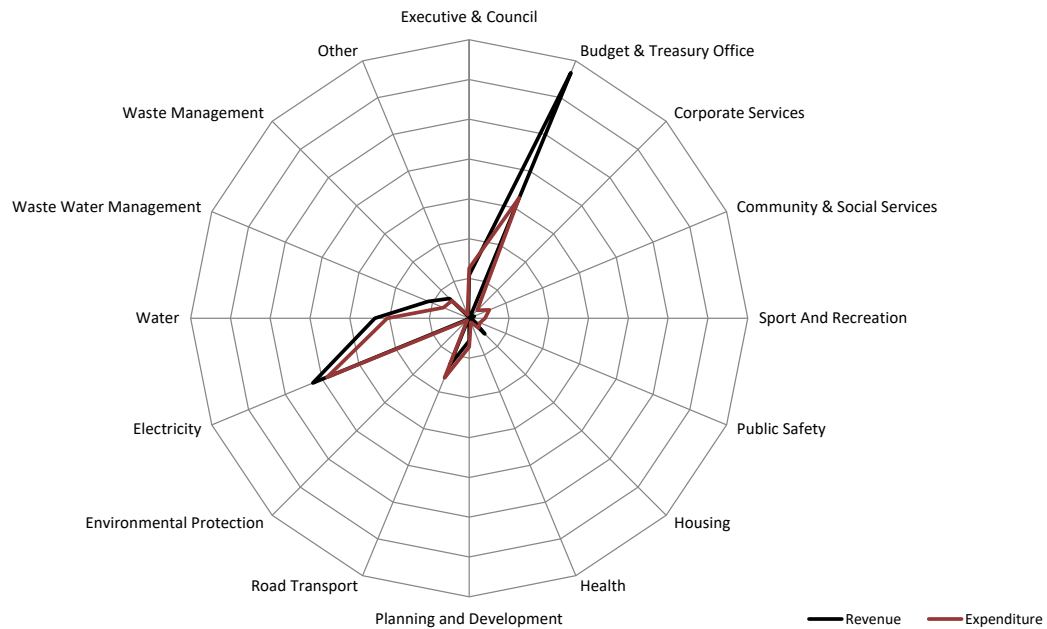
### Category B operating revenue and expenditure by standard classification, 2018/19



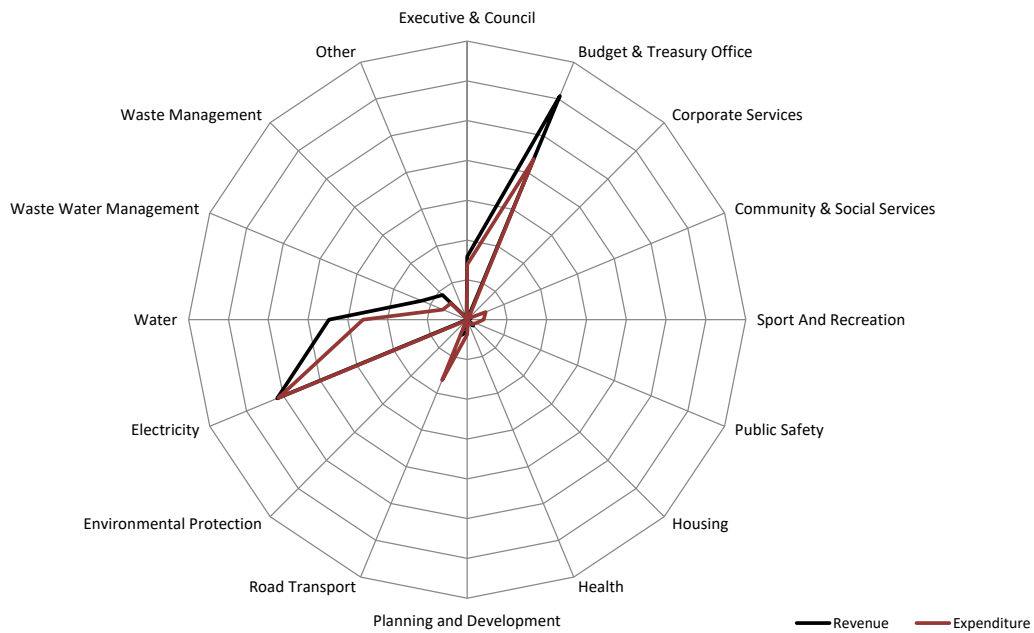
### Category C operating revenue and expenditure by standard classification, 2018/19



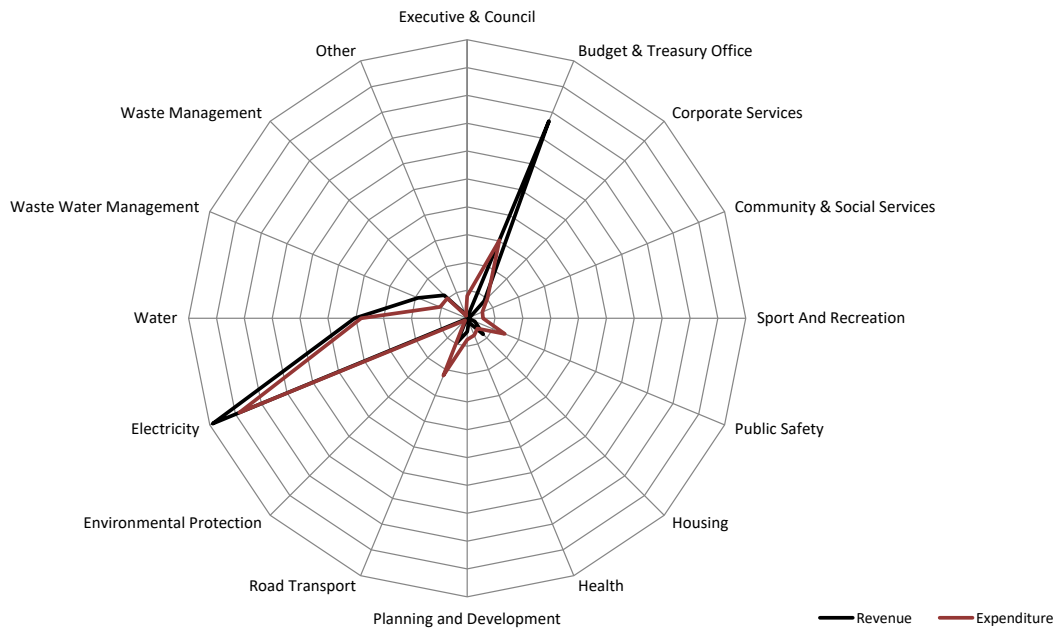
### Eastern Cape operating revenue and expenditure by standard classification, 2018/19



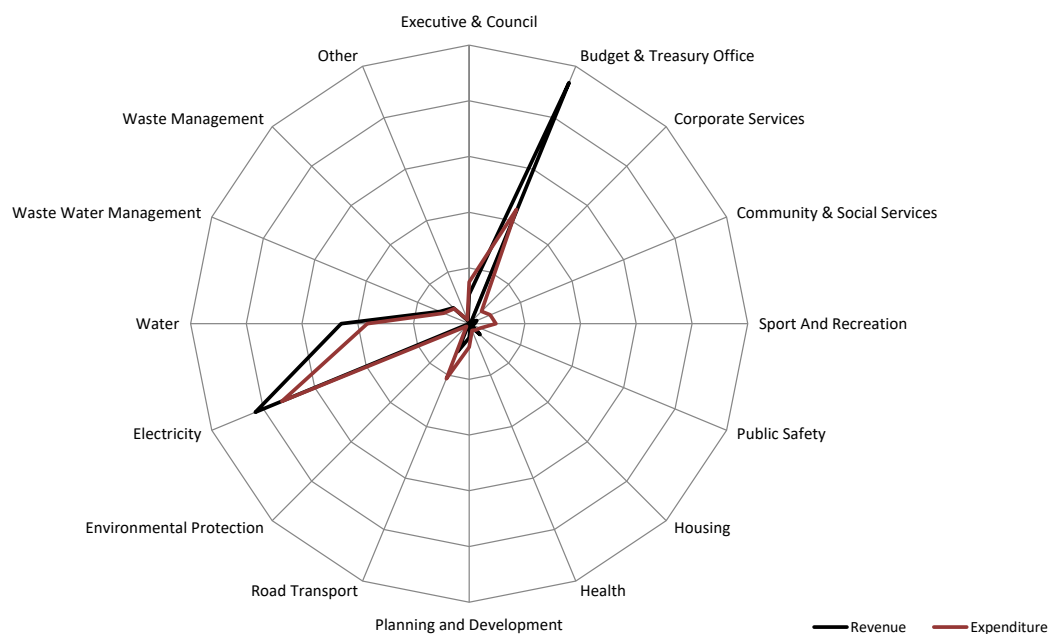
### Free State operating revenue and expenditure by standard classification, 2018/19



### Gauteng operating revenue and expenditure by standard classification, 2018/19



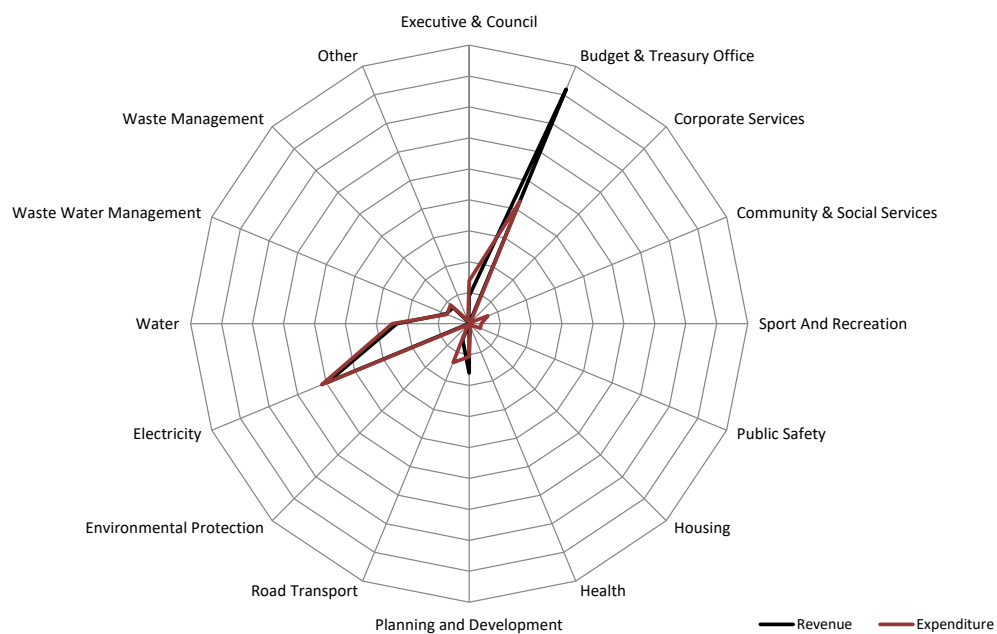
### KwaZulu-Natal operating revenue and expenditure by standard classification, 2018/19



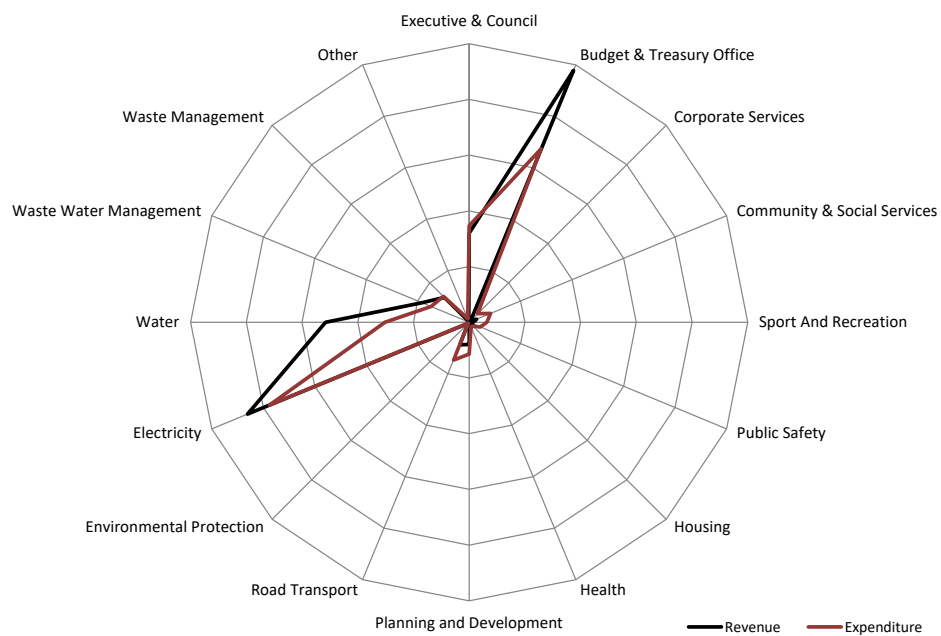
### Limpopo operating revenue and expenditure by standard classification, 2018/19



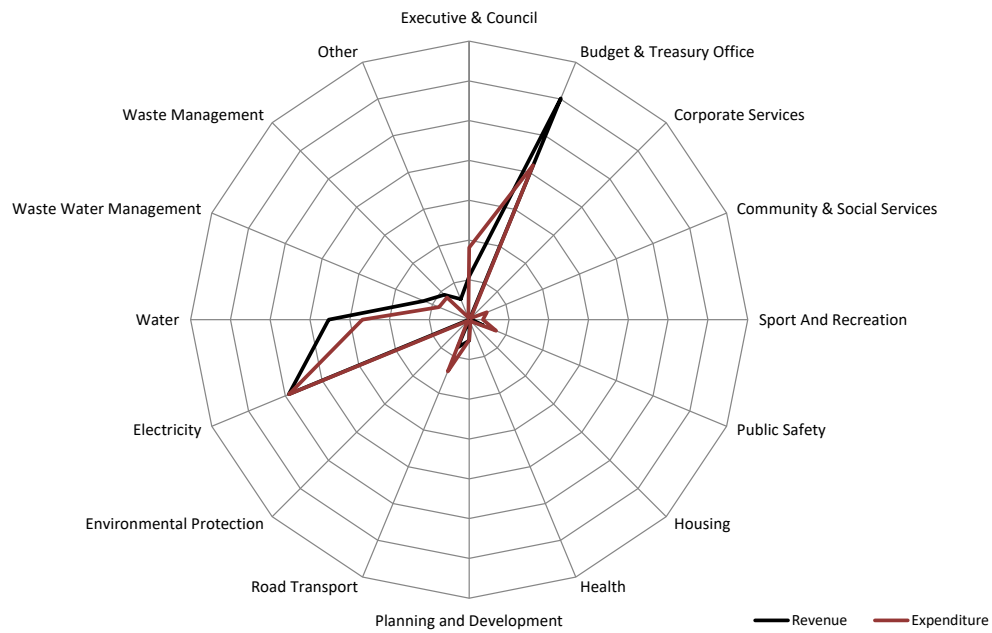
### Mpumalanga operating revenue and expenditure by standard classification, 2018/19



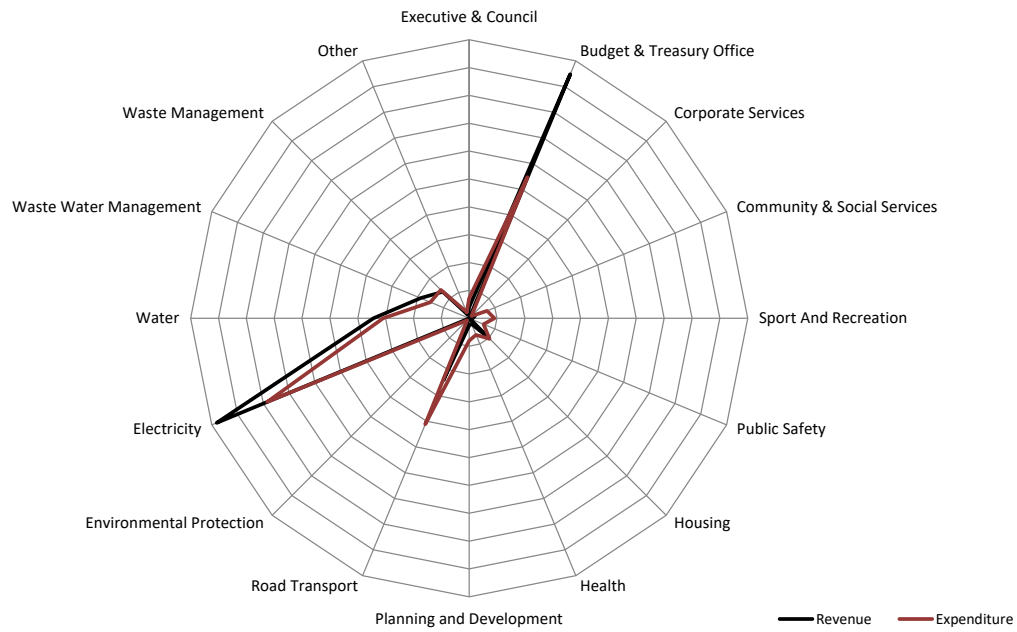
### Northern Cape operating revenue and expenditure by standard classification, 2018/19



### North West operating revenue and expenditure by standard classification, 2018/19



### Western Cape operating revenue and expenditure by standard classification, 2018/19





Planned capital expenditure, 2018/19

