South African CitiesNetwork

2018

STATE OF CITY FINANCES

The People's GUIDE

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About the People's Guide to the State of City Finances 2018

The aim of the People's Guide is to inform a broader audience about the key messages that are contained in the 2018 State of City Finances, as well as the state of finances in nine of South Africa's largest cities: Johannesburg, Cape Town, eThekwini, Tshwane, Ekurhuleni, Nelson Mandela Bay, Mangaung, Buffalo City and Msunduzi.

> CITIZENS AND CITIES ARE IN FINANCIAL CRISIS

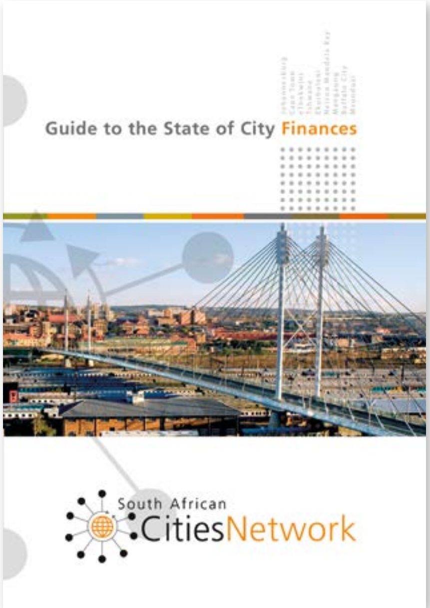
The theme of the 2018 State of City Finances Report is that citizens and cities are in financial crisis. Municipalities have to find money to deliver the required infrastructure and services, while keeping municipal services affordable for consumers, especially during this time of a worsening economy. The report argues that cities have to address the systemic problems that affect their ability to achieve their development goals, by aligning their budgets with policy. Cities also need to increase their own revenues by implementing alternative financing solutions.

NOTE

Cities need to seize the initiative, to place themselves firmly at the centre of the nation, as they reflect the reality of the country's demographics and economy.

The centrality of cities to the country's growth and development is clear. However, what is less clear is the complexity that is local government finances. This guide seeks to explain the challenges and complexities that face cities, in particular as a result of the apartheid spatial form and post-1994 developments. It explains how city finances are affected by – and affect – the developmental imperatives of local government, and the delicate balancing act that cities have to perform in order to be financially sustainable.

Nine financial indicators are used to analyse and explain the state of finances in the nine cities. After an overview of the common trends across the cities, the individual cities are profiled through the nine indicators and data on population, area and affordability of municipal bills.



Since 2007, the State of City Finances report has been published every two years. In 2011, the first guide to the main report was produced, with the aim of making the key points of the report accessible to people who might not have financial backgrounds or work within municipal finance departments. The guide introduced a set of core financial indicators, as the basis to tell the story of municipal finances and performance.

As its name implies, the 2015 Citizen's Guide to the State of City Finances was designed to reach a broader audience than the previous guide. The guide outlined the importance of municipal finances in enabling cities to achieve their developmental mandate, and called on city residents to be active citizens and participate in city financial planning, budgeting and monitoring processes.

> TELL THE STORY OF MUNICIPAL FINANCES AND PERFORMANCE

NOTE

Municipal officials, councillors, civil activists and others interested and involved in local government have a duty to understand and debate how cities spend their money.

Key Messages

The 2018 State of City Finances includes the following messages for each chapter.

The Changing State of City Finances

CHAPTER 1

- City revenues appear to be quite resilient, growing at an average annual rate of about 8% and with collection rates of about 95%, although most cities have increased their provisions for debt impairment.
- The rapid increase in bulk tariffs is squeezing out the surpluses that cities have historically used to cross-subsidise other services, while cities are underspending on both repairs and maintenance and their capital budgets.
- Only with the 2017/18 financial statements and audit reports will it be possible to assess the impact of the new administrations elected in the 2016 local government elections.

Sustainability and Equity – the Tariffs Story

CHAPTER 2

- Between 2015 and 2017, increased electricity and water costs accounted for 73% of the growth in municipal bills, but real growth in the cost of municipal services has slowed.
- Most metros have regressive tariff structures, i.e. households with lower incomes pay proportionally greater shares of their income on tariffs than those with higher incomes.
- To improve the progressiveness of bills, cities can eliminate basic levies or monthly connection fees, and make use of inclining block tariffs.
- A debate is needed about whether or not national and provincial government are leaving sufficient tax room for local government to raise revenue to fund services such as environmental health and safety, storm water management, public parks, and building and maintenance of infrastructure.

Financing Spatial Transformation

CHAPTER 3

- South Africa's national urban agenda prioritises urban densification, but the municipal revenue model, which is dependent on property rates, incentivises urban sprawl.
- The gap between city finance (core revenue model) and spatial transformation needs to be bridged, to ensure that the desired spatial objectives are incentivised and built into the day-to-day running of cities.
- While property rates are a good local tax and should remain, an alternative revenue model is needed that rewards cities financially for developing brownfield sites and restricting peripheral greenfield development.

The Growing Funding Gap

CHAPTER 4

- Metros have a funding gap of between 10% and 38% of their capital expenditure.
- Unless this funding gap is closed, metros will not be able to meet their core mandates over the medium to long term.
- Cities can and should take steps to close the gap but need policy support at national level.

Localising Taxation

CHAPTER 5

- Cities need to be sustainably financed in order to meet the National Development Plan objectives and the sustainable development goals.
- Under the current local government fiscal framework, metros are allocated a lower per household equitable share and conditional grants than other municipalities.
- An assessment of five possible revenue options found that cities should pursue a tourism levy in the short term and business tax in the long term.

Financing Public Transport

CHAPTER 6

- The current public transport financing model in cities does not provide just and equitable, or sustained financing for improving the travel experience of poorer public transport users.
- Private vehicle charges can provide a significant contribution to the costs associated with cities' increasing public transport responsibilities, and ensure that these costs are not passed on to the users of public transport.
- Implementing parking or congestion charges, and ringfencing the revenue is the most effective way in which cities can ensure the continuous improvement of public transport is sustainably financed.

Cities and Energy Diversity

CHAPTER 7

- Electricity is both a major energy source and a central component of big-city finances. Therefore, the increase in uptake of renewable energy and changes in consumer demand for electricity affect not only city finances but also a city's ability to cross-subsidise low income residential customers.
- Cities need a new business model to stay relevant in the face of fast-changing customer demands for energy and should be taking on a more dynamic role within the national electricity sector.
- Cities need to decrease losses from theft and expenditure on bulk purchases (buy from independent power producers), generate revenue through electricity trading and grid/time-of-use charges, and exploit alternative energy sources.

Financing Climate Change Adaptation and Resilience in South African Cities

CHAPTER 8

- South Africa is one of the countries most affected by climate change, facing climate risks of floods, drought and heat stress, resulting in economic losses, which are amplified in cities.
- Investing in adaptation and resilience can potentially reduce these losses by up to 80%, but cities find it hard to access finance for this purpose.
- To access multilateral climate funds, cities need to partner with national and regional governments, and National Treasury should integrate climate change objectives into future infrastructure and development grants to cities.

City Finances Matter

City finances are affected by – and affect the city development imperatives.

PRODUCTIVE CITY

A growing economy » stronger fiscus (and financial management) » enabling conditions for growing the economy

INCLUSIVE CITY

A city that drives inclusion and sustainable livelihoods » more people able to pay for services and taxes » stronger city finances

SUSTAINABLE CITY

Efficient use of resources » lower costs to build/maintain infrastructure (sustainable development) » viable and stable city finances

WELL GOVERNED CITY

A city with well-managed systems » greater ability to collect revenue and provide better services » residents happy to pay rates and taxes

In a delicate balancing act, the city has to find money to deliver on its promises, while keeping municipal services affordable for consumers.

ECONOMY

When the economy functions, urban dwellers contribute to the public purse through PAYE, VAT, business taxes, property taxes, utility payments etc.

FINANCES

The State invests in services, economic infrastructure, skills development, administration and regulations, which are essential for a strong, functioning economy.

INCLUSION

When a city is inclusive, all urban dwellers are integral to development, livelihoods are sustainable, and a safety net exists for vulnerable households.

FINANCES

City financing models are structured to close the wealth and income inequality gap, with public spending that focuses on both growth and equity and integration.

SUSTAINABILITY

When a city invests in sustainable, climate resilient projects, urban dwellers are able to live in safe, just and inclusive spaces that promote well-being.

FINANCES

The city promotes energy efficiency, renewable energy and retrofitting, and protects ecosystems and biodiversity, ensuring long-term viability and sustainability.

GOVERNANCE

When city government is efficient, transparent and accountable, citizens actively participate in democratic processes and pay their taxes.

FINANCES

City residents are willing to pay for municipal services and property rates, thereby contributing to funding city operations and development priorities.

> "IUDF INTERVENTIONS ARE DESIGNED TO UNLOCK THE DEVELOPMENT SYNERGY THAT COMES FROM COORDINATED INVESTMENTS IN PEOPLE, THE ECONOMY AND PLACES. THIS WILL RESULT IN INCLUSIVE, RESILIENT AND LIVEABLE CITIES AND TOWNS.
>
> Integrated Urban Development Framework (2016: 21)

CONCLUSION

What is needed is an integrated and holistic approach to financing cities. Coordinated investments in people, the economy and places will unlock development synergy in urban areas. To fulfil their developmental mandate, cities need a new revenue model that provides them with the leverage to achieve spatial transformation and meet the needs of their growing populations.

Urban Sprawl Affects Everyone

The apartheid city structure resulted in extremely sprawling South African cities, where poor, black workers lived on the periphery, and whites lived in central business districts (CBDs) and the leafy suburbs. Since 1994, various developments have occurred:

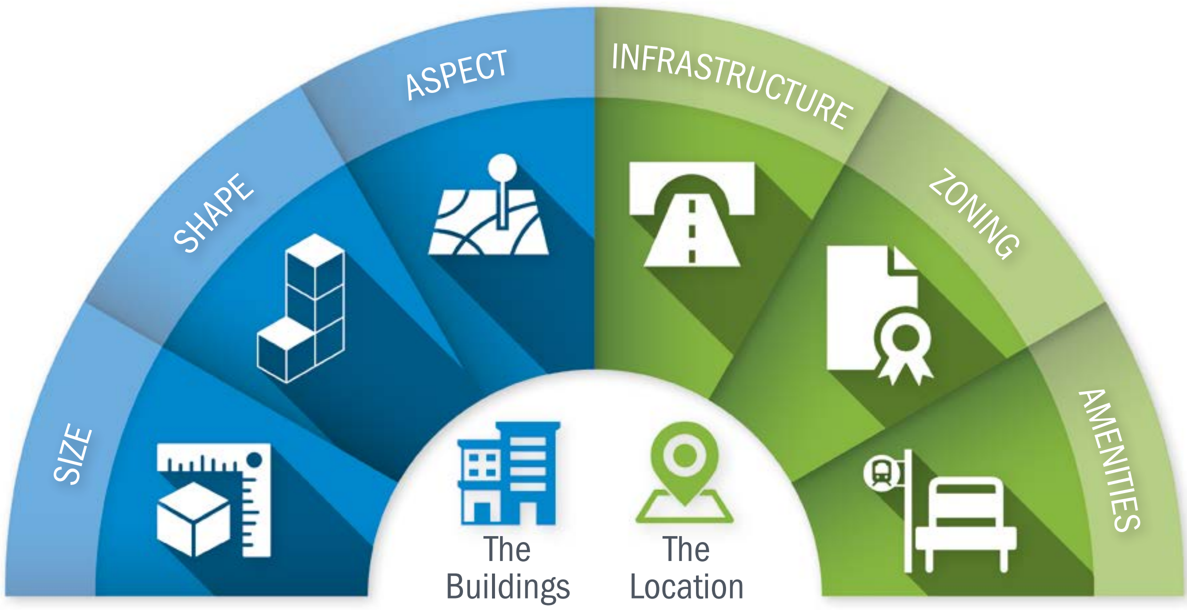
- Greater numbers of lower-income residents continue to live far from where they work, as a result of government building RDP houses on the periphery of cities, where the land is cheaper.
- More housing opportunities in CBDs are available for lower-income residents, as a result of white urban flight from the CBDs to the suburbs.
- Increased demand for properties in the leafy suburbs, as a result of this shift of higher income residents to the suburbs.
- Growth of new gated developments on the periphery of cities, to meet the increased demand for housing from the middle class.

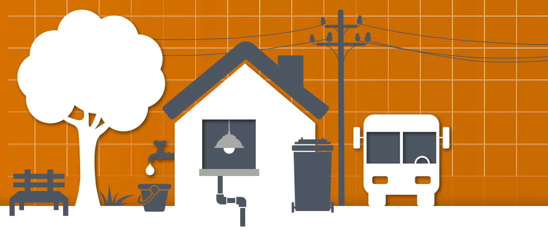
Where you live matters

The property tax system is based on the value of the property. And the value of a property is determined by two things:

The building(s), i.e. the investment in buildings on land that would otherwise be vacant, if undeveloped. For instance, the size, shape and aspect (i.e. views) of the building(s)

The location, which is determined by various factors. For instance, infrastructure (e.g. sanitation, electricity, transport etc.), zoning and property rights (e.g. residential, commercial, mixed use), and near-by amenities (e.g. close to a busy road vs. close to a nature reserve)





Why property rates matter to a city

Property rates are part of a city's revenue that comes from ratepayers, through payment of their municipal bills, and contribute on average 16.8% of total revenues and 22.4% of own revenues for the nine cities. Property rates matter because they are the largest source of discretionary revenue for a city. In other words, the city is not obliged to use revenue from property rates to provide specific services. In contrast, revenue from electricity and water services charges is linked to the provision of these services. Therefore, cities with a higher proportion of property rates revenue have greater spending discretion – they can choose where (and on what) to spend this money.

Property values need to keep increasing for cities to maximise revenue generated from rates. Therefore, cities like development because buildings on vacant land result in additional property rates, with larger (and more valuable) homes paying higher property rates.

The contradiction of inclusion and property rates

A central part of South Africa's urban policy is to transform the apartheid spatial form of cities, to produce inclusive cities, through creating affordable housing for marginalised black communities in central parts of the cities. However, as explained, the historical development of cities mean that today lower-income groups live in many different housing types and locations across the city, and do not all pay municipal property rates. This is either because they are exempt or have a precarious relationship with the city, or because the property is not registered or not managed.

- Informal settlements, found generally at the urban edge/peripheral. Rates revenue is R0.
- RDP houses, found generally on the periphery of a city. Rates revenue is R0 (based on property tax exemption value).
- Inner-city buildings are centrally located. Rates revenue is dependent on the landlord's relationship with the city.
- Social housing units are centrally located. Rates revenue is built into the rental price.
- Backyard dwellings are typically well located. Rates revenue is R0 or built into the rental price, depending on the landlord's relationship with the city.

Sprawling vs. compact cities

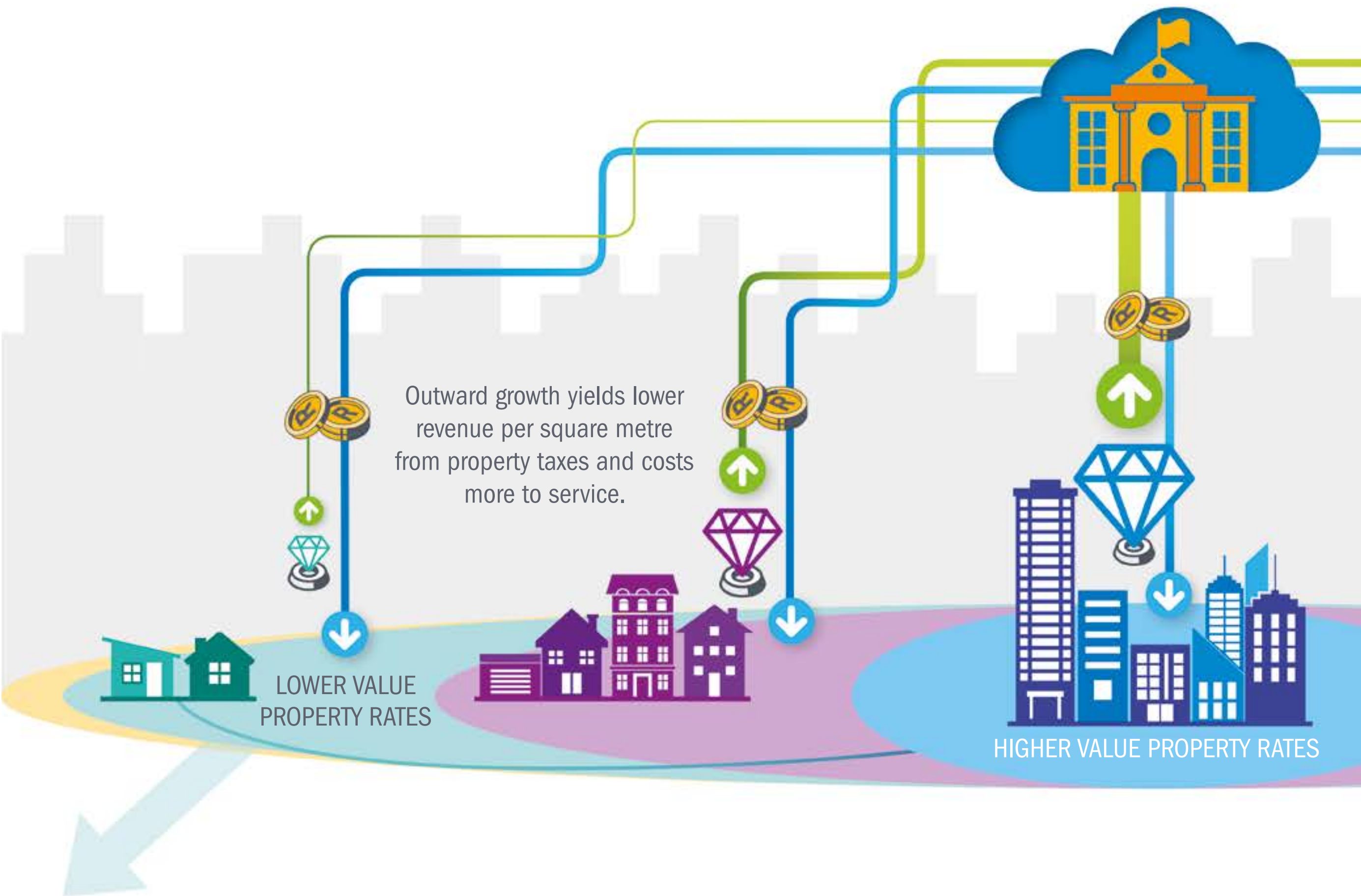
Cities sprawl because land is cheaper and more easily available on the outskirts of the city, making it more attractive to develop. However, although the capital costs of developing peripheral settlements are cheaper, the high operating costs and exclusionary economic costs are seldom considered.

In a compact city, rates and taxes go further because the city does not have to develop and maintain a lot of new infrastructure nor provide new services. This means more money for spending on developmental priorities, such as parks, Wi-Fi and public transport. In a densifying city, municipal expenditure is "closer to home", i.e. money is more likely to be spent closer to where it originates.

How sprawl affects municipal finances

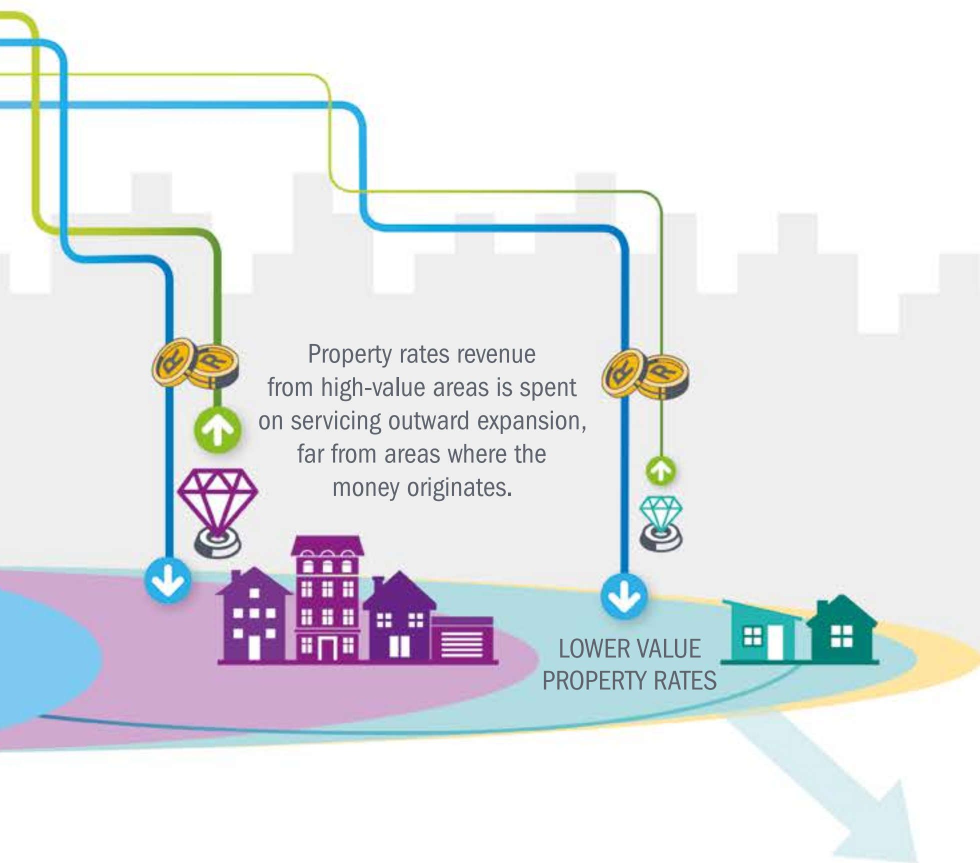
Cities use income from property rates, service charges and other fees, as well as the local government equitable share and other grants, to cover their costs. The bulk of these costs comes from providing new (and maintaining existing) electricity, water and sanitation infrastructure to properties in the city, including those on the periphery.

Cities that sprawl spend a greater percentage of revenue per household on infrastructure than cities that are compact. This is because it costs more to build, operate and maintain infrastructure on the periphery than in the centre of the city – as the distance from the city increases, the cost of building, operating and maintaining infrastructure increases.



As a result of historical policies in South Africa, low-income residents live mostly on the periphery of cities, where it costs more to provide municipal services. These households are often exempt from property taxes or pay very low rates. Yet the charges for electricity, water, sanitation and waste collection services are the same across the city, regardless of a property's location. In effect, the property rates paid by residents in other parts of the city are used to subsidise municipal services to these households.

The figure below illustrates the relationship between value and location in a South African city. The location – and thus value – of a property determines how much revenue is generated for a city, and the location – proximity to economic centres – determines the infrastructure expenditure required.



> "
> OUTWARD GROWTH YIELDS LOWER REVENUE PER SQUARE METRE FROM PROPERTY TAXES AND COSTS MORE TO SERVICE.

NOTE

The challenge in creating inclusive cities is that lower-income people are unlikely to be able to afford the property tax associated with the high-value properties found in central locations. Therefore, cities must be able to levy a set of alternative revenue sources or alternative taxes, to enable poorer households to live and thrive in central, well-located properties.

Own revenue

Money raised by the city itself and includes taxes (property rates, fuel levy, and other operating revenue such as traffic fines) and service charges (for electricity, water, sewerage, cleansing and other services)

The local government equitable share

The share of national revenue allocated to municipalities to cover the cost of providing for indigent households

Grant funding

Operational and capital grants that come from national and provincial government

INCOME

EXPENDITURE

Operating Expenditure

Money spent on bulk purchases (electricity and water), employee-related costs, remuneration of councillors, bad debts, repairs and maintenance, and "other" expenditure audit fees (such as advertising and bank charges)

Capital Expenditure

Money spent on roads, electricity, water and sanitation infrastructure, and other expenditure (including social housing, community facilities, municipal buildings, vehicles, computers and other equipment)

City Finances: A Delicate Balancing Act

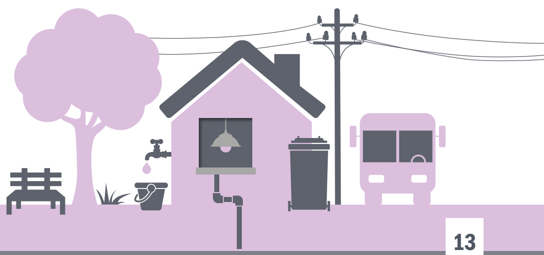
Municipal finance is complex. Cities have to meet the constitutional requirement to prioritise basic services, maintain and renew existing infrastructure, ensure that taxes and tariffs are fair and sustainable, and project a realistic cashflow. Every year, cities must table their budget before the Council for approval. The budget details the revenue and expenditure for the following year.

Where the money comes from

Cities raise revenue by charging residents and businesses for the provision of services (electricity, water, sewerage, waste collection and other services) and by collecting property rates. Cities also receive revenue in the form of grants from provincial and national government. The largest grant is the local government equitable share, which is the share of national tax revenue collected by SARS that is given to municipalities to cover the cost of providing free basic services to indigent households.

Where the money goes

Cities need money to operate in order to buy the electricity and water they supply to residents; to build community facilities, new roads and electricity, water and sanitation infrastructure; and to maintain and repair buildings, roads and infrastructure. They also have to pay employees and councillors, bank charges and advertising; and to purchase vehicles, computers and other office equipment.



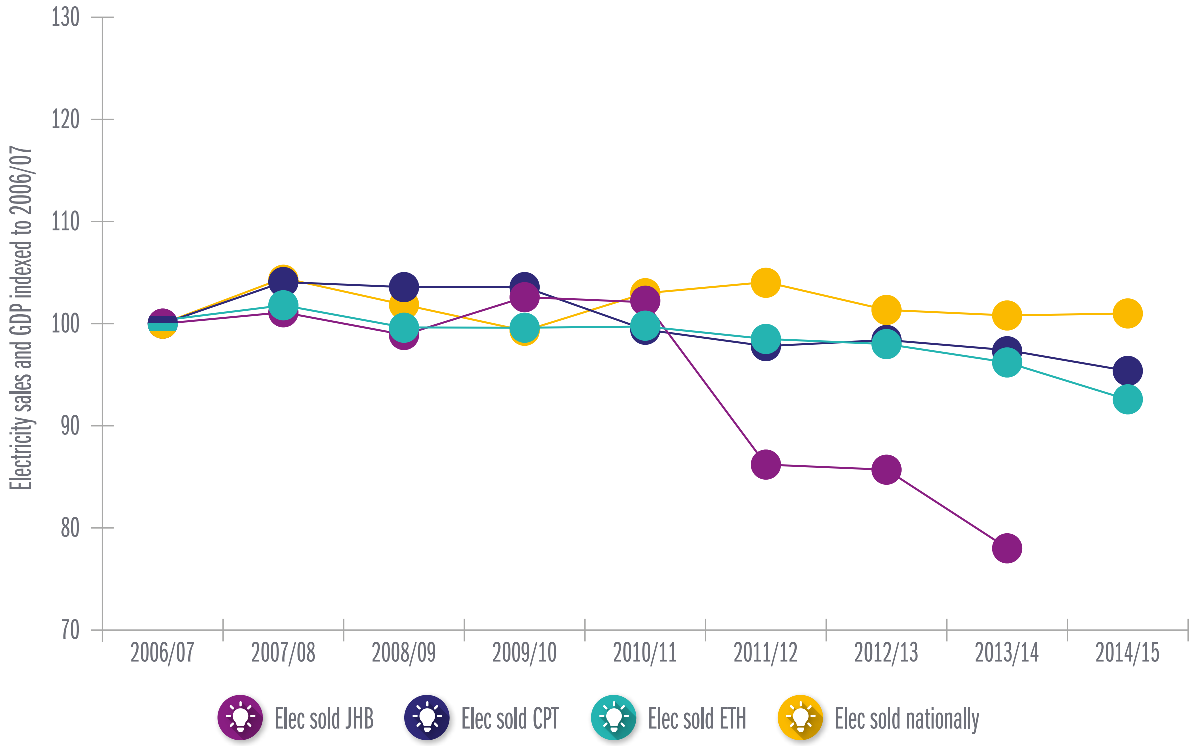
Contribution of electricity charges

Electricity is a major component of municipal finance – the surplus from electricity sales is the largest own revenue source for cities after property rates. The surplus is what is left after subtracting the costs of buying electricity from Eskom, maintaining the municipal grid and administering sales less the electricity costs charged to consumers.

Consumers are charged per unit of electricity, which takes into account several factors, including the cost of supplying the electricity, revenue losses from unpaid electricity bills, energy service infrastructure costs, and service delivery to the poor.

Cities use surpluses from electricity sales to cross-subsidise low-income residents – 40% of households are serviced at cost to the system. A quarter of households account for half of total residential electricity use, and so any change in the demand for energy from these higher-user customers will have a direct impact on city budgets.

Between 2009/10 and 2017/18, Eskom electricity prices trebled, resulting in customers reducing their use of electricity through energy efficiency, theft or switching to alternative energy sources (e.g. solar). This has had a direct impact on the revenue that cities get from electricity sales, as shown in the figure below for three major cities. A significant proportion of the decreases in electricity use comes from residential customers.



Note: no data available for City of Joburg in 2014/15.

A delicate balancing act

Each city faces unique challenges when setting its tax and tariff strategies, and has to take into account the mix of business and domestic customers, and household incomes. In structuring their tariffs for services and rates, cities need to ensure the municipality is funded, while keeping municipal bills affordable for all ratepayers and customers.

Cities have to make sure that electricity tariff structures have low connection fees, do not include fixed charges for low-income residents, and go up with increasing consumption.

The value of property rates

Although the largest source of city own revenues is from charges on services provided, such as electricity, water, sanitation and waste removal and other minor services, in 2016/17 over half of this income simply flowed through city coffers to Eskom or the water boards.

Therefore, from the city's point of view, the value of property rates is that it is discretionary. Once collected, the revenue is not tied to the provision of a specific service or to a specific objective, but can be spent as the city wishes. In other words, cities with a higher proportion of property rates revenue have greater spending discretion.

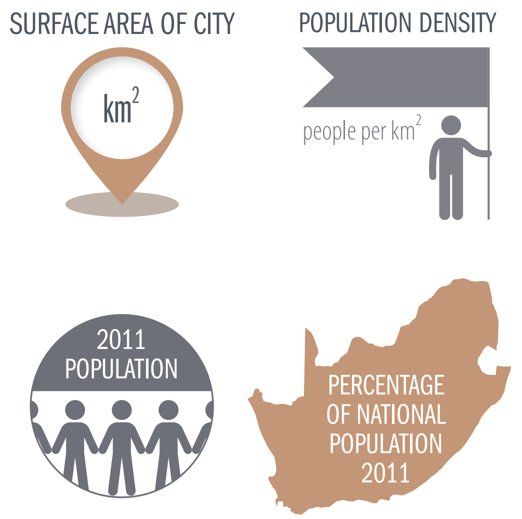
"A QUARTER OF HOUSEHOLDS ACCOUNT FOR HALF OF TOTAL RESIDENTIAL ELECTRICITY USE.

NOTE

Cities need a new business model that takes into account revenue losses, energy service infrastructure costs, current tariff structures and cross-subsidies, new technologies and business opportunities, escalating Eskom tariffs and service delivery to the poor.

Indicators

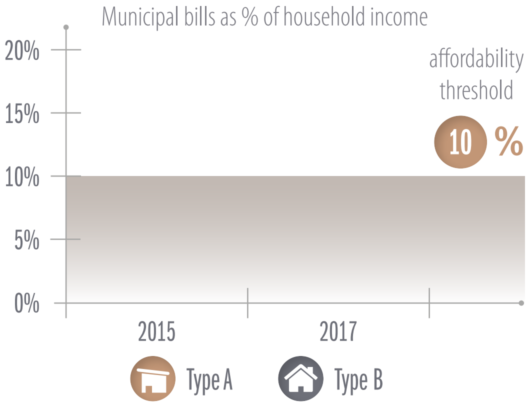
*According to National Treasury, Circular 71



INDIGENT POPULATION (as declared by city)

Indigent households are eligible for free basic services funded by the Local Government Equitable Share

AFFORDABILITY (of municipal bills)



Affordability of municipal bills for Type A and Type B households, assuming 10% of household income to be the affordability threshold.

REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

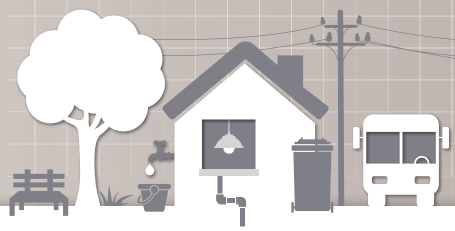
This indicator shows where the money comes from to pay for the city's operations and capital investment.
It is divided into own revenue (money raised by the city from rates and other taxes, and service charges), the local government equitable share (money from national government to subsidise free basic services to indigent households and other costs), and grants from national and provincial government (to cover operating costs and capital costs).

2 OPERATING SURPLUS

This indicator shows how much money the city has left over after paying all its bills, i.e. all operating costs.
A substantial and stable operating surplus enables cities to fund the cost of new and refurbished infrastructure and services, and to plan its longer-term development. Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE

This indicator shows where the money comes from to invest in capital projects, which contribute to the city's growth and development. A city that spends its own resources on capital projects has more autonomy in deciding where its money is spent. Alternatively, if capital projects are funded through grants, the city can use its own revenue for other purposes.



EXPENDITURE | WHERE THE MONEY GOES

4 EXPENDITURE PROFILE

This indicator shows where the city spends its money, on both day-to-day operations and capital projects. It is divided into capital expenditure (capex, which is money spent on developing the city, e.g. building roads and libraries) and operating expenditure (opex, which is money spent on the day-to-day running of the city, e.g. employee costs, repairs and maintenance). The norm range is 10–20% for capex and 80–90% for opex.*

5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

This indicator shows how much money is being spent on developing the city. With increased urbanisation, more and more people and businesses are making use of city infrastructure and services. The city provides for this growth and development through capital expenditure, which is used for long-term economic and social infrastructure. Less than 10% is considered under-expenditure, while above 20% presents risks for long-term financial sustainability, as operating costs may escalate.*

6 REMUNERATION AS % OF OPERATING EXPENDITURE

This indicator shows what share of the city's operating budget goes on employee-related costs. It includes the salaries and wages of full-time, part-time contract and temporary municipal employees but excludes councillor salaries. A declining share does not mean that cities are spending less on employee-related costs but simply that the share of spending has declined (because other expenditure items have increased more rapidly). High personnel costs could imply a bloated bureaucracy, while declining personnel costs may indicate that the city is losing higher-paid skills. The norm is 25–40% of opex.*

FINANCIAL MANAGEMENT HEALTH

7 NET DEBTOR DAYS

This indicator shows how much money is owned to the city by households, businesses, government departments and other organisations. A high debtor figure may indicate poor debt management or the inability of households or businesses to pay due to poor economic circumstances. It may also point to a growing non-payment culture. The norm is 30 days.*

8 LIABILITIES % OF OPERATING REVENUE

This indicator shows how much money the city is borrowing to fund capital expenditure. A city has long-term liabilities (money borrowed to fund capital investment) and short-term liabilities (money that is payable within a year). A city with excessive liabilities or debt will be unable to borrow further money because it will not have enough money to repay the debt from its existing income. In this case, the city will have to cut capital spending or raise taxes and service charges. The norm is up to 45% of opex.*

9 CASH POSITION

This indicator shows the number of months of cash available to pay for expenditure that the city is committed to. Cities need liquidity to operate effectively. In other words, they need enough cash to meet their financial commitments, such as paying employees, suppliers, service providers and contractors. The state of a city's cash flow reflects the city's ability to collect revenue and to predict accurately future expenditures and revenues. The norm is 1.5–2 months.*

Common Trends

City revenues appear to be quite resilient, growing at an average annual rate of about 8% and with collection rates of about 95%.

Largest expenditure items

The largest operating expenditure item on city budgets continues to be bulk purchases of electricity and water. Cities have historically used surpluses from selling water and electricity to cross-subsidise other services. However, these surpluses are being squeezed because of the rapid increase in bulk tariffs charged by Eskom and the water boards. Although cities have not passed on the full increases to consumers, tariffs have increased and have resulted in reduced consumption of electricity and water.

The second-largest operating expenditure item remains employee-related costs. These costs are dependent on the number of staff, the management of overtime, salary levels and salary increases. Cities continue to need to strike a balance between employee-related costs and other categories of expenditure that ensure effective service delivery, and not allow employee-related costs to squeeze out other expenditures.

Insufficient spending on repairs and maintenance

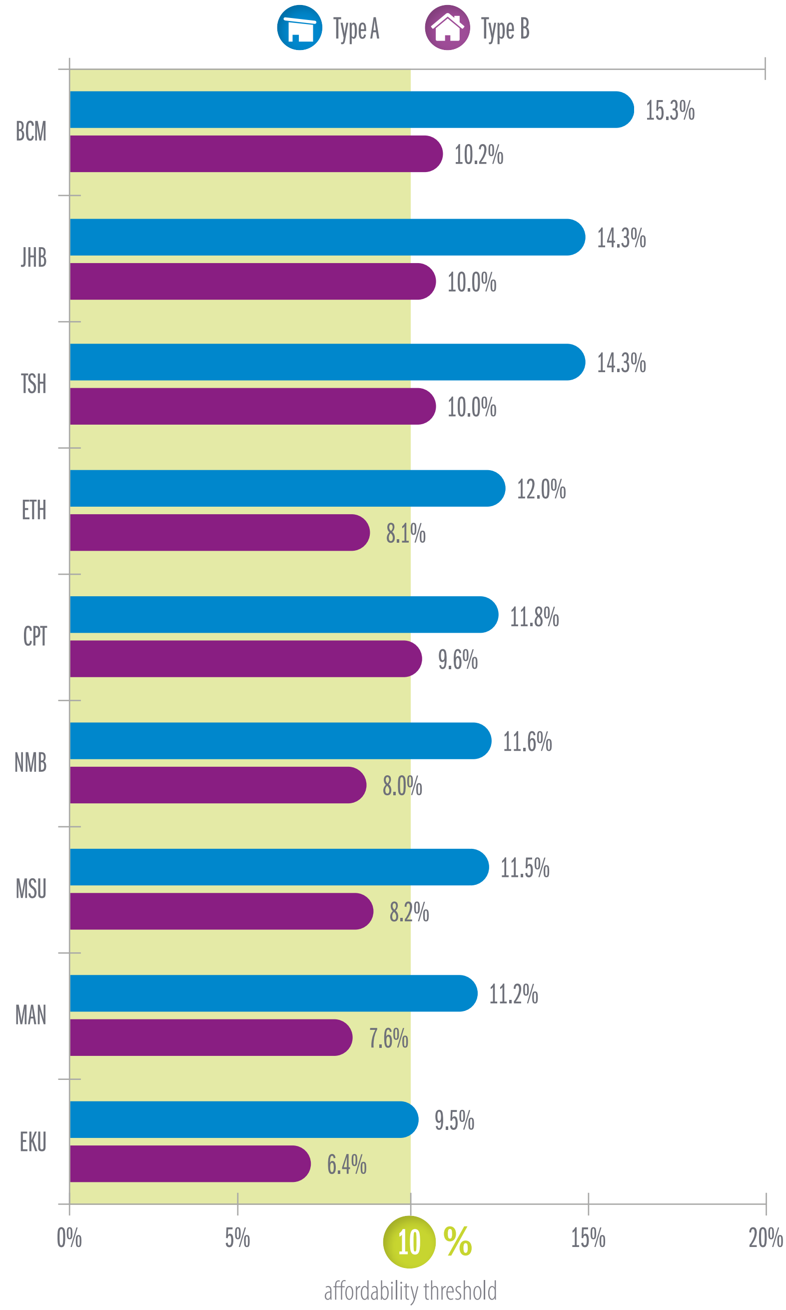
According to National Treasury guidelines, cities should spend at least 8% of the value of property, plant and equipment on repairs and maintenance, but most cities did not meet this target. Spending on maintaining existing infrastructure ensures the sustainability of municipal services. Not spending enough on maintenance can potentially lead to deteriorating reliability and quality of services; more expensive, unpredictable crisis maintenance; higher future costs of maintenance and refurbishment; shorter useful lifespan of assets; and reduced revenues due to the failure to sell water, electricity and other services.

Affordability of municipal bills

Since 2010, municipal bills have on average been increasing at a higher rate than inflation, although this growth has slowed since 2015. Municipal bills include property rates, as well as charges for the electricity and water consumed, and for sanitation and waste collection services. Between 2015 and 2017, increased electricity and water costs accounted for 73% of the growth in municipal bills.

In general cities have regressive tariff structures, meaning poorer households pay proportionately higher municipal bills than higher income households. Although the affordability of municipal bills depends on both rates and charges, and household incomes, the affordability of all municipal bills relative to household income has declined across all income categories in all cities since 2015.

The figure below shows municipal bills as a percentage of benchmark income in 2017 for service packages type A and B. A threshold of 10% of household income as suggested by the Stats SA Living Conditions Survey 2014/15 was used to determine the affordability of the bills. The service package associated with the poorest of these households, Type A, exceeds the affordability threshold in every city.



Most cities have increased their provisions for debt impairment, reflecting concerns about the effect of the worsening macro-economic environment on residents and businesses. In 2016/17, net debtor days were more than double the National Treasury guideline of 20 days in all the cities except for Buffalo City, whose net debtor day figure was 53.

> "CITIES SHOULD SPEND AT LEAST 8% OF THE VALUE OF PROPERTY, PLANT AND EQUIPMENT ON REPAIRS AND MAINTENANCE.

NOTE

The unaffordability of municipal bills is a threat to the sustainability of city finances. Cities could make their tariff structures less regressive through eliminating basic levies or monthly connection fees (especially to lower-income households), having inclining block tariffs that increase progressively (especially for very high levels of consumption) and offering special service packages to indigents.

TOTAL REVENUE 2016/17

R42 978 million

City of JOHANNESBURG

In 2016/17, liabilities as a percentage of operating revenue in Johannesburg reached 53%, while its operating surplus (in 2013/14) became an operating deficit.

SURFACE AREA OF CITY

1 644 km^2

POPULATION DENSITY

2 696 people per km^2

2011 POPULATION

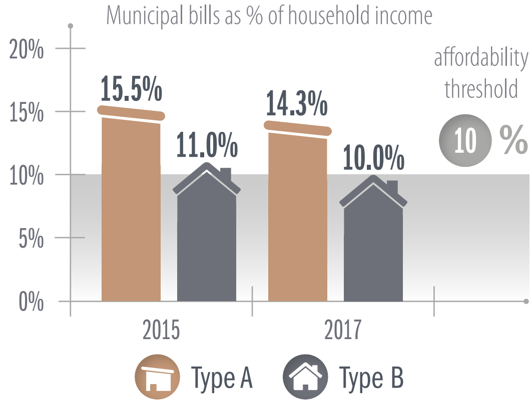
4.435 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

8.57 %

INDIGENT POPULATION (as declared by city)

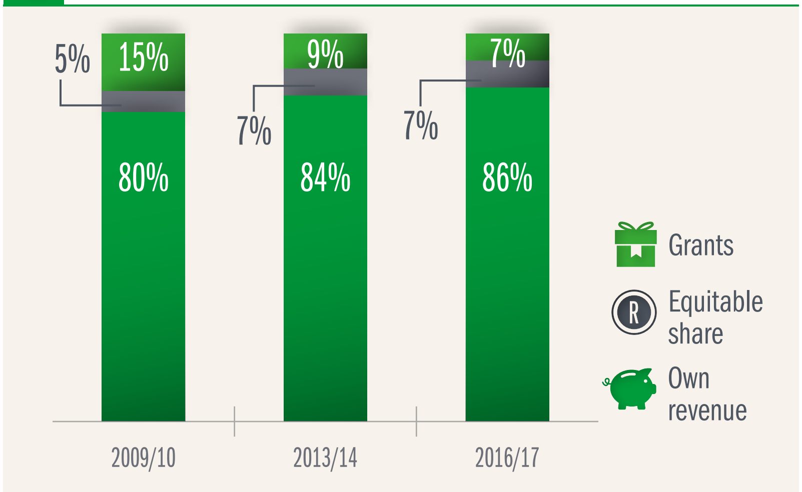
AFFORDABILITY (of municipal bills)



Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

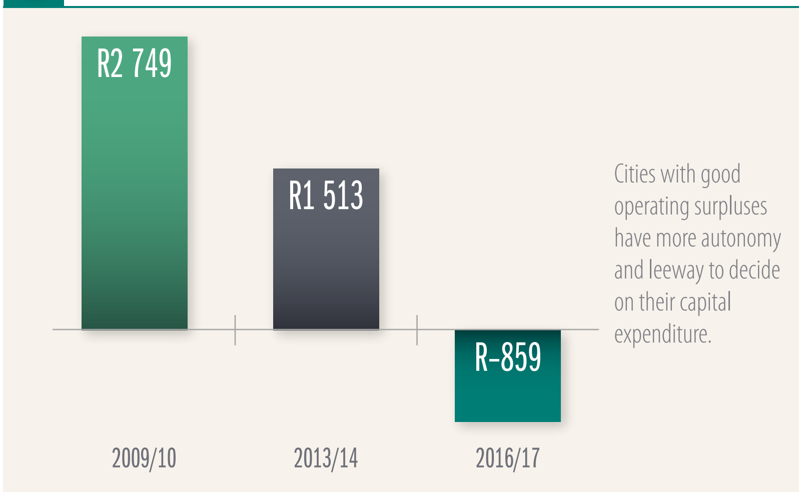
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



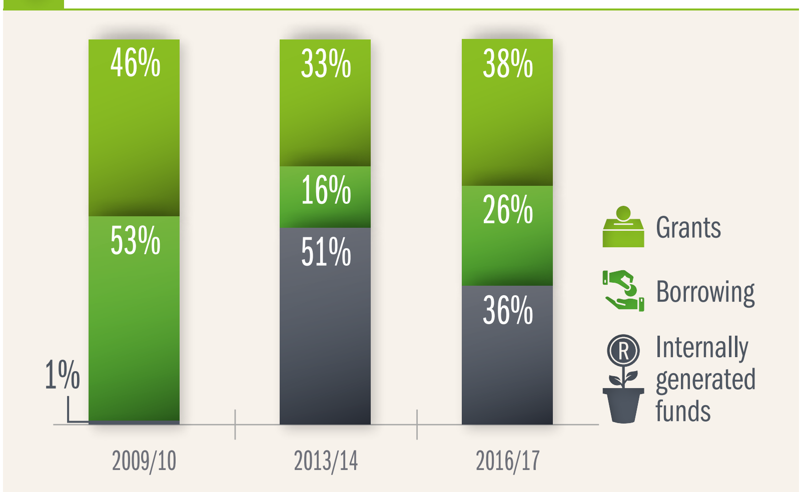
2 OPERATING SURPLUS

[constant 2012 R millions]



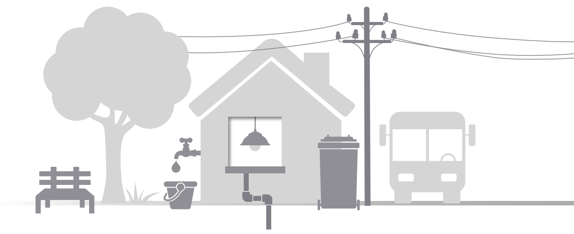
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



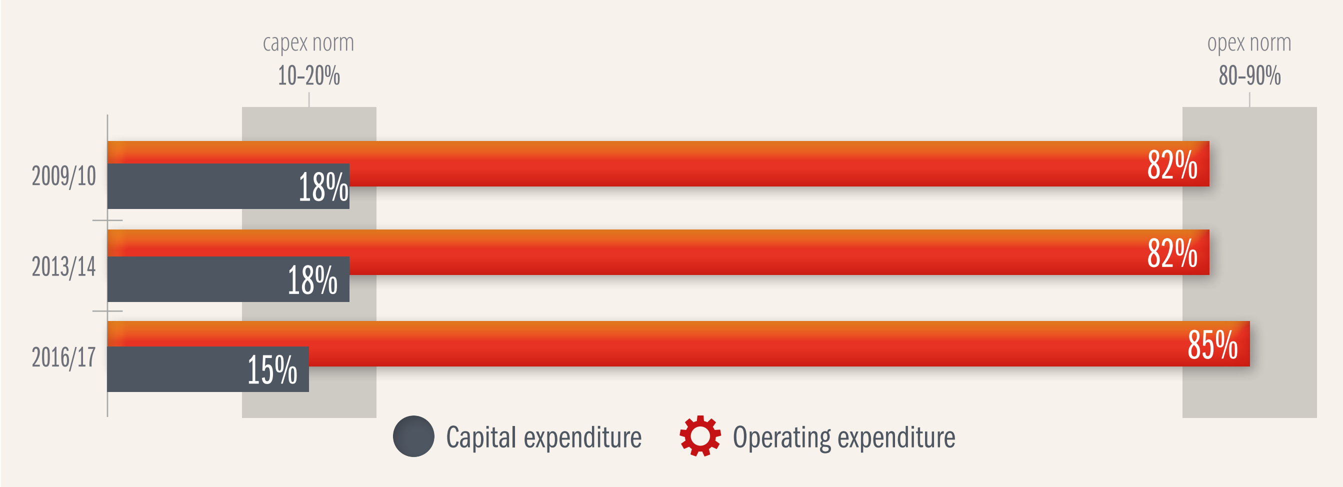
TOTAL EXPENDITURE 2016/17

R43 837 million

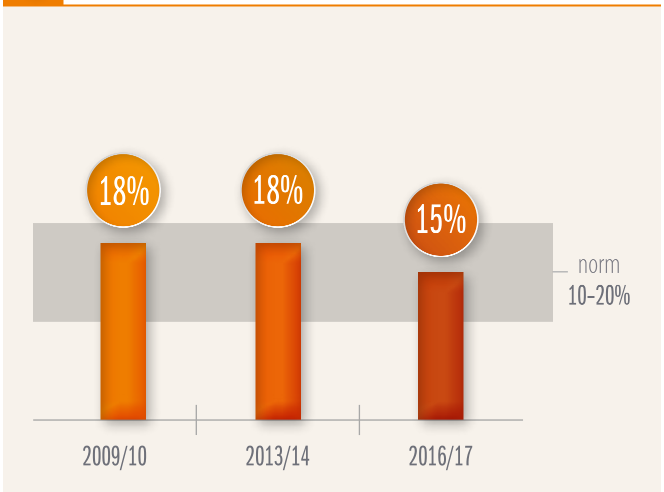


EXPENDITURE | WHERE THE MONEY GOES

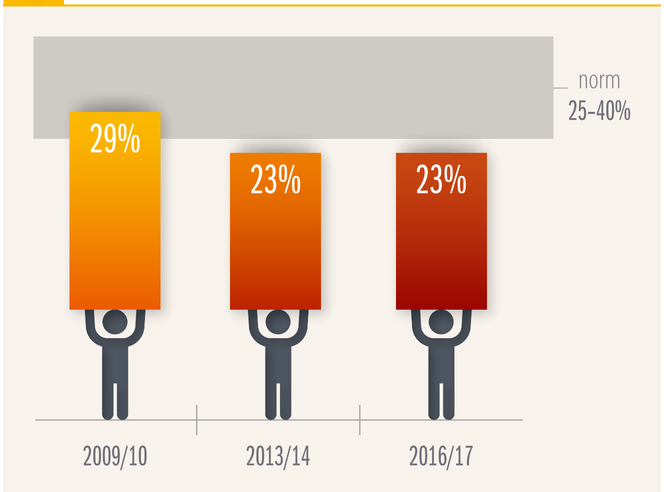
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

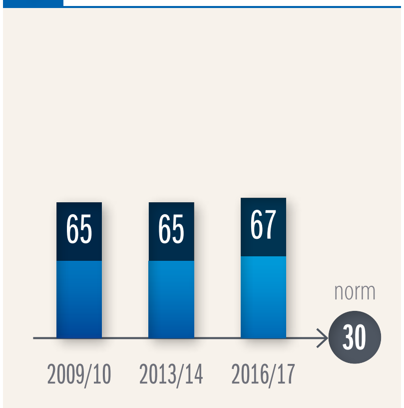


6 REMUNERATION AS % OF OPERATING EXPENDITURE

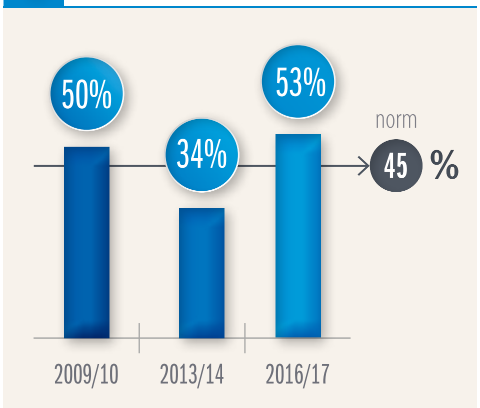


FINANCIAL MANAGEMENT HEALTH

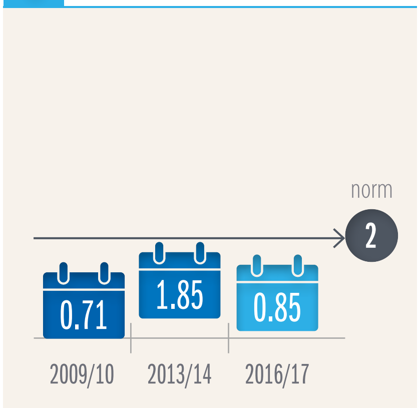
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



City of CAPE TOWN

Nearly half of Cape Town's capital expenditure is funded through borrowing, while its operating surplus is more than triple that of Tshwane.

SURFACE AREA OF CITY

2 461 km^2

POPULATION DENSITY

1 530 people per km^2

2011 POPULATION

3.740 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

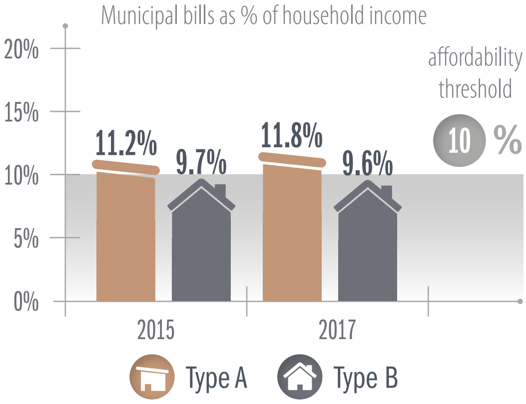
7.22 %

INDIGENT POPULATION (as declared by city)

2016: 232 569

2017: 213 424

AFFORDABILITY (of municipal bills)



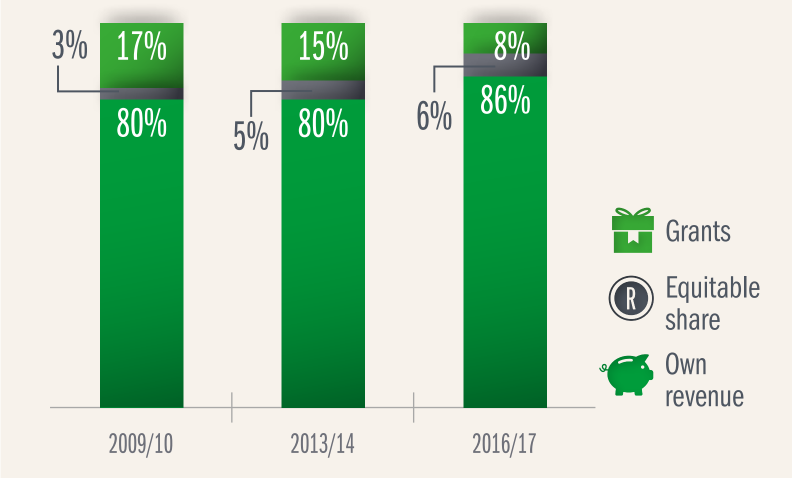
Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

TOTAL REVENUE 2016/17

R36 383 million

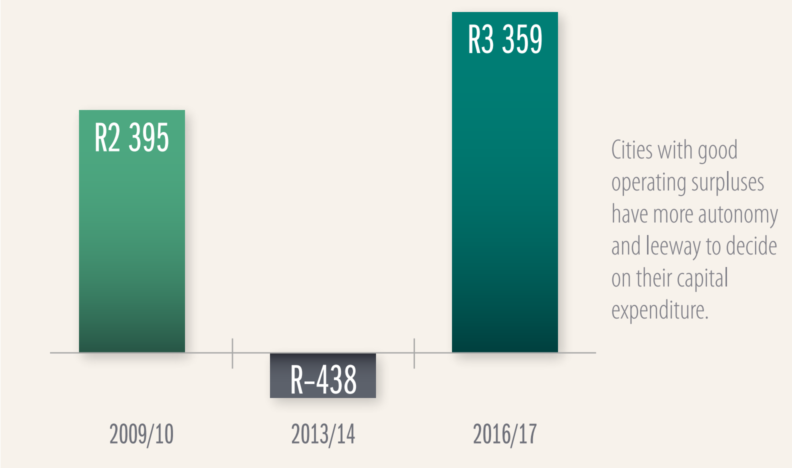
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



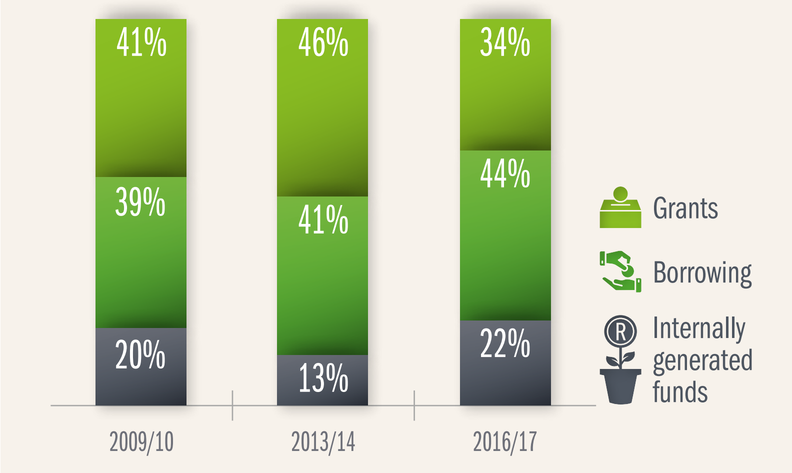
2 OPERATING SURPLUS

[constant 2012 R millions]



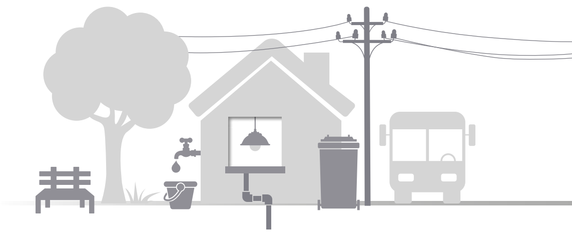
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



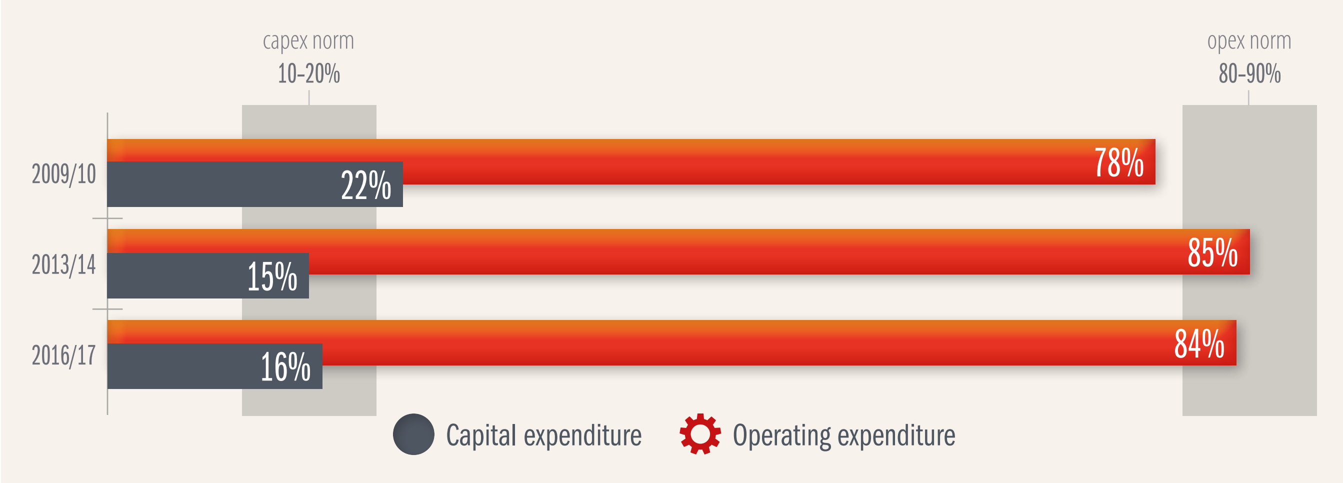
TOTAL EXPENDITURE 2016/17

R33 024 million

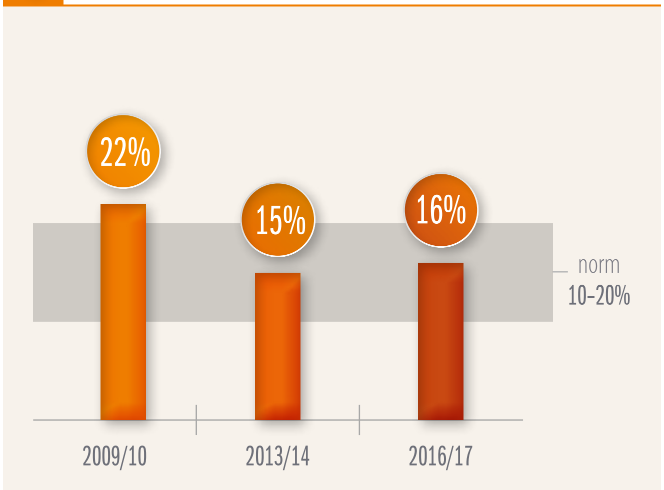


EXPENDITURE | WHERE THE MONEY GOES

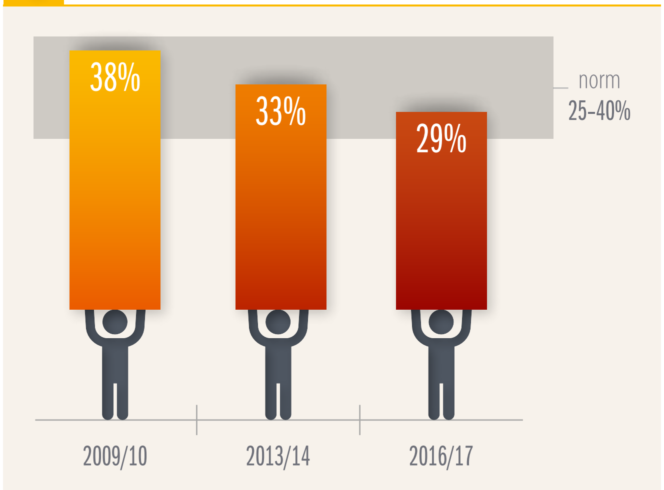
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

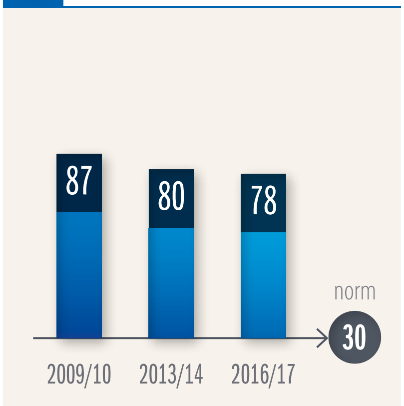


6 REMUNERATION AS % OF OPERATING EXPENDITURE

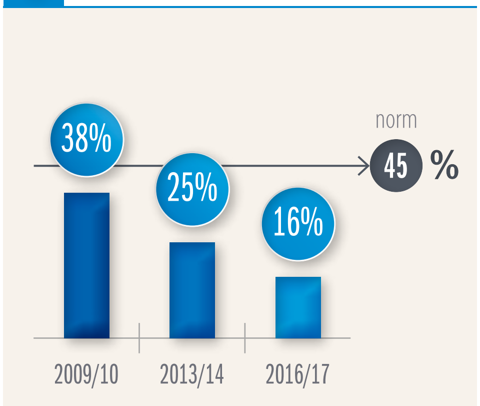


FINANCIAL MANAGEMENT HEALTH

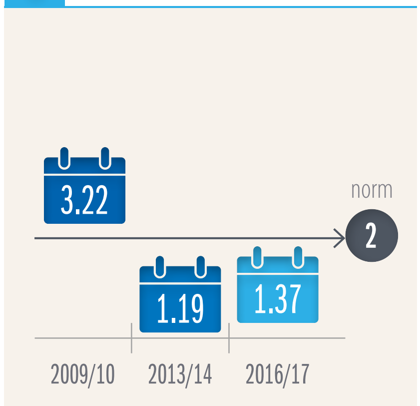
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



City of ETHEKWINI

Since 2013/14, eThekwini has increased capital expenditure funded through internally generated funds.

SURFACE AREA OF CITY

2 297 km^2

POPULATION DENSITY

1 502 people per km^2

2011 POPULATION

3.442 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

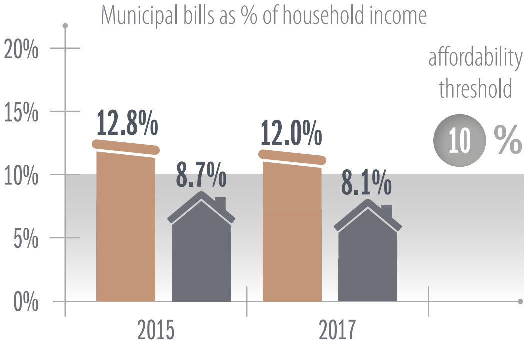
6.65 %

INDIGENT POPULATION (as declared by city)

2016: 598 486

2017: 627 411

AFFORDABILITY (of municipal bills)



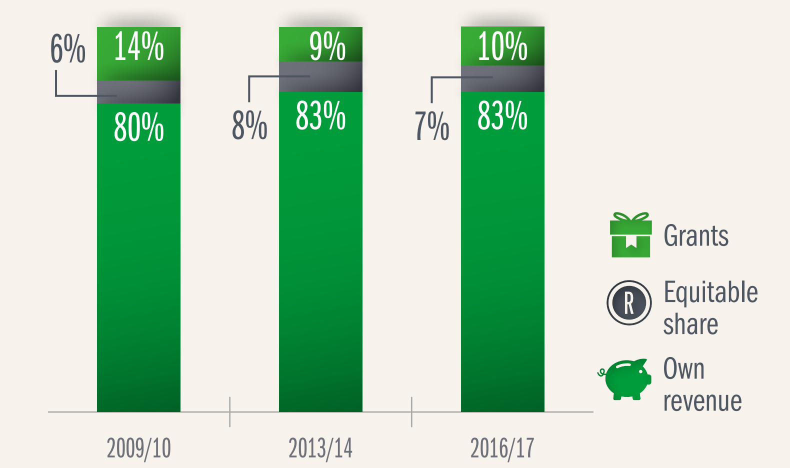
Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

TOTAL REVENUE 2016/17

R30 571 million

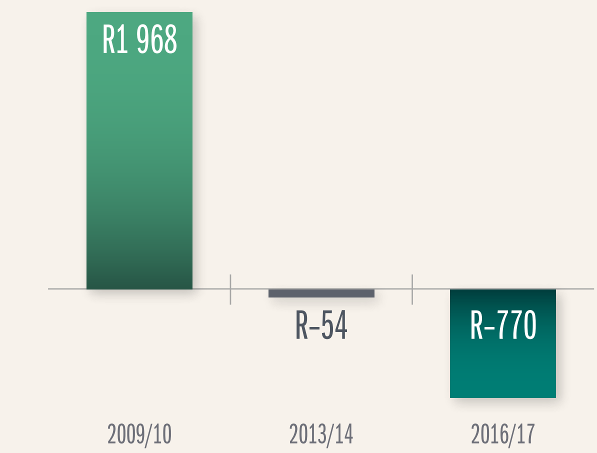
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



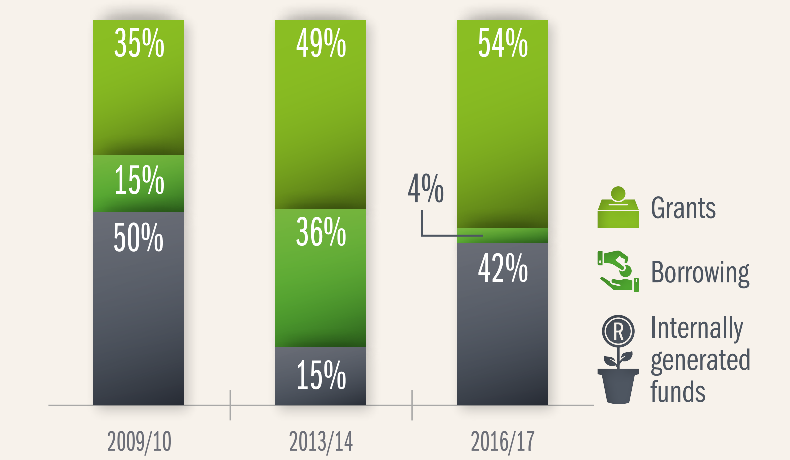
2 OPERATING SURPLUS

[constant 2012 R millions]



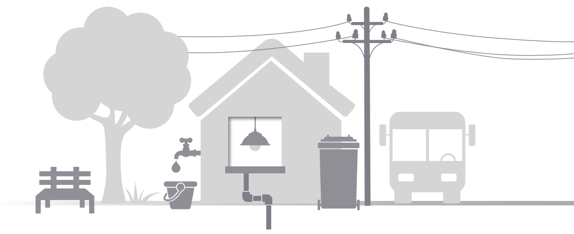
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



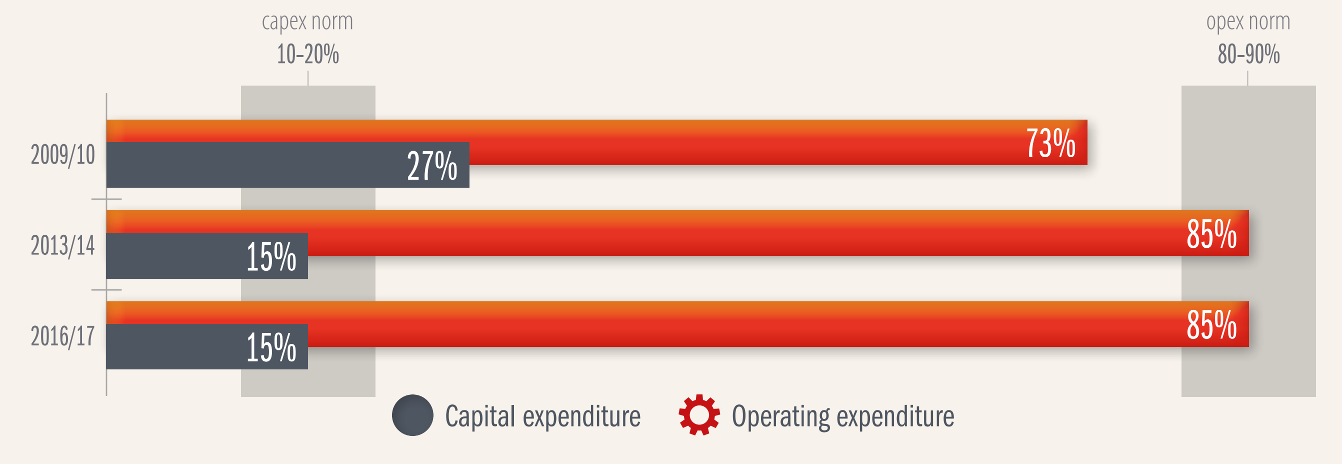
TOTAL EXPENDITURE 2016/17

R31 342 million

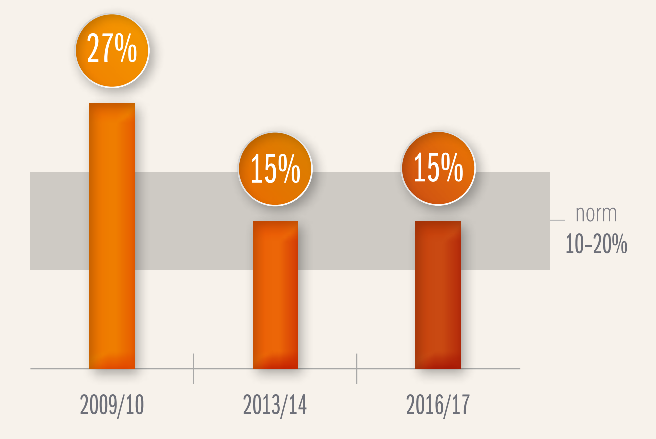


EXPENDITURE | WHERE THE MONEY GOES

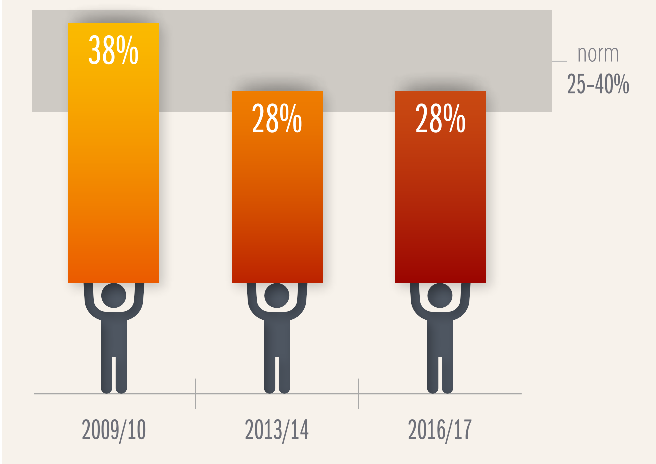
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

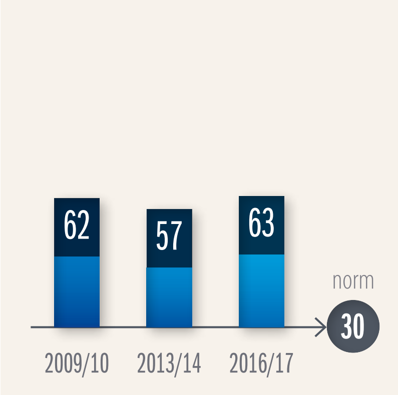


6 REMUNERATION AS % OF OPERATING EXPENDITURE

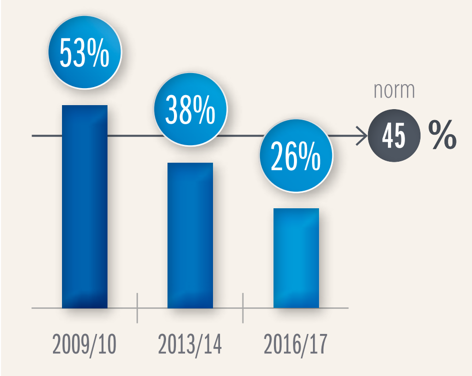


FINANCIAL MANAGEMENT HEALTH

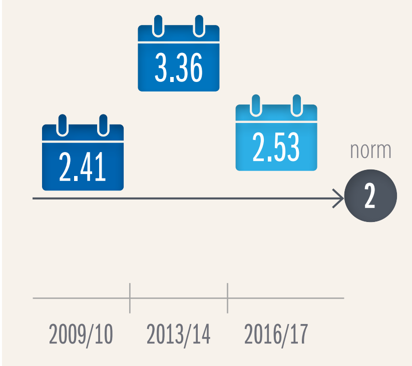
7 NET DEBTOR DAYS

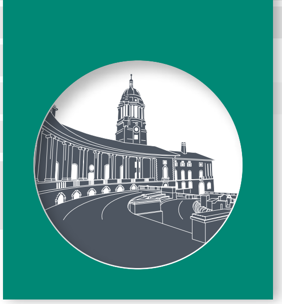


8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]





City of TSHWANE

In 2016/17, Tshwane's capital expenditure as a percentage of total expenditure was the lowest of all nine cities, while its negative operating surplus (in 2013/14) became positive.

SURFACE AREA OF CITY

6 368 km²

POPULATION DENSITY

464

people per km²

2011 POPULATION

2.921 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

5.64 %

INDIGENT POPULATION (as declared by city)

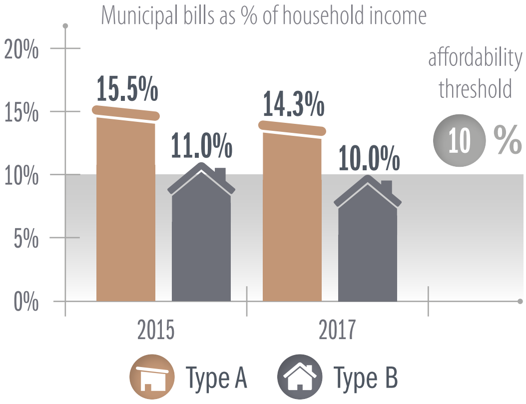
2016

413 000

2017

474 035

AFFORDABILITY (of municipal bills)



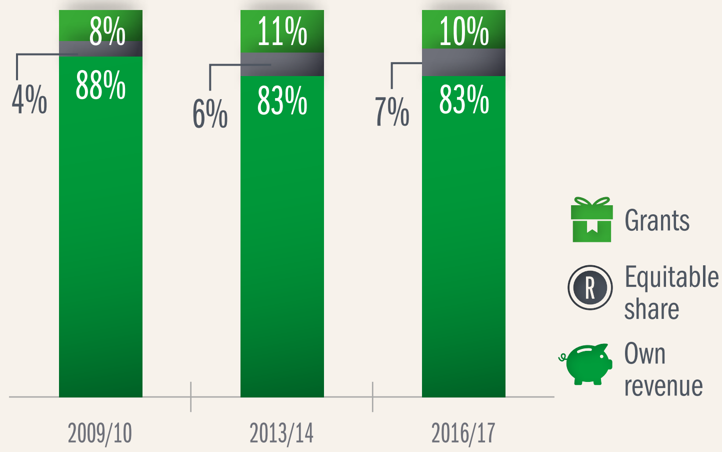
Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

TOTAL REVENUE 2016/17

R28 091 million

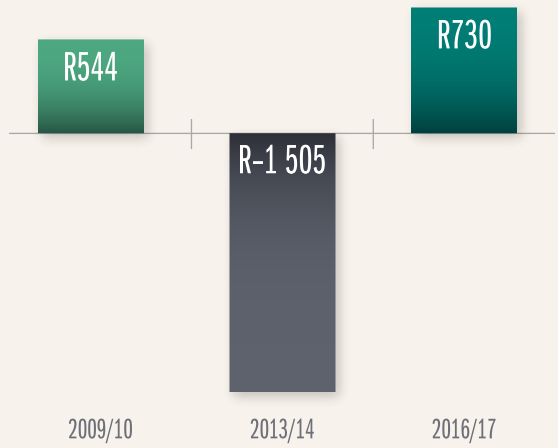
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



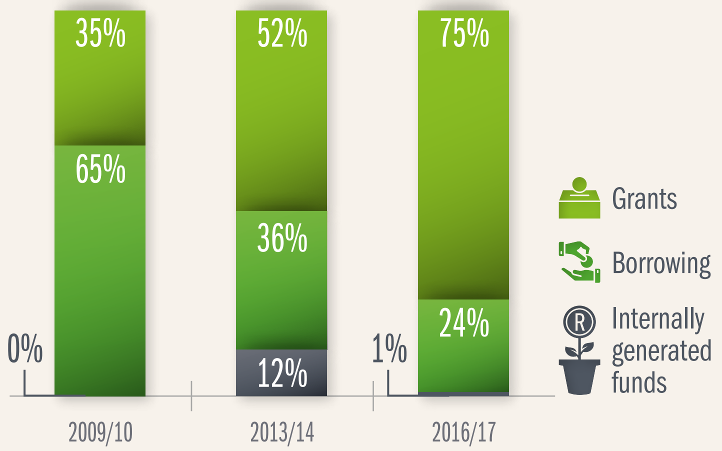
2 OPERATING SURPLUS

[constant 2012 R millions]



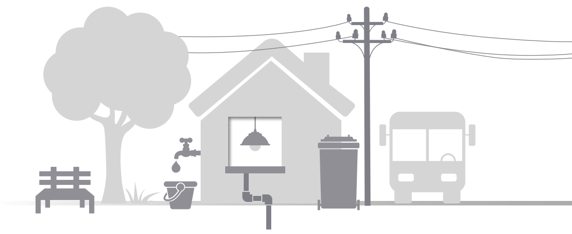
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



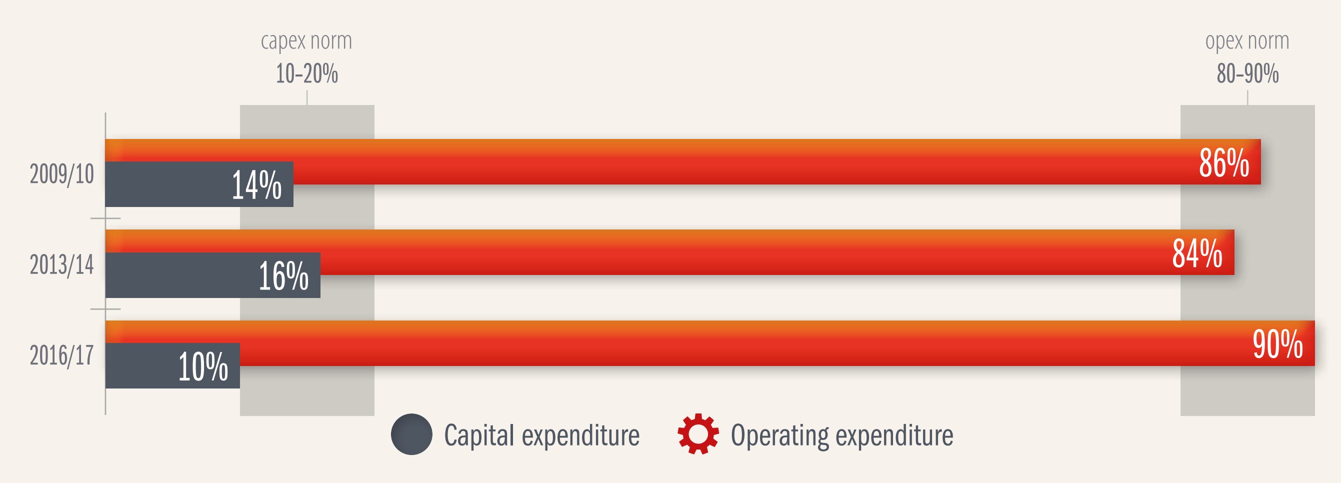
TOTAL EXPENDITURE 2016/17

R27 361 million

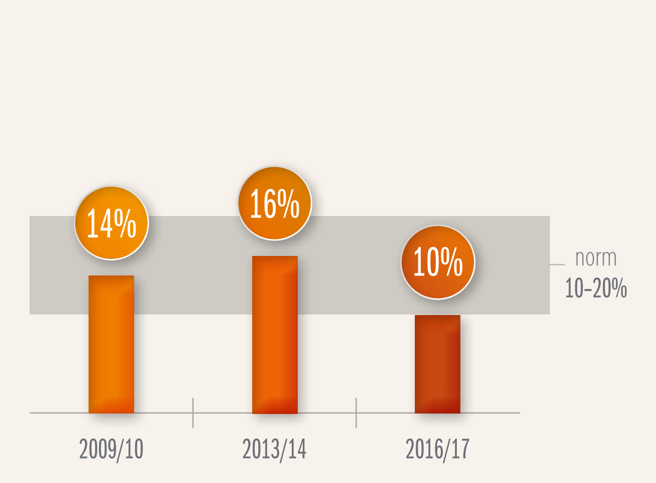


EXPENDITURE | WHERE THE MONEY GOES

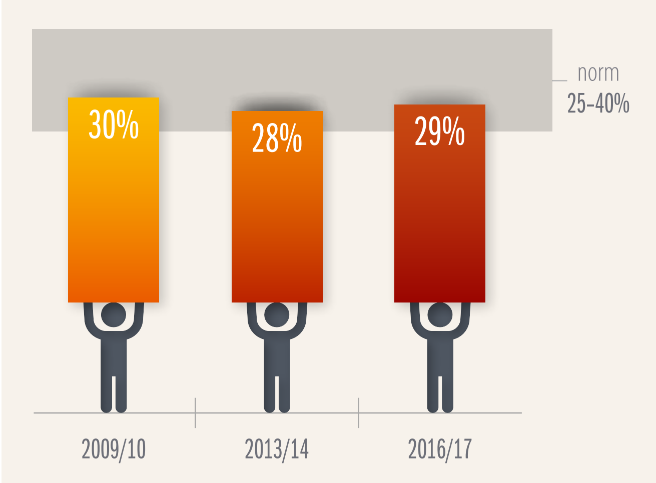
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

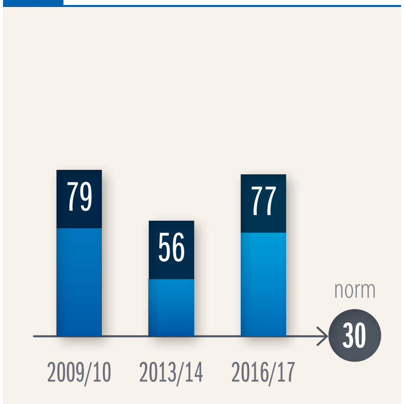


6 REMUNERATION AS % OF OPERATING EXPENDITURE

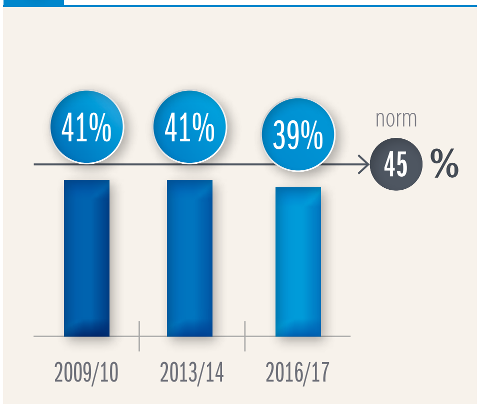


FINANCIAL MANAGEMENT HEALTH

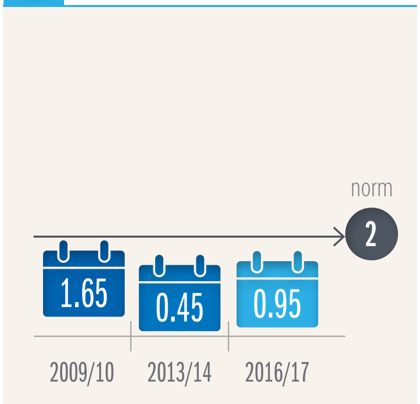
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



TOTAL REVENUE 2016/17

R29 592 million

City of EKURHULENI

In 2016/17, Ekurhuleni was the only one of the five largest cities not to have borrowed any money for capital expenditure, of which 62% was funded through internally generated funds.

SURFACE AREA OF CITY

1 975 km²

POPULATION DENSITY

1 609 people per km²

2011 POPULATION

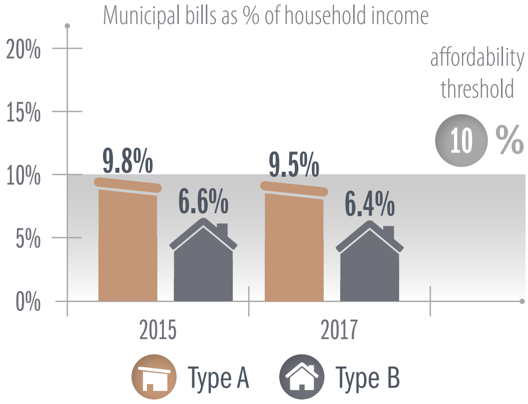
3.178 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

6.14 %

INDIGENT POPULATION (as declared by city)

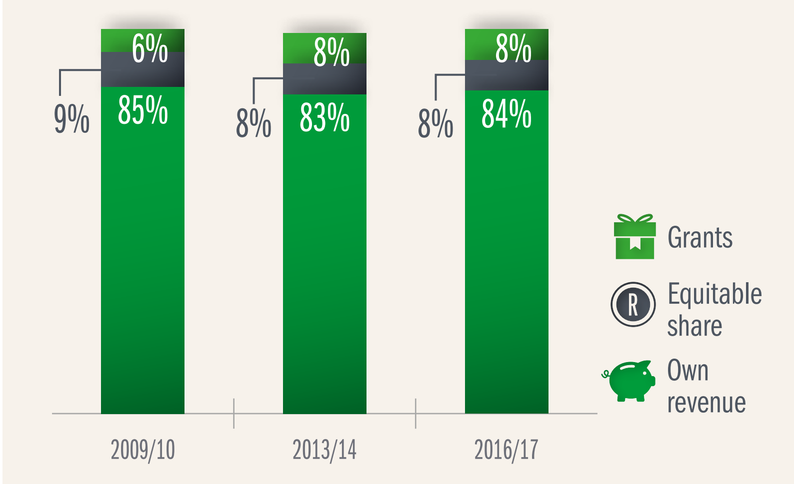
AFFORDABILITY (of municipal bills)



Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

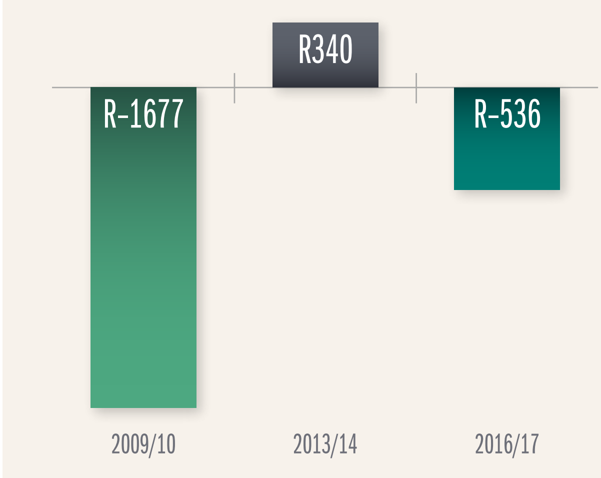
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



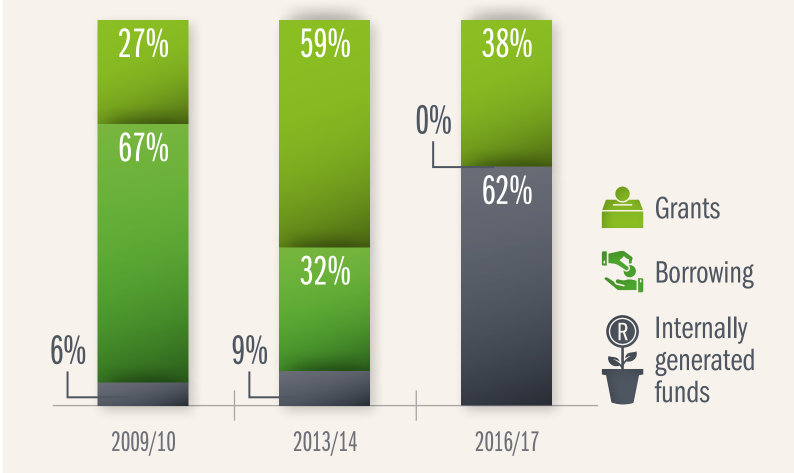
2 OPERATING SURPLUS

[constant 2012 R millions]



Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE

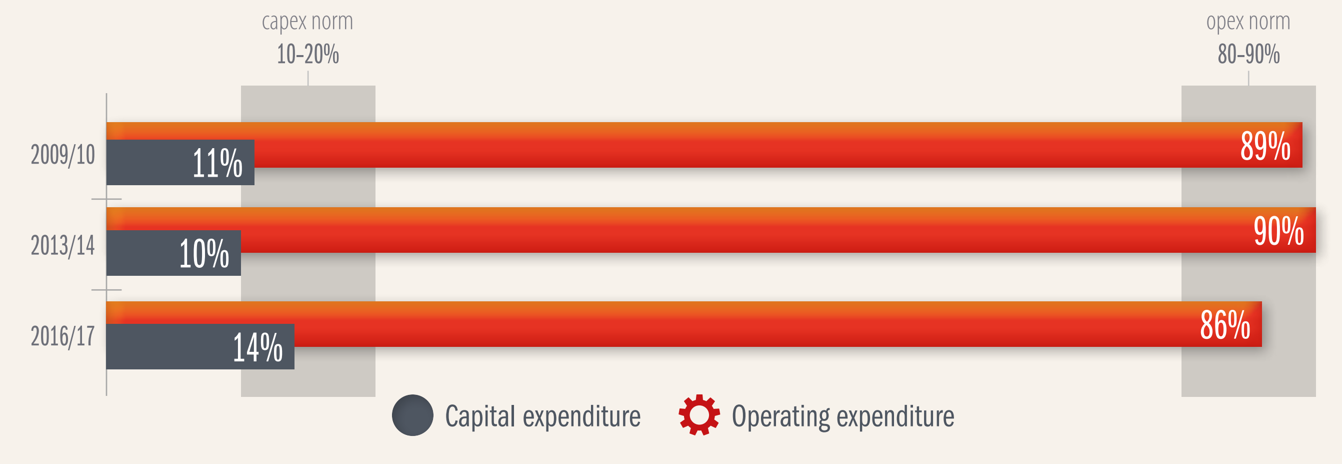


TOTAL EXPENDITURE 2016/17

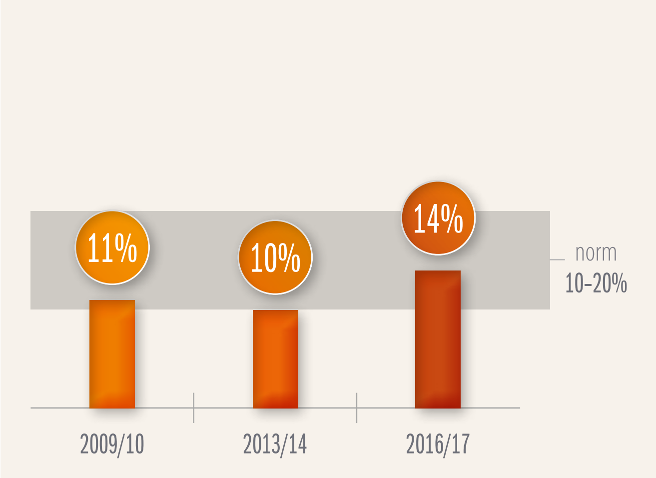
R30 128 million

EXPENDITURE | WHERE THE MONEY GOES

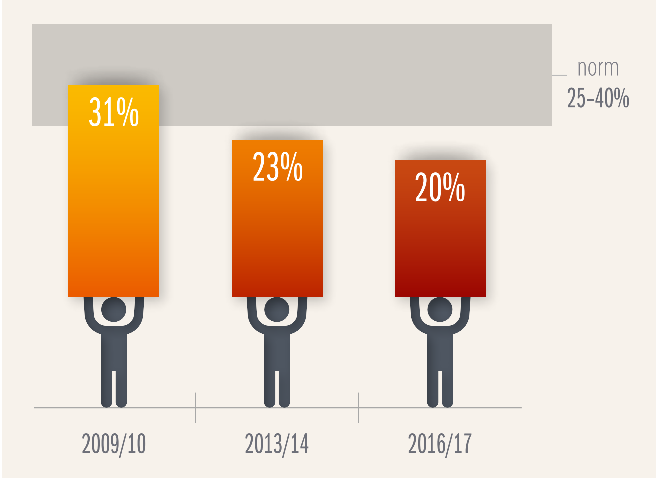
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

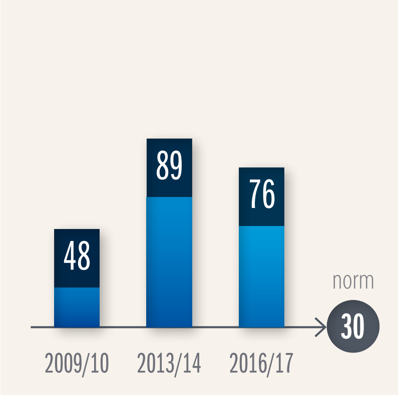


6 REMUNERATION AS % OF OPERATING EXPENDITURE

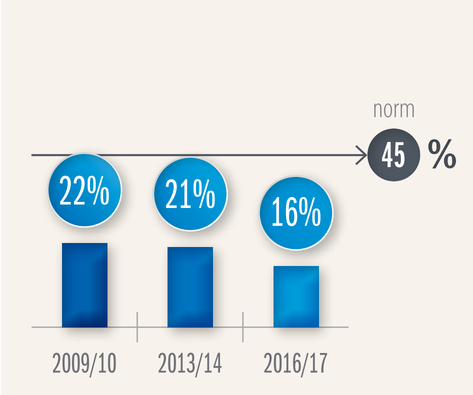


FINANCIAL MANAGEMENT HEALTH

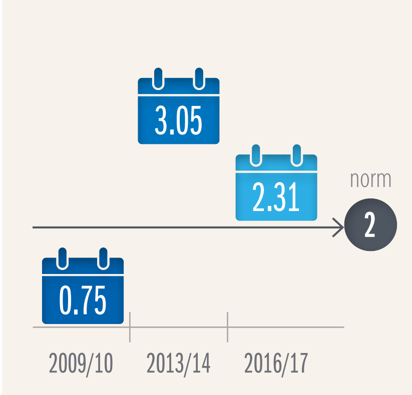
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



NELSON MANDELA BAY

In 2016/17, Nelson Mandela Bay's revenue from grants was 10%, compared to 19% in 2013/14, which was the biggest decrease of all nine cities.

TOTAL REVENUE 2016/17

R8 919 million

SURFACE AREA OF CITY

1 959 km^2

POPULATION DENSITY

588 people per km^2

2011 POPULATION

1.152 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

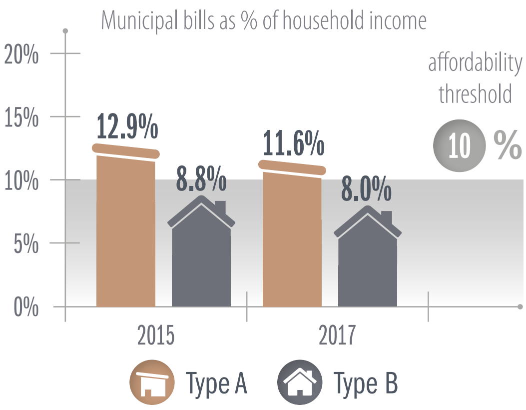
2.23 %

INDIGENT POPULATION (as declared by city)

2016: 88 776

2017: 112 419

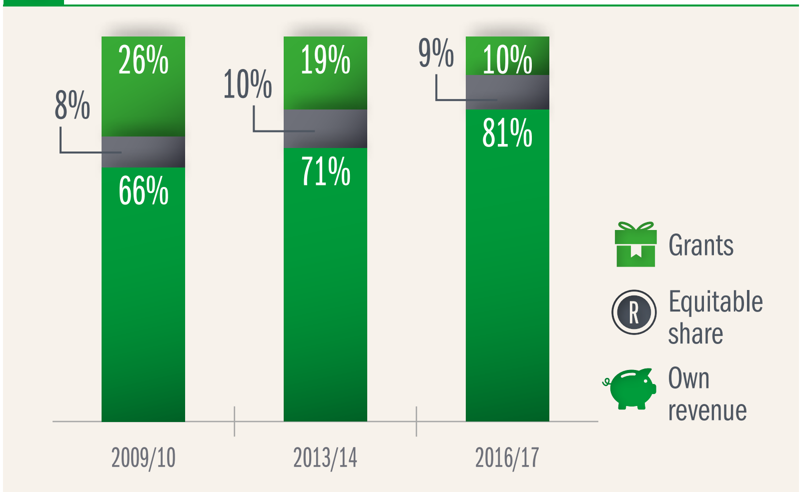
AFFORDABILITY (of municipal bills)



Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

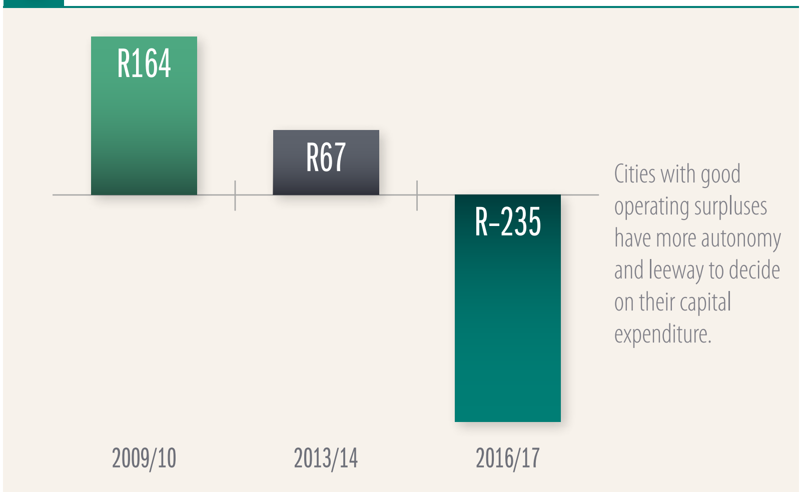
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



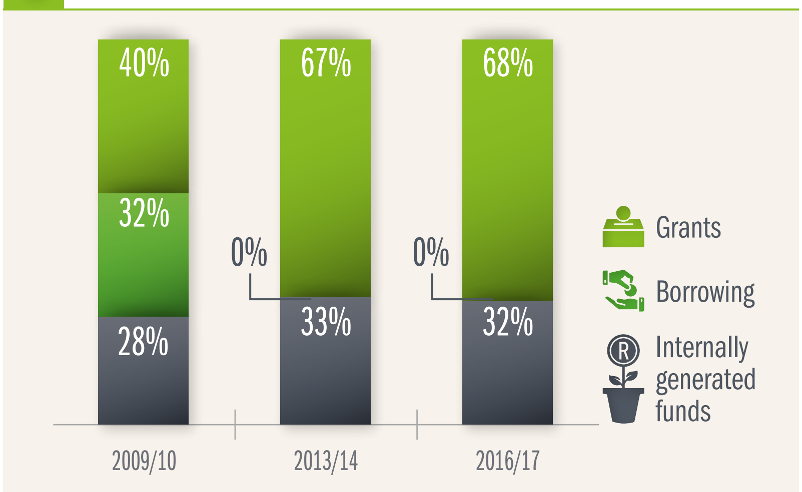
2 OPERATING SURPLUS

[constant 2012 R millions]



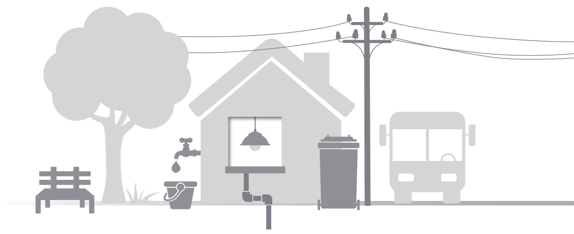
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



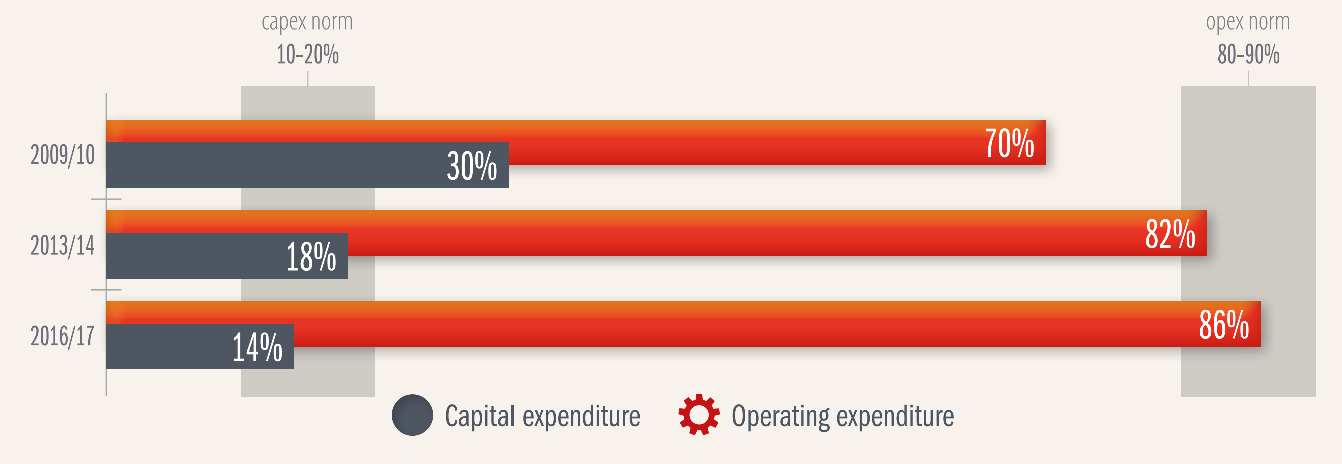
TOTAL EXPENDITURE 2016/17

R9 154 million

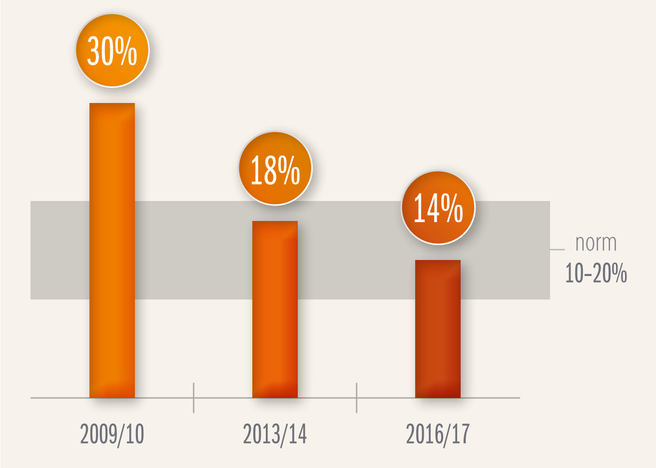


EXPENDITURE | WHERE THE MONEY GOES

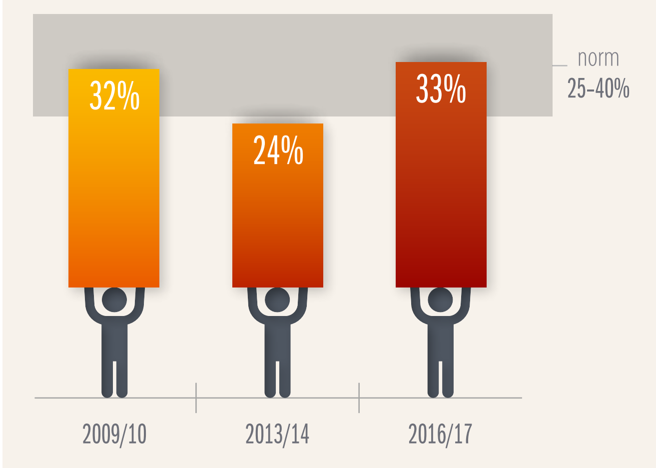
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

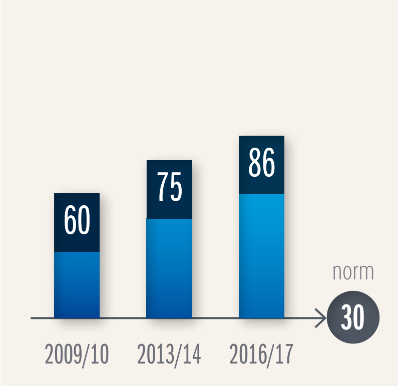


6 REMUNERATION AS % OF OPERATING EXPENDITURE

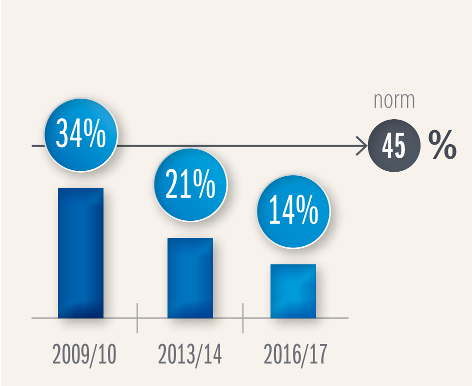


FINANCIAL MANAGEMENT HEALTH

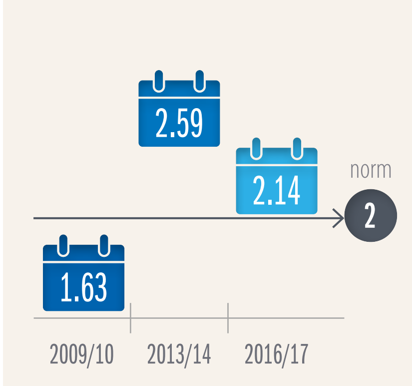
7 NET DEBTOR DAYS

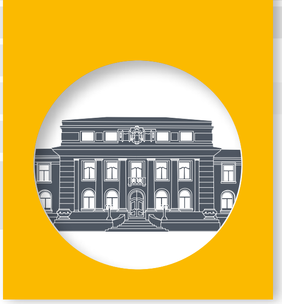


8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]





MANGAUNG

In 2016/17, Mangaung had the highest net debtor days (132) and the lowest cash position of all the nine cities.

TOTAL REVENUE 2016/17

R6 801 million

SURFACE AREA OF CITY: 6 284 km²

POPULATION DENSITY: 119 people per km²

2011 POPULATION: 0.747 MIL

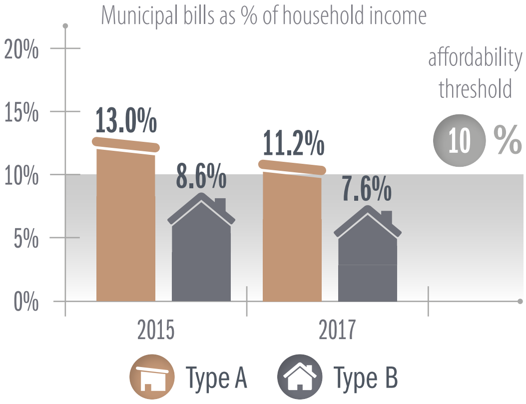
PERCENTAGE OF NATIONAL POPULATION 2011: 1.45 %

INDIGENT POPULATION (as declared by city)

2016: 34 541

2017: 54 725

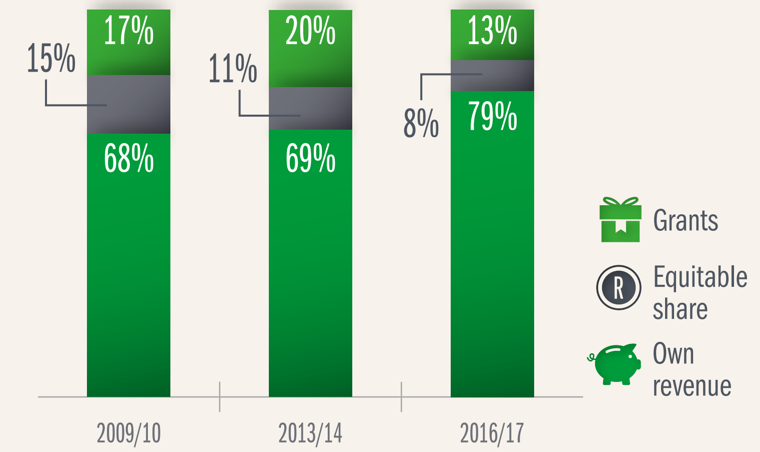
AFFORDABILITY (of municipal bills)



Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

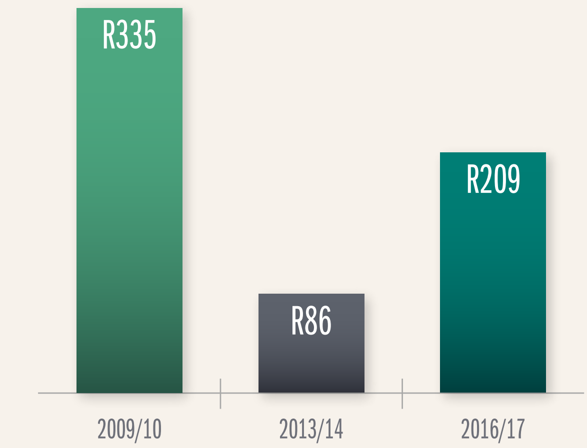
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



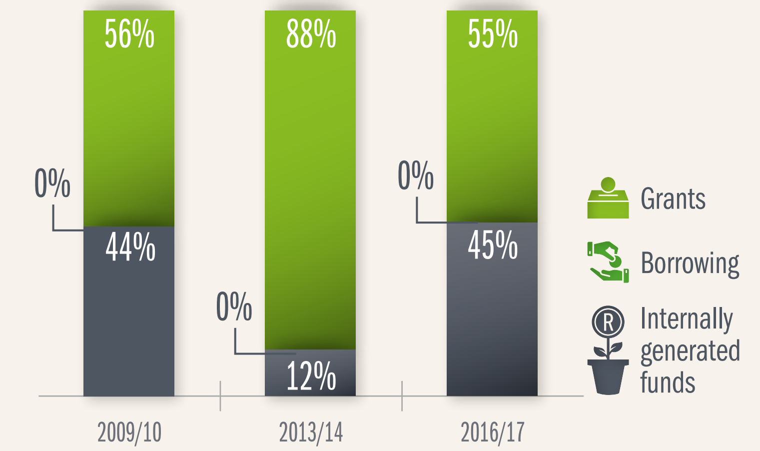
2 OPERATING SURPLUS

[constant 2012 R millions]



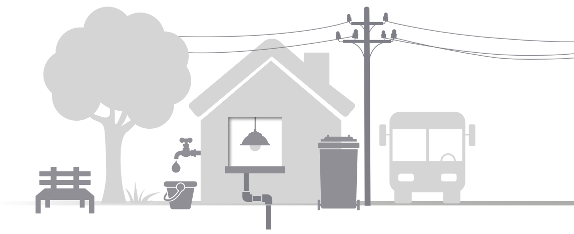
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



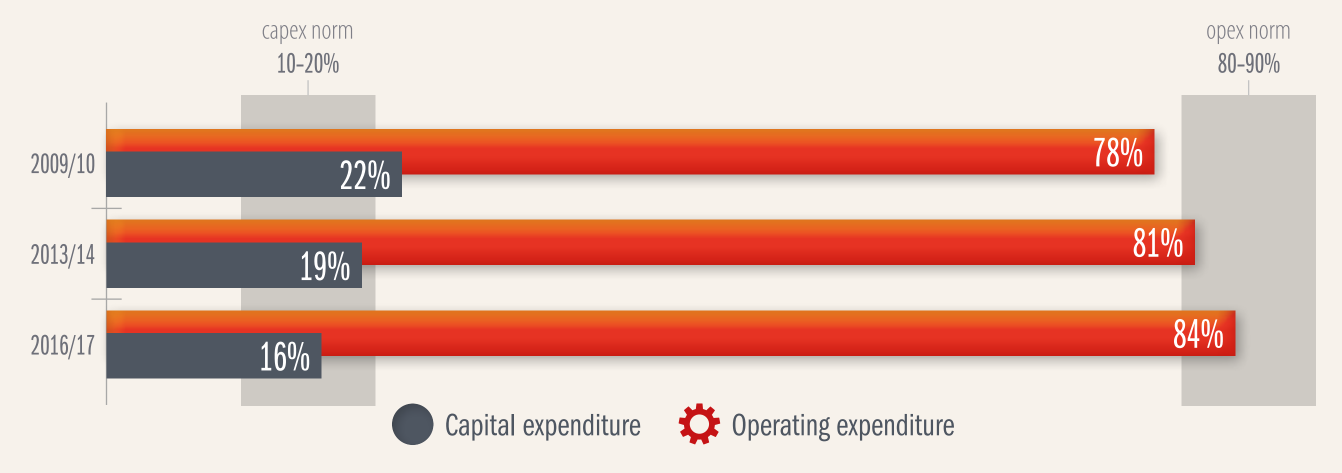
TOTAL EXPENDITURE 2016/17

R6 592 million

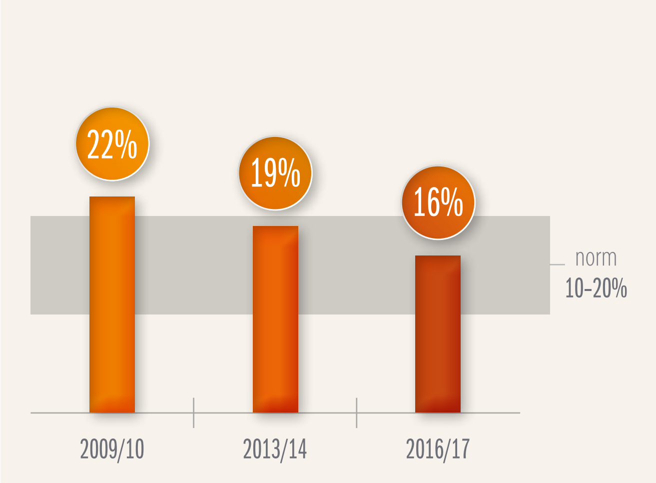


EXPENDITURE | WHERE THE MONEY GOES

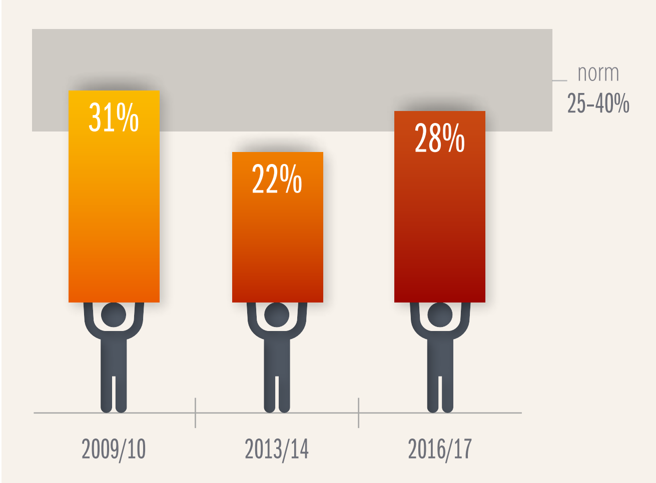
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

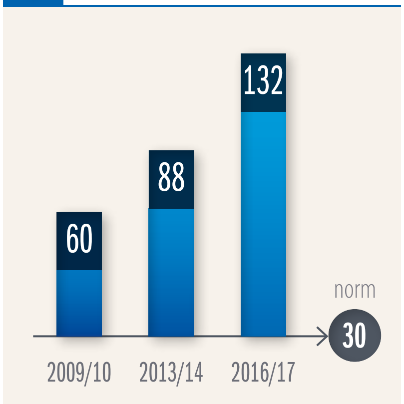


6 REMUNERATION AS % OF OPERATING EXPENDITURE

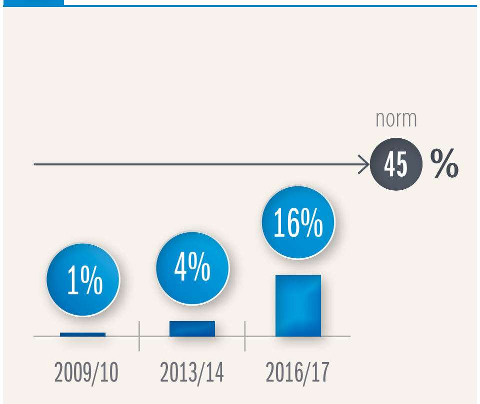


FINANCIAL MANAGEMENT HEALTH

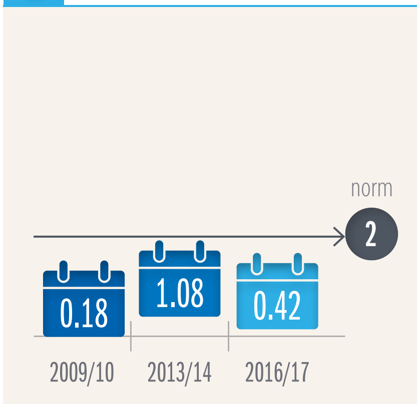
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



BUFFALO CITY

In 2016/17, Buffalo City had the best cash position of all the cities and funded almost half of its capital expenditure through internally generated funds.

SURFACE AREA OF CITY

2 536 km^2

POPULATION DENSITY

298

people per km^2

2011 POPULATION

0.755 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

1.46 %

INDIGENT POPULATION (as declared by city)

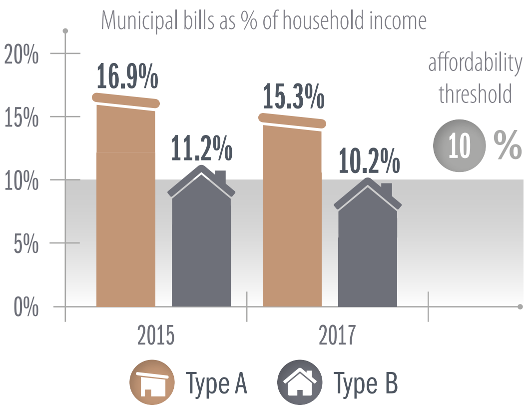
2016

83 714

2017

75 678

AFFORDABILITY (of municipal bills)



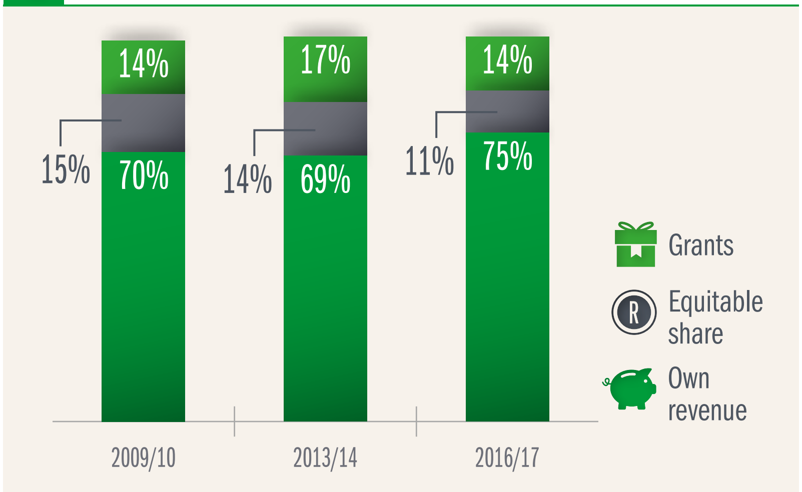
Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

TOTAL REVENUE 2016/17

R5 628 million

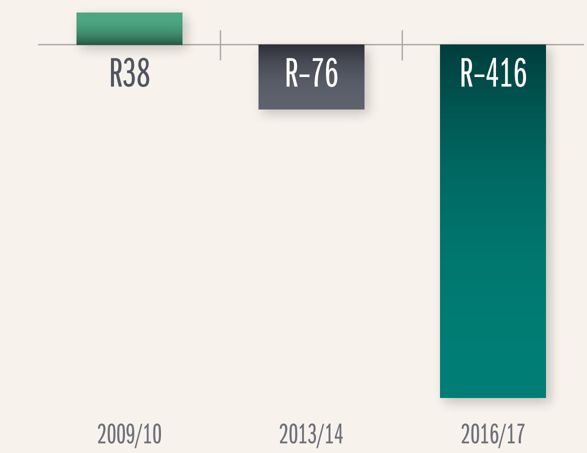
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



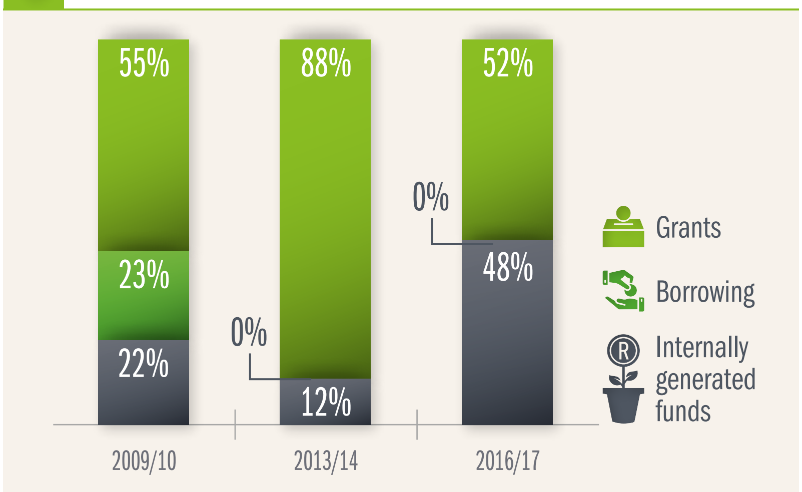
2 OPERATING SURPLUS

[constant 2012 R millions]



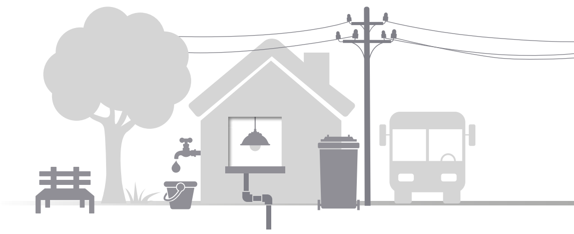
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



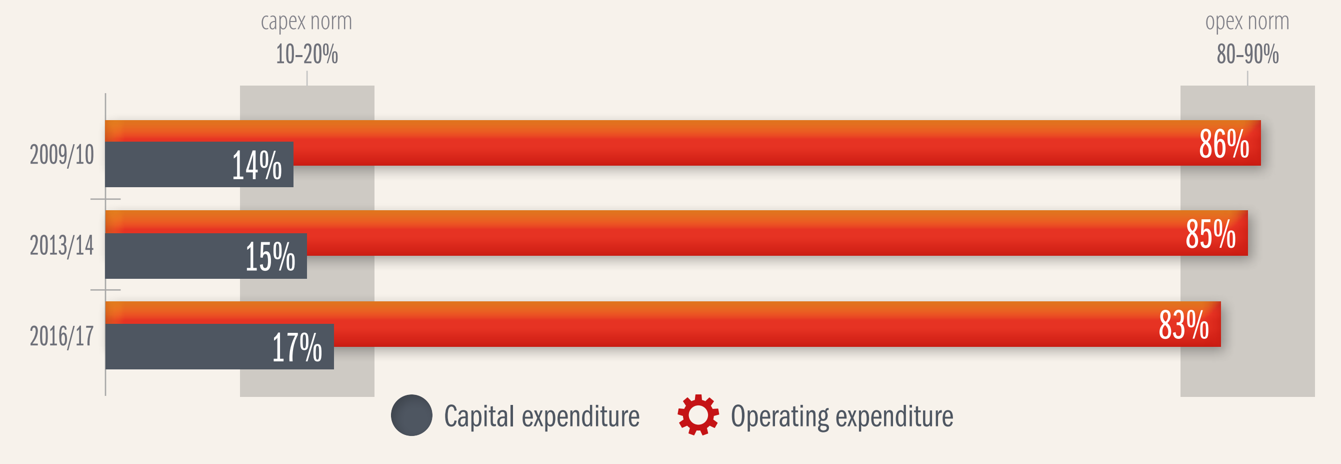
TOTAL EXPENDITURE 2016/17

R6 045 million

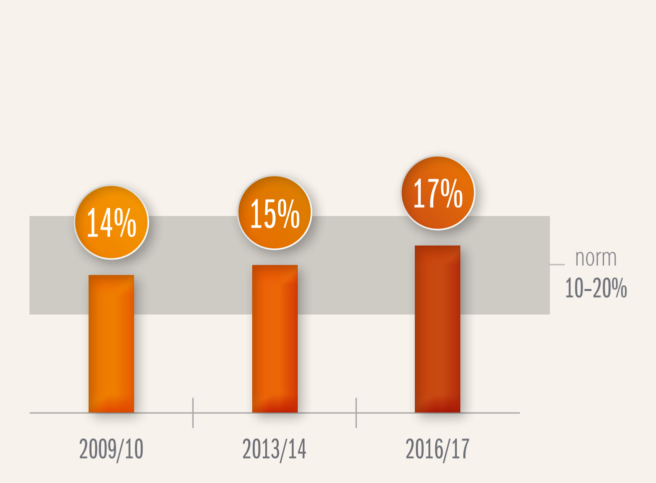


EXPENDITURE | WHERE THE MONEY GOES

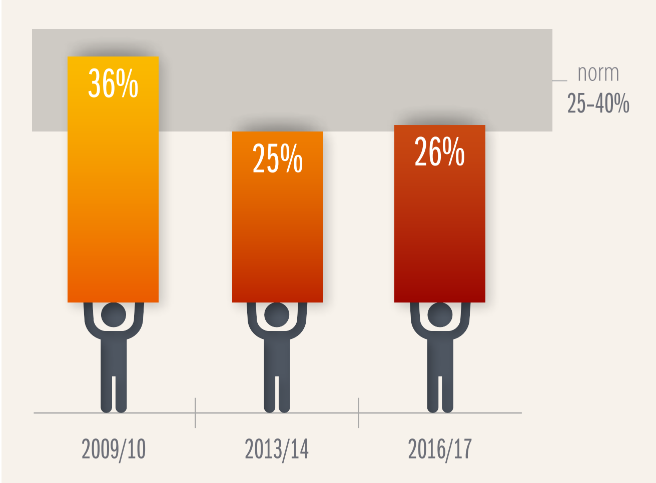
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

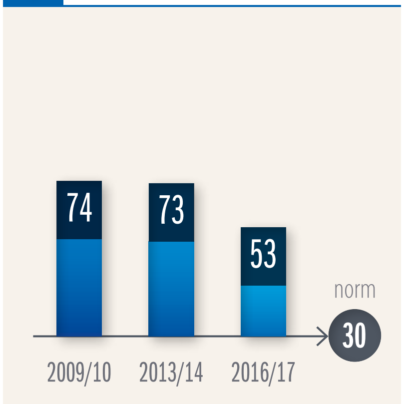


6 REMUNERATION AS % OF OPERATING EXPENDITURE

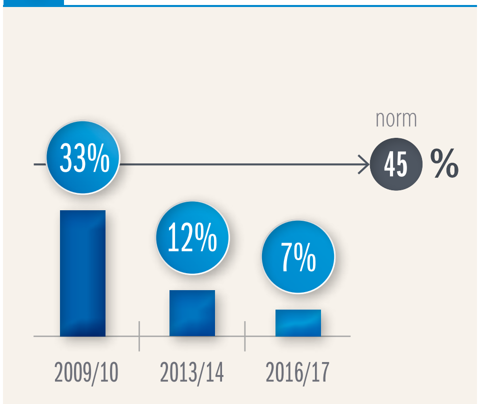


FINANCIAL MANAGEMENT HEALTH

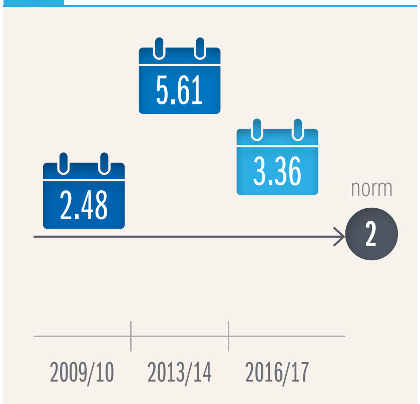
7 NET DEBTOR DAYS



8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]



MSUNDUZI

Msunduzi is the only one of the nine cities to have had a negative operating surplus since 2009/10.

SURFACE AREA OF CITY

633 km^2

POPULATION DENSITY

976 people per km^2

2011 POPULATION

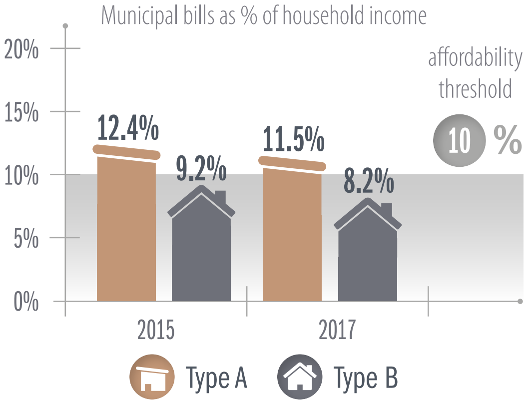
0.619 MIL

PERCENTAGE OF NATIONAL POPULATION 2011

1.19 %

INDIGENT POPULATION (as declared by city)

AFFORDABILITY (of municipal bills)



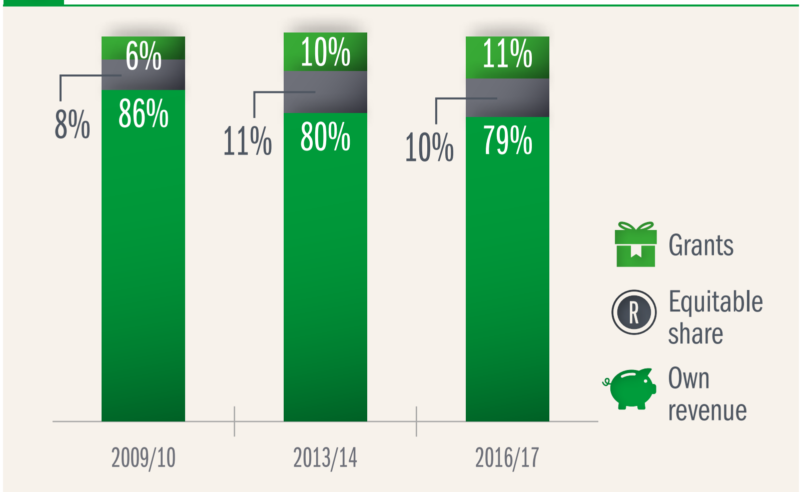
Average household monthly income, for Type A: R7 050 (2015) and R7 896 (2017); Type B: R14 100 (2015) and R15 792 (2017)

TOTAL REVENUE 2016/17

R4 342 million

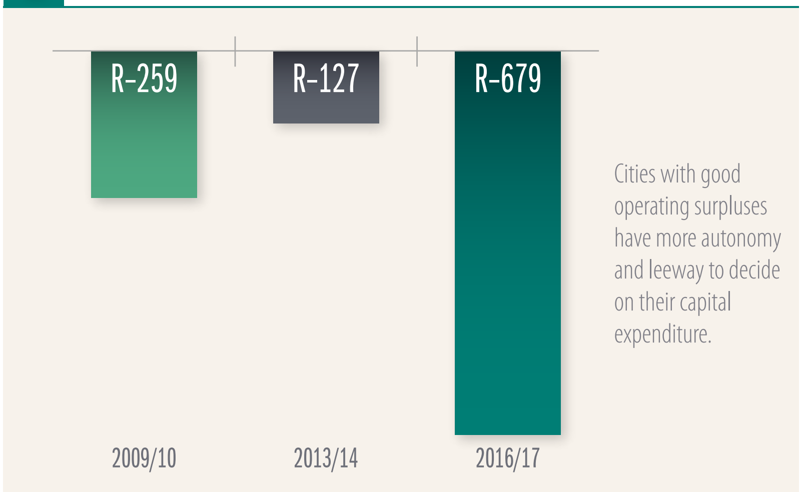
REVENUE | WHERE THE MONEY COMES FROM

1 REVENUE PROFILE



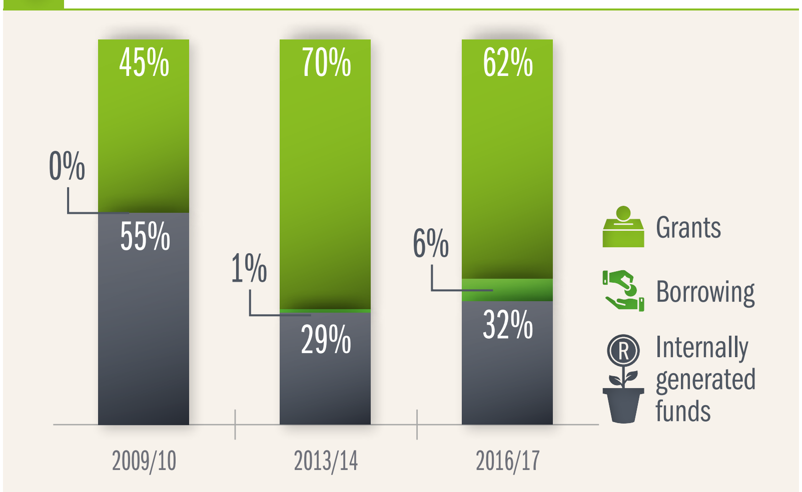
2 OPERATING SURPLUS

[constant 2012 R millions]



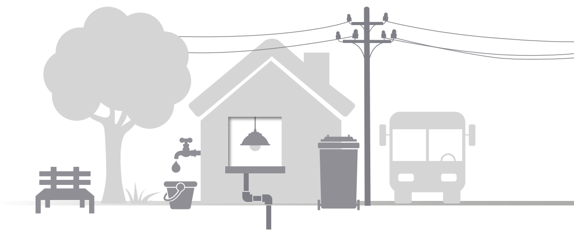
Cities with good operating surpluses have more autonomy and leeway to decide on their capital expenditure.

3 FUNDING OF CAPITAL EXPENDITURE



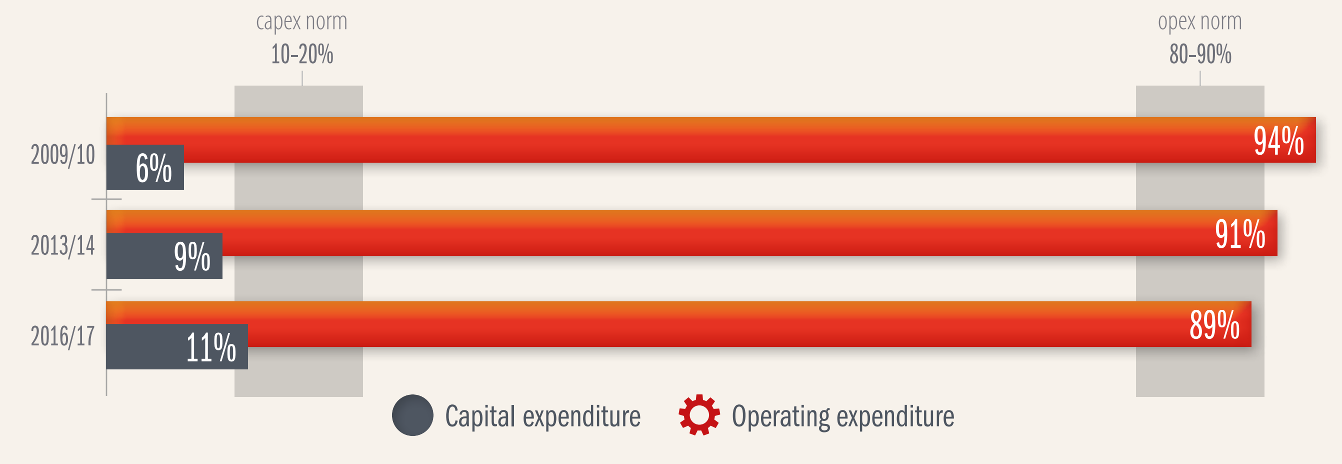
TOTAL EXPENDITURE 2016/17

R5 021 million

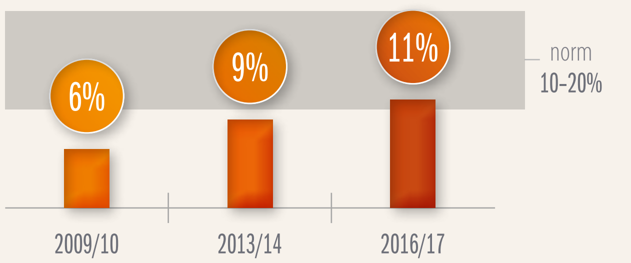


EXPENDITURE | WHERE THE MONEY GOES

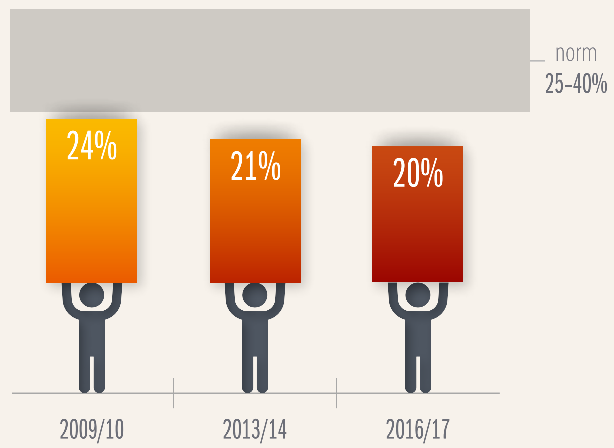
4 EXPENDITURE PROFILE



5 CAPITAL EXPENDITURE AS % OF TOTAL EXPENDITURE

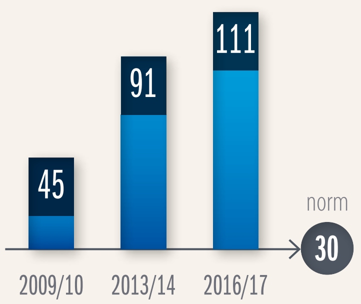


6 REMUNERATION AS % OF OPERATING EXPENDITURE

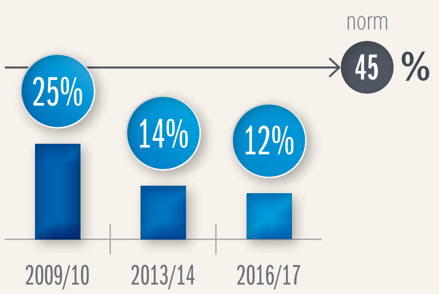


FINANCIAL MANAGEMENT HEALTH

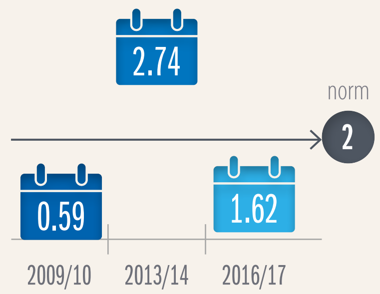
7 NET DEBTOR DAYS



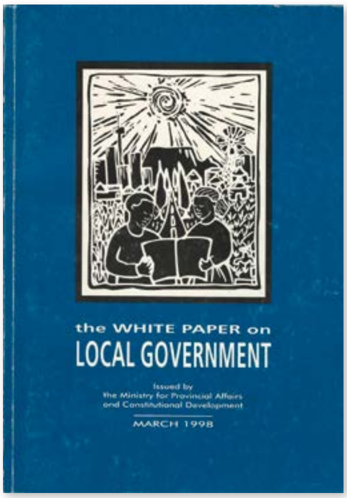
8 LIABILITIES % OF OPERATING REVENUE



9 CASH POSITION [months]

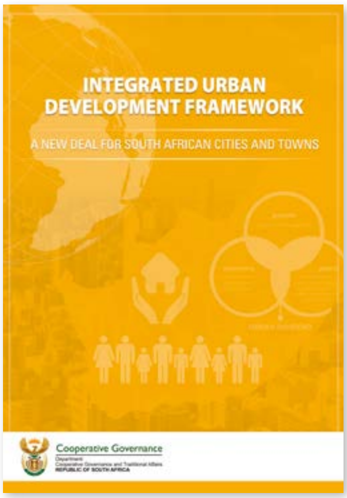


What Next



The 1998 White Paper on Local Government

Developmental local government's role is to reverse apartheid's structural inequalities and to work with local communities to find ways to meet their needs.



The 2016 Integrated Urban Development Framework

South Africa's urban policy envisions cities that are well-governed, productive, inclusive and sustainable. To achieve this ambitious vision, cities will need not only to remain solvent but also to stretch themselves.

As this People's Guide has shown, despite the challenges and complexities facing them, South Africa's larger cities are solvent and able to meet their obligations. They are managing the difficult balancing act of providing the required municipal services and raising revenue from citizens, supplemented by assistance from national government to meet the needs of indigent populations. In the current intergovernmental fiscal framework, cities raise most of the money for operations through service charges and tariffs, and property rates levied on residents. In addition, they receive transfers from national government in the form of the local government equitable share (9% of the national tax pie), operating grants (less than 20% of city revenue) and conditional grants (mostly for capital expenditure). Some cities also borrow from banks to finance capital investments.

But this is not enough. Local government is at the coalface of service delivery – the place where government directly affects the lives of citizens. It is also where the impact of the country's history and development can be seen on the ground.

The dynamics of municipal finance and spatial form are interrelated – the spatial form and future of cities change in response to changes in the intergovernmental fiscal framework and municipal finances. As explained in this People's Guide, city finances are affected by – and affect – a city's developmental goals. However, these goals will remain unachievable unless the city financing model changes fundamentally. Cities may become more efficient at raising revenues and delivering services, or be given additional taxes, but the current financing model depends heavily on revenue from property rates and selling electricity, which is incompatible with the developmental goals.

Without a systemic change in the way cities are financed, cities will not be able to transform their spatial form. Therefore, cities need to seize the initiative, to address the systemic problems that affect their ability to achieve their development goals. One place to start is the ***Towards an Alternative Financing Model for Metropolitan Cities in South Africa*** report, which was initiated by the SACN in collaboration with the City of Tshwane. The study is the beginning of a process to develop innovative financing alternatives that will enable cities to fulfil their developmental local government mandate.

Smart Cities

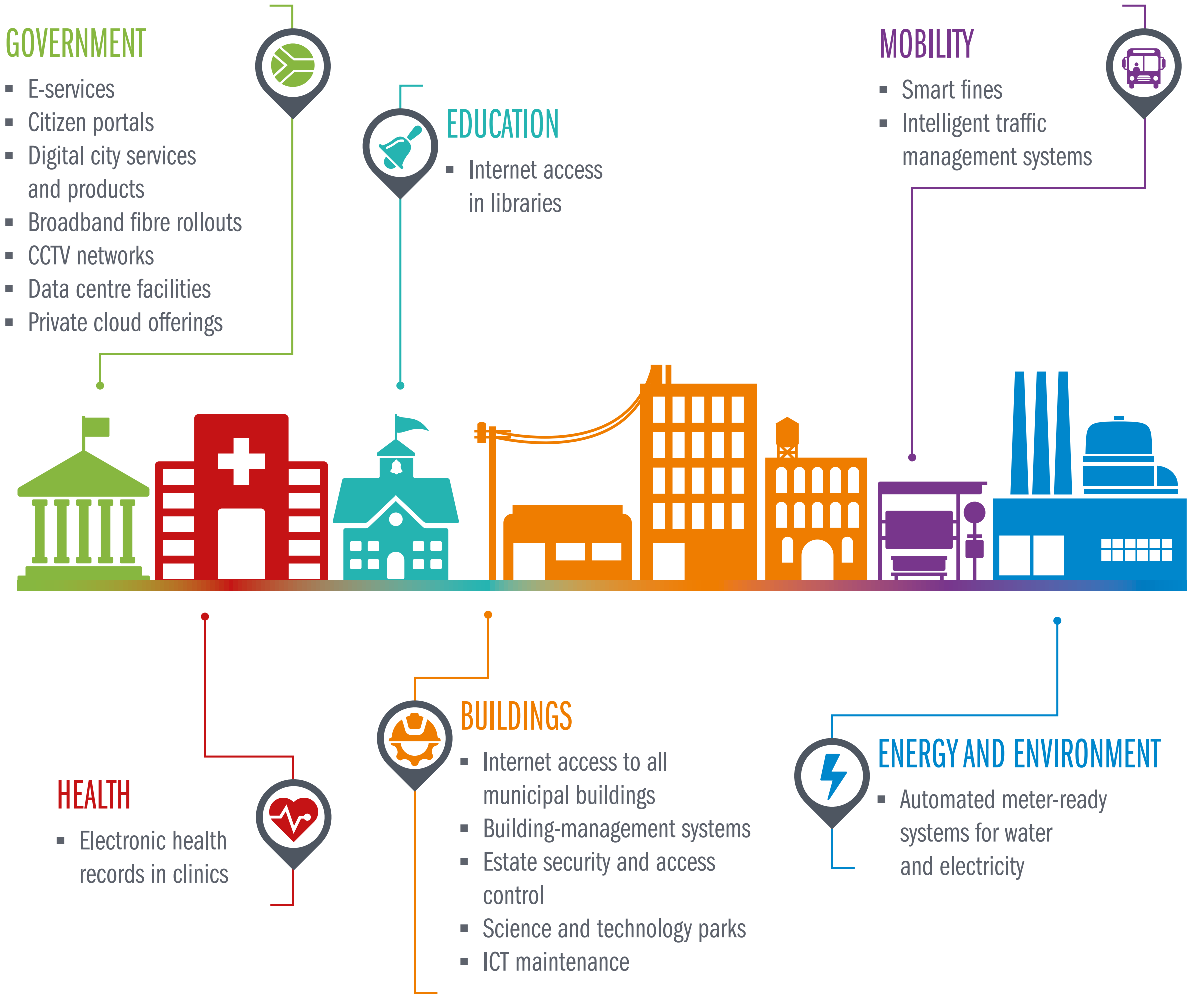
City governments can use smart technologies to increase their ability to meet the demand of citizens for services and the challenges of urbanisation in several ways.

- To create efficiencies in the management of public services and infrastructure and reduce the cost of government operations, thus increasing municipal revenue.
- To improve revenue collection.

Smart city technologies can improve transparency and accountability, and reduce corruption in public services. This can lead to greater trust in government and reinforce the relationship between cities and their residents.

Smart city initiatives are still in their infancy in South Africa. Their uptake has been hampered by not being included into IDPs; a lack of resources given competing needs; little integrated and coordinated thinking and operations across city departments; and limited broader stakeholder buy-in from employees, residents and the business community.

Yet digital technology has the potential not only to optimise municipal management and governance but also to improve citizen engagement and participation. The figure below shows some of the current applications of digital technology in South African cities.



Municipal Planning and Budgeting Process

Municipalities set out their development priorities in the Integrated Development Plan (IDP), which outlines the service delivery priorities, budgets and capital investments for the municipality over the five years following each local government elections. The Municipal Systems Act requires municipalities to involve communities in deciding on the IDP's priorities and projects.

Key Calendar Milestones

The municipal financial year runs from 1 July to 30 June of the following year.

JANUARY

The city publishes its Annual Report that describes its performance for the previous financial year against the budget. The Annual Report is the way in which cities monitor the implementation of their plans.

MARCH

The city publishes its draft budget for the coming year.

APRIL

The Municipal Finance Management Act (MFMA) requires the city to present the draft budget to Council three months before the start of the financial year. The city must hold public consultations on the budget.

MAY

Public consultations on the budget.

JUNE

The Council votes on the budget presented by the Municipal Manager. The budget must be approved by 30 June.

JULY

Once the budget is approved, the Council approves the Service Delivery Budget Implementation Plan (SDBIP), which details how the city will spend its budget to meet the priorities of the IDP for that year.

What You Can Do

Be Informed

The IDP and SDBIP are available on your city's website – find out what plans exist and the budget allocated to achieve the goals set out in these plans.

Participate

Municipalities are required by law to consult with communities every year. Provide input to the draft city budget and participate in public consultations on the city's IDP.

Track and Hold to Account

Your ward councillor is the person to contact about concerns regarding the quality of services in your community or neighbourhood, especially if the city's quarterly progress reports and Annual Report do not reflect your experiences.

Source: Accounting for Basic Services Local Government Planning and Budget Process (2018)

South African CitiesNetwork

STATE OF CITY FINANCES 2018

The People's GUIDE

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