2

Local government finances

Introduction

A shared commitment to developmental local government

South Africa is committed to a developmental local government, in which municipalities and communities work together to find sustainable ways to meet local needs, improve the quality of people's lives and give impetus to economic development.

The Constitution commits government to taking reasonable measures, using available resources, to ensure that all South Africans have access to basic services. In pursuing these objectives, the Constitution obliges local government to structure and manage municipal administration, budgeting and planning processes in such a way that basic community needs, and social and economic development, are given priority.

Budgets are central to the realisation of developmental goals

The municipal budget is an indispensable tool to focus the resources and capacity of a municipality on achieving its service delivery and developmental goals as put forward in the municipal integrated development plan.

Each municipality is responsible for its own budget

Each municipality is responsible to determine and to execute its own budget. However, the current budgeting, accounting, financial reporting and financial management practices of many municipalities are experiencing a number of challenges, including poor revenue projection and credit control systems, unavailability of accurate financial and service delivery information. All of these are key to proper planning, budgeting and financial management.

Financial sustainability requires municipalities to ensure that their budgets are balanced – in other words, income should cover expenditure. Budget choices must balance effective subsidisation of the poor with creating an enabling environment for sustainable growth and development. The recent budget reforms introduced in the Municipal Finance Management Act (MFMA) will help municipalities achieve this through improved municipal expenditure planning, budget execution, reporting on performance and obtaining value for money.

Aggregate size of municipal budget has nearly doubled over past nine years

The aggregate size of the municipal budget in South Africa has nearly doubled over the past four years, from R64 billion in 2001/02 to R119 billion in 2005/06. Within this, municipal budgets vary widely: some metropolitan municipalities, as multi-functional nodes with large populations, have budgets ranging from R3,6 billion in Nelson Mandela and R19,0 billion in the City of Johannesburg. Small rural councils, on the other hand, have limited business activities in their areas and budgets of only a few million rand to provide services to largely poor populations.

This chapter examines two broad areas of local government finances:

- Municipal budget and actual expenditure trends from 2001/02 to 2004/05
- Municipal revenue and expenditure trends over the medium term.

During the period under review the local government sphere has witnessed two significant changes which had a significant impact on the data:

- Firstly, the re-demarcation of 1 March 2006 led to the further reduction of municipalities to 283 and changes to the population shares of a number of municipalities
- Secondly, the Municipal Finance Management Act was promulgated in 2003, setting a new basis for financial management and reporting.

Underlying budget trends

Increase in municipal budgets largely driven by capital expenditure

Table 2.1 shows that the combined budgeted expenditure of municipalities grew from R64 billion in 2001/02 to R119 billion in 2005/06: a near doubling in just four years. Within municipal budgets, investments in capital show faster growth over this period, rising at an average annual rate of 22 per cent against a 17 per cent growth rate in operating expenditure. If the budgeted expenditure is realised, this would represent a reversal of past trends when operating expenditure grew faster than capital expenditure.

In 2005/06, municipal operating budgets constituted 78 per cent of the combined municipal budgeted expenditure. The operating budgets are mainly funded by electricity sales of R24,3 billion (26 per cent), property rates of R17,0 billion (18 per cent), grants and subsidies of R13,2 billion (14 per cent) and water tariffs of R11,2 billion (12 per cent). The remaining income of R28 billion (30 per cent) is made up of sanitation, refuse removal, levies and other income.

Most of the growth in capital expenditure is funded through national transfers

Budgeted capital expenditure grew at an average annual rate of 12 per cent between 2001/02 and 2004/05, rising from R12 billion to R17 billion, and peaked at R26 billion in 2005/06. This is largely fuelled by sharp increases in national capital grants which rose from about R2,3 billion in 2001/02 or 19 per cent of the combined capital budgets of municipalities to R6,4 billion or 38 per cent of municipal capital budgets in 2005/06. If municipalities are to reinforce their developmental role, the proportion of their capital budgets funded from their own revenue sources needs to increase in the period ahead. The capital budgets consist of allocations for infrastructure, such as R6,0 billion for water and sanitation (23 per cent); R4,2 billion for roads and storm water (16 per cent); R5,3 billion for housing (20 per cent); and R2,5 billion for electricity reticulation (10 per cent), with the remainder spread across community facilities and related assets.

Other funding sources for municipal capital budgets include internally generated income of R5,9 billion (23 per cent) and borrowings of R4,4 billion (17 per cent). The metropolitan cities of Johannesburg, eThekwini and Tshwane are some of the larger borrowers. The remainder of the capital budget is funded from other sources (8 per cent).

Table 2.1 Budgeted municipal expenditure, 2001/02 to 2005/06

R billion	2001/02	2002/03	2003/04	2004/05	2005/06
Operating	53	62	69	80	93
Capital	12	13	17	17	26
Total	**64**	**75**	**86**	**97**	**119**
Percentage growth					
Operating		16,7%	13,0%	15,7%	16,3%
Capital		12,1%	27,5%	1,8%	34,1%
Total		**15,8%**	**15,3%**	**13,0%**	**22,5%**

Source: National Treasury local government database

Metropolitan municipalities make up 57,4 per cent of the combined budget

Table 2.2 shows budgeted expenditure by category of municipality for 2005/06. The six metropolitan municipalities alone make up 57,4 per cent of the combined budget of municipalities. The local and district municipalities respectively account for 34,1 per cent and 8,5 per cent of combined municipal budgeted expenditure in 2005/06.

The six metros' operating budgets are more than seven times higher than those of districts

The operating budgets of the six metropolitan municipalities are seven times those of district municipalities, and almost double the size of those of local municipalities. Similarly, the capital budgets of the six metropolitan municipalities are four times higher than those of district municipalities and 1, 3 times the size of local municipalities.

The ratio of operating-to-capital budgets are 4,3:1 for metropolitan municipalities, 3,1:1 for local municipalities and 2,4:1 for district municipalities. The underlying reason is that metropolitan and local municipalities have larger trading activities and more direct service delivery functions to perform than district municipalities, which are traditionally more labour-intensive.

Table 2.2 Budgets by category, 2005/06

R thousand	Operating budget	Capital budget	Total	Operating budget as % of total	Capital budget as % of total
Category A (Metros)	55 308	12 977	68 285	81,0%	19,0%
Category B (Locals)	30 816	9 823	40 639	75,8%	24,2%
Category C (Districts)	7 183	2 945	10 128	70,9%	29,1%
Total	**93 307**	**25 745**	**119 052**	78,4%	21,6%

Source: National Treasury local government database

Johannesburg, Cape Town and eThekwini have the largest budgets

Table 2.3 shows the budgets (and the rate at which they grow) of selected municipalities. Johannesburg tops the list at R19,0 billion, followed by Cape Town at R15,6 billion and eThekwini at R12,0 billion. Of the non-metropolitan municipalities, Buffalo City tops the list at R1,9 billion, followed by Mangaung at R1,7 billion and Msunduzi at R1,4 billion. At the bottom of the list are Musina at R62 million, Engcobo at R40 million and Tokologo at R31 million. The table also shows the split between capital and operating income of the municipalities. In terms of the year-on-year percentage increases from 2004/05 to 2005/06, metros had an aggregate increase of 18 per cent, with large increases in capital budgets. The selected local municipalities also saw large capital budget increases (65 per cent).

Table 2.3 Operating and capital budgets for a sample of municipalities, 2004/05 to 2005/06

Municipality	Total budget		2004/05		2005/06		% change 2004/05 to 2005/06		
R million	2004-05	2005-06	Capital	Operating	Capital	Operating	Total	Capital	Operating
Johannesburg	13 908	18 941	1 972	11 936	2 807	16 134	36,2%	42,3%	35,2%
Cape Town	12 860	15 634	1 535	11 326	4 087	14 038	21,6%	166,3%	2,0%
eThekwini	10 850	12 028	2 293	8 557	2 702	9 327	10,9%	17,8%	9,0%
Ekurhuleni	8 359	9 127	1 079	7 279	1 068	8 058	9,2%	-1,0%	10,7%
Tshwane	7 982	8 919	1 224	6 757	1 641	7 279	11,7%	34,0%	7,7%
Nelson Mandela	3 700	3 635	566	3 134	672	2 962	-1,8%	18,8%	-5,5%
Sub total	**57 658**	**68 285**	**8 670**	**48 988**	**12 977**	**57 799**	**18,4%**	**49,7%**	**12,9%**
Buffalo City	1 664	1 891	329	1 335	456	1 435	13,7%	38,7%	7,5%
Mangaung	1 657	1 719	242	1 414	277	1 442	3,8%	14,5%	1,9%
Msunduzi	1 379	1 420	187	1 192	148	1 272	3,0%	-20,8%	6,7%
Rustenburg	910	1 460	185	725	612	848	60,4%	230,2%	16,9%
uMhlathuze	842	1 001	213	629	270	731	18,9%	27,1%	16,2%
Polokwane	753	1 076	153	599	313	764	43,0%	103,8%	27,4%
Mbombela	531	661	108	423	151	510	24,6%	40,2%	20,6%
Drakenstein	552	663	67	485	145	518	20,1%	115,8%	6,9%
Sol Plaatje	564	651	107	457	94	557	15,6%	-12,2%	22,1%
Govan Mbeki	505	569	19	486	95	474	12,6%	410,5%	-2,6%
Stellenbosch	448	554	104	344	164	389	23,5%	57,6%	13,2%
Maluti-a-Phofung	355	480	73	281	116	363	35,3%	58,2%	29,3%
Mafikeng	233	434	78	154	262	172	86,4%	234,8%	11,2%
Msukaligwa	148	185	5	142	27	159	25,6%	408,2%	11,3%
uMngeni	129	177	15	114	46	132	37,5%	199,3%	15,7%
Cederberg	57	71	7	49	12	59	25,5%	75,2%	18,4%
Engcobo	78	40	50	28	14	26	-48,1%	-71,2%	-6,4%
Musina	49	62	5	43	11	51	27,1%	100,1%	18,0%
Tokologo	31	31	10	21	11	20	1,9%	10,5%	-2,2%
Sub total	**10 881**	**13 146**	**1 959**	**8 922**	**3 226**	**9 921**	**20,8%**	**64,6%**	**11,2%**
Total	**68 539**	**81 431**	**10 629**	**57 911**	**16 202**	**67 719**	**18,8%**	**52,4%**	**12,6%**

Source: National Treasury local government database

Summary of municipal expenditure: 2001/02 to 2007/08

The information used in this section is based on the actual revenue and expenditure trends of 59 municipalities extracted from the annual financial statements submitted to the Office of the Auditor-General. Budgets submitted to the National Treasury before June 2006 were used for the remaining municipalities where actual figures could not be obtained.

Information is based on actual income and expenditure trends in 59 municipalities

Expenditure trends in metropolitan municipalities: 2001/02 to 2007/08

Expenditure trends for metros between 2001/02 and 2004/05 are set out in Tables 2.4a and 2.4b below, as supplied by municipalities. Over this period, capital expenditure almost trebled from R2,5 billion to R7,3 billion, compared with operating expenditure that almost doubled from R23,0 billion to R48,0 billion. Operating expenditure is set to increase by 3,1 per cent annually, from R55,3 billion in 2005/06 to R58,8 billion in 2007/08.

Capital expenditure growth outpaced operating expenditure growth in metros over past 4 years

… and is set to accelerate in the period ahead

Although capital expenditure grows strongly in the period through 2005/06, it appears set to moderate in the period ahead. However, these figures exclude some of the spending pertaining to the public transport infrastructure grant, the neighbourhood development grant and World Cup 2010 related expenditure commitments. All of these will be included in the 2007 MTEF and will lead to a further stepping up in capital spending among municipalities.

Operating expenditure

On average, 29,6 per cent of operating income finances personnel costs

Metropolitan municipalities spent an average of 29,6 per cent of their operating expenditure on salaries, 24 per cent on bulk services, 7,3 per cent on repairs and maintenance, and 39,1 per cent on "other categories of expenditure", which includes general expenditure, interest and redemption of loans, and provisions for under-collection of revenue. This trend is set to continue over the medium term.

Bulk purchases of electricity and water experienced robust growth of 41,5 per cent annually from 2001/02 to 2004/05, reflecting government's drive to expand delivery of these services.

Capital expenditure

Capital investments in municipal infrastructure are essential

Capital investments in municipal infrastructure are essential if municipalities are to fulfil their mandates of development and basic service delivery. Table 2.4b shows that capital expenditure by the metropolitan municipalities grew from R2,5 billion in 2001/02 to R7,3 billion in 2004/05 or by 42,9 per cent annually over the period. This growth in capital expenditure resulted from increased investment in delivery of basic services linked to rising urbanisation. Expenditure on infrastructure grew by 80,3 per cent annually over the same period.

Over the medium-term, capital budgets of metropolitan municipalities will need to grow strongly in line with a range of programmes, including

- The creation of sustainable livelihoods
- Building of stadiums and other 2010 World Cup related infrastructure
- Meeting the infrastructure needs for basic services.

Table 2.4a Operating expenditure for metros, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Operating expenditure							
Salaries, wages and allowances	7 560	11 655	12 806	13 346	15 191	15 468	16 207
Electricity bulk purchases	3 249	7 158	8 046	8 461	9 425	9 214	9 765
Water bulk purchases	950	2 781	3 165	3 429	3 683	2 725	2 901
Repairs and maintenance	1 959	2 579	2 928	3 381	4 220	5 313	5 645
Other	9 510	14 140	15 570	19 310	22 789	23 045	24 281
Total expenditure	**23 228**	**38 312**	**42 516**	**47 928**	**55 308**	**55 765**	**58 799**
Regional levies	2 369	3 231	3 481	4 040	4 422	-	-
Property rates	6 491	9 391	10 701	11 607	11 754	12 561	13 178
Electricity	7 020	12 320	13 678	14 699	15 760	15 631	16 565
Water	2 281	4 625	5 362	5 688	7 286	6 032	6 383
Subsidies/grants	710	1 344	2 294	3 923	3 586	10 042	10 836
Other	4 862	8 327	7 964	10 609	12 591	12 726	13 381
Total income	**23 733**	**39 239**	**43 480**	**50 566**	**55 399**	**56 991**	**60 343**

Table 2.4b Capital expenditure for metros, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Capital expenditure							
Infrastructure	824	1 630	2 482	4 832	10 561	8 765	8 938
Community	323	479	646	352	860	922	816
Other assets	1 065	1 845	2 486	2 051	1 473	1 349	1 268
Specialised vehicles	315	36	62	75	83	96	88
Total expenditure	**2 527**	**3 989**	**5 676**	**7 310**	**12 977**	**11 132**	**11 110**
Capital funding							
Grants and subsidies	436	1 031	1 799	2 052	4 922	3 102	3 295
External loans	1 326	1 825	2 218	3 932	3 232	3 119	2 705
Other	2 567	2 616	1 864	1 475	4 823	4 911	5 110
Total funding	**4 329**	**5 472**	**5 881**	**7 459**	**12 977**	**11 132**	**11 110**

Source: National Treasury survey and local government database

Operating income

Table 2.4a shows the four main sources of revenue for municipal operating expenditure are user charges, property rates, Regional Services Council (RSC) levies and intergovernmental grants. The "other" category of funding, which is also significant, includes traffic fines, rental of housing stock, interest on investments, recovery of outstanding debt and the use of previous years' surplus funds.

User charges

User charges are the largest contributor to local government revenue

User charges for providing water, sanitation, electricity and refuse-removal services are the largest contributors to municipal revenue. Revenue from user charges increased by 29,7 per cent annually from 2001/02 (R9,3 billion) to 2004/05 (R20,3 billion). This trend is set to moderate over the medium term to reach R22,9 billion in 2007/08.

Property rates

Property rates an important source of revenue for municipalities

Revenue collected from property rates averages 23 per cent of the total revenue collected by metropolitan municipalities. Property rates income has grown by 21,3 per cent annually, from R6,5 billion in 2001/02 to R11,6 billion in 2004/05. However, the growth in revenue from property is slowing to 5,9 per cent annually. The new Municipal Property Rates Act will bring about significant changes to how property rates are raised.

RSC levies

RSC levies have been abolished and replaced with a grant over the medium term

RSC levies account for 7 per cent of the revenue raised by the six metropolitan municipalities, which received nearly 67 per cent of the total RSC levies collected. The revenue raised by the metropolitan municipalities from RSC levies increased by 20,3 per cent annually from R2,3 billion in 2001/02 to R4,0 billion in 2004/05. The RSC levy system was abolished with effect from 1 July 2006, and replaced with a grant over the medium term, until a suitable alternative is found. A paper on the options under consideration was published in 2005 for public comment.

Capital income

A substantial portion of capital expenditure is funded through debt. Table 2.4b shows that external loans accounted for 31 per cent of capital funding in 2001/02. This increased to 52,7 per cent by 2004/05. Over the medium term planned funding from loans slows by 8,5 per cent while funding from grants and subsidies levels off. However, it should be noted that the large investments leading up to the hosting of the 2010 Soccer World Cup is not included in this analysis.

There is greater scope for private sector involvement

Although growing, external loans remain an underutilised source of capital funding. The financial management reforms set out in the MFMA aim to contribute to the development of a vibrant municipal borrowing market with strong private sector involvement.

Outstanding Consumer Accounts

The challenge in Metropolitan municipalities funding options is the ability to collect income for services rendered to consumers. Table 2.5 shows that outstanding consumer accounts amounted to R12 billion in 2002/03, this increased to R23 billion in 2004/05.

Outstanding consumer accounts to metro municipalities for longer than 90 days increased by R13 billion – from R5,6 billion in 2002/3 to R19 billion in 2004/05. This constitutes a significant percentage of total outstanding accounts– 82 per cent in 2004/05.

Table 2.5 Total budget working capital and outstanding consumer account for metros, 2002 to 2005

R million	30 June 2002	30 June 2003	%	30 June 2004	%	30 June 2005	%
Working Capital							
Provision for bad debts	2 304	6 843	197,0%	5 235	-23,5%	7 084	35,3%
Provision for working capital	348	1 770	408,5%	1 420	-19,8%	3 226	127,2%
Accumulated provision for working capital	2 793	3 699	32,5%	6 089	64,6%	12 050	97,9%
Outstanding consumer accounts							
Longer than 90 Days	5 620	15 487	175,6%	17 117	10,5%	19 050	11,3%
90 Days	483	279	-42,3%	322	15,7%	363	12,6%
60 Days	356	372	4,6%	2 661	615,4%	2 596	-2,5%
30 Days	5 754	3 608	-37,3%	1 286	-64,4%	1 145	-11,0%
Total outstanding consumer accounts	**12 213**	**19 745**	**61,7%**	**21 387**	**8,3%**	**23 153**	**8,3%**

Source: National Treasury local government database

Provision for bad debts as a share of total outstanding consumer accounts increased from 19 per cent in 2001/02 to 31 per cent in 2004/05. The under-provision for bad debts may contribute to a somewhat distorted picture on surpluses. Municipalities are adopting credit-control policies to address their weakness in collecting outstanding consumer accounts; however, these policies have not yet had the desired results.

Inadequate provision for bad debt means surpluses are overestimated

Expenditure trends in local municipalities: 2001/02 to 2008/09

Revenue and expenditure trends between 2001/02 and 2004/05 are set out in Tables 2.6a and 2.6b below. They show that operating expenditure by local municipalities grows steadily while capital expenditure grows faster.

Operating expenditure

Local municipalities spent an average of 35 per cent of their operating expenditure on salaries, 24 per cent on bulk services, 7 per cent on repairs and maintenance, and 34 per cent on “other categories of expenditure”, which includes general expenditure, interest and redemption of loans, and provisions for under-collection of revenue. This trend is set to continue over the medium term.

Local municipalities spent an average of 35 per cent of operating expenditure on salaries

The two biggest expenditure items – personnel and bulk purchases – increased annually by 16,2 per cent and 11,3 per cent respectively, from 2001/02 to 2004/05. Over the medium term, growth in expenditure on these two items increased by 5,1 per cent a year.

Total operating expenditure of local municipalities has increased by 16,8 per cent annually, from R17 billion in 2001/02 to R27 billion in 2004/05. Over the medium term, operating expenditure is expected to increase by 5,1 per cent, to R34 billion in 2007/08.

Total operating expenditure of local municipalities increase to R34 billion in 2007/08

Capital expenditure

Capital expenditure more than doubles in municipalities

Capital expenditure for the local municipalities increased annually by 30,2 per cent from R2,9 billion to R6,4 billion between 2001/02 and 2004/05. Budgeted numbers for the outer years growing progressively to R10,9 billion in 2007/08.

Table 2.6a Operating expenditure for local municipalities, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Operating expenditure							
Salaries, wages and allowances	5 986	7 226	8 309	9 391	10 525	11 059	11 620
Electricity bulk purchases	3 399	3 998	4 412	4 685	5 068	5 325	5 595
Water bulk purchases	1 030	1 221	1 162	1 365	1 550	1 628	1 711
Repairs and maintenance	1 235	1 391	1 529	1 787	1 980	2 080	2 186
Other	5 338	6 856	8 303	9 855	11 673	12 265	12 887
Total expenditure	**16 988**	**20 693**	**23 715**	**27 082**	**30 797**	**32 358**	**33 999**
Regional levies	-	-	-	-	-	-	-
Property rates	3 011	3 691	4 286	4 642	5 273	5 540	5 821
Electricity	5 652	6 728	7 424	7 973	8 586	9 021	9 478
Water	2 410	2 787	2 938	3 352	3 421	3 595	3 777
Subsidies/grants	1 123	1 559	3 942	5 336	6 540	6 871	7 220
Other	5 294	6 475	5 626	6 546	7 234	7 600	7 986
Total income	**17 498**	**22 645**	**25 763**	**29 635**	**31 063**	**32 638**	**34 292**

** Where actual expenditure not available, budget figures were used*

Source: National Treasury survey and local government database

Table 2.6b Capital expenditure for local municipalities, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Capital Expenditure							
Infrastructure	608	3 644	4 457	4 933	8 033	8 441	8 868
Community	96	442	476	532	897	942	990
Other assets	215	541	617	830	815	857	900
Specialised vehicles	13	52	63	65	97	102	107
Total expenditure	**2 922**	**4 679**	**5 612**	**6 360**	**9 842**	**10 341**	**10 866**
Capital funding							
Total grants and subsidies	1 310	2 845	3 390	3 580	6 101	6 410	6 735
External loans	459	467	512	709	1 124	1 181	1 241
Other	1 094	1 368	1 640	1 853	2 260	2 374	2 495
Total funding	**2 871**	**4 690**	**5 609**	**6 199**	**9 842**	**10 341**	**10 865**

** Where actual expenditure outcome not available, budget figures were used*

Source: National Treasury survey and local government database

Operating income

User charges

As with metropolitan municipalities, user charges for the provision of water, sanitation, electricity and refuse-removal services constitute the largest source of revenue for local municipalities. Revenue from user charges has increased by 12,2 per cent annually, from R8,0 billion in 2001/02 to R11,3 billion in 2004/05. Over the medium term, revenue from user charges is set to increase by only 4,9 per cent annually, from R12,0 billion in 2005/06 to R13,2 billion by 2007/08.

User charges are the largest source of revenue for local municipalities

Property rates

Property rates collected average 16,0 per cent of the total of local municipalities' revenue. Revenue from property rates for local municipalities grew by 15,3 per cent annually, from R3,0 billion in 2001/02 to R4,6 billion in 2004/05. Modest growth in property rates is expected over the medium term increasing to R5,8 billion in 2007/08. However, this may change as municipalities switch to the new rating system.

Property rates revenue grew by 15,3 per cent annually

Capital income

Table 2.6b shows that the capital expenditure of local municipalities was financed largely by grants, to the tune of around 62 per cent, growing by 29,2 per cent annually from 2001/02 to 2007/08. The outlook over the medium term shows an increase in grants and subsidies from R6,1 billion in 2005/06 to R6,7 billion in 2007/08.

External loans make up 11 per cent of funding for capital expenditure of local municipalities. Provision for external loan finance increased by 15,6 per cent annually, from R459 million in 2001/02 to R709 million in 2004/05 growing to R1,2 billion over the medium term. There appears to be room for further borrowing by local municipalities considering that the measures have been instituted to encourage private sector participation in municipal infrastructure.

External loans form a small portion of capital funding for local municipalities

Outstanding consumer accounts

Outstanding consumer accounts for local municipalities increased from R8,6 billion in the 2001/02 financial year to R13,4 billion in 2004/05, as shown in Table 2.7 below. The outstanding arrears appear to grow steadily by 15,9 per cent annually.

Outstanding consumer accounts for longer than 90 days for local municipalities have increased by 20,2 per cent annually, from R5,7 billion in 2001/02 to R9,9 billion in 2004/05. This constitutes a significant portion of total outstanding consumer accounts, at 74 per cent of the total in 2004/05. Provision for bad debts as a percentage of outstanding consumer accounts was 19 per cent in 2001/02, reaching 22 per cent in 2004/05.

Local municipalities also experience debt collection challenges

Table 2.7 Total budget working capital and outstanding consumer account for locals, 2002 to 2005

R million	30 June 2002	30 June 2003	%	30 June 2004	%	30 June 2005	%
Working Capital							
Provision for bad debts	1 621	1 604	-1,0%	2 340	45,9%	3 012	28,7%
Provision for working capital	192	346	80,1%	406	17,6%	410	1,0%
Accumulated provision for working capital	1 469	1 305	-11,2%	1 774	35,9%	2 253	27,0%
Outstanding consumer accounts							
Longer than 90 Days	5 658	6 251	10,5%	9 405	50,5%	9 969	6,0%
90 Days	575	1 217	111,7%	576	-52,7%	731	27,0%
60 Days	1 153	1 216	5,5%	455	-62,5%	504	10,7%
30 Days	1 229	1 408	14,6%	1 746	24,0%	2 237	28,1%
Total outstanding consumer accounts	**8 614**	**10 092**	**17,2%**	**12 183**	**20,7%**	**13 442**	**10,3%**

Source: National Treasury local government database

Expenditure trends in district municipalities: 2001/02 to 2008/09

Strong growth in capital expenditure

Operating expenditure for district municipalities grew by 34,1 per cent annually, from R2,9 billion in 2001/02 to R7 billion in 2004/05, as reflected in Table 2.8a below. By contrast, capital expenditure grew by 36,1 per cent annually, from R634 million in 2001/02 to R1,6 billion in 2004/05.

Operating expenditure

District municipalities spent an average of 22 per cent of operating expenditure on salaries

District municipalities spent an average of 22 per cent of their operating expenditure on salaries, 69 per cent on “other expenses” – which include contracted services, interest and redemption of loans, and general administration expenses to operate council with the remaining 9 per cent spent on bulk services and repairs and maintenance. The share of personnel spending is set to make up 27 per cent of operating expenditure over the medium term.

Capital expenditure

District municipalities capital budgets set to grow to R3,3 billion by 2007/08

Capital expenditure for district municipalities grew from R634 million in 2001/02 to R1,6 billion in 2004/05. Budgeted capital expenditure over the medium term shows an increasing trend, growing from R2,9 billion in 2005/06 to R3,3 billion in 2007/08. About 71,6 per cent of this is funded from national capital grants and the remainder from external loans and other revenue.

Operating income

The two main sources of funding for district municipalities’ operating expenditure are RSC levies and intergovernmental grants.

Revenue collected by district municipalities from RSC levies increased by 16,6 per cent annually

RSC levies have been an important source of revenue for district municipalities, averaging about 26,5 per cent of total revenue. Revenue collected by district municipalities from RSC levies increased by 16,6 per cent annually, from R1,2 billion in 2001/02 to R1,9 billion in the 2004/05 financial year. As noted earlier, RSC levies have been abolished and replaced with a grant over the medium term.

District municipalities obtain most of their funding from government grants and subsidies, which have increased by 72,2 per cent annually, from R666 million in 2001/02 to R3,4 billion in 2004/05. The outlook over the medium term shows projected increase of grants and subsidies to R5,8 billion or an annual growth 34,6 per cent to reflect the replacement of RSC levies with grants.

District municipalities obtain most of their funding from grants and subsidies

Table 2.8a Operating expenditure for district municipalities, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Operating expenditure							
Salaries, wages and allowances	642	874	1 229	1 559	1 829	1 922	2 019
Electricity bulk purchases	9	3	4	5	10	11	11
Water bulk purchases	68	81	108	260	183	192	202
Repairs and maintenance	45	88	134	275	305	320	337
Other	2 164	2 994	4 018	4 947	4 535	4 765	5 007
Total expenditure	**2 928**	**4 040**	**5 493**	**7 046**	**6 862**	**7 210**	**7 575**
Regional levies	1 258	1 455	1 803	1 933	2 087	-	-
Property rates	6	1	2	2	3	3	4
Electricity	18	4	5	5	8	8	9
Water	81	218	388	601	540	567	596
Subsidies/grants	666	1 050	2 167	3 410	3 185	5 539	5 820
Other	804	1 483	1 065	1 098	1 040	1 093	1 148
Total income	**2 834**	**4 210**	**5 428**	**7 051**	**6 862**	**7 210**	**7 576**

** Where no actual expenditure available, budget figures were used*

Source: National Treasury Survey and local government database

Table 2.8b Capital expenditure for district municipalities, 2001/02 to 2004/05

	Expenditure outcome				Budget	Medium term expenditure estimate	
R million	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Capital expenditure							
Infrastructure	533	764	1 920	1 276	2 505	2 632	2 766
Community	38	179	359	252	235	247	259
Other assets	51	73	157	107	178	187	197
Specialised vehicles	13	10	16	10	27	28	29
Total expenditure	**634**	**1 062**	**2 329**	**1 595**	**2 945**	**3 094**	**3 251**
Capital funding							
Total grants and subsidies	347	507	1 826	1 135	2 305	2 422	2 544
External loans	22	62	87	96	79	83	87
Other	97	383	382	341	561	590	620
Total funding	**467**	**952**	**2 294**	**1 572**	**2 945**	**3 094**	**3 251**

**Where no actual expenditure available, budget figures were used*

Source: National Treasury survey and local government database

Outstanding consumer accounts

Outstanding consumer accounts for district municipalities increased from R283 million in 2001/02 to R730 million in 2004/05 – an annual growth of 37,1 per cent, as shown in Table 2.9 below.

Table 2.9 Total budget working capital and outstanding consumer account for districts, 2002 to 2005

R thousand	30 June 2002	30 June 2003	%	30 June 2004	%	30 June 2005	%
Working Capital							
Provision for bad debts	76 861	69 152	-10,0%	54 019	-21,9%	146 198	170,6%
Provision for working capital	29 129	15 726	-46,0%	11 953	-24,0%	28 210	136,0%
Accumulated provision for working capital	49 388	18 061	-63,4%	14 738	-18,4%	88 245	498,8%
Outstanding consumer accounts							
Longer than 90 Days	165 733	308 253	86,0%	273 640	-11,2%	472 358	72,6%
90 Days	22 089	38 999	76,6%	22 865	-41,4%	50 823	122,3%
60 Days	17 269	30 943	79,2%	30 859	-0,3%	28 116	-8,9%
30 Days	78 183	91 033	16,4%	117 576	29,2%	178 317	51,7%
Total outstanding consumer accounts	**283 274**	**469 229**	**65,6%**	**444 940**	**-5,2%**	**729 615**	**64,0%**

Source: National Treasury local government database

Outstanding consumer accounts for longer than 90 days for district municipalities increased by 41,7 per cent annually, from R166 million in 2001/02 to R472 million in 2004/05, constituting 65 per cent of total outstanding consumer accounts in 2004/05. Provision for bad debts as a percentage of total outstanding consumer account grew annually by 23,8 per cent from R77 million to R146 million.

Conclusion

While considerable progress has been made with the budgeting process, municipalities are still facing some challenges – particularly with regard to quality and timely in-year reporting information, ability to collect revenue that was billed to consumers for services rendered and their inability to spend capital budgets. This has impacted on service delivery.

Municipalities also need to strengthen their performance management systems by linking the performance of senior managers with revenue collection and spending, and monitoring this continuously to improve service delivery.

Besides technical support, funding is also being provided to municipalities to implement the reforms. This is elaborated further in the later chapters of this document.