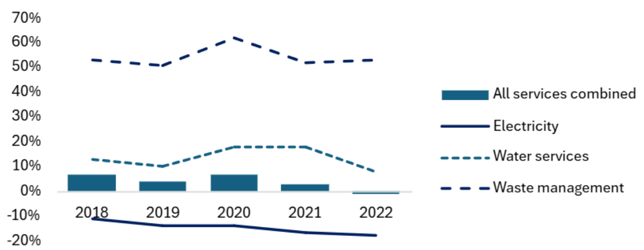
PROJECT
OVERVIEW

# A utility-finance approach to analysing municipal financial sustainability

Traditional approaches to assessing municipal financial sustainability typically adopt a corporate-finance perspective, pooling all revenue sources and comparing them against spending commitments for the municipality as a whole. This approach obscures insights into the financial sustainability of individual utility services. WITS Centre for Inequality Studies therefore approached PDG to undertake an analysis of the financial performance of the individual utility services provided by South African municipalities, namely electricity, water services and waste management.

PDG developed an Excel tool to analyse Statements of Financial Performance for each utility service from the National Treasury Local Government Database for the period of 2018 to 2022. The tool allows for analysis of all municipalities, a group of municipalities, or a single municipality, and of all utility services, or only electricity, water services or waste management. Data constraints were a limitation in the study with reporting by some municipalities inconsistent and sometimes incomplete in some years. Changes in reporting standards have also made it difficult to track long term trends.

Acknowledging these constraints, the analysis found that South African municipalities in aggregate are not able to cover the expenditures incurred in providing the utility services through the own revenues generated by those services.  Deficits on individual utility services differ somewhat, but the deficit on each of the utility service is substantial. Deficits have risen over time in aggregate because expenditures are growing more rapidly than revenues. The analysis found that, in aggregate, there is sufficient grant funding to ensure that utility services are provided at a surplus. The picture differed for different utility services and municipal categories, however, with deficits remaining on electricity even after grants were accounted for, as shown in the figure. It differed also for municipal sub-categories, with only the metros able to generate surpluses even after accounting for grants.




*Surplus as a % of total expenditure after allocation of available grant funding*

The analysis provides support for the need for a review of the local government fiscal framework and the exploration of additional funding sources for local government, particularly outside of the large metropolitan municipalities.

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## WUF PROJECT:

**Project Profile:** A utility-finance approach to analysing municipal financial sustainability

**Client:** Southern Centre for Inequality Studies at the University of the Witwatersrand

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