



## 2.5 Overview of Budget Assumptions

Key factors that have been taken into consideration in the compilation of the 2012/13 MTB include:

- National Government macro economic targets;
- The general inflationary outlook and the impact on City's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration.

### 2.5.1 External factors

This budget is formulated amidst uncertain global economic conditions. The global economic outlook is gloomy.

In its 2012 MTB, the NT notes the resilience of the South African economy, such that the national outlook remains positive. Taking into account the international developments, growth expectations for South Africa have been revised downwards to 2.7 per cent in 2012, picking up to 3.6 and 4.2 per cent in 2013 and 2014 respectively, following improvements globally (NT: 2012).

### **2.5.2 General inflation outlook and its impact on the municipal activities**

Inflation, as measured by the CPI, has been on an upward trend since 2011 and continues to do so, driven primarily by food prices, petrol prices and high electricity tariffs.

Inflation increases the cost of living of households and thereby increases the vulnerability of low and middle income groups.

CPI is projected at 6% for 2012/13 and 5.8% for both 2013/14 and 2014/15.

### **2.5.3 Interest rates for borrowing and investment of funds**

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. CoJ is by far the largest municipal borrower in the country. The City engages in a number of financing arrangements to minimise its interest rate costs and risk. Borrowing will be limited to R1 billion in the 2012/13 budget year, increasing to R1.5 billion in the outer years when revenue increases. For the 2012/13 MTB interest on loans is projected to be 11.50% for 2012/13 and 2013/14 and 10.50% for 2014/15.

### **2.5.4 Collection rate for revenue services**

The rate of revenue collection is currently expressed as a percentage (87.6 per cent as at January 2012) of annual billings.

For the medium term, collection rates for the various services are assumed as follows:

- Property rates: 88.7%, 89% and 89.4%
- Electricity supply: 96.7%, 96.4% and 96.5%
- Water and sanitation: 88.1%, 88.2% and 88.3%
- Refuse removal: 80.2%, 80.3% and 80.4%

The overall budgeted collection rate is 92.3%, 92.7% and 93% for 2012/13, 2013/14 and 2014/15 respectively.

### **2.5.5 Salary increases**

The collective agreement regarding salaries/wages came into operation on 1 July 2009 and remained in force until 30 June 2012. There is no agreement yet in place for the 2012/13 medium term. NT has advised that in the absence of such an agreement, municipalities can budget for an increase of 5% cost- of- living. This is however, lower than the average inflation from February 2011 to January 2012, which the municipality estimate to average 5.3%. The City is, therefore, budgeting for a salary increase of 5.3% for 2012/13 and 5.8% for 2013/14 and 2014/15.



### 2.5.6 Bulk purchases

Electricity bulk purchases from Eskom are assumed to increase by 13.5% and the cost of bulk purchases from Rand Water is expected to increase by 13.5%.

Finance charges and depreciation are growing by 8% in the 2012/13 financial year mainly as a result of the capital investment over the medium term. Other expenditure categories have been limited to 0-3% with the aim of implementing operational efficiencies.

### 2.5.7 Credit rating

CoJ is on AA- national scale in terms of credit ratings. The City's rating reflects the City's status as business capital and main financial and economic centre for South Africa.

### 2.5.8 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 100% is achieved on operating expenditure and 97% on the capital programme for the 2012/13 MTB of which performance has been factored into the cash flow budget.



Table SA9: Social, economic and demographic statistics and assumptions

| Description of economic indicator           | 1996 Census |           | 2001 Census |           | 2007 Survey |           | 2008RD    |           | 2009/10   |           | 2010/11         |         | Current Year 2011/12 |         | 2012/13 Medium Term Revenue & Expenditure Framework |         |         |
|---|-------------|-----------|-------------|-----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------------|---------|----------------------|---------|---|---------|---------|
|   |             |           |             |           |             |           | Outcome   | Outcome   | Outcome   | Outcome   | Original Budget | Outcome | Outcome              | Outcome | Outcome   | Outcome | Outcome |
| <b>Demographics</b>                         |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Population                                  | 2 639 110   | 3 225 812 | 3 888 180   | 3 506 168 | 3 660 861   | 3 748 331 | 3 767 166 | 3 786 096 | 3 805 121 | 3 843 558 |                 |         |                      |         |   |         |         |
| Females aged 5 - 14                         | 206 048     | 235 400   | 290 767     |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Males aged 5 - 14                           | 202 617     | 232 406   | 293 728     |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Females aged 15 - 34                        | 519 108     | 661 127   | 727 827     |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Males aged 15 - 34                          | 553 063     | 708 891   | 764 750     |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Unemployment                                |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| <b>Household demographics (000)</b>         |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Number of people in municipal area          | 2 639 110   | 3 225 812 | 3 888 180   | 3 506 168 | 3 660 861   | 3 748 331 | 3 767 166 | 3 786 096 | 3 805 121 | 3 843 558 |                 |         |                      |         |   |         |         |
| Number of poor people in municipal area     |             |           |             | 729 282   | 744 176     | 629 677   | 661 161   | 664 483   | 667 822   | 671 177   |                 |         |                      |         |   |         |         |
| Number of households in municipal area      | 728 304     | 1 006 932 | 1 165 014   | 1 200 977 | 1 225 486   | 1 250 486 | 1 276 018 | 1 228 905 | 1 301 924 | 1 315 074 |                 |         |                      |         |   |         |         |
| Number of poor households in municipal area |             |           |             | 574 264   | 238 892     | 251 465   | 256 586   | 259 187   | 261 805   | 265 806   |                 |         |                      |         |   |         |         |
| <b>Housing statistics</b>                   |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| <b>Economic</b>                             |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Inflation/inflation outlook (CPIX)          |             |           |             | 6.2%      | 6.8%        | 6.3%      | 5.7%      | 6.0%      | 5.8%      | 5.8%      |                 |         |                      |         |   |         |         |
| Interest rate - borrowing                   |             |           |             | 11.0%     | 12.0%       | 11.0%     | 11.5%     | 11.5%     | 11.0%     | 11.0%     |                 |         |                      |         |   |         |         |
| Interest rate - investment                  |             |           |             | 7.0%      | 6.0%        | 7.0%      | 7.5%      | 7.5%      | 7.5%      | 7.5%      |                 |         |                      |         |   |         |         |
| Remuneration increases                      |             |           |             | 6.3%      | 11.0%       | 6.5%      | 6.1%      | 5.3%      | 6.2%      | 6.2%      |                 |         |                      |         |   |         |         |
| <b>Collection rates</b>                     |             |           |             |           |             |           |           |           |           |           |                 |         |                      |         |   |         |         |
| Property tax/service charges                |             |           |             | 92.0%     | 94.0%       | 92.8%     | 92.5%     | 92.3%     | 92.7%     | 93.0%     |                 |         |                      |         |   |         |         |