4

Metropolitan finance

Introduction

South Africa's six metropolitan municipalities (metros) namely, the City of Cape Town, City of Johannesburg, City of Tshwane, Ekurhuleni, eThekwini and Nelson Mandela Bay are playing an important role in supporting economic growth and combating poverty. First, they provide public infrastructure and services to households and firms that enable economic activity to occur. Second, they guide and regulate spatial development in their jurisdictions that can significantly enhance the equity and efficiency of development.

The six metros play an important role in supporting economic growth and combating poverty

The combined budgeted expenditures of the metros comprise 57.5 per cent of all municipal budgets for 2007/08. This is expected to increase to 59.1 per cent in 2009/10. Census 2001 shows that 36.8 per cent of the country's households resided in the metros and according to the Community Survey 2007, this increased to 37.8 per cent. The share of the metros' population in the country has increased from 32.7 per cent in 2001 to 35 per cent in 2007. Furthermore, the Statistics South Africa 2007 Non-financial census shows that metros employ 49.2 per cent of all municipal personnel. The spatial profiles[1] of the municipalities show that the six metros contribute 58.6 per cent to the national economy in terms of value of goods and services produced, the gross value added (GVA). These statistics point to the significant role that metros play, not only in the local government sphere, but also in the country as a whole.

Despite their many similarities, there are also important differences among metros. The economies of the areas governed by metros differ markedly and are subject to different pressures. Social pressures and poverty levels are changing at different rates and from differing

Despite their many similarities, there are also important differences among metros

[1] NSDP Spatial Profiles, May 2006: GVA (2004 at 2006 prices).

starting points. Service delivery mechanisms vary between metros as do their sources of revenue.

Strategies to address the pressures of social and economic change must be developed within the specific socio-economic context of each metro. Metros cannot be conceived of as a homogenous block. Each one requires the institutional capacity unique to its developmental objectives and priorities.

Despite large investments by metros, certain developmental challenges remain. These include, among others, greater demand for basic services due to inward migration and declining household size, high levels of poverty and unemployment and unsustainable developmental practices.

Nevertheless, a comparative analysis of the socio-economic profiles and financial position of the six metros is useful in identifying these differences, highlighting variations in performance and identifying common issues that they must all address.

The chapter gives an overview of:

- the regulatory environment and functions
- the social and economic context
- a detailed financial analysis and overview of trends.

Regulatory environment and functions

The Constitution and the Municipal Structures Act assign specific powers and functions to metros

Municipalities have been established in terms of Section 155 of the Constitution of South Africa. Section 155(1)(a) classifies metros as category A and assigns them the exclusive executive and legislative authority within their areas of jurisdiction. Parts B of schedules 4 and 5 of the Constitution specify the functional competencies of municipalities. Moreover, the final authorisations made in 2002 by the Minister of Provincial and Local Government, in terms of the Municipal Structures Act (1998) as amended, assign metros full water, sanitation, refuse and electricity functions. Other than the Constitution and the Municipal Structures Act, the metros are regulated by the same legislative framework as all other categories of municipalities.

The functions, referred to above, are essentially service utilities that enable municipalities to raise a significant portion of revenue to support local economic development, combat poverty and improve institutional capacity to improve performance. The revenues enable metros to cover capital and operating costs and use any surpluses to subsidise other municipal activities that, by their nature, do not raise sufficient revenue to cover their costs.

Operating service utilities as “businesses” requires cost-benefit evaluation

A key challenge for municipalities has been to model and operate the service utilities functions as separate and identifiable “businesses”. It is difficult for municipalities to apportion revenues, expenses, assets, liabilities and personnel directly to activities associated with these service utilities. The cost of performing the exercise should be weighed against the benefits to be derived. The benefit of operating the service utilities as businesses is that it becomes less cumbersome to plan and manage the infrastructure investments and related maintenance. Better still, tariffs could be set so that both the capital and operating expenditure associated with the functions could be recouped and adjusted over the economic lives of the infrastructure assets. The associated costs of this approach include organisational restructuring to reflect the business model (this includes designing appropriate organisational structure and setting up reporting relationships and responsibilities) and designing budgeting, accounting and financial reporting systems to support the structure.

The financial performance of the service utilities is examined in the financial analysis section below and in chapters 7 and 8 of this Review which deal with water and electricity respectively. Caution when interpreting the revenues and costs associated with the service utilities is advised, as they are not based on a robust ring-fencing exercise.

Social and economic context

Metros are well positioned to play a major role in fulfilling government's objective of combating poverty

A key focus of developmental local government is the provision of basic municipal services to local communities and industries, other spheres of government, private firms and public facilities such as schools, hospitals and churches. Due to the high concentration of individuals and households in their jurisdictions, metros are well positioned to play a major role in fulfilling government's objective of combating poverty.

Table 4.1 shows that the number of households in the six metros have increased by 593 000 or 14.4 per cent between the Census 2001 data and the results of the Community Survey 2007. This growth is primarily driven by inward population migration, decreasing household size and faster household formation. This has implications for service delivery and the sustainability of these municipalities.

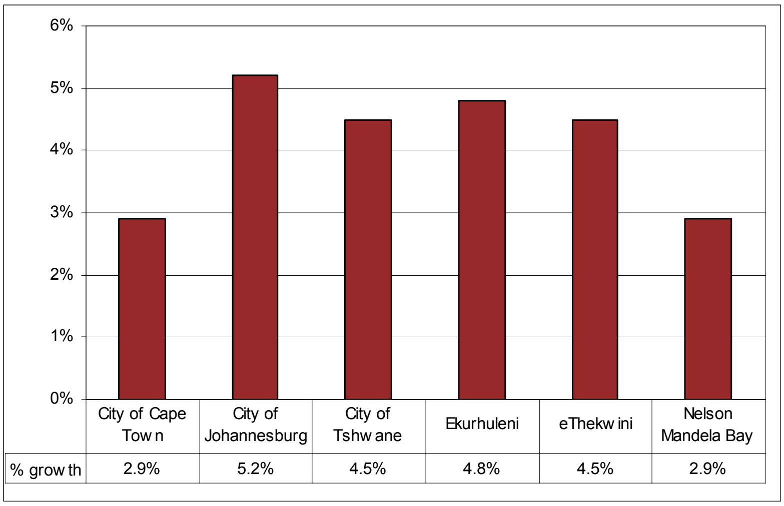
Table 4.1 Number of households per metro, 2003/04 – 2009/10

Number of households	Census 2001	Community Survey 2007
City of Cape Town	759 485	902 278
City of Johannesburg	1 006 742	1 164 014
City of Tshwane	561 772	686 640
Ekurhuleni	744 479	849 349
eThekwini	786 746	833 859
Nelson Mandela Bay	260 799	276 881
Total	**4 120 023**	**4 713 021**
Percentage growth		
City of Cape Town		18.8%
City of Johannesburg		15.6%
City of Tshwane		22.2%
Ekurhuleni		14.1%
eThekwini		6.0%
Nelson Mandela Bay		6.2%
Total		**14.4%**

Source: Stats SA, Census 2001 and Community Survey 2007

The 2006 Spatial Profile report shows that the metros' GVA (a measure of municipal economic activity at the local level) is 58.6 per cent of the national GVA. Within the metros, the City of Johannesburg has the highest GVA of 18.1 per cent, followed by the City of Cape Town (11.2 per cent), eThekwini (10 per cent), City of Tshwane (9.2 per cent), Ekurhuleni (7.1 per cent). The lowest is Nelson Mandela Bay, at 2.9 per cent. Figure 4.1 shows average GVA growth per metro. The City of Johannesburg shows the highest growth of 5.2 per cent.

Figure 4.1 Average GVA growth, 2001 – 2004



Source: Adapted from South African Cities Network, State of the Cities Report, 2006

There is a need for strategies to sustain the growth while developing new industries

It is imperative for each metro to critically analyse and understand the industries and factors that drive growth in its areas. Each metro needs to implement strategies to sustain growth in existing industries, while at the same time pursue opportunities to develop new industries. This strategic approach is central to municipalities successfully performing their role of supporting economic development.

Financial analysis and trends

Total metro budgets and expenditure outcomes

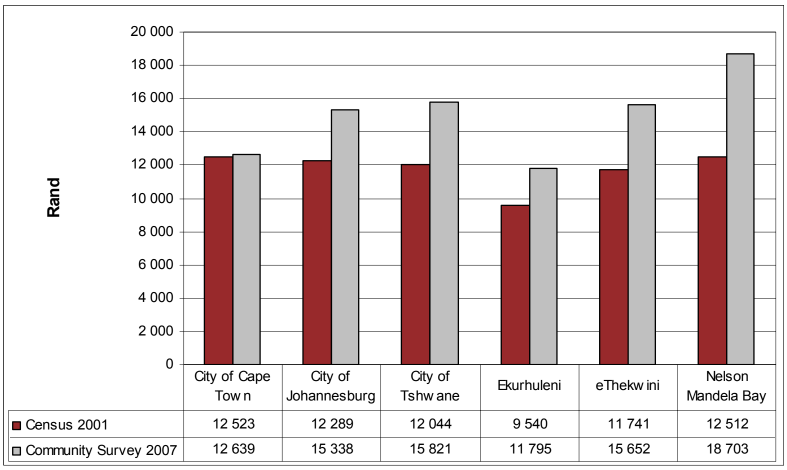
Collectively, the metros' budgets made-up 57.5 per cent of local government budgets in 2007/08. Table 4.2 shows that, in fulfilling their service delivery responsibilities, metros' actual expenditure increased from R48.3 billion in 2003/04 to R68.4 billion in 2006/07, an increase of 6.5 per cent in real terms. Given the large increase in national transfers to municipalities to roll out basic services to the poor and to meet the 2010 FIFA World Cup commitments, spending is budgeted to increase to R92.5 billion by 2009/10, a real annual increase of 5.1 per cent.

Table 4.2 Metros' outcomes and budgets, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
		Outcome		Estimate		Medium-term estimates	
Capital expenditure							
City of Cape Town	910	951	1 521	1 969	4 073	3 523	2 655
City of Johannesburg	1 296	1 954	2 722	3 284	4 761	5 112	3 658
City of Tshwane	887	1 273	1 550	2 316	2 316	2 795	2 598
Ekurhuleni	742	918	766	1 191	1 852	1 847	1 564
eThekwini	1 465	2 014	2 087	2 551	4 199	4 794	3 512
Nelson Mandela Bay	363	456	544	888	2 129	1 627	1 069
Total capital	**5 663**	**7 568**	**9 189**	**12 200**	**19 330**	**19 698**	**15 056**
Operating expenditure							
City of Cape Town	8 601	8 329	9 492	9 435	16 626	17 297	17 157
City of Johannesburg	11 076	12 048	13 379	14 569	18 262	19 461	20 224
City of Tshwane	5 879	7 733	7 822	8 547	9 408	10 058	10 880
Ekurhuleni	6 361	7 964	7 540	8 827	10 594	11 214	11 583
eThekwini	7 773	9 283	9 243	10 500	11 155	11 828	13 245
Nelson Mandela Bay	2 900	3 000	3 024	4 291	5 145	4 921	4 319
Total operating	**42 589**	**48 357**	**50 501**	**56 169**	**71 189**	**74 780**	**77 408**
Total							
City of Cape Town	9 511	9 281	11 012	11 404	20 698	20 820	19 812
City of Johannesburg	12 372	14 002	16 101	17 853	23 023	24 574	23 882
City of Tshwane	6 766	9 007	9 372	10 863	11 724	12 853	13 478
Ekurhuleni	7 103	8 883	8 306	10 018	12 445	13 062	13 146
eThekwini	9 237	11 297	11 330	13 051	15 354	16 622	16 757
Nelson Mandela Bay	3 263	3 456	3 568	5 179	7 274	6 548	5 388
Total	**48 252**	**55 925**	**59 689**	**68 369**	**90 519**	**94 478**	**92 464**
Percentage growth							
City of Cape Town		-2.4%	18.7%	3.6%	81.5%	0.6%	-4.8%
City of Johannesburg		13.2%	15.0%	10.9%	29.0%	6.7%	-2.8%
City of Tshwane		33.1%	4.1%	15.9%	7.9%	9.6%	4.9%
Ekurhuleni		25.1%	-6.5%	20.6%	24.2%	5.0%	0.6%
eThekwini		22.3%	0.3%	15.2%	17.6%	8.3%	0.8%
Nelson Mandela Bay		5.9%	3.3%	45.1%	40.5%	-10.0%	-17.7%
Total		**15.9%**	**6.7%**	**14.5%**	**32.4%**	**4.4%**	**-2.1%**

Source: National Treasury local government database

Figure 4.2 Metros' expenditure per household, 2001 – 2007



Source: Stats SA, Census 2001 and Community Survey 2007; National Treasury local government database

Figure 4.2 shows that spending per household remains static in the City of Cape Town, while the rest of the metros experienced large spending growth. This is mainly due to a faster rate of growth in revenue in the other metros and rapid inward migration into the City of Cape Town. The rest of the metros' budgets grew faster than household growth.

Capital budgets and outcomes

Investment in urban infrastructure is important for the development of local economies, combating poverty and the provision of universal access to municipal services. Of equal importance is the institutional capacity to develop and maintain the infrastructure.

Table 4.3 Metros' capital budgets, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million		Outcome		Estimate	Medium-term estimates		
Source of finance							
External loans	1 475	2 668	4 015	5 671	5 081	5 012	4 438
Public contributions and donations	347	96	122	218	574	487	507
Grants and subsidies	2 063	3 150	3 569	4 471	8 037	9 228	5 438
Other	1 778	1 653	1 483	1 840	5 637	4 971	4 673
Total funding	**5 663**	**7 568**	**9 189**	**12 200**	**19 330**	**19 698**	**15 056**
Percentage of revenue							
External loans	*26.0%*	*35.3%*	*43.7%*	*46.5%*	*26.3%*	*25.4%*	*29.5%*
Public contributions and donations	*6.1%*	*1.3%*	*1.3%*	*1.8%*	*3.0%*	*2.5%*	*3.4%*
Grants and subsidies	*36.4%*	*41.6%*	*38.8%*	*36.7%*	*41.6%*	*46.9%*	*36.1%*
Other	*31.4%*	*21.8%*	*16.1%*	*15.1%*	*29.2%*	*25.2%*	*31.0%*
Capital expenditure							
Water and sanitation	609	1 292	1 611	1 965	3 247	3 085	2 805
Electricity	831	1 177	1 660	2 022	2 527	2 557	2 468
Housing	480	516	343	1 052	2 170	2 405	2 435
Roads and storm water	1 048	918	1 403	1 950	2 749	3 195	2 634
Other	2 696	3 665	4 172	5 211	8 636	8 456	4 715
Total expenditure	**5 663**	**7 568**	**9 189**	**12 200**	**19 330**	**19 698**	**15 056**
Percentage of expenditure							
Water and sanitation	*10.7%*	*17.1%*	*17.5%*	*16.1%*	*16.8%*	*15.7%*	*18.6%*
Electricity	*14.7%*	*15.5%*	*18.1%*	*16.6%*	*13.1%*	*13.0%*	*16.4%*
Housing	*8.5%*	*6.8%*	*3.7%*	*8.6%*	*11.2%*	*12.2%*	*16.2%*
Roads and storm water	*18.5%*	*12.1%*	*15.3%*	*16.0%*	*14.2%*	*16.2%*	*17.5%*
Other	*47.6%*	*48.4%*	*45.4%*	*42.7%*	*44.7%*	*42.9%*	*31.3%*

Source: National Treasury local government database

Rapid inward population migration, declining household sizes and greater economic activity are placing pressure on existing municipal infrastructure and require larger investment in the period ahead. To meet the greater demand for infrastructure, table 4.3 shows that capital budgets of metros have more than doubled from R5.7 billion to R12.2 billion between 2003/04 and 2006/07, a real increase of 48.6 per cent per year. Between 2006/07 and 2008/09, capital spending is projected to increase by R7.5 billion to R19.7 billion mainly due to the large infrastructure investment related to the 2010 FIFA World Cup. The decline to R15.1 billion in 2009/10 is due to the 2010 FIFA World Cup projects coming to an end. The "other" component in capital expenditure includes projected infrastructure spending on projects related to the 2010 FIFA World Cup, which are not covered in water and sanitation, electricity, roads and storm water and housing functions.

Operating budgets and outcomes

Table 4.4 shows that operating revenue increased from R43.7 billion in 2003/04 to R61.8 billion in 2006/07. Service charges on water, sanitation, electricity and refuse removal consistently constitute a significant portion of metro revenues (around 44 per cent). Revenue from service charges grows slowly (1.2 per cent per year in real terms) between 2006/07 and 2009/10, mainly due to growing outstanding consumer accounts, increases in water and electricity losses and the under-pricing of utility services. All these factors affect the ability to recover the full cost of providing the services, which in turn affects the maintenance and sustainability of those services.

Table 4.4 Metros' operating revenue, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million		**Outcome**		**Estimate**		**Medium-term estimates**	
Property rates	9 967	11 531	12 157	12 725	14 844	15 832	16 744
Service charges	23 268	24 477	25 456	28 506	30 522	32 311	34 432
Regional Service Levies1	3 341	5 031	5 401	115	20	–	–
Investment revenue	1 081	1 388	1 558	1 940	2 703	2 735	3 046
Government grants	2 371	4 513	5 019	11 425	12 487	13 004	12 286
Public contributions and donations	33	474	495	598	–	–	–
Other own revenue	3 603	4 511	4 875	6 496	10 539	10 920	10 948
Total revenue	**43 665**	**51 926**	**54 961**	**61 804**	**71 115**	**74 802**	**77 457**
Percentage of revenue							
Property rates	*22.8%*	*22.2%*	*22.1%*	*20.6%*	*20.9%*	*21.2%*	*21.6%*
Service charges	*53.3%*	*47.1%*	*46.3%*	*46.1%*	*42.9%*	*43.2%*	*44.5%*
Regional Service Levie	*7.7%*	*9.7%*	*9.8%*	*0.2%*	*0.0%*	*0.0%*	*0.0%*
Investment revenue	*2.5%*	*2.7%*	*2.8%*	*3.1%*	*3.8%*	*3.7%*	*3.9%*
Government grants	*5.4%*	*8.7%*	*9.1%*	*18.5%*	*17.6%*	*17.4%*	*15.9%*
Public contributions and donations	*0.1%*	*0.9%*	*0.9%*	*1.0%*	*0.0%*	*0.0%*	*0.0%*
Other own revenue	*8.3%*	*8.7%*	*8.9%*	*10.5%*	*14.8%*	*14.6%*	*14.1%*

1. RSC levies abolished from 1 July 2006. Interim replacement grant included in Equitable share.
Source: National Treasury local government database

From 2006/07, Regional Services/Joint Services Board levies were abolished and replaced with income derived from VAT zero rating on property rates and a transfer from national government, which explains part of the growth in national transfers from 2006/07 onwards. National government is exploring creating tax room by earmarking part of the general fuel levy for municipalities. The projected growth in property rates revenue is due to an increase in the rates base due to the expansion of cities and the gradual implementation of the Municipal Property Rates Act (2004).

Operating budgets of metros account for 83.3 per cent of their total budgets. Operating expenditure increased in real terms by 4 per cent annually between 2003/04 and 2006/07 and is budgeted to increase annually by 5.8 per cent in real terms between 2006/07 and 2009/10. The share of personnel in the total operational budget is around 27 per cent. The metros have successfully contained personnel spending without compromising service delivery. This approach has ensured that important resources are released to improve service delivery in a sustainable way. This is evident in the growth of non-personnel operating and capital spending.

Table 4.5 Metros' operating expenditure, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million		**Outcome**		**Estimate**	**Medium-term estimates**		
Employee costs	12 827	13 438	14 011	15 902	18 416	19 590	20 637
Remuneration of councillors	184	235	256	317	–	–	–
Repairs and maintenance	2 928	3 162	3 254	3 703	5 231	5 548	5 902
Depreciation and amortisation	1 673	3 050	2 845	3 480	–	–	–
Finance charges	3 062	2 279	2 196	2 267	5 231	5 694	6 249
Materials and bulk purchases	11 342	12 034	12 858	14 461	15 579	16 520	17 717
Grants and subsidies	135	385	387	879	–	–	–
Other expenditure	10 438	13 775	14 693	15 161	26 731	27 428	26 902
Total expenditure	**42 589**	**48 357**	**50 501**	**56 169**	**71 189**	**74 780**	**77 408**
Percentage of expenditure							
Employee costs	*30.1%*	*27.8%*	*27.7%*	*31.5%*	*25.9%*	*26.2%*	*26.7%*
Remuneration of councillors	*0.4%*	*0.5%*	*0.5%*	*0.6%*	*0.0%*	*0.0%*	*0.0%*
Repairs and maintenance	*6.9%*	*6.5%*	*6.4%*	*7.3%*	*7.3%*	*7.4%*	*7.6%*
Depreciation and amortisatior	*3.9%*	*6.3%*	*5.6%*	*6.9%*	*0.0%*	*0.0%*	*0.0%*
Finance charges	*7.2%*	*4.7%*	*4.3%*	*4.5%*	*7.3%*	*7.6%*	*8.1%*
Materials and bulk purchases	*26.6%*	*24.9%*	*25.5%*	*28.6%*	*21.9%*	*22.1%*	*22.9%*
Grants and subsidies	*0.3%*	*0.8%*	*0.8%*	*1.7%*	*0.0%*	*0.0%*	*0.0%*
Other expenditure	*24.5%*	*28.5%*	*29.1%*	*30.0%*	*37.5%*	*36.7%*	*34.8%*

Source: National Treasury local government database

Maintenance should be planned and not deferred as it affects the productivity of assets

Metros are gradually prioritising repairs and maintenance. Table 4.6 shows that spending on repairs and maintenance nearly doubled from R2.9 billion in 2003/04 to R5.2 billion in 2007/08 and is set to grow further over the medium-term. Table 4.6 also shows that, given the large capital stock of roads, electricity and water, the share of spending on repairs and maintenance remains low at around 6 per cent of total metro budgets. Spending on repairs and maintenance is particularly low in the City of Johannesburg.

To ensure sustainable uninterrupted delivery of municipal services and certainty in own revenue streams, municipalities will have to increase their investment in repairs and maintenance. This is even more important for these large cities given the growing demand for services due to rapid inward migration and the demands to support an expanding economy. Further, it is important for municipalities to put in place sound asset management practices.

Table 4.6 Repairs and maintenance expenditure by metro, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million		Outcome		Estimate		Medium-term estimates	
City of Cape Town	561	680	804	964	1 148	1 197	1 251
City of Johannesburg	152	206	240	256	299	312	330
City of Tshwane	861	863	677	731	1 097	1 199	1 300
Ekurhuleni	367	398	445	566	1 077	1 147	1 223
eThekwini	788	798	830	879	1 309	1 373	1 460
Nelson Mandela Bay	199	218	258	307	302	319	338
Total	**2 928**	**3 162**	**3 254**	**3 703**	**5 231**	**5 548**	**5 902**
Percentage expenditure of total expenditure							
City of Cape Town	6.5%	8.2%	8.4%	10.2%	9.3%	9.3%	9.3%
City of Johannesburg	1.3%	1.5%	1.8%	1.8%	1.8%	1.8%	1.8%
City of Tshwane	14.7%	10.2%	9.3%	8.6%	12.1%	12.5%	12.6%
Ekurhuleni	6.0%	5.0%	5.8%	6.4%	8.5%	8.6%	8.8%
eThekwini	9.1%	9.0%	8.6%	8.0%	11.8%	11.6%	11.3%
Nelson Mandela Bay	6.9%	7.3%	8.5%	7.4%	8.3%	6.5%	7.8%
Total	**6.6%**	**6.2%**	**6.5%**	**6.5%**	**7.9%**	**7.9%**	**8.0%**
Percentage expenditure of property, plant and equipment written down value							
City of Cape Town	7.6%	9.0%	9.4%	9.8%	8.7%	7.4%	7.0%
City of Johannesburg	2.1%	1.5%	1.4%	1.3%	1.4%	1.2%	1.2%
City of Tshwane	15.0%	10.0%	9.5%	8.6%	9.7%	8.6%	7.7%
Ekurhuleni	10.7%	11.1%	11.1%	11.7%	11.9%	10.7%	10.1%
eThekwini	15.4%	7.9%	7.3%	6.9%	8.8%	7.0%	6.7%
Nelson Mandela Bay	7.8%	7.7%	8.1%	7.8%	5.8%	6.6%	6.7%
Total	**9.3%**	**6.7%**	**6.4%**	**6.2%**	**6.7%**	**5.9%**	**5.7%**

Source: National Treasury local government database

Consumer debtors[2]

Increasing outstanding consumer debtors negatively affect municipal revenue and their cash position

Increasing outstanding consumer debtors negatively affect municipal revenue and, therefore, their cash position. Table 4.7 shows that while still high, at R25.4 billion at the end of December 2007, debt owed by consumers declined by just under R3 billion compared to the previous year. This is mainly due to credit control policies and limited write-offs instituted by metros. Further, more attention has been given to indigent policies and their alignment to budgets. Measures have been put in place to collect information on the identity of the debtors (government, business or households). Knowledge of the debtors will assist the metros and other municipalities, to implement appropriate strategies for debt recovery. Ekurhuleni and the City of Cape Town have shown the highest decreases of R1.6 billion and R1 billion for the period, respectively.

The table also shows that a significant portion of the debt is older than 90 days: 76.8 per cent of the debt as at 31 December 2007 and 81.5 per cent as at 31 December 2006[3].

[2] Consumer debtors reflect the amount owed to municipalities by consumers / customers due to the non-payment for services rendered.

[3] The gross debtors' amounts exclude provisions for debt impairment, which amounted to R13 billion for metros in the 2006/07 financial statements.

Table 4.7 Outstanding debtors by metro, as at 31 December 2006 and 31 December 2007

	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
R thousand	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Metros debtors analysis as at 31 December 2007										
City of Cape Town	588 106	18.0%	193 263	5.9%	126 641	3.9%	2 363 921	72.2%	3 271 931	12.9%
City of Johannesburg	913 533	9.5%	424 643	4.4%	339 240	3.5%	7 939 518	82.6%	9 616 934	37.9%
City of Tshwane	240 642	12.5%	117 674	6.1%	58 998	3.1%	1 501 010	78.2%	1 918 324	7.6%
Ekurhuleni	871 179	13.9%	307 875	4.9%	249 044	4.0%	4 843 578	77.2%	6 271 676	24.7%
eThekwini	670 280	22.5%	201 906	6.8%	78 967	2.7%	2 024 680	68.0%	2 975 833	11.7%
Nelson Mandela Bay	435 816	32.8%	55 242	4.2%	15 550	1.2%	820 430	61.8%	1 327 038	5.2%
Total	**3 719 556**	**14.7%**	**1 300 603**	**5.1%**	**868 440**	**3.4%**	**19 493 137**	**76.8%**	**25 381 736**	**100.0%**
Metros debtors analysis as at 31 December 2006										
City of Cape Town	449 911	10.4%	93 297	2.2%	127 610	3.0%	3 646 910	84.5%	4 317 728	15.3%
City of Johannesburg	756 018	8.3%	369 423	4.1%	292 257	3.2%	7 701 853	84.5%	9 119 550	32.3%
City of Tshwane	366 114	16.2%	147 931	6.5%	35 242	1.6%	1 717 151	75.8%	2 266 438	8.0%
Ekurhuleni	828 251	10.5%	324 020	4.1%	210 697	2.7%	6 512 429	82.7%	7 875 397	27.9%
eThekwini	517 137	15.5%	144 398	4.3%	61 765	1.9%	2 608 040	78.3%	3 331 339	11.8%
Nelson Mandela Bay	422 300	32.7%	51 005	4.0%	12 127	0.9%	804 385	62.4%	1 289 817	4.6%
Total	**3 339 731**	**11.8%**	**1 130 074**	**4.0%**	**739 698**	**2.6%**	**22 990 768**	**81.5%**	**28 200 269**	**100.0%**
Movement between 31 December 2006 and 31 December 2007										
City of Cape Town	138 195		99 966		-969		-1 282 989		-1 045 797	
City of Johannesburg	157 515		55 220		46 983		237 665		497 384	
City of Tshwane	-125 472		-30 257		23 756		-216 141		-348 114	
Ekurhuleni	42 928		-16 145		38 347		-1 668 851		-1 603 721	
eThekwini	153 143		57 508		17 202		-583 360		-355 506	
Nelson Mandela Bay	13 516		4 237		3 423		16 045		37 221	
Total	**379 825**		**170 529**		**128 742**		**-3 497 631**		**-2 818 533**	
Growth rate 2006 vs. 2007										
City of Cape Town	30.7%		107.1%		-0.8%		-35.2%		-24.2%	
City of Johannesburg	20.8%		14.9%		16.1%		3.1%		5.5%	
City of Tshwane	-34.3%		-20.5%		67.4%		-12.6%		-15.4%	
Ekurhuleni	5.2%		-5.0%		18.2%		-25.6%		-20.4%	
eThekwini	29.6%		39.8%		27.9%		-22.4%		-10.7%	
Nelson Mandela Bay	3.2%		8.3%		28.2%		2.0%		2.9%	
Total	**11.4%**		**15.1%**		**17.4%**		**-15.2%**		**-10.0%**	

Source: National Treasury local government database

Cash flows

The major sources of cash for the metros are consistently from operating activities

The way in which a municipality generates and manages its cash flows determines the extent to which it can provide required levels of municipal services and meet its commitments. Table 4.8 shows the sources and application of cash by the metros over the period. The major sources of cash for the metros are consistently from operating activities. Between 2003/04 and 2006/07, metros mainly financed their investments in infrastructure and property, plant and equipment from cash generated by operations. Cash from operations includes government transfers and subsidies.

There is a shift in the cash generated to finance infrastructure investments. Whereas the cash from operations continues to fund infrastructure assets, there is significant growth in other forms of financing, such as external loans. Cash from financing activities increases from R1 billion to R3.7 billion between 2006/07 and 2007/08 and declines to R1.7 billion in 2009/10. This reflects the tapering off in 2010 FIFA World Cup capital spending.

Table 4.8 Cash flow by metro, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
		Outcome		Estimate	Medium-term estimates		
City of Cape Town							
Net cash from (used) operating	960	1 298	1 964	2 559	2 818	2 738	1 932
Net cash from (used) investing	-818	-712	-1 494	-2 005	-4 187	-3 482	-2 612
Net cash from (used) financing	566	-114	-128	-69	1 140	757	770
Cash/cash equivalents at the year end	1 240	1 712	2 054	2 625	2 302	2 315	2 405
City of Johannesburg							
Net cash from (used) operating	566	2 249	2 347	3 392	2 124	3 996	3 368
Net cash from (used) investing	-1 589	-2 672	-2 918	-3 726	-3 519	-5 403	-3 439
Net cash from (used) financing	899	346	524	367	1 454	1 452	142
Cash/cash equivalents at the year end	135	58	12	44	103	148	219
City of Tshwane							
Net cash from (used) operating	1 095	1 087	1 121	880	1 714	2 186	2 196
Net cash from (used) investing	-891	-1 516	-1 707	-1 289	-1 899	-2 306	-2 210
Net cash from (used) financing	10	519	476	653	188	227	184
Cash/cash equivalents at the year end	614	696	586	830	154	261	430
Ekurhuleni							
Net cash from (used) operating	280	238	1 272	1 052	1 243	1 487	1 782
Net cash from (used) investing	-83	-44	-700	-763	-1 994	-1 887	-1 614
Net cash from (used) financing	370	358	-163	-95	475	367	339
Cash/cash equivalents at the year end	2 302	2 244	2 652	2 847	2 896	2 863	3 371
eThekwini							
Net cash from (used) operating	883	887	1 694	2 944	2 912	4 034	3 199
Net cash from (used) investing	-27	-2 459	-1 613	-3 652	-3 568	-4 466	-3 601
Net cash from (used) financing	184	650	671	350	263	186	290
Cash/cash equivalents at the year end	861	27	779	421	4 945	4 699	4 587
Nelson Mandela Bay							
Net cash from (used) operating	532	502	668	995	1 800	820	1 163
Net cash from (used) investing	-344	-564	-662	-638	-2 043	-1 871	-1 164
Net cash from (used) financing	28	-8	-25	-193	264	80	–
Cash/cash equivalents at the year end	206	137	108	271	292	-678	-679
Total							
Net cash from (used) operating	**4 315**	**6 261**	**9 067**	**11 822**	**12 611**	**15 262**	**13 640**
Net cash from (used) investing	**-3 753**	**-7 967**	**-9 093**	**-12 074**	**-17 210**	**-19 414**	**-14 639**
Net cash from (used) financing	**2 059**	**1 751**	**1 354**	**1 013**	**3 783**	**3 070**	**1 724**
Cash/cash equivalents at the year end	**5 357**	**4 874**	**6 192**	**7 038**	**10 691**	**9 609**	**10 333**

Note: (-) is cash outflow / cash used.

Source: National Treasury local government database

Indicators of financial performance

Table 4.9 presents a selection of key indicators of financial performance for the metros. These indicators are of particular interest to institutions that either lend or are contemplating lending to municipalities.

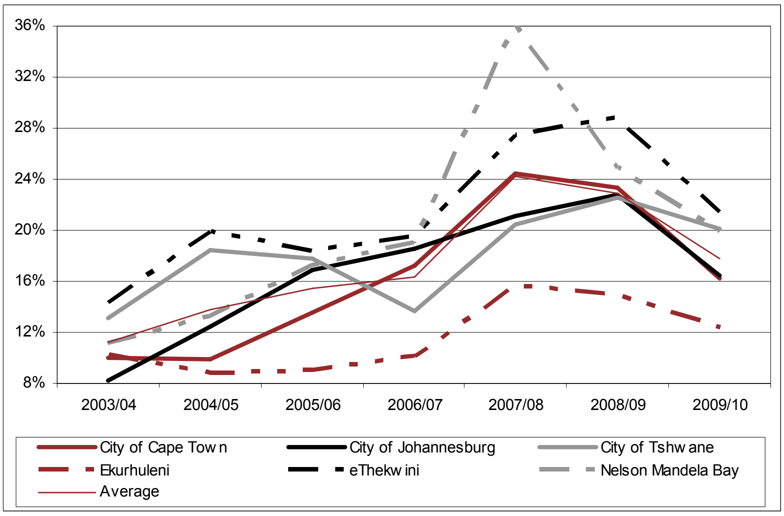
The ***capital benefit ratio*** is an approximate effectiveness measure indicating the proportion of metro capital expenditure to total expenditure. Generally, it is considered that communities will have a greater preference for a higher proportion of available resources to be deployed as capital, especially during times of high demand for new infrastructure to provide basic services such as electricity, sanitation, water and roads. This ratio is affected by increased external funding for capital projects.

Table 4.9 Summary of metros, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Percentage		Outcome		Estimate		Medium-term estimates	
Capital benefit ratio							
City of Cape Town	10.0%	9.8%	13.6%	17.2%	24.4%	23.4%	16.2%
City of Johannesburg	8.2%	12.4%	16.9%	18.5%	21.1%	22.7%	16.4%
City of Tshwane	13.1%	18.4%	17.7%	13.6%	20.4%	22.5%	20.2%
Ekurhuleni	10.2%	8.8%	9.0%	10.1%	15.6%	14.9%	12.4%
eThekwini	14.4%	19.9%	18.3%	19.5%	27.5%	28.8%	21.4%
Nelson Mandela Bay	11.1%	13.2%	17.3%	19.0%	36.2%	24.8%	19.8%
Total non-current liabilities to revenue							
City of Cape Town	38.1%	35.2%	39.8%	37.6%	38.6%	42.9%	51.0%
City of Johannesburg	60.6%	47.8%	54.4%	51.2%	50.7%	50.1%	54.3%
City of Tshwane	27.7%	28.7%	31.8%	35.7%	28.0%	27.7%	34.9%
Ekurhuleni	17.1%	18.2%	15.5%	14.7%	22.1%	22.6%	21.6%
eThekwini	40.5%	41.4%	45.2%	46.5%	51.9%	51.6%	56.3%
Nelson Mandela Bay	24.2%	24.7%	23.3%	23.7%	26.4%	22.0%	25.6%
Rates and service charges as a percentage of total revenue							
City of Cape Town	72.8%	70.6%	70.8%	70.3%	64.9%	64.2%	70.1%
City of Johannesburg	72.1%	66.8%	63.0%	64.8%	62.4%	62.3%	65.4%
City of Tshwane	77.9%	70.9%	66.1%	68.1%	66.3%	65.2%	66.5%
Ekurhuleni	75.8%	71.6%	72.1%	70.9%	72.3%	71.0%	70.3%
eThekwini	77.8%	72.0%	69.4%	63.7%	71.2%	67.1%	70.4%
Nelson Mandela Bay	65.0%	66.6%	66.1%	56.1%	46.8%	51.9%	63.4%
Rates as a percentage of property rates and service charges							
City of Cape Town	33.8%	33.1%	33.8%	32.9%	38.7%	38.7%	38.7%
City of Johannesburg	30.2%	30.0%	30.7%	29.3%	29.5%	31.3%	30.9%
City of Tshwane	29.6%	28.4%	29.1%	28.7%	29.0%	29.0%	29.0%
Ekurhuleni	26.4%	28.6%	28.0%	24.4%	22.5%	22.3%	22.1%
eThekwini	39.0%	40.5%	40.5%	40.5%	39.0%	39.6%	39.7%
Nelson Mandela Bay	23.4%	23.9%	24.1%	24.4%	25.5%	25.0%	24.5%
Collection rate							
City of Cape Town	100.6%	97.6%	98.1%	100.6%	89.5%	92.7%	100.9%
City of Johannesburg	88.2%	99.2%	102.8%	99.1%	96.2%	99.0%	95.7%
City of Tshwane	106.3%	95.9%	101.3%	101.0%	98.5%	98.2%	99.9%
Ekurhuleni	88.1%	78.2%	94.6%	94.7%	93.3%	93.1%	93.1%
eThekwini	91.4%	92.2%	89.8%	90.1%	84.8%	74.6%	93.0%
Nelson Mandela Bay	129.8%	136.7%	105.8%	105.9%	95.4%	151.3%	128.9%
Expenditure per household (Rand)							
City of Cape Town	12 329	11 849	14 019	14 096	19 581	19 741	18 495
City of Johannesburg	12 926	14 818	15 353	16 759	20 113	20 382	19 822
City of Tshwane	11 783	14 060	16 131	16 505	18 618	20 017	20 434
Ekurhuleni	9 937	11 497	10 966	12 999	14 800	15 268	15 242
eThekwini	12 633	13 845	14 704	16 805	18 492	19 924	19 486
Nelson Mandela Bay	11 675	12 113	12 777	17 948	20 511	22 769	18 704
Average rates and service revenue as a percentage of average household income (AHI)							
City of Cape Town	7.9%	7.4%	7.4%	7.4%	8.2%	7.9%	7.7%
City of Johannesburg	7.9%	8.2%	8.1%	8.2%	8.3%	8.2%	8.2%
City of Tshwane	7.4%	7.9%	8.0%	7.8%	7.9%	7.9%	7.9%
Ekurhuleni	9.7%	9.6%	9.6%	9.6%	9.8%	9.6%	9.4%
eThekwini	11.4%	11.8%	11.7%	11.6%	11.8%	11.9%	12.0%
Nelson Mandela Bay	10.2%	10.4%	10.5%	10.2%	10.3%	10.4%	10.6%

Source: National Treasury local government database

Figure 4.3 Capital benefit ratio, 2003/04 – 2009/10



Source: National Treasury local government database

In 2005/06 and 2006/07 there is general consistency in the weighted average of 15 per cent and 16 per cent among all metros, except for Ekurhuleni (only 9 per cent and 10 per cent). The ratio moved generally upwards from 2003/04, with the weighted average increasing from 11 per cent to 17 per cent in 2006/07. There is a noticeable decline budgeted in 2009/10, directly related to reductions in national funding of the 2010 FIFA World Cup.

There are significant differences in metros' appetite for borrowing risk

The ***total non-current liabilities to revenue ratio*** is mainly influenced by long term borrowing and revenue size, although other long term provisions have an influence. The ratio can be seen as a measure of risk (high levels of debt increase the risk of repayment default) and also a measure of each individual metro's appetite for risk. The variation between metros is significant (in 2006/07 Ekurhuleni was only 15 per cent and the City of Johannesburg was the highest at 51 per cent). Generally, metros are budgeting to take on more long term liabilities, with the City of Cape Town and eThekwini showing the greatest changes after 2006/07. There appears to be a correlation between this measure and the capital benefit ratio, for example, in 2006/07 Ekurhuleni had the lowest outcomes under both measures, suggesting their borrowing policy is constraining capital expenditure.

The ***rates and services charges as a percentage of total revenue*** indicates the level of reliance on own "billed" revenue to support the expenditure budget. The weighted average declined from 74 per cent in 2003/04 to 67 per cent in 2006/07, probably as a result of increased reliance on transfers and subsidy funding, particularly grants associated with the 2010 FIFA World Cup and the abolition of Regional Service Council (RSC) levies. However, the decline could also be due to the under-pricing of utility services. Motivating evidence will become available when municipalities ring-fence their budget.

The ***collection rate*** measure is based on total cash collections (excluding external funding) relative to billed and other revenue, but adjusting for changes in consumer debtors. The measure is used due to the difficulty in obtaining reliable and consistent measures of consumer debtor collection rates and is preferred as it can be obtained from audited and budgeted financial statements. However, the ratio is influenced by the proportion of revenue collected by individual metros as "cash" (fines, licences and permits) rather than 'billed' revenue. A measure can be greater than 100 per cent if there has been a collection of arrears from a previous year, but it is improbable that this would be sustained for a long period of time. The results for Nelson Mandela Bay are probably affected by issues relating to changes in accounting standards and need further clarification.

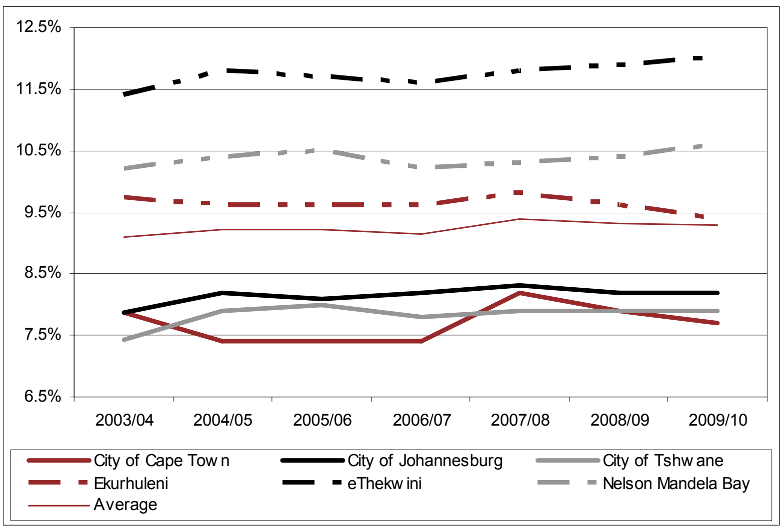
There appears to be conservative projections for collection rates in the 2007/08 budget and this may be related to predictions of greater economic uncertainty and difficulties in 2007/08.

Ekurhuleni is consistently the lowest spender

The ***expenditure per household*** can be influenced by "once-off" changes in the capital programme as discussed in relation to the capital benefit ratio, as well as by growth in the number of households. Ekurhuleni is consistently the lowest spender per household.

Average rates and service revenue as percentage of average household income is a measure of the affordability of property tax and service charges. It calculates the average total bill per household relative to average household income. The weighted average is relatively stable, staying at 9 per cent in 2003/04 and 2006/07. This measure means that households spend 9 per cent on average of their household incomes on paying for "billed" municipal services (property tax, electricity, water and sanitation). Differences in the pricing of electricity services between metros would influence this outcome and could partially explain the variability between metros. eThekwini consistently shows the highest percentage and was 11.6 per cent in 2006/07. The City of Cape Town (7.4 per cent in 2006/07) and the City of Tshwane (7.9 per cent in 2007/08) are the lowest, probably as a result of their higher average incomes (suggesting a higher ability to pay in their communities).

Figure 4.4 Average rates and service revenue as percentage of average household income, 2003/04 – 2009/10



Source: National Treasury local government database

Financial position

This section focuses on two key measures relating to the financial position of the metro, namely the change in current assets and the liquidity ratio. The aspect of "debt" (borrowing) is dealt with by the non-current liabilities as a percentage of total revenue measure discussed in the previous section. Table 4.10 shows the changes in current assets and liquidity ratios of the metros.

Table 4.10 Metros' financial position summary, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Percentage		Outcome		Estimate		Medium-term estimates	
Current assets change from previous year							
City of Cape Town		17%	4%	11%	1%	-14%	-4%
City of Johannesburg		22%	-1%	-5%	-16%	11%	15%
City of Tshwane		19%	2%	9%	-50%	-2%	7%
Ekurhuleni		39%	15%	11%	-2%	-4%	12%
eThekwini		15%	105%	6%	0%	-24%	-11%
Nelson Mandela Bay		-3%	19%	25%	1%	-18%	6%
Liquidity ratio							
City of Cape Town	1.3	1.2	1.2	1.2	1.1	1.0	1.0
City of Johannesburg	1.0	1.1	1.1	0.8	0.7	0.7	0.9
City of Tshwane	1.4	1.3	1.3	1.3	0.7	0.7	0.6
Ekurhuleni	1.4	2.2	2.2	2.2	1.8	1.7	1.6
eThekwini	1.2	1.3	1.3	1.4	1.3	1.0	0.9
Nelson Mandela Bay	1.3	0.8	0.8	0.7	0.6	1.2	1.2

Source: National Treasury local government database

Resources of metros are tied up in current assets and short term investments

The top part of table 4.10 shows the "current assets change" ratio. Except for the City of Johannesburg, the ratio indicates a trend of increasing current assets for reported audited amounts, but decreasing budgets. This suggests that, when preparing budgets, metros are confident about achieving budgeted expenditure plans (and therefore reducing cash and short-term investment levels), improved collection of outstanding debtors and more efficient use of inventory. However, past trends appear not to support this confidence. For example, the average increase in current assets for 2006/07 was 10 per cent, yet the 2007/08 budget was prepared on the basis of an average 11 per cent reduction.

The liquidity ratio (current assets/current liabilities), shown on the lower part of table 4.10, is a standard measure of an ability to meet short-term obligations. The budgeted decline in the ratio from an audited actual average of 1.3 in 2006/07 to 1 in 2007/08 is partially caused by predicted reductions in current assets. However, of some concern is that the liquidity ratio of the City of Johannesburg, Nelson Mandela Bay and the City of Tshwane were budgeted to be less than 1 in 2007/08, generally considered to indicate an inability to meet short-term obligations. Well managed municipalities can possibly manage this situation and would contend that maintaining higher levels of current assets is an inappropriate use of community funds.

Four-year trend on audit outcomes

Table 4.11 shows the audited outcomes of the six metros for the period 2003/04 to 2006/07. The table shows that the City of Cape Town and eThekwini had unqualified audit outcomes over the four-year period. The City of Johannesburg has gradually improved from disclaimers (inability of the Auditor-General to make an opinion) in 2003/04 and 2004/05 to an unqualified opinion in 2006/07. This shows the significant impact of adopting a project approach to addressing significant challenges as the City of Johannesburg has done. Ekurhuleni, City of Tshwane and Nelson Mandela Bay have not shown any improvements over the period under review.

Table 4.11 Audited outcomes by metro, 2003/04 – 2006/07

Audit outcome	2003/04	2004/05	2005/06	2006/07
City of Cape Town	Unqualified	Unqualified	Unqualified	Unqualified
City of Johannesburg	Disclaimer	Disclaimer	Qualified	Unqualified
City of Tshwane	Qualified	Qualified	Qualified	Qualified
Ekurhuleni	Qualified	Qualified	–	Qualified
eThekwini	Unqualified	Unqualified	Unqualified	Unqualified
Nelson Mandela Bay	–	Qualified	Qualified	Qualified

Source: Auditor-General report

The main issues identified by the Auditor-General include long outstanding consumer debtors, water and electricity losses, employee benefit schemes, not meeting deadlines in terms of accounting standards reforms, for example, standards on property, plant and equipment and non-compliance with legislative requirements, such as the Municipal Systems Act with regards to performance management. Detailed information is contained in the audit reports of the relevant financial years.

Conclusion

The capital budgets of the metros have benefited hugely from national transfers related to the 2010 FIFA World Cup. Despite this the metros face the following challenges:

- The share of revenues from service charges is declining and there is a growing reliance on operating grants and subsidies. It appears that the metros are under-pricing on their utility services.
- The extent of arrear consumer debt distorts the true value of current assets on the metros' statements of financial position.

Metros need to invest in productive economic infrastructure and price services in a way that makes them affordable, but that also earns a modest rate of return for reinvestment in order to ensure the sustainability of services and revenue streams.