CITIZENS' GUIDE 2015
TO THE STATE OF CITY FINANCES

South African CitiesNetwork

Acknowledgements

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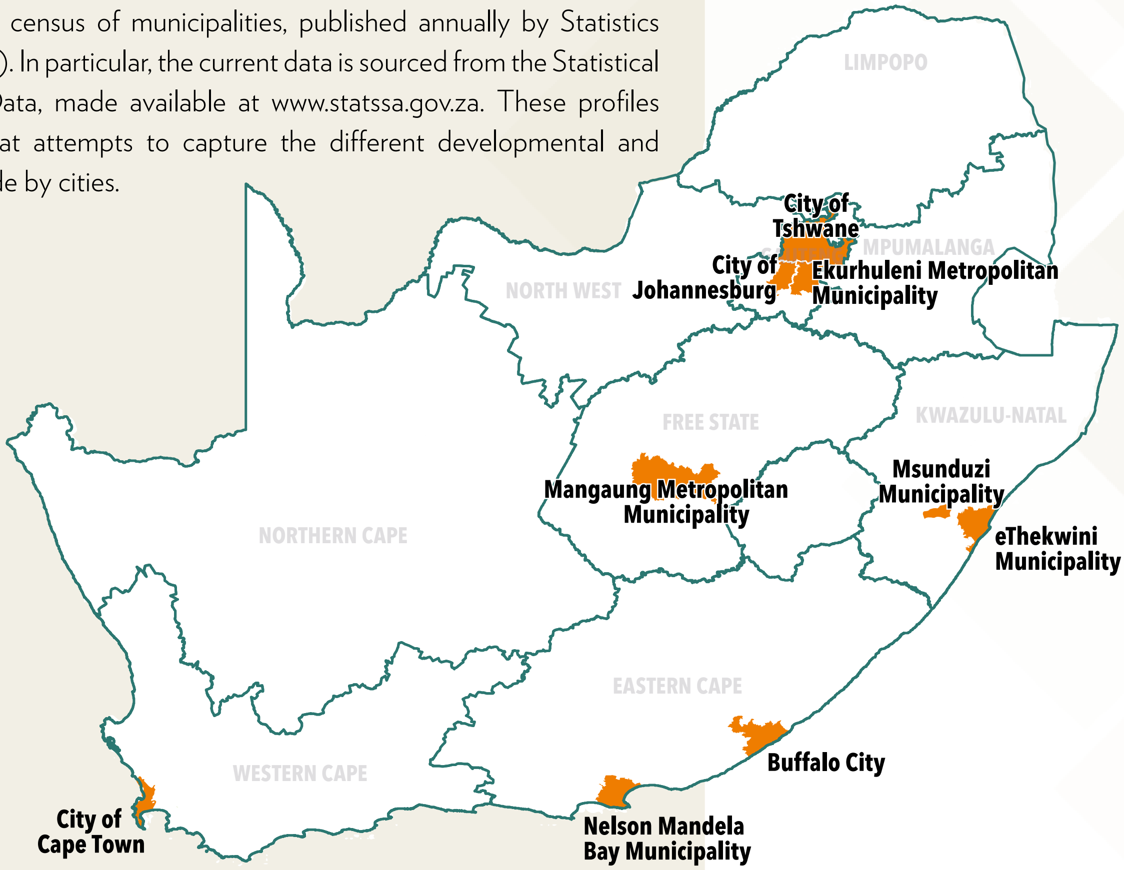
About the Citizens' Guide

Cities are the engines of growth for the South African economy and at the forefront of spatial transformation and development. The nine cities covered in this guide (Johannesburg, Cape Town, eThekwini, Ekurhuleni, Tshwane, Nelson Mandela Bay, Buffalo City, Mangaung and Msunduzi) account for 40.8% of South Africa's total population. They are home to 22 million people, or 3.5 million more people than in 2004, and have higher employment rates and average per capita incomes than the rest of South Africa. Therefore, the efficient functioning of cities is vital to the country's social and economic stability and success.

The National Development Plan calls on South Africans to become active citizens. An important step is understanding the basics about the municipal budget, i.e. where the money comes from and where the money goes. In this way, South Africans can appreciate the specific challenges facing local government and the different choices/trade-offs that cities make in order to address these challenges.

The aim of this guide is to inform a broader audience about the key messages emerging from the 2015 State of City Finances report, which is the latest in a series of reports published since 2006. The guide is not a summary of the main report but rather a translation of the content into meaningful messages. Nine standard city finances indicators, which first appeared in the 2011 guide, are used to analyse and explain the state of finances in the nine cities. An overview of the common trends across the cities is followed by individual city profiles based on the nine indicators. Employment statistics sourced from http://www.localgovernment.co.za/ which uses the non-financial census of municipalities, published annually by Statistics South Africa (Stats SA). In particular, the current data is sourced from the Statistical Release P9115 Unit Data, made available at www.statssa.gov.za. These profiles include a narrative that attempts to capture the different developmental and economic choices made by cities.



City Finances Explained

City finance is about the revenue (income) and expenditure (spending) decisions of local governments. City budgets are like household budgets, in that they are based on how much money the city expects to receive and how much money is needed to meet the city's needs. However, city budgets are also more complicated, as cities cannot simply spend all the money they receive in any way they wish. Their budgets are informed by national policy strategic objectives, municipal identified priorities and input from the communities through participatory processes.

A city's budget is more than an accounting tool: it is a strategic management plan that expresses the city's key policy decisions and priorities. Because there is never enough money to do it all, cities make trade-offs, and so the budget reflects the priorities of the city's elected representatives. In South Africa, such priorities must include addressing the challenges of urbanisation and the legacy of apartheid, which manifest as widespread poverty, huge inequalities, inadequate infrastructure and service backlogs.

Good financial management is key to being able to deal with these priorities. A city's financial management practices ensure that the budget can be implemented. Such practices involve collecting revenues and administering expenditure on both day-to-day operations and capital projects. Capital projects are investments in new infrastructure needed to expand/improve services and to grow the city. Therefore, a city's budget is divided between operating and capital expenditure and income.

SPATIALLY LINKED BUDGETING

This type of budgeting looks at not only *what* the municipality invests in but also *where* the municipality invests. This approach has become an increased focus in South Africa because different geographical locations have significantly different levels of infrastructure and living conditions. However, as yet this level of detail is not provided in municipal annual financial statements. A move is currently underway to have a more spatially and project-based financial reporting system that will require all municipalities to report finances in the same way.

Own revenue

which is 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)

Grant funding

which come from national and provincial government

The local government equitable share

which is the share of national revenue allocated to municipalities to cover the cost of providing for indigent households.

LOCAL GOVERNMENT EQUITABLE SHARE

South Africa has an intergovernmental system based on cooperation between the three spheres of government (national, provincial and local). National government collects about nine times more money than provinces and municipalities, from personal and corporate income tax and import duties. Municipalities receive their share of national revenue through the local government equitable share, which is calculated based on the functions assigned to and the own revenue-raising ability of municipalities. This money is used by municipalities to deliver free basic services to poor (indigent) households, and to subsidise the cost of administration and other core services. The equitable share is an unconditional allocation, which means that municipalities determine the priorities for these funds and are directly responsible for how they are spent.

Operating expenditure

made up of 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

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

The Importance of Sustainable Finances

South Africa is a spatially, socially and economically divided country, and nowhere is this more evident than in cities. The ultimate aim of cities in South Africa is to improve the lives of their citizens. For this, an unapologetic pro-poor and redistributive investment strategy is necessary. City governments are responsible for ensuring that everyone has equitable access to municipal services and, as the custodian of urban planning, for shaping development and informing spatial patterns of cities. In addition to investing in new infrastructure in priority areas, cities have to maintain and improve the infrastructure in established and expanding areas of the city. This is not an easy task in light of the spatial and socioeconomic disparity that exists.

To play this developmental role, cities require stable and predictable finances.

The Municipal Systems Act (No. 32 of 2000) sets out "the core principles, mechanisms and processes that give meaning to developmental local government and to empower municipalities to move progressively towards the social and economic upliftment of local communities and the provision of basic services to all our people, and specifically the poor and the disadvantaged". To achieve these objectives, cities have to balance their spending on many, often competing priorities, as shown in Figure 1.

According to the Municipal Systems Act financial sustainability in relation to municipal services means:

[T]he provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources including budgeted income grants and subsidies for the service is sufficient to cover the costs of

a. the initial capital expenditure required for the service;
b. operating the service; and
c. maintaining
d. repairing and replacing the physical assets used in the provision of the service.

Figure 1: A city's competing priorities

Achieving greater equality across the city is not only about addressing the apartheid legacy but also about enabling more people to invest in the city and contribute to rates and service bills, thereby strengthening the revenue base of the city.

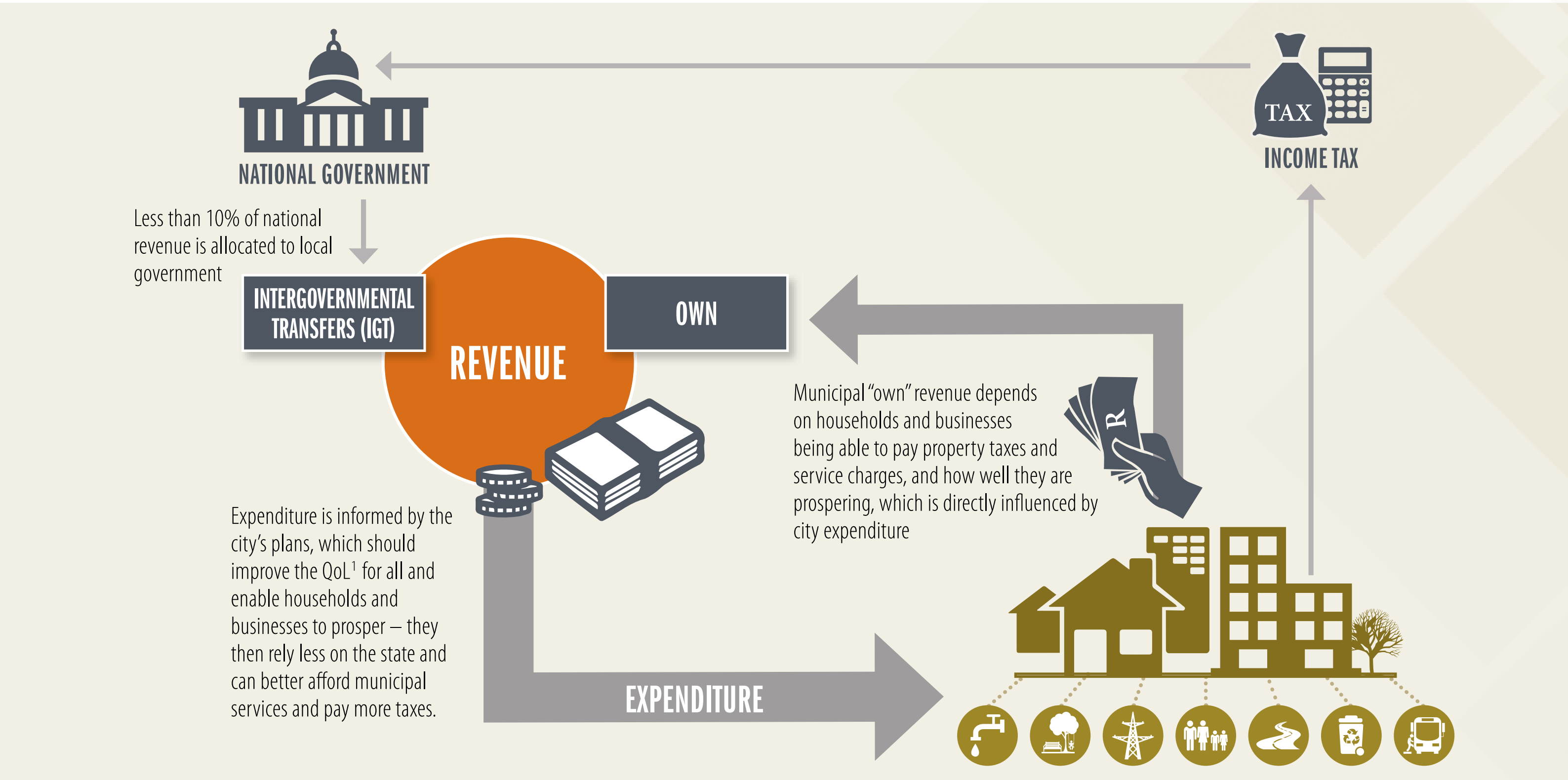
The lion's share of a city's revenue comes from "own revenue", principally in the form of property taxes and service charges paid by households (which includes businesses). For the nine cities, own revenue accounts for between 70% and 85% of their total revenue. The remaining revenue mostly comes from the portion of nationally raised revenue that is transferred to local government. Thus, households are at the epicentre of municipal finances: if household incomes increase, their ability to pay rates and for services increases, which will have a positive impact on municipal revenue. Similarly, by effectively expanding and improving infrastructure, municipalities can provide better services to communities and contribute to improved living standards, thereby resulting in households that are better able to afford and pay for municipal services.

Linked to this is the willingness of households to pay (or not) for services. Non-payment for municipal bills may be because of poor billing management or for other reasons, which can only be understood through engagement between communities and the municipality.

As Figure 2 shows, municipal finance and investment outcomes have a circular relationship. Poor investment outcomes will break down the ability of households and businesses to thrive. Municipal revenue is thus not only a function of the municipality but concerns all who live in cities.

Borrowing is not a source of revenue but a financing mechanism based on the existing and future revenue raising capabilities of the city government. It provides funds that are available immediately but relies on future revenue to pay back the money.

Figure 2: The circular nature of municipal finances



1. QoL: Quality of Life, or an individual's or group's standard of health, comfort and happiness, which is enhanced by clean air and water, green open spaces, safety, easy access to work and leisure activities, etc.

Indicators

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, the local government equitable share, and grants from national and provincial government.

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 (money spent on developing the city) and operating expenditure (money spent on the day-to-day running of the city). The norm range is Capex 10–20%: Opex 80–90%.*

Norm: Capex 10-20%: Opex 80-90%

5 CAPITAL EXPENDITURE AS A % OF 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 over 20% presents risks for long-term financial sustainability, as operating costs might escalate.*

Norm: Between 10% and 20%

6 REMUNERATION AS A % OF OPEX

This indicator shows what share of the city's 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. The normal range for remuneration costs is 25–40% of operating expenditure* and varies according to capacity and function of the municipality.

Norm: 25-40% of opex

FINANCIAL MANAGEMENT HEALTH

7 DEBTORS

This indicator shows how much money is owned to the city by households, businesses, government departments and other organisations. The norm is 30 days*: more days is a sign of cash flow risk and 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.

Norm: 30 days

8 LIABILITIES

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

Norm: 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. The norm is 1.5–2 months.* Cities need liquidity to operate effectively. I.e. 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.

Norm: 1.5-2 months

* According to National Treasury Circular 71.

Common Trends

The **revenues of the nine cities have held up remarkably well** since the financial crisis of 2008. This is the outcome of concerted efforts to improve their financial management.

The significant increase in bulk electricity costs imposed by Eskom has placed **city operating expenditure under pressur**e. This means that cities have been unable to expand spending in other important operational areas such as maintenance.

Debtors have doubled over the last five years for all cities. This is a major concern for municipalities, as it means that the number of households paying for services is declining, which threatens their ability to continue providing services. Some cities have begun shifting to smart and prepaid meters to address this issue.

Remuneration costs have declined as a percentage of total operating expenditure. While actual expenditure has increased over the past five years, spending as a percentage of overall expenditure has levelled out and in some instances decreased. Managing carefully the amount spent on staff demonstrates good financial management.

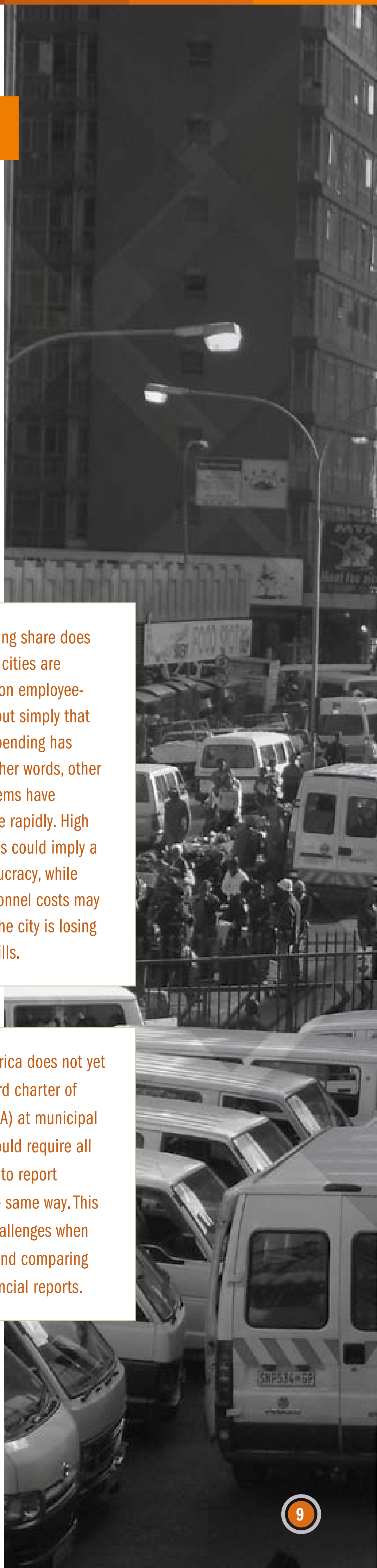
Note: A declining share does not mean that cities are spending less on employee-related costs but simply that the share of spending has declined. In other words, other expenditure items have increased more rapidly. High personnel costs could imply a bloated bureaucracy, while declining personnel costs may indicate that the city is losing higher-paid skills.

Eight out of nine cities use grant funding for capital infrastructure investment, which probably signifies the need to use own-source revenue in other priority areas that receive inadequate funding. However, the risk of this approach is the significant impact of reduced (or discontinued) grant funding on capital or other expenditure.

Since 2009, long-term liabilities have increased by 6% annually. This demonstrates the willingness and perhaps need of cities to borrow money. While borrowing is an important part of financing municipalities, careful monitoring is required around how much can actually be feasibly borrowed.

At the end of 2013/14 **cities had between 1.5 and 4.9 months cash**, an improvement compared to 2013, when cities had between 0.35 and 3.19 months cash on hand. Without cash reserves to fall back on, cities will have to depend on their ability to collect from debtors in order to pay its monthly cash expenditure.

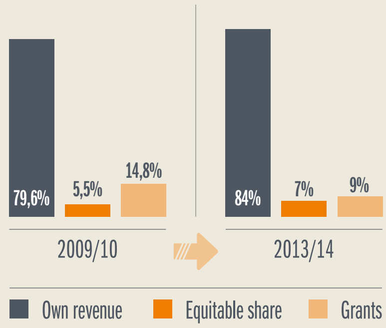
Note: South Africa does not yet have a standard charter of accounts (SCOA) at municipal level, which would require all municipalities to report finances in the same way. This can lead to challenges when interrogating and comparing municipal financial reports.



City of Johannesburg

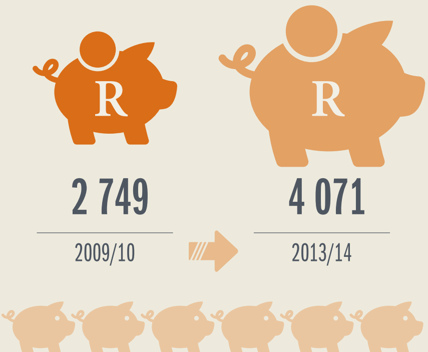
REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

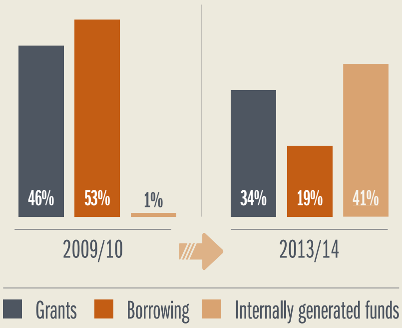


2 OPERATING SURPLUS

(constant 2012 R millions)

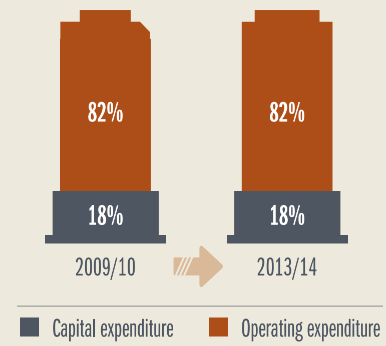


3 FUNDING OF CAPITAL EXPENDITURE

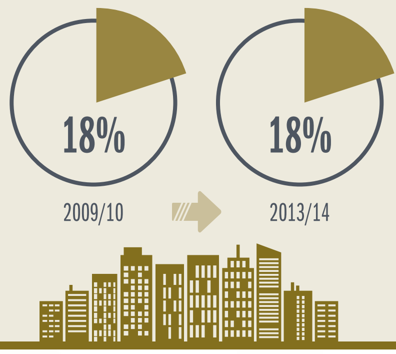


EXPENDITURE: WHERE THE MONEY GOES

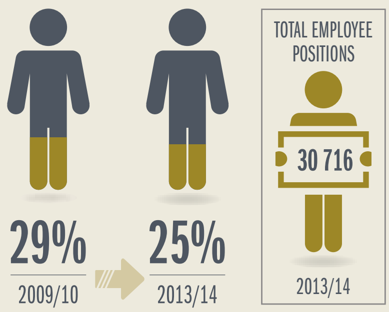
4 SPENDING PROFILE



5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

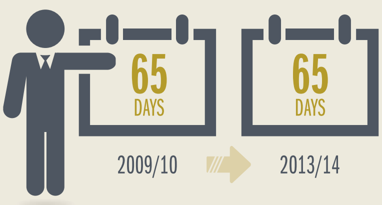


6 REMUNERATION AS A % OF OPEX

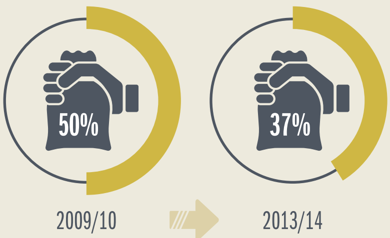


FINANCIAL MANAGEMENT HEALTH

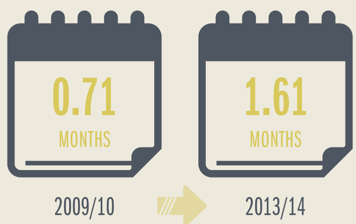
7 NET DEBTOR DAYS



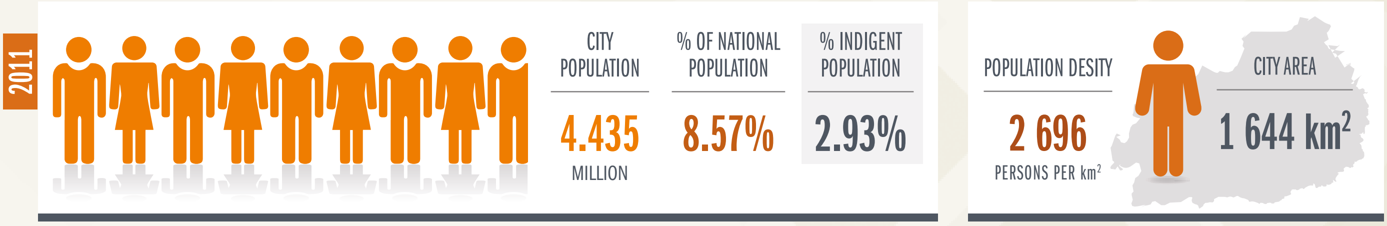
8 LIABILITIES AS A % OF OPERATING REVENUE



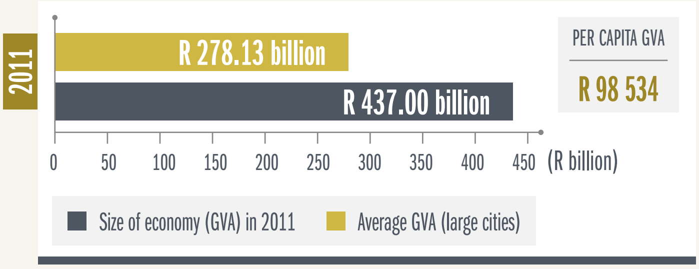
9 CASH POSITION

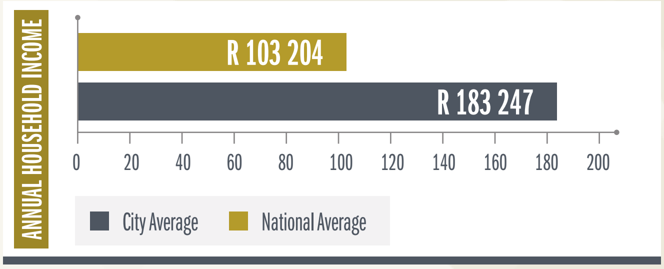


DEMOGRAPHICS



ECONOMY





SOCF 2015 FAST FACTS

As the economic heartland of South Africa, **Johannesburg manages the largest amount of revenue of all the cities.** It also has the largest population and, the highest per capita revenue of all of the cities.

Johannesburg is the **only municipality that decided to use own revenue, not grant funding, as the major source of funding for capital expenditure.** This shows that the city is managing its finances in a balanced manner and that any reduction or change to grant funding will have less impact on other areas of spending.

Between 2009 and 2014, Johannesburg spent **15% of all capital expenditure on roads, the least (as a percentage of total capital expenditure) of all the cities.** This reflects the city's reprioritisation of funds towards public transport, which is in keeping with the prioritisation given to public transport. The city also allocates approximately R500-million of its own funds to operating the Rea Vaya system.

Johannesburg **spends only 3% of total operating revenue on repairs and maintenance.** This is the lowest amount of all the cities, with the exception of Cape Town, which does not show repairs and maintenance separately in their financial statements.

Johannesburg **spent the most on electricity and 'other' capital expenditure.**

Rates

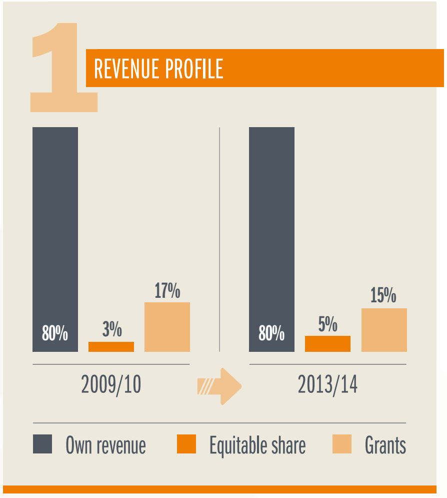
The City of Johannesburg offers a residential property tax rebate to all houses valued at R 200,000 or less. This means that houses in this bracket are exempt from the annual property tax. Along with Cape Town, Johannesburg's rebate level is the most pro-poor of the cities.

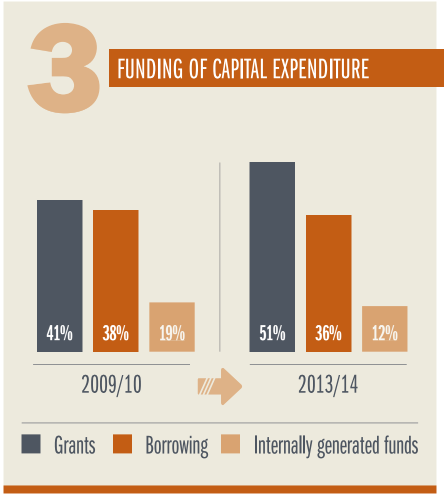
Municipal bills

Poorer households in Johannesburg are charged the third highest (as a percentage of household income) in municipal bills. However, this is offset slightly by the property rates rebate.

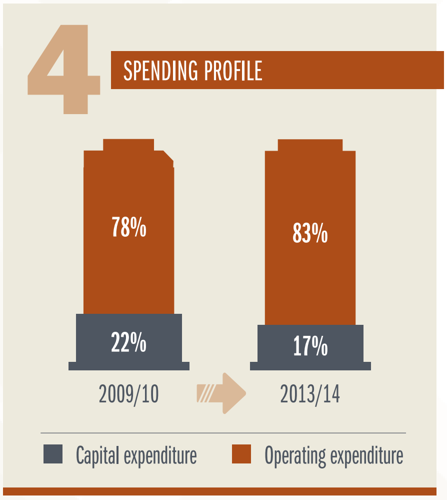
City of Cape Town

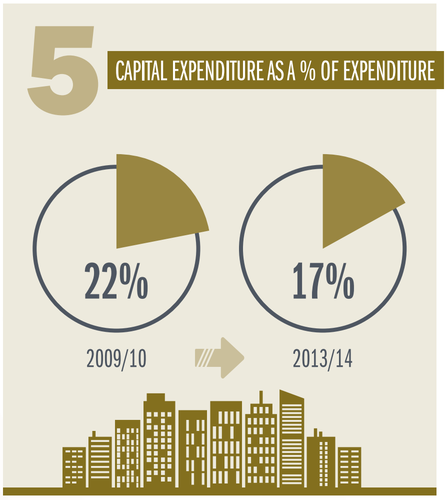
REVENUE: WHERE THE MONEY COMES FROM

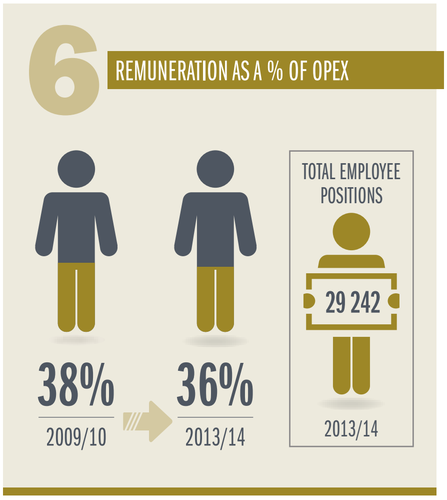




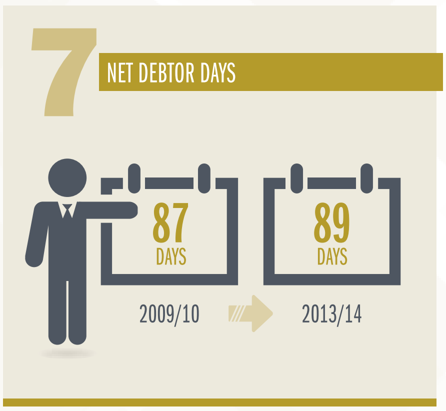
EXPENDITURE: WHERE THE MONEY GOES

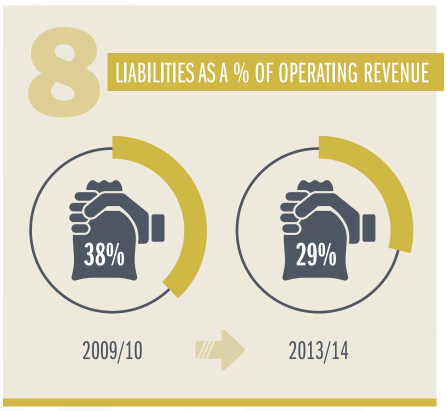


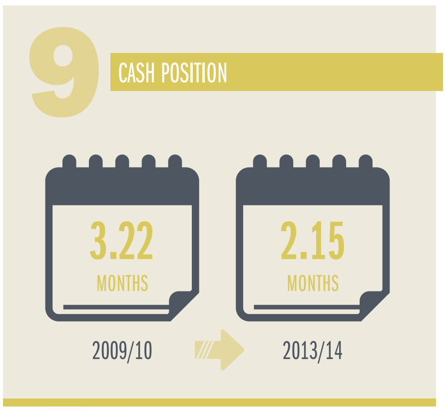




FINANCIAL MANAGEMENT HEALTH







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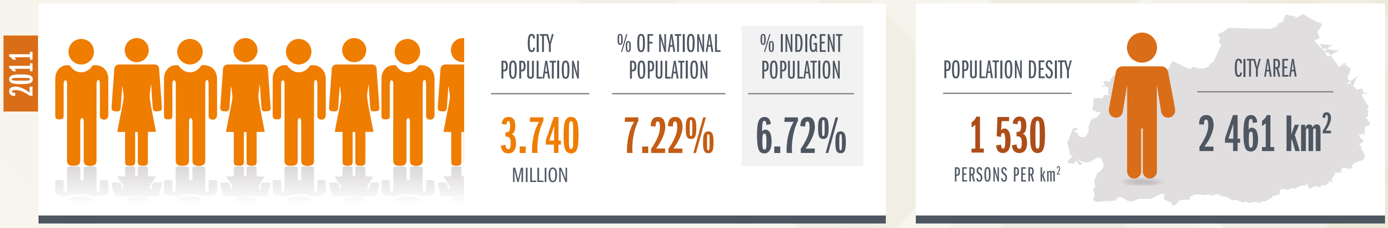
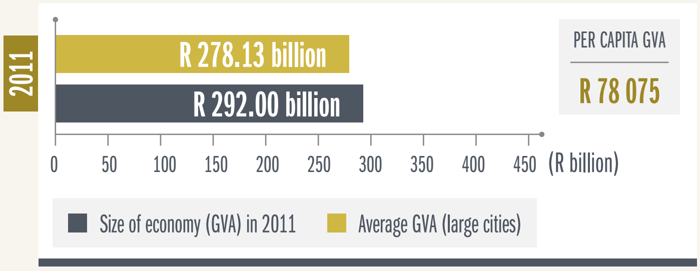
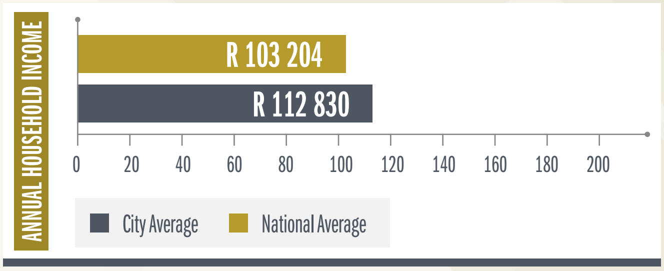


ECONOMY





SOCF 2015 FAST FACTS

The City of Cape Town **manages the second largest amount of revenue of all the cities.**

Cape Town reported **zero expenditure on repairs and maintenance**, which is probably because this expenditure item was captured under 'other'. For accountability reasons, the municipality should report this item separately because of the importance of repairs and maintenance.

Of all the cities, **Cape Town spends the most on libraries**, which is technically a function of provincial government and therefore an unfunded mandate. This shows that a municipality may decide to spend on unfunded mandates because they are important for community development or because communities have expectations of certain services.

Between 2009 and 2014, **Cape Town spent R5-billion on road infrastructure, or 23% of the total capital budget, which is the highest amount and percentage of all the cities.** While road infrastructure networks are an important component of a well-functioning city, it is expensive to deliver and maintain and investments need to be assessed carefully.

Cape Town has made a decision to **allocate a maximum of 4% of its rates revenue to MyCiti operations**, or an estimated R230-million. The city is currently contributing this amount to operational costs and so has revised its roll-out strategy for MyCiTi.

Rates

Like Johannesburg, Cape Town offers a property rates rebate on houses valued up to R200,000 – the highest rebate of all the cities. A property stock swap analysis[2] shows that, compared to other cities, Cape Town has room to improve its revenue from property rates, which is an important discretionary revenue for the municipality.

Municipal bills

In Cape Town, poorer households have faced a rapid growth in household bills. However, as the growth is from a very low base, municipal bills as a percentage of household income are similar to the other cities. The rate charged for water consumption over 50 kilolitres is most expensive in Cape Town.

2. Refer to page 71 of the State of City Finances Report for more information

City of Tshwane

REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

	Own revenue	Equitable share	Grants
2009/10	87%	4%	8%
2013/14	83%	6%	11%

2 OPERATING SURPLUS

(constant 2012 R millions)

2009/10	2013/14
544	1 548

3 FUNDING OF CAPITAL EXPENDITURE

	Grants	Borrowing	Internally generated funds
2009/10	35%	65%	0%
2013/14	49%	35%	13%

EXPENDITURE: WHERE THE MONEY GOES

4 SPENDING PROFILE

	Capital expenditure	Operating expenditure
2009/10	14%	86%
2013/14	17%	83%

5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

2009/10	2013/14
14%	17%

6 REMUNERATION AS A % OF OPEX

2009/10	2013/14
30%	30%

TOTAL EMPLOYEE POSITIONS

29 224

2013/14

FINANCIAL MANAGEMENT HEALTH

7 NET DEBTOR DAYS

2009/10	2013/14
79 DAYS	183 DAYS

8 LIABILITIES AS A % OF OPERATING REVENUE

2009/10	2013/14
41%	44%

9 CASH POSITION

2009/10	2013/14
1.65 MONTHS	3.08 MONTHS

DEMOGRAPHICS

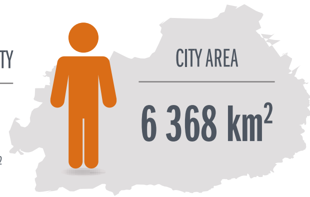
2011

CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION
2.921 MILLION	5.64%	3.07%

POPULATION DESITY

464

PERSONS PER km^2

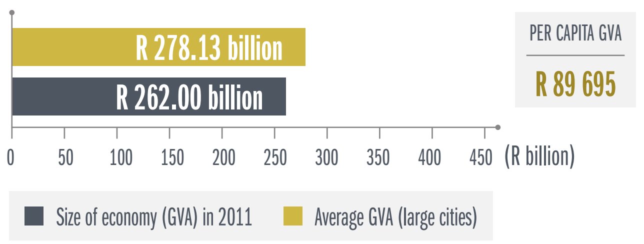


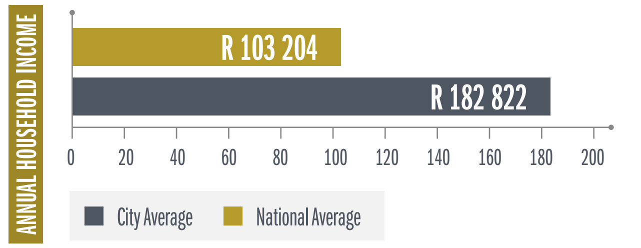
CITY AREA

6 368 km^2

ECONOMY

2011





SOCF 2015 FAST FACTS

Between 2009 and 2014, **Tshwane has had the highest growth in capital spending of all the cities**.

In 2009, **Tshwane** borrowed to fund 65% of its capital budget, with virtually no funds coming from internally generated funds. By 2013/14 **Tshwane was funding 13% of its capital budget from internally generated funds.**

In 2014, **Tshwane collected only 6% of the amount budgeted for traffic fines.** This was because of persistent low payment rates among transgressors and the city not implementing its Speed Law Enforcement project during the year.

Tshwane underspent on its repairs and maintenance budget by 10.8%, which it attributes to 'savings by departments'. Although cities should be looking for ways to trim budgets, spending less on repairs and maintenance budgets will only cost the city more in the medium term.

Rates

In 2013, **Tshwane** converted its residential property rates rebate policy from a R50,000 + 35% rebate applied to all residential properties to a simple R75,000 rebate. This change reduced the cost for lower income households by about 3%.

Tshwane has the highest rate on business and commercial properties but has less commercial properties than the other four large metros that were assessed as part of a property rates study[3].

Municipal bills

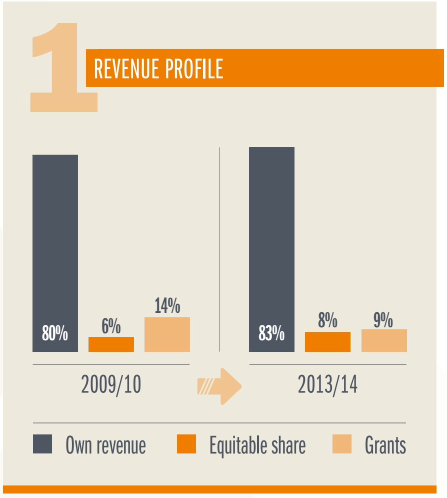
Tshwane is the only city where all the household service packages became more affordable between 2010 and 2014. City of **Tshwane** has the cheapest water of all the cities on average for the amount of water consumed

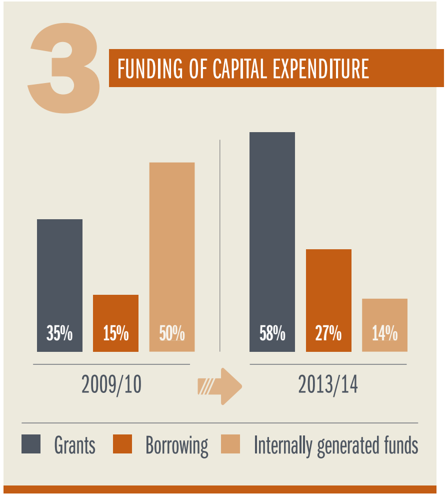
> Tshwane and eThekwini have residential property portfolios of similar value, but eThekwini has nearly twice the number of commercial properties. This means that eThekwini has a higher rates revenue potential (rand for rand) than Tshwane because cities charge much higher rates on commercial property.

3. Chapter 4 of the State of City Finances 2015 provides a property rating and revenue assessment of 4 of the 9 cities covered in the Report.

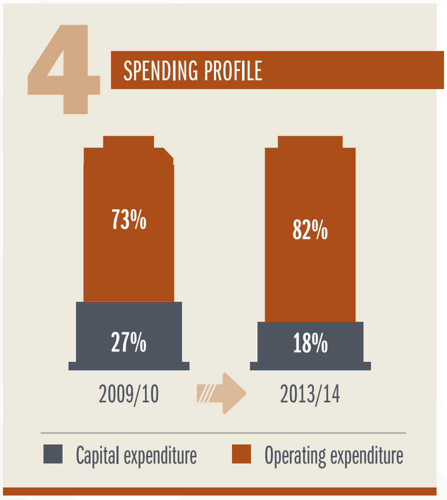
City of eThekwini

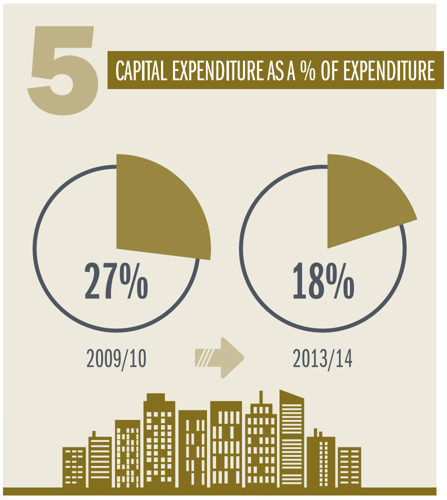
REVENUE: WHERE THE MONEY COMES FROM

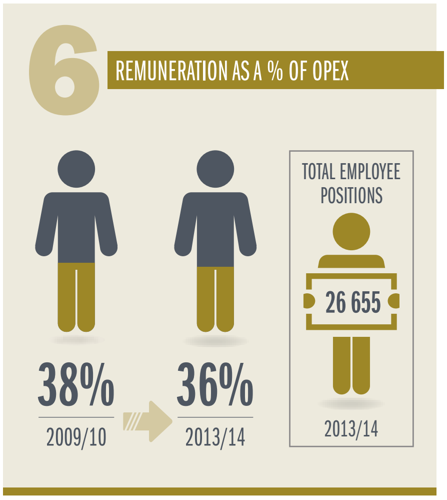




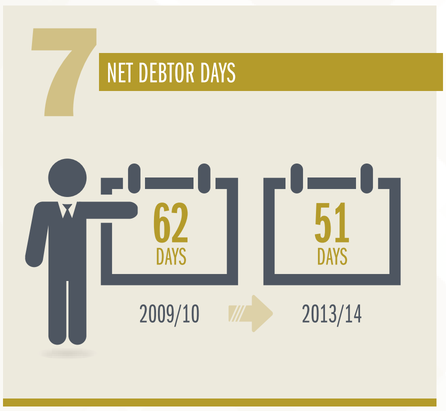
EXPENDITURE: WHERE THE MONEY GOES

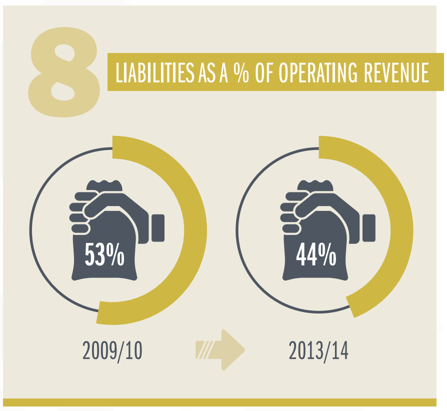


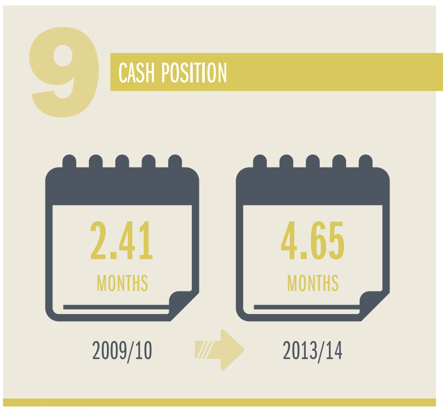




FINANCIAL MANAGEMENT HEALTH







DEMOGRAPHICS

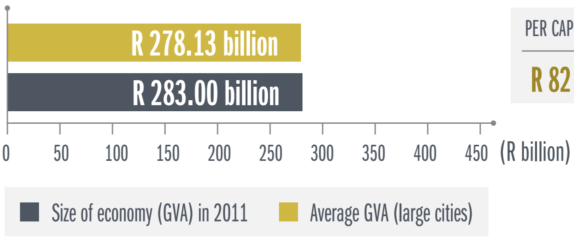
2011

CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION
3.442 MILLION	6.65%	20%

POPULATION DESITY	CITY AREA
1 502 PERSONS PER km²	2 297 km²

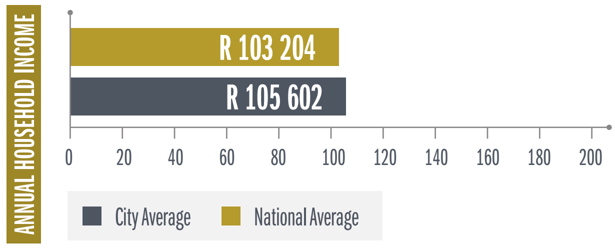
ECONOMY

2011



PER CAPITA GVA

R 82 220



SOCF 2015 FAST FACTS

Compared to the other cities, **eThekwini receives the largest proportion of revenue from property rates.**

Between 2009 and 2014, of the nine cities, **eThekwini has maintained the healthiest cashflow and shown the lowest growth (4%) in debtors**. At the same time, the city had the highest annual growth rate in bad debts, i.e. money owed that the municipality has declared cannot be recovered. Writing off debts ensures that the level of debtors is not overstated in the municipality's financial statements.

In 2014, **eThekwini spent the highest percentage of operating expenditure on repairs and maintenance** compared to the other cities. This shows the city's decision to prioritise repairs and maintenance, which is important for maximising the lifecycle of infrastructure.

Between 2010/11 and 2013/14, **eThekwini increased its workforce by 23% but its spending on employee costs by just 20%.** This is important from an employment creation perspective, as long as the municipality is maintaining its skills base

Between 2009/10 and 2013/14, **eThekwini spent the most on capital projects**, despite not being the largest city. eThekwini spent more than any other city on water infrastructure projects.

Rates

eThekwini has the highest residential and agricultural property rates and the third highest commercial property rates among the nine cities.

Municipal bills

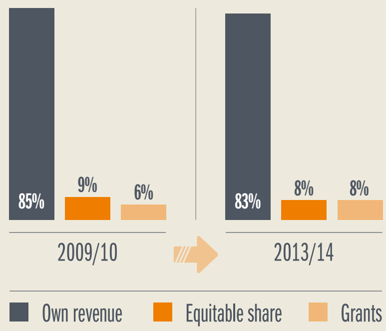
eThekwini charges the least for water consumed up to 20 kilolitres

The municipality is looking at integrating rail into the city's integrated transport system. The exact responsibilities and costs of taking on the additional rail functions are not yet known, but an initial assessment suggests that the financial consequences will be substantial. However, these costs would support an important function, as it is important for the city to have greater management control over all modes in the transport network.

City of Ekurhuleni

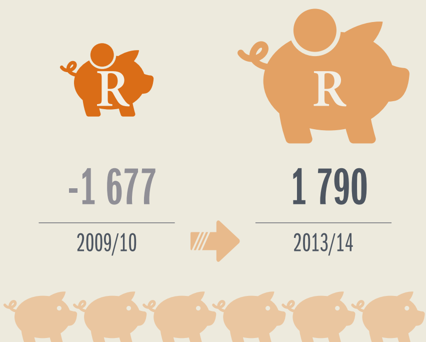
REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

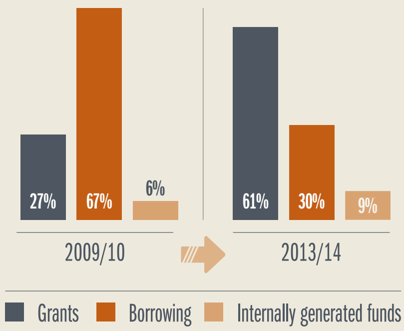


2 OPERATING SURPLUS

(constant 2012 R millions)

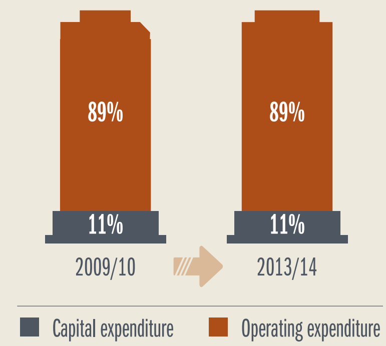


3 FUNDING OF CAPITAL EXPENDITURE

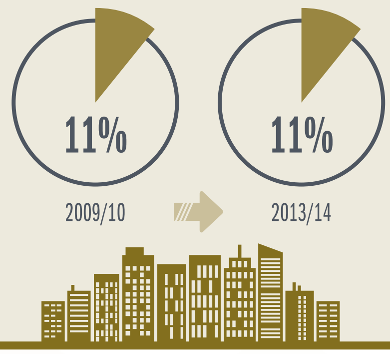


EXPENDITURE: WHERE THE MONEY GOES

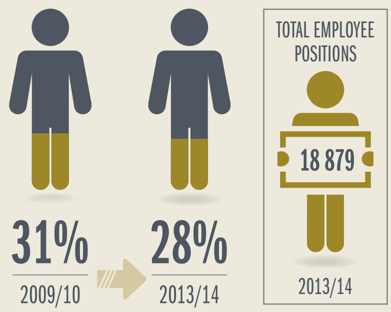
4 SPENDING PROFILE



5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

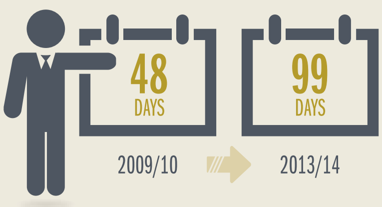


6 REMUNERATION AS A % OF OPEX

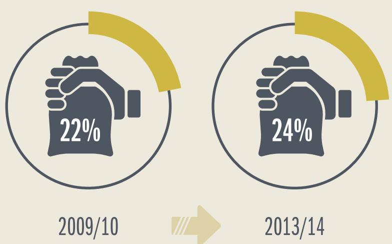


FINANCIAL MANAGEMENT HEALTH

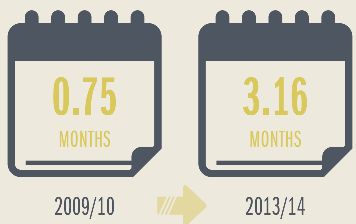
7 NET DEBTOR DAYS



8 LIABILITIES AS A % OF OPERATING REVENUE



9 CASH POSITION



DEMOGRAPHICS

2011

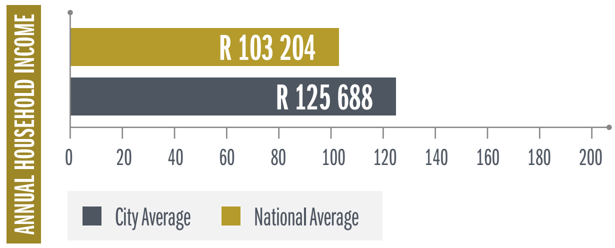
CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION
3.178 MILLION	6.14%	1.08%

POPULATION DESITY	CITY AREA
1 609 PERSONS PER km²	1 975 km²

ECONOMY

2011

PER CAPITA GVA
R 53 493



SOCF 2015 FAST FACTS

Electricity sales account for over half of Ekurhuleni's own revenue, the most of all the cities. This is partly because Ekurhuleni is a highly industrialised city and partly because the municipality has a very steeply inclining block tariff structure, i.e. the more electricity you use, the higher the price you pay).

Ekurhuleni is the second highest spender on electricity and water purchases after Johannesburg, which is explained by the industrialised nature of the city.

Ekurhuleni uses grants to fund capital expenditure, indicating that the city is choosing to spend internally generated funds on municipal operations.

Compared to the other cities, **Ekurhuleni spent the second least on sanitation,** as a proportion of capital expenditure.

Rates

The property rates charged to farming properties in Ekurhuleni are the most favourable of all the cities.

Municipal bills

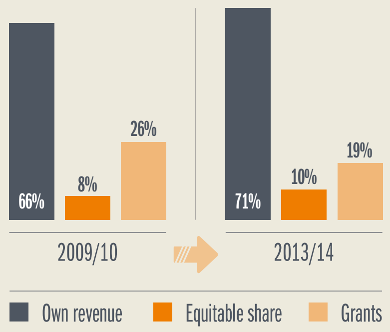
Ekurhuleni is the only city that comes close to having progressive municipal bills. The city provides affordable household service bills to poorer households and charges wealthier households proportionately higher than most other cities, which illustrates its pro-poor household rates strategy. Ekurhuleni charges the second cheapest water rates on average and is the only city whose electricity tariffs incline at a rate that is clearly aimed at discouraging increased consumption.

Ekurhuleni illustrates the threat to municipal revenue from increasing electricity costs. In 2013/14, the city did not meet its budgeted annual income, partly because municipality's actual revenue from electricity was 7.8% less than expected.

Nelson Mandela Bay

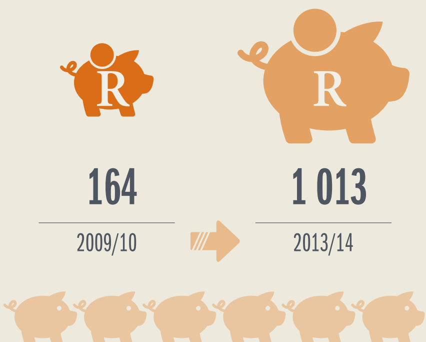
REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

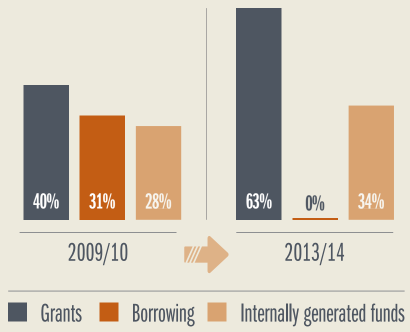


2 OPERATING SURPLUS

(constant 2012 R millions)

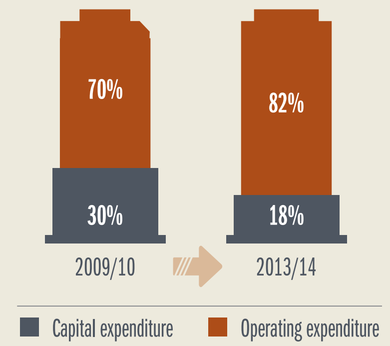


3 FUNDING OF CAPITAL EXPENDITURE

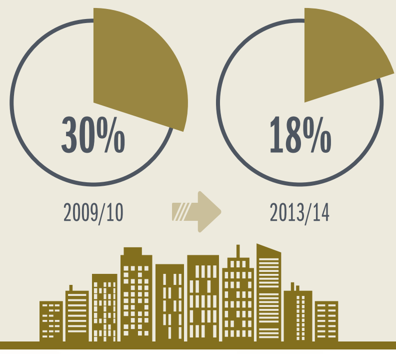


EXPENDITURE: WHERE THE MONEY GOES

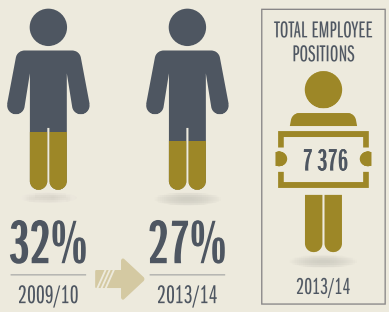
4 SPENDING PROFILE



5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

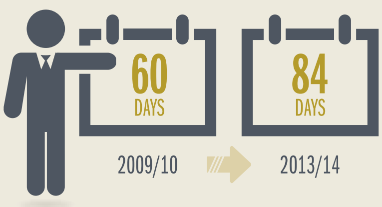


6 REMUNERATION AS A % OF OPEX

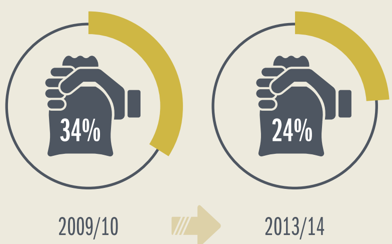


FINANCIAL MANAGEMENT HEALTH

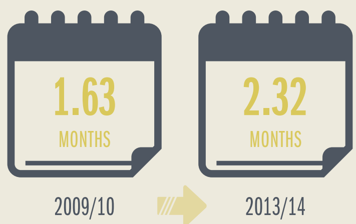
7 NET DEBTOR DAYS



8 LIABILITIES AS A % OF OPERATING REVENUE



9 CASH POSITION



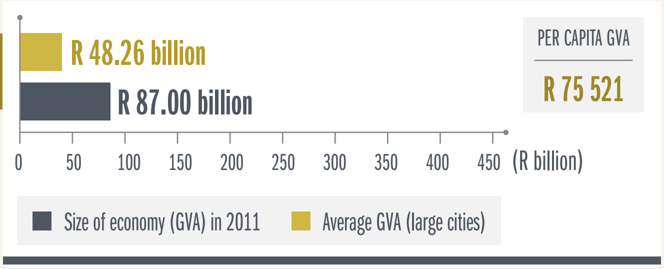
DEMOGRAPHICS

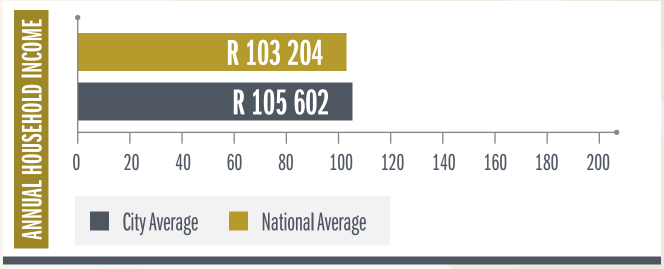
2011

CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION	POPULATION DESITY	CITY AREA
1.152 MILLION	2.23%	7.48%	588 PERSONS PER km²	1 959 km²

ECONOMY

2011





SOCF 2015 FAST FACTS

The municipality is facing real revenue-raising challenges, as shown by the low revenue growth between 2009/10 and 2013/14: real growth of own revenues was just 5%, while capital grants decreased by 13%.

Nelson Mandela Bay is the only city whose overall expenditure has declined since 2010/11. Bulk water and electricity purchases were the only operating expenditure item that increased between 2009/10 and 2013/14.

Employee-related costs as a proportion of operating expenditure declined by 6% between 2009 and 2014. This suggests that Nelson Mandela Bay has adopted deliberate strategies to reduce employee costs.

In 2013/14, Nelson Mandela Bay received a qualified audit, indicating that the municipality needs to improve its financial accountability.

Rates

Nelson Mandela Bay only gives a rebate on R15,000 of residential property value (compared the R200,000 rebate offered in Johannesburg and Cape Town).

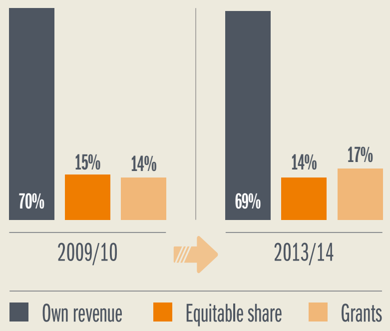
Municipal bills

Nelson Mandela Bay's bills for all household service packages show a more pro-poor structure than those of Johannesburg. The municipality's water policy is regressive, as water basic levies are charged. This means that all households have to pay the same connection charges, which represent a larger percentage of municipal bills for poorer households than for wealthier households. Nelson Mandela Bay discourages excess water consumption by having uniformly high tariffs across the blocks, but care is needed to prevent making water unaffordable for poorer households in the process.

Buffalo City

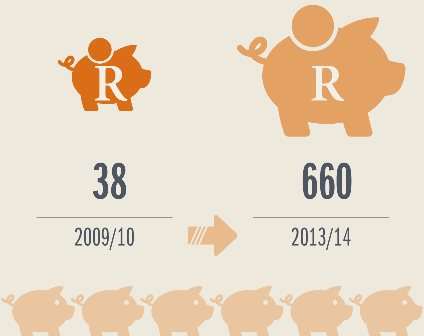
REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

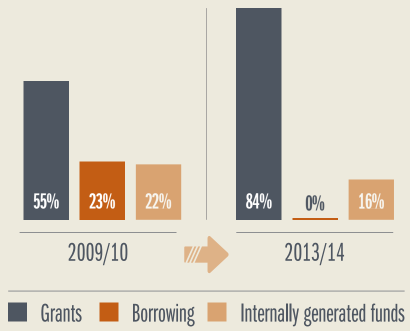


2 OPERATING SURPLUS

(constant 2012 R millions)

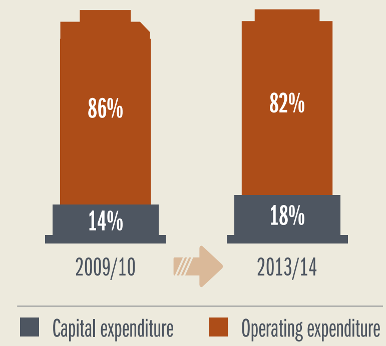


3 FUNDING OF CAPITAL EXPENDITURE

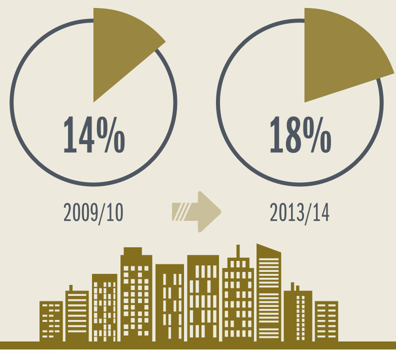


EXPENDITURE: WHERE THE MONEY GOES

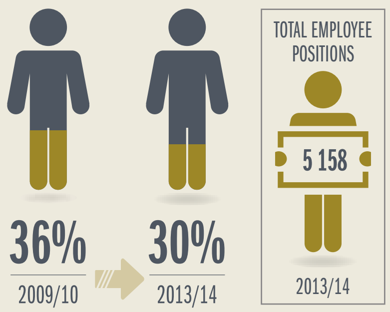
4 SPENDING PROFILE



5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

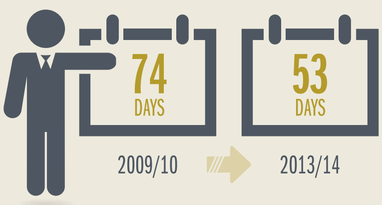


6 REMUNERATION AS A % OF OPEX

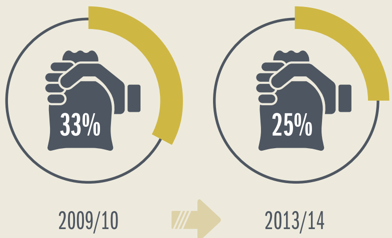


FINANCIAL MANAGEMENT HEALTH

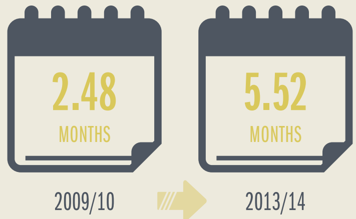
7 NET DEBTOR DAYS



8 LIABILITIES AS A % OF OPERATING REVENUE



9 CASH POSITION



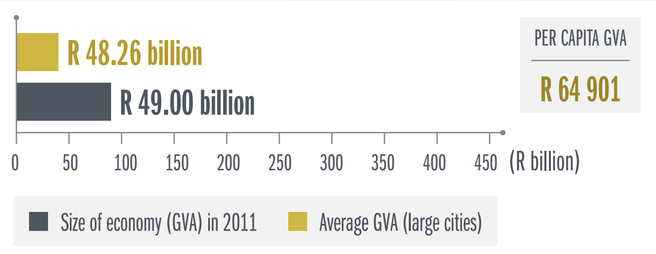
DEMOGRAPHICS

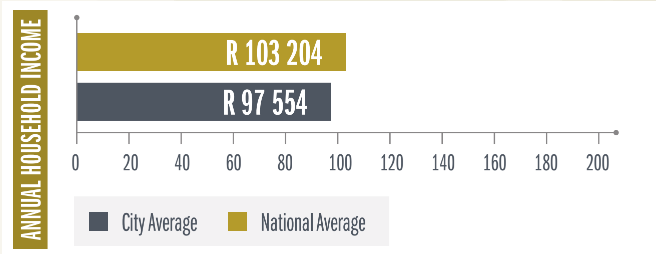
2011

CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION	POPULATION DESITY	CITY AREA
0.755 MILLION	1.46%	7.18%	298 PERSONS PER km²	2 536 km²

ECONOMY

2011





SOCF 2015 FAST FACTS

The equitable share represented 13.6% of Buffalo City's total revenue, which was the highest percentage of all cities and points to the municipality's lower revenue-raising capacity.

Buffalo City increased the proportion of spending on repairs and maintenance. It was the only city other than Johannesburg to achieve this.

Since 2010/11, Buffalo City has significantly increased capital expenditure, spending the biggest share on sanitation infrastructure but the lowest share on electricity infrastructure.

Buffalo City funds 84% of capital investment through grant funding, which is the highest of all cities and perhaps is a consequence of the municipality's weaker own-revenue raising capacity.

In 2013/14, Buffalo City received a qualified audit and is yet to receive an unqualified audit. The municipality needs to improve its financial reporting and accountability.

Rates

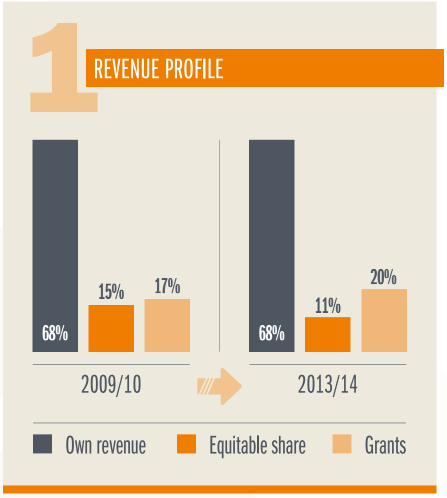
Like Nelson Mandela Bay, Buffalo City only gives a rebate on R15,000 of residential property value (compared the R200,000 rebate offered in Johannesburg and Cape Town). In 2013/14, property rates accounted for 15.6% of the city's operating revenue, compared to 17.9% in 2009/10.

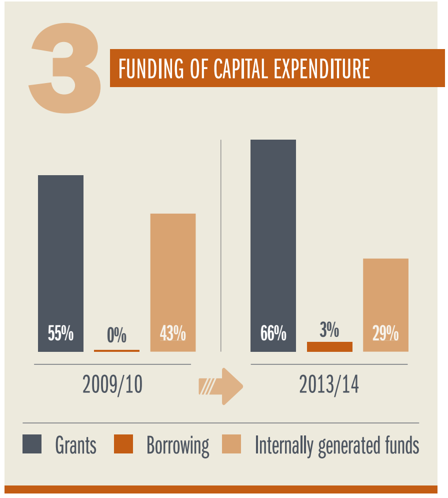
Municipal bills

Buffalo City faces the greatest revenue-raising challenges, as 65% of households are classified as indigent. Therefore, it is perhaps not surprising that lower income households are billed a high percentage of their income.

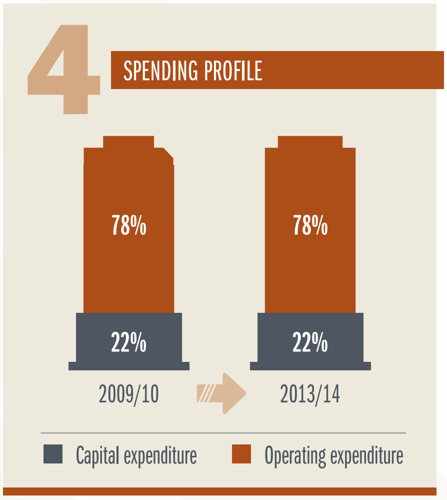
Mangaung

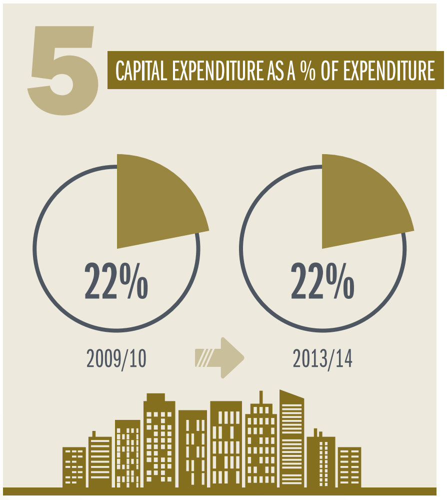
REVENUE: WHERE THE MONEY COMES FROM

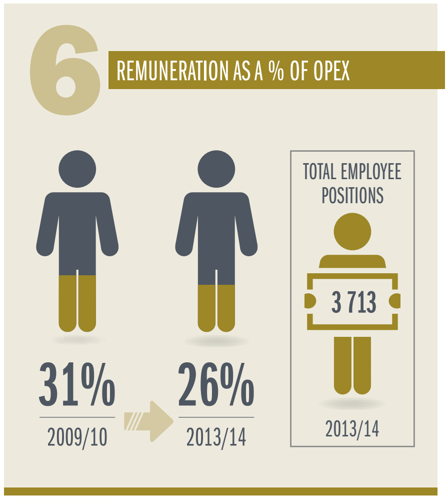




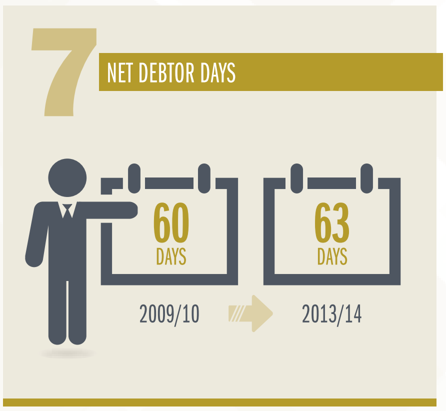
EXPENDITURE: WHERE THE MONEY GOES

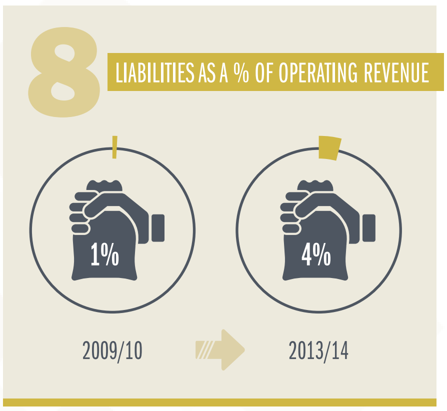


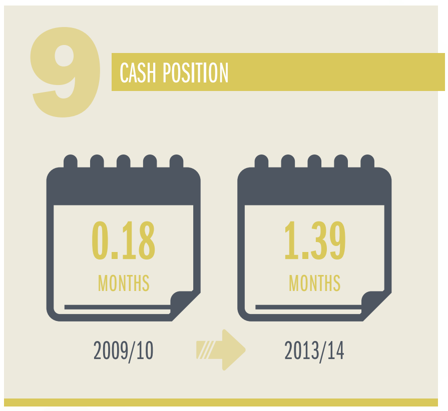




FINANCIAL MANAGEMENT HEALTH







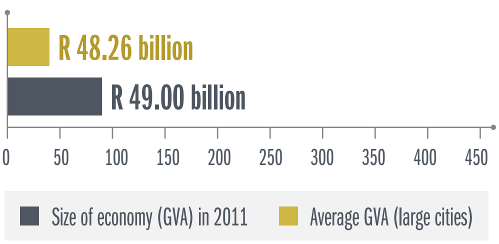
DEMOGRAPHICS

2011

CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION	POPULATION DESITY	CITY AREA
0.747 MILLION	1.45%	4.36%	119 PERSONS PER km²	6 284 km²

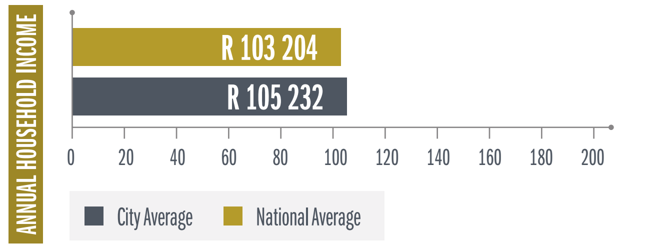
ECONOMY

2011



PER CAPITA GVA

R 65 558



SOCF 2015 FAST FACTS

Between 2008/9 and 2013/14, operating expenditures grew more rapidly in Mangaung than the other cities. The increase came from spending on 'other', which accounted for the highest percentage of operational expenditure (unlike other cities, where bulk purchases represent the highest proportion).

Most of the significant growth in capital expenditure is from increased spending on roads (27% of all capital expenditure).

Mangaung's long-term liabilities grew at an average real rate of 59% per year, although this growth was from a very low base: the city's long-term liabilities as a percentage of operating revenue remain relatively low, at 38% in 2013/14.

In 2014, Mangaung received an unqualified audit, which was a significant achievement given the municipality's history of qualified and disclaimed audits.

Rates

In 2013, Mangaung increased its residential rebate from R40,000 to R70,000 and significantly reduced residential property rates. Mangaung has the lowest rates on residential property but, after implementing a new valuation role in 2014, nearly doubled its property rates. The municipality's property rates revenue is now closer to that of the other cities.

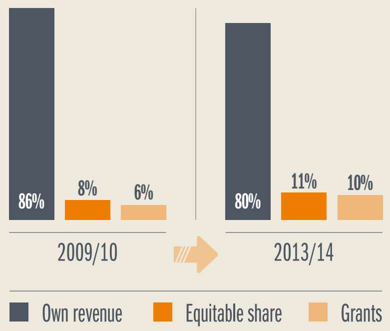
Municipal bills

As a result of the reduced residential property rates, household municipal bills overall reduced by about 5%. After Ekurhuleni, Mangaung has the second least regressive municipal bills (the proportion of income paid by wealthier households is closer the proportion paid by poorer households).

Msunduzi

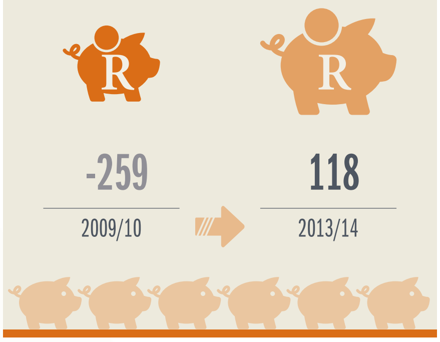
REVENUE: WHERE THE MONEY COMES FROM

1 REVENUE PROFILE

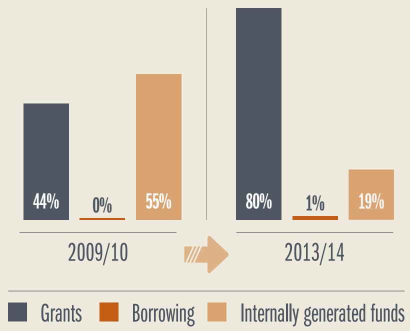


2 OPERATING SURPLUS

(constant 2012 R millions)

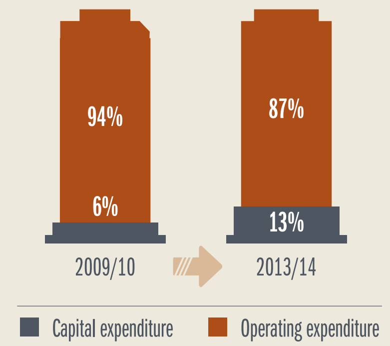


3 FUNDING OF CAPITAL EXPENDITURE

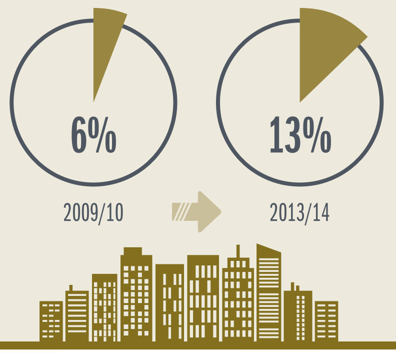


EXPENDITURE: WHERE THE MONEY GOES

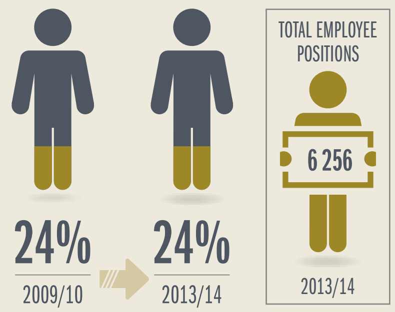
4 SPENDING PROFILE



5 CAPITAL EXPENDITURE AS A % OF EXPENDITURE

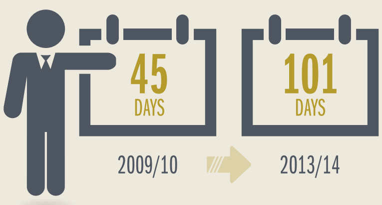


6 REMUNERATION AS A % OF OPEX

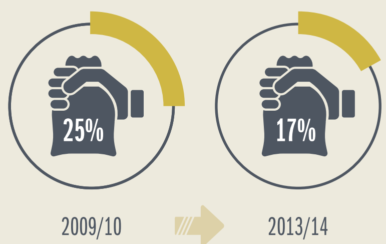


FINANCIAL MANAGEMENT HEALTH

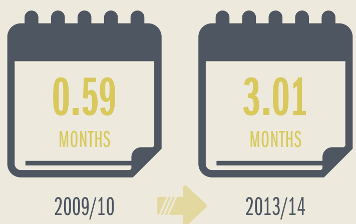
7 NET DEBTOR DAYS



8 LIABILITIES AS A % OF OPERATING REVENUE



9 CASH POSITION



DEMOGRAPHICS

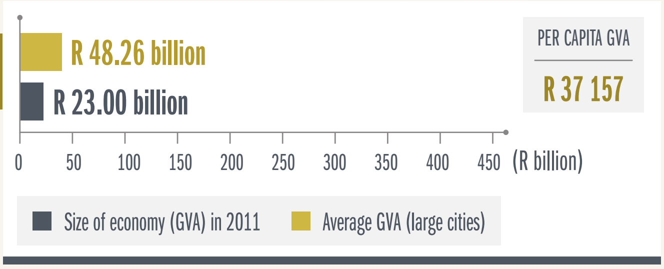
2011

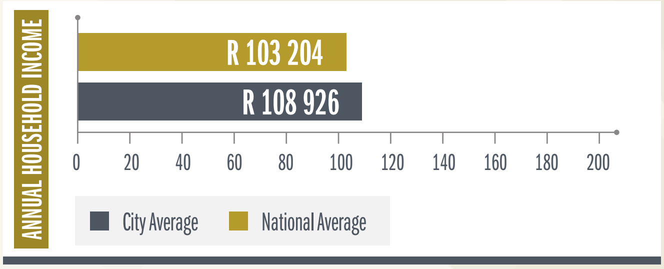
CITY POPULATION	% OF NATIONAL POPULATION	% INDIGENT POPULATION
0.619 MILLION	1.19%	4.53%

POPULATION DESITY	CITY AREA
976 PERSONS PER km^2	633 km^2

ECONOMY

2011





SOCF 2015 FAST FACTS

Msunduzi spends the greatest proportion of operating expenditure on bulk water and electricity purchases. The reason for this high level of expenditure relative to the other cities is unclear.

Bad debts in Msunduzi grew at an annual rate of 54%, but this was off a very low base in 2008/09 that probably did not reflect the true situation.

Msunduzi's debtors was 2.5 times higher in 2014 than in 2010. This is the amount of money owed to Msunduzi by households, business and government departments.

Rates

Msunduzi offers the lowest rebate on residential properties of all the cities. Annual property rates bills for properties valued at R250,000 is highest in Msunduzi at R2021, compared to Johannesburg's R308 which is lowest.

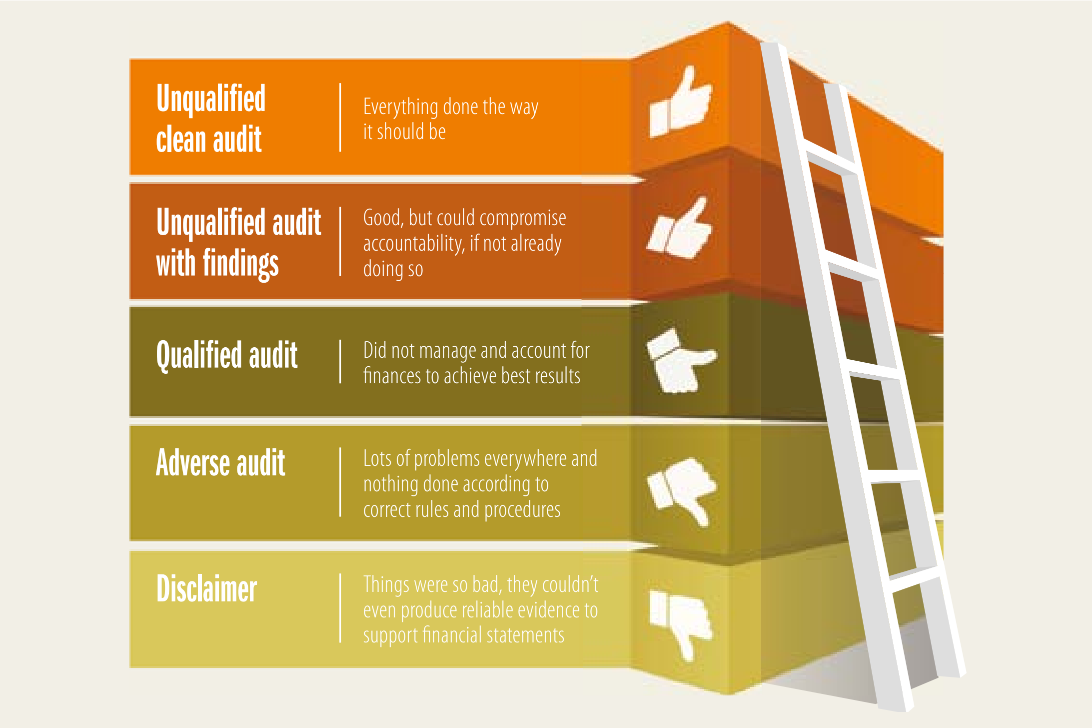
Municipal bills

In 2014, Msunduzi was still charging basic electricity levies, meaning that all households pay the same price. This places a greater burden on poorer households than on wealthy households. Msunduzi has the most regressive municipal bills of all the cities. In 2014, Msunduzi was the least affordable for poorer household service packages and the most affordable for the wealthier households. Msunduzi discourages excess water consumption through uniformly high tariffs across the consumption range. Water consumption above 50 kilolitre is most expensive in Msunduzi (and Cape Town).

Together with eThekwini, Msunduzi reduced spending on "other" or "non-essential" items, which include audit fees, advertising, bank charges, communication, travel and subsistence.

Audit Outcomes

The object of an audit is to express an audit opinion on whether the financial statements fairly present the financial position of the municipality at financial year end and the results of their operations for that year. The Auditor-General can express various opinions:[4]



The audit of financial statements

Audit outcomes are an indication of the financial reporting of cities. They are important but do not provide a complete picture of the governing practices of a municipality. This means not receiving a clean audit does not automatically mean that corruption is rife let alone present in the municipality.

	2010	2011	2012	2013	2014
Johannesburg	Qualified	Qualified	Qualified	Unqualified	Unqualified
Cape Town	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
eThekwini	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Tshwane	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
Ekurhuleni	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Nelson Mandela Bay	Unqualified	Adverse	Qualified	Qualified	Qualified
Mangaung	Disclaimed	Disclaimed	Outstanding	Qualified	Unqualified
Buffalo City	Qualified	Adverse	Qualified	Qualified	Qualified
Msunduzi	Qualified	Unqualified	Unqualified	Unqualified	Unqualified

4. https://www.agsa.co.za/Auditinformation/Auditterminology.aspx

Corruption in Perspective

Corruption cripples development. Corrupt practices need to be brought into focus, identified and dealt with accordingly, and South Africans need to work together to beat corruption. Municipalities, including some of the metros are often reported as 'the most corrupt'[5] entities in government, but is this poor reputation always justified?

Audit reports indicate expenditure items that are not in accordance with the Municipal Financial Management Act (No. 56 of 2003) (MFMA), the legislation that informs municipal financial management practice. The categories of expenditure which contravene the MFMA are:

- unauthorised expenditure. In simple terms, this means that the municipality has overspent on an item that is in the approved budget or spent money intended for a specific purpose on something else.
- irregular expenditure. This means simply that the municipality has incurred expenditure that is not in accordance with the MFMA, the Municipal Systems Act (No. 30 of 2000) or the Public Office-Bearers Act (No. 20 of 1998), or that contravenes the supply chain management policy and related bylaws.
- wasteful and fruitless expenditure. This is expenditure that did not yield a desired result and due diligence was not applied to ensure that the outcome was achieved.

As Table 1 shows, these three categories account for just 6.3% of the metros' total expenditure. The findings are more concerning for the smaller metros (Buffalo City, Nelson Mandela Bay and Mangaung) and are in line with the audit opinions. What is important is to understand that the figure of 6.3% is not necessarily a reflection of corruption, although corrupt practices might account for a portion. Instead, it might reflect, for example, poor financial reporting or unplanned emergency response spending (e.g. spending on emergency housing for flood victims).

The category that is the largest concern is fruitless and wasteful expenditure, as this is expenditure that has not added value to, or advanced the municipality's growth and development. While any fruitless and wasteful expenditure is unacceptable, it should be noted that just 0.3% of total metro expenditure falls into this category. Overall, the larger metros seem to perform rather well, and it would be useful to compare these figures with other spheres of government and state-owned entities.

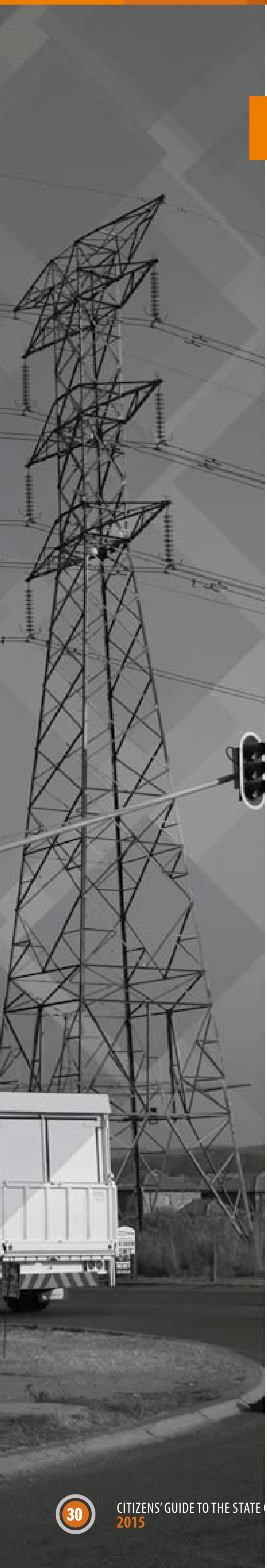
Table 1: Irregular, unauthorised, fruitless and wasteful expenditure (2013/14)

Municipality	Irregular expenditure (IE)	Unauthorised expenditure (UE)	Fruitless and wasteful expenditure (F&WE)	Sum of IE, UE, F&WE	Total municipal expenditure*	IE, UE, F&WE as a % of total expenditure	Fruitless and wasteful % of total expenditure
eThekwini	R366 736	0	0	R366 736	R22 100 000 000	0.0	0.0
City of Cape Town	R45 000	0	R440 000	R485 000	R24 000 000 000	0.0	0.0
Buffalo City	R1 330 327 568	R186 767 984	R5 532 125	R1 522 627 677	R4 100 000 000	37.1	0.1
City of Johannesburg	R1 120 947 000	R53 166 000	R26 357 000	R1 200 470 000	R31 100 000 000	3.9	0.1
City of Tshwane	R453 619 667	R1 193 981 952	R17 117 352	R1 664 718 971	R20 000 000 000	8.3	0.1
Mangaung	R274 276 377	R892 507 058	R28 324 936	R1 195 108 371	R4 200 000 000	28.5	0.7
Ekurhuleni	R753 702 756	0	R15 9883 363	R913 586 119	R20 800 000 000	4.4	0.8
Nelson Mandela	R768 212 060	R1 016 645 415	R122 143 994	R1 907 001 469	R6 600 000 000	28.9	1.9
TOTAL	R4 701 497 164	R3 343 068 409	R359 798 770	R8 404 364 343	R132 900 000 000	6.3	0.3

**Total expenditure figures are derived from the SACN database of Municipal annual financial statements information*

The table is sourced from a response from the finance minister on 20 February 2015 to a question raised in the National Assembly. http://www.treasury.gov.za/publications/other/MinAnsw/2015/Reply%20to%20PQ%20366%20[NW394E].pdf

5. http://www.corruptionwatch.org.za/local-government-the-weakest-link/



So What Does This All Mean?

For city performance

Metropolitan municipalities operate in a rapidly changing urban landscape, with a growing population and increasing environmental and social pressures. Overall South Africa's largest municipalities are doing well and continue to improve their financial management practices, with evidence of better revenue management, greater transparency and improved financial reporting practices. There is, as always, room for improvement. Indeed, cities will need to continue improving in order to grow the economy, get the best value for money and build confidence in municipal systems.

Nevertheless, cities are not able to make all strides forward alone: all stakeholders must play a role in strengthening the financial capabilities of cities. Large urban municipalities remain severely underfunded relative to the services and growth they are expected to provide and manage.

The 2015 State of City Finances report calls for municipalities to:

1. **Spend funds more efficiently**
   Metros will be able to maximise existing financial resources, ensure greater value for money, and free up finances to fund further service delivery and urban growth and development.

2. **Make better use of existing revenue sources**
   Municipalities will increase their revenue and so be able to deliver more services and infrastructure, which improve the quality of living.

3. **Explore options for additional taxes**
   A global trend is for metropolitan municipalities to raise more diverse and sustainable revenue. This does not necessarily mean taxing people and businesses more. For example, an option might be to share taxes between different spheres of government, allocating a portion of a tax to the local government. For example cities could potentiall be allocated a portion of the revenue derived from the increased sugar tax tabled in the 2016 budget.

4. **Lobby for a greater share of national revenue**
   Metropolitan municipalities generate around 60% of total economic output but receive less than 10% of the nationally collected revenue. National government financial allocations need to reflect the importance of metropolitan municipalities, as 'major assets for the country'.

5. **Explore innovative financing options**
   In partnership with the business fraternity, communities and other spheres of government, municipalities need to explore new ways of funding their development. For example, community development trust funds are being explored in other parts of the world.

6. **Have a stronger voice in government**
   National budgeting forums need to recognise more prominently the ideas and requirements of large urban municipalities when allocating funding.

For you as a citizen?

The information presented in this guide allows for citizens to engage on particular issues which have been raised in the 2015 State of City Finances report. It informs citizens about the financial practices and approaches of nine cities. Citizens should engage with the budgeting processes, by following the annual national budget speech, the state of city speeches presented by mayors and the accompanying budget speeches presented by their financial counterparts. The voice of citizens is immensely important in budgeting. In some parts of the world, full participatory budgeting is being carried out, whereby a community group decides where and how a municipality will spend the money.

What urban citizens can do:

Equip yourself with the financial information of the city and understand how the city is financed, what are some of the constraints faced and explore innovative financing alternatives within your community.

There are public budgeting forums conducted as part of every annual budgeting process. Participate in the budgeting process and in developing the municipality's budget.

Follow the quarterly budget reports prepared by the municipality. Importantly, track the implementation and outcomes of the budget and engage the municipality to make expenditure information more transparent and communicated in a format which can easily be understood by people living in the city.

Insist on being part of participatory forums and schedule community meetings with the municipality, as citizens are entitled to publicly hold their municipality to account for spending.

Notes

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