



**PARLIAMENT**  
OF THE REPUBLIC OF SOUTH AFRICA

## Understanding the sources of municipal revenue

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**Ref. no. 21/1/3 (November 2021)**

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## Contents

Executive summary .....	4
1. Purpose .....	7
2. Background .....	7
3. Introduction .....	8
4. Analysis.....	8
4.1. Funding structure of local government expenditure .....	9
4.2. Revenue sources for Metros as at end March between 2017/18 and 2020/21 .....	12
4.3. Change in the proportions of revenue sources per Metro between Q3 2017/18 - 2020/21 ..	13
4.4. The ability of municipalities to collect revenue .....	13
4.4.1. Annual average growth in revenue sources for Metros between the third quarters of 2017/18 - 2020/21 .....	13
4.4.2. Revenue sources for all municipalities as at end March 2017/8 – 2020/21 .....	14
5. The transfer of nationally raised revenue to local government .....	17
6. The District Development Model (DDM) .....	21
6.1. Roles and Responsibilities of Political Champions .....	22
6.2. National and provincial priority sectors in the DDM .....	23

## Executive summary

The Members of the Select Committee on Appropriations have expressed interest in an emerging trend of declining revenue collection by Metropolitan Municipalities due to, amongst others, the COVID-19 pandemic challenges. In response to Member's interest in getting an understanding of the implications of the declining revenue collection rates for the implementation of the district-development model, the Parliamentary Budget Office (PBO) has undertaken this analysis of municipal revenue sources.

This brief provides Members with an overview of the main sources of local government revenue and main operating expenditure. In particular, the brief shows historic trends and estimated collection rates hampered by slow economic growth, Covid-19 and others. The brief further shows that Metros rely on service charges to households and businesses to fund current expenditure. The analysis shows that the reduction in government transfers due to fiscal consolidations is likely to negatively affecting municipal revenue sources over the medium term. The brief also notes that the declining budgets due to the declining revenue collection rates and transfers from other spheres of government to municipalities are concerns that might adversely affect the implementation of the District Development Model.

Findings from the analysis, for further considerations by Members of the Committee, include the following:

### Funding structure of local government expenditure

- The main sources of local government revenue that funded operating expenditure in the 2020/21 financial year was from property rates and service charges, which on aggregate amounted to 62.5 per cent of the total operating adjusted budget. The biggest proportion of the 62.5 per cent was 29.5 per cent from electricity service charges. Income from transfers and subsidies amounted to 23.8 per cent of the total operating revenue adjusted budget.
- The main local government operating expenditure item is employee related costs, which on aggregate amounted to 29.4 per cent of the total local government operating expenditure. The aggregate bulk purchases amounted to 21.6 per cent of the total adjusted local government operating expenditure budget in 2020/21.
- The main source of capital revenue that funded capital expenditure in the 2020/21 financial year was a transfer from the national government that amounted to 53.9 per cent of the total capital revenue adjusted budget. The other main local government capital sources are internally generated and from borrowing, which amounted to 27.8 per cent and 13.6 per cent respectively of the total capital revenue adjusted budget.
- Capital expenditure in 2020/21 was mainly for road transport and water management, which amounted to 20 per cent and 25.6 per cent respectively of the total spending on capital.

### Revenue sources for metros

- Total income of Metros has increased from approximately R50 billion in the third quarter of 2017/18 to R56 billion in 2020/21. The increase in revenue collection from 2019/20 to 2020/21 was mainly due to increases in service charges and transfers received in the form of grants.
- The smallest proportion of total revenue in metros is from grants. The proportion of income from grants has also decreased from contributing 5.9 per cent to total revenue to 3.1 per cent of total revenue in Metros. The proportion of income from service charges, the main source of

income, has dropped in Buffalo City, Cape Town, eThekweni, City of Johannesburg and Mangaung from end March 2018 to end March 2021, while other resources increased.

- The annual average growth on total revenue sources for Metros between end March 2017/18 and 2020/21 amounted to 3.3 per cent. In total, Metros has, on average, received 16.8 per cent less from grants between the third quarter in 2017/18 and third quarter 2020/21.
- Income from property rates has grown on average by between 4.9 per cent and 14.6 per cent in Metros. Income from Service charges has increased, on average, between 3.5 per cent and 15.9 per cent in Metros. Income from other sources has increased, on average, between 1.7 per cent and 21.5 per cent in Metros.

### **Change in the proportion of revenue**

- Municipalities have collected between 74.8 per cent and 77.6 per cent of their operating revenue as at the end of the third quarter between 2017/18 and 2020/21. Operating expenditure amounted to between 64.2 per cent and 68.0 per cent during the same period. This slower expenditure than revenue collections resulted in surpluses in the third quarters of 2017/18 to 2020/21.
- In total the operating revenue collection rate, per source, are between 69.6 per cent in 2019/20 and 77.6 per cent 2020/21. These rates could be compared to a notional benchmark of 75 per cent. The slowest collection rates were recorded for fines (between 50.9% and 59.1%) and the highest rates are from transfers recognised (between 81.8% and 89.0%).
- The annual average growth rates of the main operating revenue sources, in municipalities, between the third quarters of 2017/18 and 2020/21 ranged between 5.5 per cent and 38.4 per cent. The highest growth rate of 38.4 per cent was on other revenue, which is not defined on the database. Interest earned on outstanding debt grew by 15.8 per cent while sanitation revenue grew by 14.8 per cent. The slowest annual average growth rates over the period was on electricity and water revenue at 5.8 per cent and 5.5 per cent respectively.

### **Change in the proportion of expenditure**

- In total the operating expenditure rate, per item was between 61.2 per cent in 2019/20 and 68.0 per cent 2020/21. These rates should be compared to a notional benchmark of 75 per cent.
- The main sources of capital expenditure are transfers received from national and provincial governments. The transfer rates in three of the financial years were below 50 per cent except for 2019/20 when the transfers peaked at 71.1 per cent in the third quarter. This high capital revenue collection rate in 2019/20 can be attributed to the higher internally generated funds when compared to the other years.
- The expenditure rates were below 50 per cent in three of the financial years except for 2019/20 when expenditure peaked at 67.0 per cent in the third quarter. The highest proportion of the capital budget was spent on road transport, water, electricity, waste water management and housing.

### **Change in transfers from nationally raised revenue**

Reductions to the public-service wage bill affected only national and provincial government, resulted in local government's share of revenue to rise in relative terms. Transfers to provinces grow by an annual average of 1 per cent over the medium term, while transfers to local government

grow by an annual average of 2.6 per cent. The equitable share increases by 4.4 per cent and conditional grants grow by 7.3 per cent.

As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R20.2 billion, including R15.5 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants since the previous MTEF. The reduction to direct conditional grants includes R329 million from the municipal infrastructure grant and R21 million from the integrated urban development grant. These amounts have been reprioritised from underspending grants to fund a once-off councillor gratuity for non- returning councillors. The largest proportional reduction of R1.3 billion to local government grants has been made in the public transport network grant. The reason for this is that only six of the thirteen cities receiving the grant have successfully launched public transport systems. Indirect conditional grants are reduced by R286 million over the period.

Despite the reductions over the MTEF capital transfers to municipalities still grow by 7.4 per cent on average over the 2021 MTEF. The highest growth rate is recorded for the direct Integrated National Electrification programme, which is estimated to grow annually, on average, by 17.6 per cent. The direct Public transport network grant is growing steadily subsequent to the reprioritisation of funds in 2020/21. The Urban settlements development conditional grant has now been divided to also provide for an Informal settlements upgrading partnership conditional grant.

Metropolitan municipalities receive 31 per cent of the total transfers to municipalities, while between 20 per cent and 21 per cent are transferred to district municipalities. The annual average growth of transfers to metros are 3 per cent over the 2021 MTREF, 5 per cent for district municipalities and the national total allocation grows by 4 per cent on average over the 2021 MTREF. The remainder of the transfers are allocated to other municipalities.

### **Implications for the District Development Model**

The brief notes that:

- The district development model is a practical Intergovernmental Relations (IGR) mechanism to enable all three spheres of government to work together, with communities and stakeholders, to plan, budget and implement together.
- Declining budgets due to the declining revenue collection rates and transfers from other spheres of government to municipalities are concerns that might adversely affect the implementation of the District Development Model.
- The success of the implementation of the DDM is largely linked and dependent on certain government sectors policy and budgets. These departments include; Public Enterprises; Mineral Resources and Energy; Tourism; Trade, Industry and Competition; and Water and Sanitation. And all these government departments' appropriations were reduced from the 2020/21 appropriations. The highest increases of between R1.7 billion and R7.5 billion are reflected in Cooperative Governance, Basic Education, Health, Social Development and Transport.

## 1. Purpose

The Members of the Select Committee on Appropriations have expressed interest in an emerging trend of declining revenue collection by Metropolitan Municipalities due to, amongst others, slow economic growth and the COVID-19 pandemic challenges. In addition, Members also expressed their concerns in terms of the implications of declining revenue collection trends for the implementation of the district-development model. In response, the Parliamentary Budget Office (PBO) has undertaken this analysis to assist Members of the Committee to understand the impact of the declining revenue collection due to the Covid-19 pandemic. Specifically:

- Analysing, historic trends and estimated collection rates hampered by slow economic growth, Covid-19 and other.
- Determining the possible effect on the implementation of the district development model implementation

## 2. Background

The Constitution of South Africa provides for three categories out of two-hundred and seventy-eight (278) municipalities, eight metropolitans, forty-four (44) district and two –hundred and twenty-six (226) local municipalities. The local government focuses on growing local economies and providing both economic and social infrastructure and provide basic services.

According to Carlton and de Visser, the slower growth in intergovernmental transfers together with the continued strain in the municipalities operating environment, as South Africa continues to battle the Coronavirus, has intensified the pressures on municipalities. Consumers, households and businesses are under strain and unable to pay for service and rates, undermining municipalities' ability to pay for bulk services provided.

On average, some municipalities generate more than 80 per cent of their operating revenues from fees for services provision. Some municipalities have reported year-on-year declines of up to 10 per cent in revenue collection during 2020. The details of these municipalities are provided later in the brief. Such shortfall is likely to be widespread and persistent. Given the households and business disposal income situation is still to recover to pre-covid19 period, the municipalities revenue shortfalls are likely to be widespread and persistent over the medium term. As such, material deterioration of gross operating balances and cash balances can be expected over the medium term.

Given the structurally very weak economic growth in the country and local government's limited budget flexibility, metros are likely to struggle to balance operations in the coming years. Operating shortfalls are likely to be controlled through potentially large cuts in capital expenditure, which given the metros' already significant infrastructure backlog will be harmful to their medium term economic growth and service delivery prospects.

Prior to the Covid-19 pandemic, the growth in national transfers to local government was already slowing to allow for government objective of fiscal consolidation. Some of the intergovernmental grants which were protected, such as the equitable share, are more susceptible to cuts over the medium term, with transfers facing significant pressure to the cuts. Municipalities own revenue sources, including property tax and service charges are also under pressure <sup>1</sup>

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<sup>1</sup>The financial impact of covid 19 on district and local municipalities a national perspective by Tinashe Carlton Chigwata & Jaap de Visser. Available: <https://dullahomarinstitute.org.za/multilevel-govt/local-government-bulletin/archives/volume-16-issue-1-march-2021/the-financial-impact-of-covid-19-on-district-and-local-municipalities-a-national-perspective>

The fiscal situation at local government has led to poor service delivery and economic development, and fiscal consolidation leading to budget cuts has worsened the situation. As has been reported by the AGSA over the years, many municipalities are facing serious deficit in human and institutional capacity in governance and technical areas.

### 3. Introduction

Based on the background as sketched by Chigwata and De Visser, and concerns raised by the Select Committee on Appropriations, the Parliamentary Budget Office analysed historic trends and estimated revenue collection rates by municipalities. The Office also established the main national and provincial sectors that contribute to the district development model. The budgets of these sectors were analysed to determine the possible effects of budget cuts on the implementation of the district development model.

Camiller and Patton, raises a very pertinent question about how a post-COVID-19 municipality will look like and how it will ensure continuous and sustained service delivery. According to them "Understanding the revenue picture will be one of the greatest challenges in the upcoming year." This is mainly due to the fact that:

- Municipalities will have to move from the crisis management phase they were in, which focuses on keeping residents safe while continuing to provide municipal services to the extent possible
- The focus will need to shift to the 2021/22 financial year, requiring them to address budgetary and operational challenges without a clear understanding of the full impact COVID-19 would have on their primary sources of revenue. Municipalities will therefore potentially start the new fiscal year with a budget that lacks clarity on key revenue assumptions and the necessary expenditure reductions to compensate for this scenario
- National and Provincial Treasuries, CoGTA and sector departments might have to support as required.<sup>2</sup>

This brief assist Members to get an understanding of the revenue picture in South African municipalities. This brief analysis focuses on the following themes:

- The funding structure of local government's expenditure
- The ability of municipalities to collect revenue
- Possible effect of the decline in revenue collection on the implementation of the district development model

### 4. Analysis

The analysis of the income sources for local government is based on data from the National Treasury Municipal Finance Management Act (MFMA) database. At the time of the analysis, data on the 2020/21 financial year was only available until the end of the third quarter (end March<sup>3</sup>). To ensure appropriate comparisons the analysis has used end March data for the previous financial years as well. Data from the 2021 Division of Revenue Bill was also used, specifically to illustrate the transfers to the different categories of municipalities over the medium term revenue and expenditure framework (MTREF).

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<sup>2</sup>How a post-COVID-19 municipality will look like and how it will ensure continuous and sustained service delivery <https://www.plantemoran.com/> on the 23rd of April 2020.

<sup>3</sup>South Africa's municipal financial year commences on the 1st of July and ends on the 30th June the following year.



#### 4.1. Funding structure of local government expenditure

Table 1 shows the budgeted proportions for revenue and expenditure in 2020/21 per Metro, Secondary Cities and other municipalities. From the table it is clear that the proportion of revenue available to municipalities in terms of property rates and service charges are lower than the availability to metros and secondary services. The trend for transfers and subsidies are the other way round. Municipalities are dependant on transfers and subsidies. This source of revenue amounts to 43.1 per cent of the total revenue of municipalities.

In terms of expenditure it is notable that the proportion estimated for employee related costs in municipalities amounts to 34.8 per cent of total expenditure, while metros and secondary cities estimated to spend 27.4 per cent and 25.8 per cent respectively on employee related costs. Also to note is the proportion estimated to spend on contracted services in municipalities amounts to 11.3 per cent of total expenditure, which is the same as in metros. This high proportion estimated to be spend on contracted services despite the higher proportion spend on employee related costs.

Table 1: Proportion of revenue and expenditure in 2020/21 per Metros, Secondary Cities and other municipalities in the 2020/21 main Budget

Description	Total	Metros	Secondary Cities	Other
	Budget Year 2020/21			
<b>R thousands</b>				
<b>Revenue By Source</b>				
Property rates	17.8%	20.6%	16.3%	12.4%
Service charges - electricity revenue	29.6%	32.7%	37.5%	18.2%
Service charges - water revenue	11.0%	11.9%	11.2%	8.6%
Service charges - sanitation revenue	4.3%	4.9%	4.5%	2.8%
Service charges - refuse revenue	3.2%	3.3%	3.6%	2.8%
Rental of facilities and equipment	0.7%	0.9%	0.3%	0.3%
Interest earned - external investments	1.0%	0.9%	0.6%	1.5%
Interest earned - outstanding debtors	2.1%	1.1%	4.1%	3.2%
Dividends received	0.0%	0.0%	0.0%	0.0%
Fines, penalties and forfeits	1.4%	1.3%	1.5%	1.5%
Licences and permits	0.2%	0.2%	0.1%	0.4%
Agency services	0.5%	0.3%	0.4%	0.9%
Transfers and subsidies	22.3%	14.1%	17.8%	43.1%
Other revenue	5.9%	7.7%	2.0%	4.0%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Expenditure By Type</b>				
Employee related costs	29.1%	27.4%	25.8%	34.8%
Remuneration of councillors	1.1%	0.4%	1.2%	2.7%
Debt impairment	8.0%	7.5%	10.8%	7.5%
Depreciation and asset impairment	7.9%	6.7%	9.9%	9.5%
Finance charges	2.8%	3.5%	2.5%	1.5%
Bulk purchases	27.6%	30.6%	32.6%	18.1%
Other materials	2.6%	2.7%	2.0%	3.0%
Contracted services	11.1%	11.3%	9.7%	11.3%
Transfers and subsidies	0.8%	0.8%	0.3%	1.3%
Other expenditure	8.9%	9.2%	5.3%	10.3%
Losses	0.1%	0.0%	0.0%	0.2%
<b>Total Expenditure</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: National Treasury MFMA database

Table 2 (b) shows the main sources of operating revenue that funded operating expenditure in the 2020/21 financial year. The total of property rates and services charges amounted to 62.5 per cent of the total operating adjusted budget, of which the biggest proportion of 29.5 per cent is from electricity service charges. Income from transfers and subsidies amounted to 23.8 per cent of the total operating revenue adjusted budget. Basically, the descriptive analysis of the local government funding structure shows that, any changes to household and business income situation has direct effect on the local government ability to raise revenues and fulfil its mandate.

The main operating expenditure items are for employee related costs, which amounted to 29.4 per cent of the total operating expenditure. Bulk purchases amounted to 21.6 per cent of the total adjusted operating expenditure budget in 2020/21.

Table 2 (a): The proportions of operating revenue sources funding operating expenditure in the 2020/21 Adjusted Budget

R thousands	2020/21	
	Adjusted Budget	Percentage share of total
<b>Operating Revenue</b>	<b>413 972 219</b>	<b>100.0%</b>
Property rates	73 616 731	17.8%
Service charges - electricity revenue	122 105 359	29.5%
Service charges - water revenue	45 009 120	10.9%
Service charges - sanitation revenue	17 865 806	4.3%
Service charges - refuse revenue	12 884 722	3.1%
Sub-total	258 597 016	62.5%
Interest earned - outstanding debtors	8 364 391	2.0%
Transfers and subsidies	98 461 323	23.8%
Other revenue	20 440 101	4.9%
<b>Operating Expenditure</b>	<b>416 421 906</b>	<b>100.0%</b>
Employee related costs	122 471 683	29.4%
Debt impairment	32 894 636	7.9%
Depreciation and asset impairment	33 168 110	8.0%
Finance charges	10 320 552	2.5%
Bulk purchases	89 838 208	21.6%
Other Materials	37 085 960	8.9%
Contracted services	51 406 474	12.3%
<b>Surplus/(Deficit)</b>	<b>(2 449 688)</b>	
Transfers and subsidies - capital (monetary allocations) (Nat/ Prov and Dist)	38 709 743	
Transfers and subsidies - capital (monetary alloc)(Departm Agencies,HH,PE,PC,..)	1 138 561	
Transfers and subsidies - capital (in-kind - all)	199 330	

Source: National Treasury MFMA database

Table 2 (b) shows the main sources of capital revenue that funded capital expenditure in the 2020/21 financial year. The main source of capital revenue, 53.9 per cent of the total capital revenue adjusted budget, was a transfer received from national government. The other main capital sources are internally generated and from borrowing, which amounted to 27.8 per cent and 13.6 per cent respectively. The municipality's ability to raise revenue has; therefore, a direct implication for spending on infrastructure expansion and maintenance.

Capital expenditure in 2020/21 was mainly for road transport and water management, which amounted to 20 per cent and 25.6 per cent respectively of the total spending on capital.

Table 2 (b): Funding and allocation of capital expenditure in 2020/21

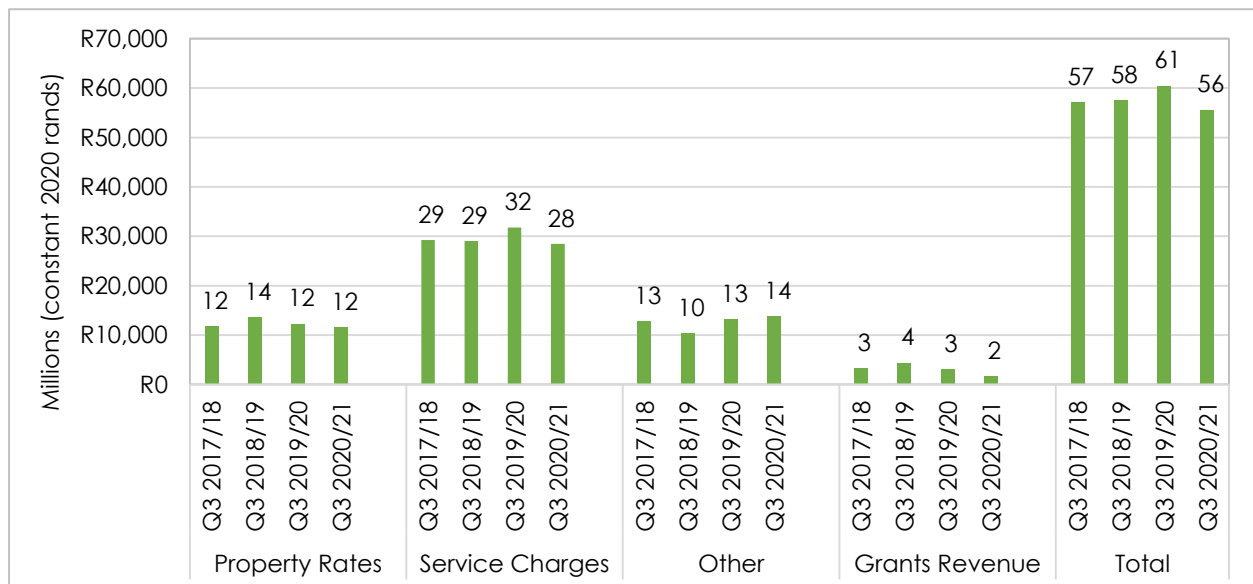
R thousands	2020/21	
	Adjusted Budget	Percentage share of total
<b>Capital Revenue</b>		
<b>Source of Finance</b>	<b>68 318 260</b>	<b>100.0%</b>
National Government	36 791 482	53.9%
Provincial Government	2 309 991	3.4%
District Municipality	150 076	0.2%
Transfers and subsidies - capital (monetary alloc)(Departm Agencies,HH,PE,PC,...)	783 984	1.1%
<b>Transfers recognised - capital</b>	<b>40 035 533</b>	<b>58.6%</b>
Borrowing	9 319 965	13.6%
Internally generated funds	18 962 762	27.8%
<b>Capital Expenditure Functional</b>	<b>69 255 232</b>	<b>100.0%</b>
<b>Municipal governance and administration</b>	<b>7 502 549</b>	<b>10.8%</b>
<b>Community and Public Safety</b>	<b>10 804 395</b>	<b>15.6%</b>
Housing	6 123 242	8.8%
<b>Economic and Environmental Services</b>	<b>17 664 803</b>	<b>25.5%</b>
Road Transport	13 857 807	20.0%
<b>Trading Services</b>	<b>32 682 858</b>	<b>47.2%</b>
Energy sources	6 869 226	9.9%
Water Management	17 745 816	25.6%
Waste Water Management	6 322 179	9.1%

Source: National Treasury MFMA database

#### 4.2. Revenue sources for Metros as at end March between 2017/18 and 2020/21

Figure 1 shows the changes to the main revenue sources of all Metros between the end of the third quarter in 2017/18 and 2020/21. Total income of Metros has increased from Approximately R50 billion in the third quarter of 2017/18 to R56 billion in 2020/21. The drop in revenue collection from 2019/20 to 2020/21 is mainly due to a drop in collection of service charges and transfers received in the form of grants.

Figure 1: Revenue sources for Metros as at end March between 2017/18 and 2020/21



Source: National Treasury MFMA database

### 4.3. Change in the proportions of revenue sources per Metro between Q3 2017/18 - 2020/21

Table 3 shows that service charges are the main source of revenue in all Metros. The sum of other revenue sources are the second highest followed by property rates. The smallest proportion of total revenue is from grants. The proportion of income from grants, on aggregate, has also decreased from 5.9 per cent of total revenue to 3.1 per cent of total revenue in Metros. The proportion of income from service charges, the main source of income, has dropped in Buffalo City, Cape Town, eThekweni, City of Johannesburg and Mangaung from end March 2018 to end March 2021, while other resources increased.

Table 3: The change in the proportion of revenue sources for Metros as at end March between 2017/18 and 2020/21, per Metro

	<b>Total Metros</b>	Buffalo City	Cape Town	City of Ekurhuleni	eThekweni	City of Johannesburg	Mangaung	Nelson Mandela Bay	City of Tshwane
<b>Property Rates</b>									
End March 2018	<b>20.6%</b>	16.7%	22.7%	16.7%	26.1%	19.8%	16.3%	16.7%	20.0%
End March 2019	<b>23.7%</b>	21.6%	26.6%	16.7%	29.2%	24.1%	17.2%	22.1%	22.4%
End March 2020	<b>20.3%</b>	20.7%	22.4%	21.0%	22.2%	19.7%	17.8%	-1.2%	20.2%
End March 2021	<b>20.8%</b>	19.3%	23.3%	15.4%	20.7%	20.4%	17.4%		25.6%
<b>Service Charges</b>									
End March 2018	<b>51.1%</b>	50.3%	47.7%	53.3%	51.1%	50.7%	56.4%	60.4%	50.4%
End March 2019	<b>50.5%</b>	40.0%	44.1%	58.7%	47.1%	53.2%	52.3%	44.3%	52.1%
End March 2020	<b>52.5%</b>	43.1%	46.8%	70.3%	53.6%	46.4%	68.3%	70.9%	51.6%
End March 2021	<b>51.2%</b>	49.2%	46.8%	62.9%	48.5%	46.8%	52.0%		53.8%
<b>Other</b>									
End March 2018	<b>22.3%</b>	30.1%	22.9%	24.5%	16.5%	25.1%	17.9%	13.0%	23.9%
End March 2019	<b>18.1%</b>	33.2%	16.3%	19.5%	17.5%	17.5%	9.0%	18.1%	20.1%
End March 2020	<b>21.9%</b>	27.6%	23.9%	3.3%	17.9%	30.5%	6.9%	21.3%	24.6%
End March 2021	<b>25.0%</b>	31.1%	27.3%	19.5%	29.2%	30.1%	23.3%		17.3%
<b>Grants Revenue</b>									
End March 2018	<b>5.9%</b>	2.9%	6.7%	5.6%	6.3%	4.4%	9.5%	9.9%	5.7%
End March 2019	<b>7.8%</b>	5.2%	13.0%	5.1%	6.3%	5.2%	21.5%	15.5%	5.3%
End March 2020	<b>5.2%</b>	8.7%	6.9%	5.4%	6.3%	3.4%	7.0%	8.9%	3.7%
End March 2021	<b>3.1%</b>	0.5%	2.6%	2.2%	1.6%	2.7%	7.4%		3.4%

Source: National Treasury MFMA database

### 4.4. The ability of municipalities to collect revenue

This section focuses on all Metros and municipalities to provide MPs with an analysis of the historic trends and collection rates. It provides the annual average growth rates in revenue collection per source in Metros and municipalities as well as the revenue and expenditure trends as at end March over the period 2017/18 to 2020/21.

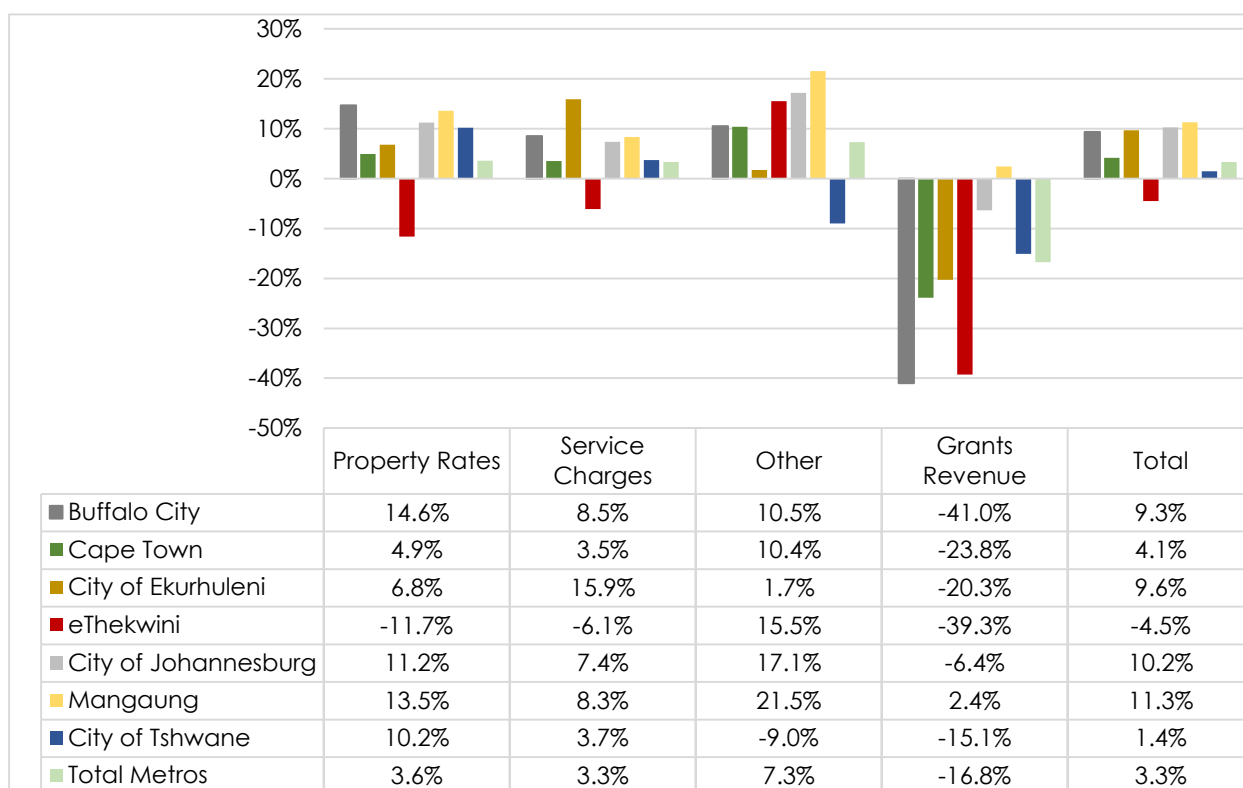
#### 4.4.1. Annual average growth in revenue sources for Metros between the third quarters of 2017/18 - 2020/21

Figure 2 shows that annual average growth on total revenue sources for Metros between end March 2017/18 and 2020/21 amounted to 3.3 per cent. In total, Metros have, on average, received 16.8 per cent less from grants between the third quarter in 2017/18 and third quarter 2020/21.

Income from property rates has grown on average by between 4.9 per cent and 14.6 per cent in Metros. Income from property rates has grown on average by between 4.9 per cent and 14.6 per cent in Metros. Income from service charges has increased, on average, between 3.5 per cent

and 15.9 per cent in Metros. Income from other sources has increased, on average, between 1.7 per cent and 21.5 per cent in Metros.

Figure 2: Annual average growth in revenue sources for Metros as at end March between 2017/18 and 2020/21



Source: National Treasury MFMA database

#### 4.4.2. Revenue sources for all municipalities as at end March 2017/8 – 2020/21

Table 4 shows that municipalities have collected between 74.8 per cent and 77.6 per cent of their operating revenue as at the end of the third quarters between 2017/18 and 2020/21. Operating expenditure amounted to between 64.2 per cent and 68.0 per cent during the same period. This slower expenditure than revenue collections resulted in surpluses in the third quarters of 2017/18 to 2020/21.

Table 4: Summary of Operating Revenue and Expenditure, as at end March between 2017/18 and 2020/21

	2017/18		2018/19		2019/20		2020/21	
	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget
R thousands								
Operating Revenue	253 010 401	74.8%	275 494 726	75.3%	292 456 249	69.6%	327 174 780	77.6%
Operating Expenditure	221 579 094	64.2%	244 640 569	65.8%	251 575 830	61.2%	288 354 485	68.0%
Surplus/(Deficit)	31 431 306		30 854 157		40 880 419		38 820 296	
Net Surplus/(Deficit) for the year	52 922 683		49 701 872		57 122 319		59 410 576	

Source: National Treasury MFMA database

Table 5 shows the collection rates of the main operating revenue sources available to municipalities as at the end of March between 2017/18 and 2020/21. In total the operating revenue collection rate between the lowest and highest rates were 69.6 per cent in 2019/20 and 77.6 per cent 2020/21. These rates could be compared to a notional benchmark of 75 per cent.

Table 5: Detail of Operating Revenue, as at end March 2017/18 to 2020/21

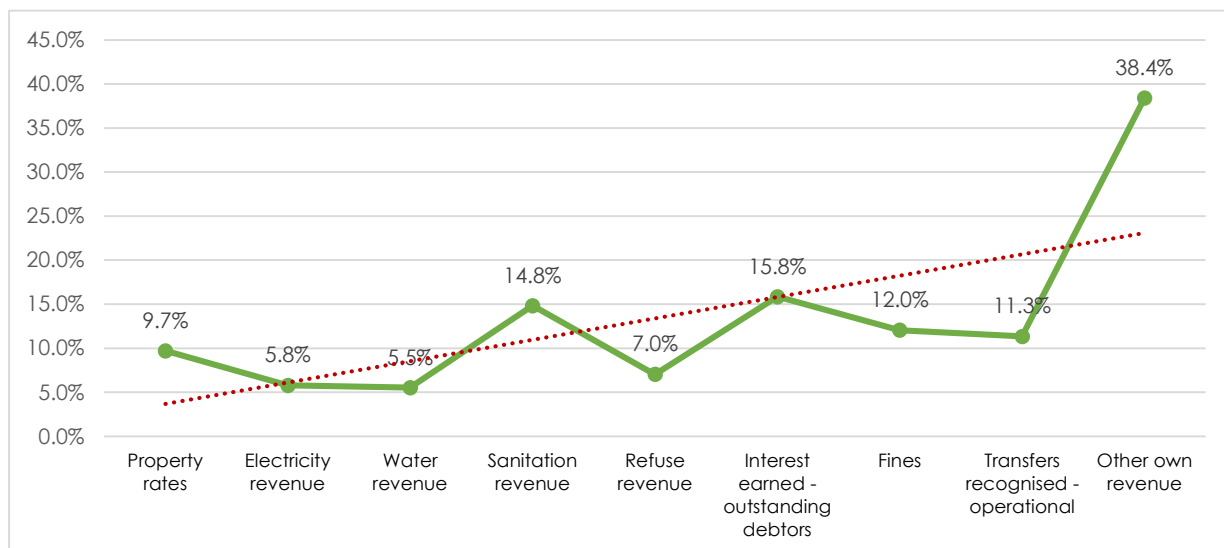
R thousands	2017/18		2018/19		2019/20		2020/21	
	Year to Date		Year to Date		Year to Date		Year to Date	
	Actual Collection	Collection as % of adjusted budget	Actual Collection	Collection as % of adjusted budget	Actual Collection	Collection as % of adjusted budget	Actual Collection	Collection as % of adjusted budget
<b>Operating Revenue</b>	<b>253 010 401</b>	<b>74.8%</b>	<b>275 494 726</b>	<b>75.3%</b>	<b>292 456 249</b>	<b>69.6%</b>	<b>327 174 780</b>	<b>77.6%</b>
Property rates	43 604 642	75.0%	50 930 495	79.2%	53 756 726	75.1%	57 572 280	78.1%
Service charges - electricity revenue	75 985 734	71.3%	80 225 767	72.0%	83 582 955	62.1%	89 906 047	73.7%
Service charges - water revenue	28 393 530	79.6%	29 471 786	76.1%	30 295 690	67.7%	33 359 158	74.1%
Service charges - sanitation revenue	8 424 366	56.7%	10 940 233	68.4%	12 096 844	70.3%	12 752 677	71.3%
Service charges - refuse revenue	7 814 769	73.0%	8 663 672	74.2%	8 736 153	61.4%	9 578 448	74.3%
Rental of facilities and equipment	1 808 041	68.7%	1 705 739	60.8%	1 609 899	55.6%	1 596 241	63.8%
Interest earned - external investments	3 132 772	76.1%	3 167 976	71.2%	3 562 046	75.2%	2 158 889	56.7%
Interest earned - outstanding debtors	4 318 182	77.6%	5 395 086	79.5%	6 247 558	73.2%	6 713 999	69.9%
Fines	2 255 229	50.8%	2 756 169	54.3%	3 221 007	55.1%	3 171 827	59.1%
Licences and permits	790 587	62.9%	886 922	83.2%	768 224	69.7%	690 371	68.0%
Agency services	1 424 265	73.7%	1 432 550	65.2%	1 151 685	59.5%	1 297 333	70.5%
Transfers recognised - operational	66 554 951	83.6%	71 924 276	82.7%	70 898 087	81.8%	91 840 179	89.0%
Other own revenue	6 137 757	56.3%	6 775 750	54.8%	16 176 857	63.9%	16 281 233	73.1%

Source: National Treasury MFMA database

The slowest collection rates were recorded for fines (between 50.9% and 59.1%) and the highest rates are from transfers recognised (between 81.8% and 89.0%). The percentage of transfers received could be attributed to the difference in the financial years of national and provincial government and local government.

Figure 3 shows the annual average growth rates of the main operating revenue sources, in municipalities, between the third quarters of 2017/18 and 2020/21. The highest growth rate of 38.4 per cent was on other revenue, which is not defined on the database. Interest earned on outstanding debt grew by 15.8 per cent while sanitation revenue grew by 14.8 per cent. The slowest annual average growth rates over the period was on electricity and water revenue.

Figure 3: Annual average growth in Operating Revenue as at end March between 2017/18 and 2020/21



Source: National Treasury MFMA database

Table 6 shows the expenditure on the main operating expenditure items for municipalities, as at the end of March, between 2017/18 and 2020/21. In total the operating expenditure rate between the lowest and highest were 61.2 per cent in 2019/20 and 68.0 per cent 2020/21. These rates should be compared to a notional benchmark of 75 per cent.

Table 6: Detail of Operating Expenditure, end quarter 3 2017/18 to 2020/21

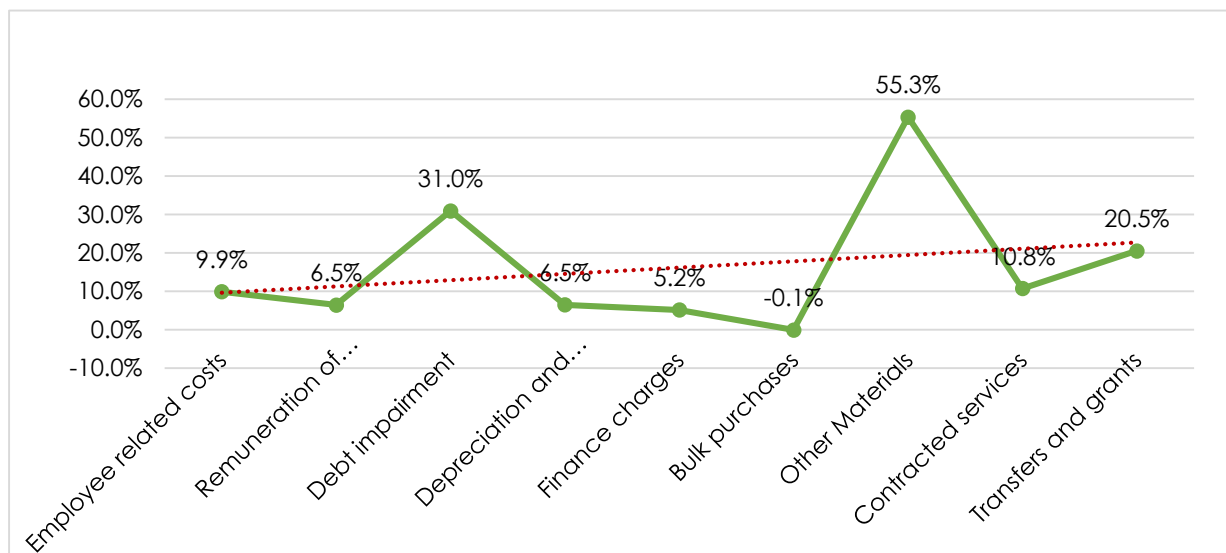
R thousands	2017/18		2018/19		2019/20		2020/21	
	Year to Date		Year to Date		Year to Date		Year to Date	
	Actual Expenditure	Total Expenditure as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted budget
<b>Operating Expenditure</b>	<b>221 579 094</b>	<b>64.2%</b>	<b>244 640 569</b>	<b>65.8%</b>	<b>251 575 830</b>	<b>61.2%</b>	<b>288 354 485</b>	<b>68.0%</b>
Employee related costs	69 334 203	70.2%	75 688 136	69.6%	76 999 862	64.5%	92 039 679	75.2%
Remuneration of councillors	2 681 186	67.2%	2 935 618	69.2%	2 841 391	63.2%	3 236 454	70.1%
Debt impairment	8 823 388	48.4%	12 047 179	58.2%	13 094 275	48.8%	19 814 625	60.2%
Depreciation and asset impairment	14 547 270	47.5%	17 117 227	54.6%	16 067 069	49.6%	17 574 999	53.1%
Finance charges	5 767 089	66.8%	5 750 782	64.1%	7 154 411	59.7%	6 712 477	57.9%
Bulk purchases	66 510 679	70.5%	75 688 313	73.4%	75 994 745	66.9%	66 403 744	73.9%
Other Materials	6 901 601	50.0%	6 416 123	51.2%	6 288 339	62.0%	25 864 399	70.0%
Contracted services	22 727 696	60.4%	25 288 722	57.1%	29 719 781	59.1%	30 874 564	60.1%
Transfers and grants	2 881 105	65.4%	2 630 793	63.4%	2 196 945	53.9%	5 046 686	59.2%
Other expenditure	21 358 825	61.6%	21 009 007	62.4%	21 209 122	56.0%	20 478 981	63.5%

Source: National Treasury MFMA database

Employee related costs, bulk purchases and contracted services are the three main expenditure items for municipalities.

Figure 4 shows the annual average growth rates of the main operating expenditure items between the third quarters of 2017/18 and 2020/21. The highest growth rate of 55.3 per cent was on “other materials”, which is not defined on the database, and comprises a small portion of total operating expenditure. Debt impairment grew by significantly 31.0 per cent reflecting customers defaulting on account payments as a result of the COVID-19 pandemic resulting in more debt being written-off. Employee related costs, which comprises 31 per cent of total operating expenditure, grew by 9.9 per cent, presenting a material concern for the sustainability of municipal finances. The slowest annual average growth rates over the period was on bulk purchases.

Figure 4: Growth in Operating Expenditure, Between 2017/18 and 2020/21



Source: National Treasury MFMA database

Table 7 shows the main financial sources for capital expenditure, on the different sectors in municipalities, between the third quarters of 2017/18 to 2020/21. The main sources are transfers received from national and provincial governments. The transfer rates in three of the financial



years were below 50 per cent except for 2019/20 when the transfers peaked at 71.1 per cent in the third quarter. This high capital revenue collection rate in 2019/20 can be attributed to the higher internally generated funds when compared to the other years.

The expenditure rates were below 50 per cent in three of the financial years except for 2019/20 when expenditure peaked at 67.0 per cent in the third quarter. The highest proportion of the capital budget was spent on road transport, water, electricity, waste water management and housing.

Table 7: Summary of Capital Revenue and Expenditure, as at end quarter 3 between 2017/18 and 2020/21

R thousands	2017/18		2018/19		2019/20		2020/21	
	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget	Actual Collection/Expenditure	Percentage of Adjusted Budget
<b>Source of Finance</b>	<b>31 619 172</b>	<b>42.9%</b>	<b>30 092 985</b>	<b>41.1%</b>	<b>49 446 583</b>	<b>71.1%</b>	<b>31 441 377</b>	<b>47.5%</b>
National Government	19 313 329	46.8%	18 387 982	47.4%	25 390 190	64.5%	19 532 094	52.1%
Provincial Government	1 071 882	44.3%	1 153 755	39.2%	631 188	29.9%	674 991	30.0%
District Municipality	365	.9%	2 598	5.3%	2 440	2.4%	33 523	22.6%
Other transfers and grants	336 752	148.6%	95 798	47.0%	427 725	65.6%	519 565	70.3%
<b>Transfers recognised - capital</b>	<b>20 722 329</b>	<b>47.2%</b>	<b>19 640 132</b>	<b>46.8%</b>	<b>26 451 543</b>	<b>62.7%</b>	<b>20 760 173</b>	<b>51.1%</b>
Borrowing	4 755 369	34.1%	3 529 002	28.6%	4 028 645	25.2%	3 161 278	43.4%
Internally generated funds	5 397 177	36.3%	6 351 004	35.6%	18 966 395	168.0%	7 519 927	41.1%
Public contributions and donations	744 297	78.2%	572 848	54.4%	-	-	-	-
<b>Capital Expenditure Standard</b>								
<b>Classification</b>	<b>31 619 172</b>	<b>42.9%</b>	<b>30 092 985</b>	<b>41.1%</b>	<b>52 548 473</b>	<b>67.0%</b>	<b>34 625 757</b>	<b>48.9%</b>
<b>Governance and Administration</b>	<b>2 363 066</b>	<b>29.2%</b>	<b>2 363 527</b>	<b>31.1%</b>	<b>13 069 775</b>	<b>122.4%</b>	<b>5 735 701</b>	<b>56.0%</b>
Executive & Council	480 030	22.5%	786 805	49.0%	235 622	35.8%	246 676	50.7%
Budget & Treasury Office	552 548	18.2%	733 076	16.7%	12 833 402	128.2%	5 486 611	56.2%
Corporate Services	1 330 487	45.6%	843 646	52.1%	751	18.8%	2 414	95.6%
<b>Community and Public Safety</b>	<b>4 443 172</b>	<b>33.3%</b>	<b>4 355 542</b>	<b>35.6%</b>	<b>3 713 390</b>	<b>31.3%</b>	<b>4 818 388</b>	<b>45.9%</b>
Community & Social Services	885 677	41.4%	673 628	36.2%	(134 995)	(7.5%)	852 448	52.0%
Sport And Recreation	543 542	36.1%	582 835	33.8%	946 377	50.9%	824 651	47.6%
Public Safety	442 748	30.3%	314 854	27.7%	447 490	34.7%	399 963	48.3%
Housing	2 411 205	31.1%	2 678 443	37.1%	2 326 074	35.1%	2 672 964	44.2%
Health	159 999	34.2%	105 782	37.4%	128 444	47.3%	68 360	26.4%
<b>Economic and Environmental Services</b>	<b>9 524 952</b>	<b>50.6%</b>	<b>8 270 075</b>	<b>44.5%</b>	<b>13 129 604</b>	<b>60.6%</b>	<b>8 792 216</b>	<b>55.8%</b>
Planning and Development	1 327 176	43.3%	1 436 692	53.2%	2 981 442	58.0%	1 394 407	41.1%
Road Transport	8 137 747	52.4%	6 791 262	43.2%	9 960 466	60.9%	7 334 926	60.0%
Environmental Protection	60 029	28.0%	42 120	23.1%	187 697	111.7%	62 884	44.0%
<b>Trading Services</b>	<b>15 150 614</b>	<b>46.1%</b>	<b>15 024 390</b>	<b>43.7%</b>	<b>22 549 061</b>	<b>66.6%</b>	<b>15 111 780</b>	<b>45.1%</b>
Electricity	3 701 042	50.5%	3 049 907	40.8%	3 846 741	54.9%	3 152 492	51.7%
Water	8 202 347	45.9%	8 209 456	44.0%	12 265 611	70.3%	8 523 776	44.8%
Waste Water Management	2 802 891	45.5%	3 246 109	47.6%	5 590 386	70.9%	2 783 511	40.4%
Waste Management	444 333	29.5%	518 918	36.8%	846 323	55.7%	652 001	43.8%
<b>Other</b>	<b>137 369</b>	<b>23.2%</b>	<b>79 451</b>	<b>18.1%</b>	<b>86 643</b>	<b>23.7%</b>	<b>167 672</b>	<b>23.2%</b>

Source: National Treasury MFMA database

## 5. The transfer of nationally raised revenue to local government

Tables 8 shows the division of nationally raised revenue. Reductions to the public-service wage bill that affected only national and provincial government, resulted in local government's share of revenue to rise in relative terms. In nominal terms, transfers to provinces grow by an annual average of 1 per cent over the medium term, while transfers to local government grow by an

annual average of 2.6 per cent. The equitable share increases by 4.4 per cent and conditional grants grow by 7.3 per cent.

Table 8: Division of nationally raised revenue

R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
<b>Division of available funds</b>								
<b>National departments</b>	584.8	626.4	742.7	797.6	756.2	728.1	730.5	-2.9%
<b>Provinces</b>	538.6	572.0	613.5	628.3	639.5	643.3	646.8	1.0%
<b>Local government</b>	<b>118.9</b>	<b>126.4</b>	<b>130.0</b>	<b>145.4</b>	<b>145.1</b>	<b>154.3</b>	<b>156.9</b>	<b>2.6%</b>
Equitable share	55.6	60.8	65.6	73.5	78.0	83.1	83.6	4.4%
Special Appropriation				11.0				
<i>Indirect transfers to local government</i>	7.8	7.9	7.0	6.9	7.1	8.2	8.5	7.3%
Conditional grants	43.7	45.3	44.2	40.0	45.5	47.7	49.4	7.3%
General fuel levy sharing with metros	11.8	12.5	13.2	14.0	14.6	15.3	15.4	3.2%

Source: National Treasury

Tables 9 shows the shares and growth in the division of nationally raised revenue. Over the past 5-years period the highest proportion of nationally raised revenue was spent on the national level of government and has grown by 8.6 per cent over the period. The proportions of nationally raised revenue has decreased from 7.9 per cent to 7.7 per cent between 2015/16 to 2020/21 and has grown by 7.9 per cent on average per year over the past 5-year period.

Table 9: Share and annual growth in division of nationally raised revenue

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Average proportion (2015/16 - 2020/21)
<i>Share of main budget expenditure</i>							
National departments	43.9%	42.6%	42.2%	42.1%	44.3%	44.6%	43.3%
Provinces	37.9%	38.3%	38.3%	38.0%	36.3%	34.8%	37.3%
Local government	7.9%	7.9%	7.9%	7.9%	7.3%	7.7%	7.8%
<i>Annual growth</i>							
National departments	11.4%	1.8%	6.6%	7.0%	18.2%	7.3%	8.6%
Provinces	7.3%	6.1%	7.6%	6.2%	7.3%	2.4%	6.1%
Local government	12.3%	4.6%	8.0%	6.6%	3.8%	12.6%	7.9%
Main budget expenditure	10.0%	4.9%	7.6%	7.2%	12.2%	6.7%	8.1%

Source: National Treasury

Table 10 shows the infrastructure conditional grants to local government. As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R20.2 billion, including R15.5 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants since the previous MTEF. The reduction to direct conditional grants includes R329 million from the municipal infrastructure grant and R21 million from the integrated urban development grant. These amounts have been reprioritised from underspending grants to fund a once-off councillor gratuity for non-returning councillors. The largest proportional reduction of R1.3 billion to local government grants has been made in the public transport network grant. The reason for this is that only six of the 13 cities receiving the grant have successfully launched public transport systems. Indirect conditional grants are reduced by R286 million over the period.

Despite the reductions over the MTEF capital transfers to municipalities still grow by 7.4 per cent on average over the 2021 MTEF. The highest growth rate is recorded for the direct Integrated National Electrification programme, which is estimated to grow annually, on average, by 17.6 per cent. The direct Public transport network grant is growing steadily subsequent to the reprioritisation of funds in 2020/21. The Urban settlements development conditional grant has now been divided to also provide for an Informal settlements upgrading partnership conditional grant.

Table 10: Capital transfers to municipalities from the national sphere of government

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Annual average growth over MTEF
	Outcome			Revised estimate	Medium-term estimates			
R million								
<b>Direct transfers</b>	<b>41 596</b>	<b>43 568</b>	<b>42 322</b>	<b>37 905</b>	<b>43 143</b>	<b>45 267</b>	<b>46 977</b>	<b>7.4%</b>
Municipal infrastructure	15 891	15 288	14 816	14 491	15 593	16 852	17 595	6.7%
Integrated urban development	–	–	857	936	1 009	1 075	1 123	6.2%
Urban settlements development	11 382	11 306	11 655	10 572	7 405	7 352	7 676	-10.1%
Informal settlements upgrading partnership	–	–	–	–	3 945	4 181	4 365	
Public transport network	6 107	6 287	6 370	4 389	6 515	6 767	6 794	15.7%
Neighbourhood development partnership	658	569	592	479	567	593	619	8.9%
Integrated national electrification programme	2 087	1 904	1 860	1 359	2 003	2 119	2 212	17.6%
Rural roads asset management systems	107	108	114	108	110	115	115	2.1%
Regional bulk infrastructure	1 829	1 963	2 029	2 006	2 156	2 281	2 381	5.9%
Water services infrastructure	3 305	4 777	3 669	3 368	3 620	3 701	3 864	4.7%
Municipal disaster recovery	26	1 151	133	–	–	–	–	
Energy efficiency and demand-side management	203	215	227	196	221	231	232	5.8%
<b>Indirect transfers</b>	<b>7 699</b>	<b>7 795</b>	<b>6 913</b>	<b>6 745</b>	<b>6 920</b>	<b>8 060</b>	<b>8 335</b>	<b>7.3%</b>
Integrated national electrification programme	3 846	3 262	3 124	1 983	2 824	3 638	3 821	24.4%
Neighbourhood development partnership	28	29	50	63	91	101	101	17.2%
Water services infrastructure	852	1 616	644	591	730	771	805	10.9%
Regional bulk infrastructure	2 974	2 887	3 094	4 108	3 275	3 550	3 607	-4.2%
<b>Total</b>	<b>49 296</b>	<b>51 363</b>	<b>49 235</b>	<b>44 650</b>	<b>50 063</b>	<b>53 327</b>	<b>55 312</b>	<b>7.4%</b>

Source: National Treasury MFMA database

Table 11 provides a summary of the total allocations/transfers to municipalities. These allocations include the local government equitable share and conditional grants transferred to all municipalities. It separates the proportions that are specifically allocated to metros and district municipalities.

Table 11: Total Equitable Share and Conditional Grant transfers to metros and districts

TOTAL ALLOCATIONS TO MUNICIPALITIES					
Districts	2020/21	2021/22	2022/23	2023/24	Annual
	(R'000)	(R'000)	(R'000)	(R'000)	average
					growth
Unallocated	512 732	526 037	2 041 458	2 306 209	65%
Total metros	39 729 983	40 764 823	42 785 582	43 622 195	3%
Metros as a percentage of total	31%	31%	31%	31%	
Total districts	25 674 234	27 407 849	29 088 390	29 851 048	5%
Districts as a percentage of the total	20%	21%	21%	21%	
<b>National Total</b>	<b>126 129 967</b>	<b>130 530 762</b>	<b>138 963 495</b>	<b>141 470 585</b>	<b>4%</b>

Source: National Treasury (2020 and 2021 DORA)

Metropolitan municipalities receive 31 per cent of the total transfers to municipalities, while between 20 per cent and 21 per cent are transferred to district municipalities. The annual average growth of transfers to metros are 3 per cent over the 2021 MTREF, 5 per cent for district municipalities and the national total allocation grows by 4 per cent on average over the 2021 MTREF. The remainder of the transfers are allocated to other municipalities.

The main findings from the analysis of the funding structure and ability of municipalities to collect revenue shows:

- The main sources of local government revenue that funded operating expenditure in the 2020/21 financial year was from property rates and service charges
- The main local government operating expenditure item is employee related costs, which on aggregate amounted to 29.4 per cent of the total local government operating expenditure.
- The main source of capital revenue that funded capital expenditure in the 2020/21 financial year was a transfer from the national government that amounted to 53.9 per cent of the total capital revenue adjusted budget.
- Capital expenditure in 2020/21 was mainly for road transport and water management, which amounted to 20 per cent and 25.6 per cent respectively of the total spending on capital.
- Total income of Metros has increased from approximately R50 billion in the third quarter of 2017/18 to R56 billion in 2020/21.
- The proportion of income in metros from grants has decreased from contributing 5.9 per cent to total revenue to 3.1 per cent of total revenue in Metros over the past 3-years
- Income from property rates and services charges has grown on average by between 4.9 per cent and 14.6 per cent and between 3.5 per cent and 15.9 per cent in Metros respectively.
- The slower expenditure in municipalities than revenue collections resulted in surpluses in the third quarters of 2017/18 to 2020/21.
- In total the operating revenue collection rate, per source, are between 69.6 per cent in 2019/20 and 77.6 per cent 2020/21.
- The annual average growth rates of the main operating revenue sources, in municipalities, between the third quarters of 2017/18 and 2020/21 ranged between 5.5 per cent and 38.4 per cent.
- In total the operating expenditure rate, per item was between 61.2 per cent in 2019/20 and 68.0 per cent 2020/21.
- The main sources of capital expenditure are transfers received from national and provincial governments.

- The highest proportion of the capital budget was spent on road transport, water, electricity, waste water management and housing.
- Transfers from the national revenue fund to local government grow by an annual average of 2.6 per cent over the 2021 MTEF. The equitable share increases by 4.4 per cent and conditional grants grow by 7.3 per cent.
- Despite the reductions over the 2021 MTEF since the 2020 MTEF, capital transfers to municipalities still grow by 7.4 per cent on average over the 2021 MTEF. The highest growth rate is recorded for the direct Integrated National Electrification programme, which is estimated to grow annually, on average, by 17.6 per cent. The direct Public transport network grant is growing steadily subsequent to the reprioritisation of funds in 2020/21. The Urban settlements development conditional grant has now been divided to also provide for an Informal settlements upgrading partnership conditional grant.
- Metropolitan municipalities receive 31 per cent of the total transfers to municipalities, while between 20 per cent and 21 per cent are transferred to district municipalities. The annual average growth of transfers to metros are 3 per cent over the 2021 MTEF, 5 per cent for district municipalities and the national total allocation grows by 4 per cent on average over the 2021 MTEF. The remainder of the transfers are allocated to other municipalities.

Declining budgets due to the declining revenue collection rates and transfers from other spheres of government to municipalities could adversely influence the implementation of the DDM. The next section explores the progress made with the implementation of the District Development Model (DDM) and identifies possible stumble blocks for the implementation of the DDM.

## 6. The District Development Model (DDM)

The District Development Model builds on the White Paper on Local Government (1998), which seeks to ensure that “local government is capacitated and transformed to play a developmental role”. According to the White Paper, developmental local government is committed to work with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives.

In order for local government to advance development, the provisions of the Constitution oblige national and provincial governments to support and strengthen the capacity of municipalities to manage their own mandates. Section 5, in this document, discusses some of the transfers from the national sphere of government to assist with the developmental role of local government.

The district development model; is a practical Intergovernmental Relations (IGR) mechanism to enable all three spheres of government to work together, with communities and stakeholders, to plan, budget and implement together.

The objectives of the DDM are to:

- Coordinate a government response to challenges of poverty, unemployment and inequality particularly amongst women, youth and people living with disabilities.
- Ensure inclusivity by gender budgeting based on the needs and aspirations of our people and communities at a local level.
- Narrow the distance between people and government by strengthening the coordination role and capacities at the District and City levels.
- Foster a practical intergovernmental relations mechanism to plan, budget and implement jointly in order to provide a coherent government for the people in the Republic; (solve silo's,

duplication and fragmentation) maximise impact and align plans and resources at our disposal through the development of "One District, One Plan and One Budget".

- Build government capacity to support municipalities.
- Strengthen monitoring and evaluation at district and local levels.
- Implement a balanced approach towards development between urban and rural areas.
- Exercise oversight over budgets and projects in an accountable and transparent manner.

These objectives mainly involve the building of capacity for improving planning, budgeting, monitoring and evaluation. This capacity will not only improve efficiency and effectiveness, but will also ensure the implementation of government's priorities as per the long-term National Development Plan and the 2019-2024 Medium Term Strategic Framework.

Progress with the implementation of the DDM as at 18 June 2021 is as follows<sup>4</sup>:

- District Development Model Implementation Framework outlining key aspects for institutionalisation of DDM concluded; (Cogta, NT, DPME and DALRRD)
- Guidelines for the development of One Plans have been developed
- Circular on the implementation of the DDM has been issued to provinces and municipalities
- Guidelines and reporting template for DDM Political Champions developed
- Draft Section 47(1)(b) Regulations Framework for the Intergovernmental Relations Framework Act (IGRFA) developed and circulated for discussion
- IDP Guidelines and Circular aimed to link with the One Plan has been developed
- Ongoing support and guidance on how to mainstream DDM national and provincial sector departments provided

The three pilot sites include:

- OR Tambo District
- EThekweni Metro
- Waterberg District

Progress on the development of one plans for the pilot sites include:

- Development of profiles
- Completed diagnostic studies
- Completed Economic Recovery Plans
- The identification of catalytic projects
- Draft One Plans are developed
- National and Provincial Sector budget and contributions are still outstanding
- In July and August:
  - Municipalities will finalise their public consultations on IDPs and National and Provincial sector engagements on their One Plan commitments
  - Finalise One Plans
  - Alignment of IDPs with new 5-year priorities after the local government elections

## 6.1. Roles and Responsibilities of Political Champions

Political champions Provide political oversight and support to improve cooperation and collaboration across the three spheres of governance to implement the DDM. This support includes the:

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<sup>4</sup> District Development Model Steering Committee: Department of Cooperative Governance, June 2021

- Provision of strategic guidance for the development and implementation of the One Plan
- Contribution towards the institutional stabilisation of the allocated district and the reprioritisation process that seek to respond to urgent institutional and governance gaps, and development priorities outlined in the specific district profile
- Facilitation of the District wide adoption of the One Plan through the various IGR structures, including its sign off and implementation
- Working with sector departmental Ministries and provide support to unblock and bring to the surface any issues that may hinder progress in the implementation of the District Development Model
- Provision of oversight on the roll out of COVID-19 Relief funds
- Raising, addressing and responding of urgent COVID-19, Vaccination roll out in the district with relevant structure
- Promotion of transparency and accountability on the implementation of the DDM.

Political champions are required to report on visits undertaken, from time to time, on the key developmental and intergovernmental outcomes, in particular challenges and blockages, to inform what critical actions and responses could be formulated where the need arose.

A summary of the latest observations from the visits shows:

- Political champions use their own portfolio as a point of entry and thus results in most of the discussions being framed accordingly and reports providing very diverse information
- Very little information on critical basic services is reported on
- Reports on stated follow-up visits by various Political Champions have not been submitted which makes it difficult to track progress
- Several Political Champions have engaged with fellow Ministers on matters relating to their respective portfolios as a means towards strengthened intergovernmental cooperation

## **6.2. National and provincial priority sectors in the DDM**

The Intergovernmental Relations (IGR) mechanism of the DDM enables all three spheres of government to work together, with communities and stakeholders, to plan, budget and implement the objectives. Declining budgets due to the declining revenue collection rates and transfers from other spheres of government to municipalities will adversely influence the implementation of the DDM.

Requirements from dedicated senior officials of national sectors that have been identified by the District Development Model as priority sectors are:

- To participate in the One plan development process for each district and metro space and contribute towards the shaping of the One Plans as cohesive national government response.
- Participate in the intergovernmental planning sessions and provide sectoral perspectives on the status as well as commitments and key projects that will contribute to the achievement of the desired future and outcomes agreed upon in each district/ metro.
- Ensure that the implementation commitments in each district and metro spaces are incorporated and inform the strategic plans and Annual Performance Plans in line with the Government Planning cycle.

Table 12 shows the increases and decreases from the 2020/21 appropriations and the total appropriations for 2021/22 per national sector that have been identified by the District Development Model as priority sectors. Therefore, the success implementation of the DDM is largely linked and dependent to these government sectors policy and budgets.

Table 12: Amounts to be appropriated from the National Revenue Fund for 2021/22

	Appropriated (including direct charges)	Current payments	Transfers and subsidies	Payments for capital assets	To be appropriated	Increase/ Decrease <sup>1</sup>
R thousand	2020/21	2021/22				
3 Cooperative Governance	96 233 988.0	4 951 839.0	95 917 365.0	6 666.0	100 875 870.0	4 641 882.0
10 Public Enterprises	37 849 355.0	286 159.0	18.0	3 671.0	36 291 819.0	-1 557 536.0
13 Public Works and Infrastructure	8 070 796.0	1 052 109.0	7 266 615.0	24 480.0	8 343 204.0	272 408.0
16 Basic Education	25 328 232.0	2 657 252.0	22 303 917.0	2 056 909.0	27 018 078.0	1 689 846.0
18 Health	55 515 997.0	7 290 381.0	54 073 575.0	1 179 315.0	62 543 271.0	7 027 274.0
19 Social Development	197 718 275.0	916 851.0	204 297 486.0	12 583.0	205 226 920.0	7 508 645.0
29 Agriculture, Land Reform and Rural Dev	16 810 056.0	7 756 085.0	8 776 795.0	387 519.0	16 920 399.0	110 343.0
33 Human Settlements	31 324 916.0	923 848.0	30 730 303.0	3 807.0	31 657 958.0	333 042.0
34 Mineral Resources and Energy	9 337 028.0	1 668 548.0	7 492 752.0	19 464.0	9 180 764.0	-156 264.0
36 Small Business Development	2 406 783.0	234 032.0	2 299 780.0	4 476.0	2 538 288.0	131 505.0
38 Tourism	2 480 984.0	804 807.0	1 620 834.0	3 986.0	2 429 627.0	-51 357.0
39 Trade, Industry and Competition	11 082 138.0	1 875 388.0	7 824 831.0	36 354.0	9 736 573.0	-1 345 565.0
40 Transport	62 047 249.0	1 416 619.0	65 281 182.0	5 567.0	66 703 368.0	4 656 119.0
41 Water and Sanitation	17 216 227.0	3 496 415.0	9 214 139.0	4 199 526.0	16 910 080.0	-306 147.0
<b>Total</b>	<b>1 768 780 519.0</b>	<b>529 537 555.0</b>	<b>1 219 254 295.0</b>	<b>15 004 084.0</b>	<b>1 810 606 947.0</b>	<b>41 826 428.0</b>

Source: National Treasury

Public Enterprises; Mineral Resources and Energy; Tourism; Trade, Industry and Competition; and Water and Sanitation appropriations were reduced from the 2020/21 appropriations. The highest increases of between R1.7 billion and R7.5 billion are reflected in Cooperative Governance, Basic Education, Health, Social Development and Transport.





Table 10: Equitable Share and Conditional Grant totals for municipalities

Districts	EQUITABLE SHARE1					TOTAL ALLOCATIONS TO MUNICIPALITIES				
	National and Municipal Financial Year					National and Municipal Financial Year				
	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth
<b>EASTERN CAPE</b>										
<b>Metros</b>	2 017 978	2 080 618	2 206 277	2 206 679	3%	4 171 023	4 178 632	4 426 727	4 487 867	2%
Metros as percentage of total	20%	20%	20%	20%		23%	23%	23%	23%	
DC10 Sarah Baartman District Municipality	97 175	100 709	104 065	105 653	3%	101 433	106 573	107 467	109 062	2%
DC12 Amathole District Municipality	896 469	939 262	994 975	1 019 148	4%	1 515 302	1 636 532	1 856 964	1 861 749	7%
DC13 Chris Hani District Municipality	581 707	600 621	632 403	633 361	3%	1 269 653	1 241 944	1 123 831	1 129 578	-4%
DC14 Joe Gqabi District Municipality	293 252	302 992	319 392	320 072	3%	564 375	550 503	569 223	576 554	1%
DC15 O.R. Tambo District Municipality	918 991	950 456	1 004 726	1 008 071	3%	1 780 827	1 976 209	2 211 876	2 330 204	9%
DC44 Alfred Nzo District Municipality	598 038	618 487	653 836	655 844	3%	1 218 582	1 184 826	1 227 608	1 274 842	2%
Total districts	3 385 632	3 512 527	3 709 397	3 742 149	3%	6 450 172	6 696 587	7 096 969	7 281 989	4%
DCs as a percentage of total	33%	33%	33%	34%		36%	36%	36%	37%	
<b>Total: Eastern Cape Municipalities</b>	<b>10 297 924</b>	<b>10 653 629</b>	<b>11 200 033</b>	<b>11 090 457</b>	<b>3%</b>	<b>18 056 218</b>	<b>18 508 744</b>	<b>19 501 209</b>	<b>19 717 700</b>	<b>3%</b>
<b>FREE STATE</b>										
<b>Metro</b>	800 260	830 046	886 647	894 449	4%	1 852 664	1 843 572	1 927 667	1 970 529	2%
Metro as percentage of total	18%	18%	18%	18%		23%	22%	24%	23%	
DC16 Xhariep District Municipality	45 384	47 192	48 910	49 450	3%	50 090	53 442	52 934	53 477	2%
DC18 Lejweleputswa District Municipality	133 411	138 217	142 777	144 990	3%	145 335	146 987	146 224	148 440	1%
DC19 Thabo Mofutsanyana District Municipal	121 089	126 106	131 006	132 619	3%	133 463	144 672	135 886	137 501	1%
DC20 Fezile Dabi District Municipality	159 223	164 035	168 394	171 912	3%	165 729	174 761	176 041	175 561	2%
Total districts	459 107	475 550	491 087	498 971	3%	494 617	519 862	511 085	514 979	1%
Percentage of total	10%	10%	10%	10%		6%	6%	6%	6%	
<b>Total Free State Municipalities</b>	<b>4 469 699</b>	<b>4 633 882</b>	<b>4 899 764</b>	<b>4 890 146</b>	<b>3%</b>	<b>8 141 637</b>	<b>8 358 319</b>	<b>8 196 437</b>	<b>8 387 017</b>	<b>1%</b>
<b>GAUTENG</b>										
<b>Metros</b>	11 937 922	12 582 555	13 641 600	13 966 199	5%	20 431 038	20 887 224	22 307 462	22 938 101	4%
Metros as percentage of total	82%	82%	83%	83%		81%	83%	82%	82%	
DC42 Sedibeng District Municipality	276 984	285 545	293 350	299 510	3%	297 265	294 562	297 362	303 525	1%
DC48 West Rand District Municipality	215 078	222 589	229 646	234 445	3%	234 648	253 411	234 628	239 430	1%
Total districts	492 062	508 134	522 996	533 955	3%	531 913	547 973	531 990	542 955	1%
Percentage of total	3%	3%	3%	3%		2%	2%	2%	2%	
<b>Total Gauteng Municipalities</b>	<b>14 534 739</b>	<b>15 285 735</b>	<b>16 516 841</b>	<b>16 878 297</b>	<b>5%</b>	<b>25 363 324</b>	<b>25 075 606</b>	<b>27 203 370</b>	<b>28 000 346</b>	<b>3%</b>

Districts	EQUITABLE SHARE1					TOTAL ALLOCATIONS TO MUNICIPALITIES				
	National and Municipal Financial Year					National and Municipal Financial Year				
	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth
<b>KWAZULU-NATAL</b>										
<b>Metro</b>	3 444 498	3 580 447	3 833 502	3 876 627	4%	6 443 086	6 577 310	6 938 075	7 090 739	3%
Metro as percentage of total	24%	23%	24%	24%		27%	27%	27%	27%	
DC21 Ugu District Municipality	501 357	524 364	559 208	568 161	4%	799 646	863 351	907 129	939 381	6%
DC22 uMgungundlovu District Municipality	572 040	608 552	652 169	677 625	6%	759 908	810 830	853 250	885 410	5%
DC23 uThukela District Municipality	466 180	485 156	515 270	520 911	4%	786 264	777 205	818 063	843 848	2%
DC24 uMzinyathi District Municipality	383 967	402 121	430 067	437 345	4%	663 362	703 622	740 387	763 411	5%
DC25 Amajuba District Municipality	173 757	184 017	195 615	202 111	5%	271 009	296 796	333 179	356 922	10%
DC26 Zululand District Municipality	502 849	524 645	559 056	566 225	4%	945 177	1 113 546	1 088 062	1 198 867	8%
DC27 uMkhanyakude District Municipality	449 981	473 222	508 558	519 064	5%	759 600	790 575	845 906	863 277	4%
DC28 King Cetshwayo District Municipality	557 703	590 849	630 609	653 293	5%	838 761	863 278	1 026 605	1 103 708	10%
DC29 iLembe District Municipality	566 794	600 260	648 716	668 071	6%	834 074	875 084	959 367	989 344	6%
DC43 Harry Gwala District Municipality	372 340	387 013	410 807	414 421	4%	649 254	702 695	766 146	785 838	7%
Total districts	4 546 968	4 780 199	5 110 075	5 227 227	5%	7 307 055	7 796 982	8 338 094	8 730 006	6%
Percentage of total	31%	31%	31%	32%		31%	32%	32%	33%	
<b>Total Kwazulu-Natal Municipalities</b>	<b>14 652 931</b>	<b>15 309 880</b>	<b>16 285 253</b>	<b>16 346 256</b>	<b>4%</b>	<b>23 488 224</b>	<b>24 617 694</b>	<b>26 005 175</b>	<b>26 618 434</b>	<b>4%</b>
<b>LIMPOPO</b>										
DC33 Mopani District Municipality	998 515	1 044 405	1 116 401	1 134 210	4%	1 980 683	2 048 767	2 376 857	2 451 316	7%
DC34 Vhembe District Municipality	1 084 112	1 134 436	1 215 488	1 234 343	4%	1 772 136	1 814 965	1 939 881	1 951 951	3%
DC35 Capricorn District Municipality	634 374	666 269	707 221	724 515	5%	950 767	1 017 127	1 062 103	1 105 733	5%
DC36 Waterberg District Municipality	135 060	140 217	145 116	147 932	3%	139 511	147 794	154 141	157 213	4%
DC47 Sekhukhune District Municipality	837 796	878 832	942 269	959 698	5%	1 508 876	1 674 381	1 766 109	1 702 959	4%
Total districts	3 689 857	3 864 159	4 126 495	4 200 698	4%	6 351 973	6 703 034	7 299 091	7 369 172	5%
Percentage of total	36%	36%	37%	37%		39%	40%	40%	40%	
<b>Total Limpopo Municipalities</b>	<b>10 174 669</b>	<b>10 640 628</b>	<b>11 304 234</b>	<b>11 287 445</b>	<b>4%</b>	<b>16 190 251</b>	<b>16 911 042</b>	<b>18 081 994</b>	<b>18 323 901</b>	<b>4%</b>
<b>MPUMALANGA</b>										
DC30 Gert Sibande District Municipality	300 489	309 408	317 445	324 318	3%	317 155	332 490	334 226	340 160	2%
DC31 Nkangala District Municipality	367 222	378 547	388 869	397 403	3%	372 397	386 531	392 208	400 745	2%
DC32 Ehlanzeni District Municipality	264 278	274 698	284 784	290 122	3%	271 643	285 540	288 306	293 647	3%
Total districts	931 989	962 653	991 098	1 011 843	3%	961 195	1 004 561	1 014 740	1 034 552	2%
Percentage of total	15%	14%	14%	14%		9%	9%	9%	9%	
<b>Total Mpumalanga Municipalities</b>	<b>6 425 932</b>	<b>6 718 709</b>	<b>7 151 033</b>	<b>7 193 406</b>	<b>4%</b>	<b>10 143 759</b>	<b>10 898 694</b>	<b>11 545 175</b>	<b>11 577 408</b>	<b>5%</b>

Districts	EQUITABLE SHARE1					TOTAL ALLOCATIONS TO MUNICIPALITIES				
	National and Municipal Financial Year					National and Municipal Financial Year				
	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)	Annual Average growth
<b>NORTHERN CAPE</b>										
DC6 Namakwa District Municipality	50 725	52 385	53 889	54 928	3%	57 153	60 352	59 103	60 146	2%
DC7 Pixley Ka Seme District Municipality	53 097	55 175	57 143	57 925	3%	58 631	62 476	62 020	62 856	2%
DC8 Z.F. Mgcawu District Municipality	72 110	74 698	77 106	78 484	3%	77 000	80 328	81 380	82 762	2%
DC9 Frances Baard District Municipality	124 299	128 076	131 501	134 100	3%	130 443	136 729	135 204	137 806	2%
DC45 John Taolo Gaetsewe District Municipality	93 279	95 976	99 054	100 044	2%	101 479	107 078	107 681	108 673	2%
<b>Total districts</b>	<b>393 510</b>	<b>406 310</b>	<b>418 693</b>	<b>425 481</b>	<b>3%</b>	<b>424 706</b>	<b>446 963</b>	<b>445 388</b>	<b>452 243</b>	<b>2%</b>
Percentage of total	20%	20%	19%	20%		12%	13%	12%	12%	1%
<b>Total Northern Cape Municipalities</b>	<b>1 966 968</b>	<b>2 045 052</b>	<b>2 157 663</b>	<b>2 163 633</b>	<b>3%</b>	<b>3 565 638</b>	<b>3 530 462</b>	<b>3 622 391</b>	<b>3 633 239</b>	<b>1%</b>
<b>NORTH WEST</b>										
DC37 Bojanala Platinum District Municipality	352 817	366 729	380 119	389 685	3%	359 989	376 763	384 441	394 073	3%
DC38 Ngaka Modiri Molema District Municipality	829 868	873 573	935 613	958 701	5%	1 228 544	1 369 281	1 431 569	1 455 664	6%
DC39 Dr Ruth Segomotsi Mompati District Municipality	388 696	404 182	428 366	432 576	4%	736 257	1 085 411	1 166 660	1 190 030	17%
DC40 Dr Kenneth Kaunda District Municipality	193 845	200 130	205 937	210 121	3%	199 016	205 766	209 510	213 762	2%
<b>Total districts</b>	<b>1 765 226</b>	<b>1 844 614</b>	<b>1 950 035</b>	<b>1 991 083</b>	<b>4%</b>	<b>2 523 806</b>	<b>3 037 221</b>	<b>3 192 180</b>	<b>3 253 529</b>	<b>9%</b>
Percentage of total	27%	27%	27%	27%		25%	28%	28%	28%	3%
<b>Total North West Municipalities</b>	<b>6 471 181</b>	<b>6 781 284</b>	<b>7 232 867</b>	<b>7 293 039</b>	<b>4%</b>	<b>9 902 714</b>	<b>10 789 995</b>	<b>11 482 652</b>	<b>11 735 368</b>	<b>6%</b>
<b>WESTERN CAPE</b>										
<b>Metro</b>	3 081 195	3 215 174	3 454 804	3 505 487	4%	6 832 172	7 278 085	7 185 651	7 134 959	1%
<b>Metro as percentage of total</b>	54%	54%	55%	55%		63%	64%	64%	64%	
DC1 West Coast District Municipality	96 113	99 472	102 639	104 699	3%	100 876	104 459	106 353	108 416	2%
DC2 Cape Winelands District Municipality	238 441	245 208	251 220	256 691	2%	243 655	250 869	255 104	260 578	2%
DC3 Overberg District Municipality	74 636	77 375	79 984	81 348	3%	79 494	82 136	83 826	85 193	2%
DC4 Garden Route District Municipality	162 480	167 653	172 405	175 879	3%	168 297	177 702	176 006	179 483	2%
DC5 Central Karoo District Municipality	31 965	33 268	34 504	34 891	3%	36 475	39 500	37 564	37 953	1%
<b>Total districts</b>	<b>603 635</b>	<b>622 976</b>	<b>640 752</b>	<b>653 508</b>	<b>3%</b>	<b>628 797</b>	<b>654 666</b>	<b>658 853</b>	<b>671 623</b>	<b>2%</b>
Percentage of total	11%	11%	10%	10%		6%	6%	6%	6%	
<b>Total Western Cape Municipalities</b>	<b>5 689 283</b>	<b>5 930 336</b>	<b>6 336 827</b>	<b>6 427 310</b>	<b>4%</b>	<b>10 765 473</b>	<b>11 314 169</b>	<b>11 283 634</b>	<b>11 170 963</b>	<b>1%</b>
Unallocated		0	0	0		512 732	526 037	2 041 458	2 306 209	65%
<b>Total districts</b>	<b>16 267 986</b>	<b>16 977 122</b>	<b>17 960 628</b>	<b>18 284 915</b>	<b>4%</b>	<b>25 674 234</b>	<b>27 407 849</b>	<b>29 088 390</b>	<b>29 851 048</b>	<b>5%</b>
Percentage of total		22%	22%	22%		20%	21%	21%	21%	
<b>National Total</b>	<b>74 683 326</b>	<b>77 999 135</b>	<b>83 084 515</b>	<b>83 569 989</b>	<b>4%</b>	<b>126 129 967</b>	<b>130 530 762</b>	<b>138 963 495</b>	<b>141 470 585</b>	<b>4%</b>

Source: National Treasury (2020 and 2021 DORA)