CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 19

OVERVIEW OF BUDGET ASSUMPTIONS APPLIED TO THE 2018/19 MTREF REQUIRED TO BE INCLUDED IN ANNEXURE 18 (IDP)

Introduction

The Local Government Municipal Systems Act, Chapter 5, Section 26, prescribes the core components of the Integrated Development Plan. Section 26 (h) requires the inclusion of a financial plan which should include a budget projection for at least the next three years. This financial plan aims to determine the financial affordability and -sustainability levels of the City over the medium term.

A municipality's financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the Integrated Development Plan (IDP). It provides guidance for the development of current budgets and assesses financial impacts on outer years' budgets by incorporating capital expenditure outcomes, operating expenditure trends, optimal asset management plans and the consequential impact on rates, tariffs and other service charges. The City has developed a financial model namely the Long Term Financial Plan (LTFP), which aims to determine the appropriate mix of financial parameters and assumptions within which the City should operate to facilitate budgets which are affordable and sustainable at least 10 years into the future. In addition, it identifies the consequential financial impact of planned capital projects on the City's operating budget.

The LTFP model is reviewed annually to determine the most affordable level at which the municipality can operate optimally taking the fiscal overview, economic climate, National and Provincial influences, IDP and other legislative imperatives, internal governance and community consultation into account in its deliberations.

The key budget assumptions of the 2018/19 MTREF include a discussion of the sources of information used to develop assumptions for revenue and expenditure that drive the 3-year MTREF of the City under the following headings:

- Financial Strategic Approach
- Financial Modelling and Key Planning Drivers
- Economic outlook / external factors
    - National and Provincial influences
- Expenditure analysis – a three-year preview
- Revenue analysis – a three-year preview
- Local Government Equitable Share and Fuel Levy

2.5.1 Financial Strategic Approach

The preparation of the 2018/19 MTREF was in the midst of the City facing a critical challenge in the water crisis which created significant impact on the organisation's operations. This coupled with a fairly new implementation of the Organisation Development Transformation Plan (ODTP), which requires investment, ensuring alignment with the IDP and affordable revenue parameters made this MTREF a difficult balancing act.

The Budget brief issued by the Executive Mayor in November 2017 highlighted this and stressed that the year's planning cycle is definitely not business as usual. Budgetary proposals had to demonstrate alignment of the City's 11 transformational priorities as set out in the IDP as well as alignment to the City's strategies all the while remaining financially sustainable.

The New Water Plan required capital and operating investment over a few years starting with the 2017/18 financial year. During this year the City Manager issued a directive calling for a budget intervention to support the financial impact of the drought relief actions. This was followed through in the 2018/19 financial year with further reprioritisation of the operating expenditure budget across the organisation from Rates and Other Trading Services to Water & Sanitation.

2.5.2 Financial Modelling and Key Planning Drivers

The principles applied to the MTREF in determining and maintaining an affordability envelope included:

- Measures to absorb the financial impact of the New Water Plan included:
  - Permanent reduction to certain expenditure items – operating efficiencies implemented to absorb reductions;
  - Introduction of a budget principle of only providing 95% for employee costs; and
  - Savings identified by introducing these measures contributed to Water Service;
- A 100% capital expenditure implementation rate assumed;
- Credible collection rates based on collection achievements to date and incorporating improved success anticipated in selected revenue items;
- National - and Provincial allocations as per the 2018 Division of Revenue Bill and 2018 Provincial Government gazette.

2.5.3 Economic outlook/external factors

Developments on the political front triggered a series of events that favourably influenced the domestic economy over the last few months. These changes led to an improvement in the current economic position. National Treasury, however, highlighted that there are various risks which may still influence the economic outlook. These risks include policy uncertainty and the impact of the drought on agriculture, tourism and jobs in these sectors.

The Rand strengthened against the US Dollar amidst the unfolding political transition, it is currently fluctuating at levels below R12/US$. According to BER, the R/$ exchange rate is expected to end 2018 at levels of R12.10/US$.

The average Brent Crude oil price increased over the last few months reaching a three-year high of $70/bbl during January. The price increase is mainly due to reduced output by OPEC in order to prevent US exports flooding their core market. The strong R/$ exchange rate shielded consumers from this higher cost of oil. According to the Department of Energy a change might be on the cards with prices expecting to retreat in the near future. The cost of Brent crude oil is expected to average R63/US$ over the next three years.

Real GDP is expected to grow by an average of 1.8% over the next three years. The 2018 Budget Review indicated that the improved outlook flows from strong growth in agriculture, higher commodity prices and recovery in investor sentiments.

The Finance Minister's announcement of the 1 percentage point increase in VAT is expected to have an impact on the future inflation outlook. According to BER this increase should raise the average price of consumer goods and services but estimating that consumer inflation will remain below the 6% upper ceiling of the South African Reserve Bank's (SARB) range. The outlook on CPI fluctuated over the last few months. The City's CPI projection was based on BER projection during the budget planning phase and is 5.50% for the first two years of the MTREF and 5.55% for 2020/21 per municipal financial year.

National and Provincial Influences

a) National Treasury **MFMA circular No. 89** issued in December 2017
The objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda and associated "game changers".
Some of the key points from the circular:
- 2018/19 MTREF to be drafted in version 6.2 of mSCOA;
- Municipalities must reconcile data on the valuation roll, billing system and the deeds office – this may become formal disclosure item in the near future;
- Water tariff increases – important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting iro water services and ensure tariffs charged are able to cover the cost of bulk purchases, ongoing operations and provision of future infrastructure; and
- Ability for customers to pay for services are declining, municipalities **must** consider:
  - Improving the effectiveness of revenue management processes and procedures;
  - Pay special attention to cost containment measures;
  - The affordability of providing free basic services to all households;
  - Curb consumption of water and electricity by indigents to not exceed their allocation; and
  - ensuring value for money through the procurement process.

b) National Treasury **MFMA circular No. 91** issued in March 2018
This circular was the follow up to Circular No. 89 issued in December. It reiterated guidelines provided in the previous circular with the main focus being the grant allocations per the 2018 Budget Review and the 2018 DORb.
Circular highlights:
- A review of the economic outlook and inflation targets;
- Local government grants was reprioritised and reduced. The average reduction over the medium term are 3.5% of the local government allocations;
- That government is committed to managing available water supply to ensure basic needs are met and is prepared to provide financial assistance;
- Section 22 of the 2017 DoRA requires that unspent conditional grants must revert back to the National Revenue Fund unless the unspent funds is proved to be committed in which case the funds may be rolled over. This circular provides the criteria for such roll overs and unspent grant funds;

- Application to the Office Of the Chief Procurement Officer (OCPO) to participate in the RT15-2016 transversal contract account management service offering for smart meters should comply with the required process which will be communicated via a circular;
- To remind municipalities that VAT will increase from 14% to 15% and that it's a tax increase as a result of tax legislation that municipalities must implement, not an increase of tariffs by municipalities; and
- That the budget document should be aligned to the requirements of the MBRR Schedule A (mSCOA) format and that mSCOA data strings should be uploaded to the LG upload portal.

c) National Treasury released the version 6.2 of mSCOA grid for preparation of the 2018/19 MTREF in December 2017.

d) The latest **Division of Revenue Bill (DoRB)** and **Provincial Gazette** as well as the **Fuel Levy** allocation was incorporated in the 2018/19 MTREF.

2.5.4 Expenditure analysis – a three year– preview

The required expenditure investment to provide a sustainable provision of water led to a full review of the City's expenditure budget. The budget was prepared with a combination of interventions that aimed to ensure that the City give effect to its strategies and the crucial new reality of sourcing alternative water supply. The interventions included budget reprioritisation, budget cuts, applying differentiated parameters and budgeting for salaries at 95%.

a) General inflation outlook and its impact on municipal activities
The City's budget was not primarily driven by CPI this year given the budget cuts and the differentiated parameters applied.

The annual consumer price inflation ended 2017 with an average of 5.3%. This outcome was mainly due to a decrease in food & non–alcoholic beverages, which can be attributed to the recovery in agriculture. The City's CPI projection is 5.50% for the first two years of the MTREF and 5.55% for 2020/21, per municipal financial year. National Treasury's CPI projection was reviewed to 5.3% for 2018/19, and 5.4% and 5.5% for 2019/20 and 2020/21 respectively over the national financial years. These levels are within the SARB inflation targeting range of between 3% to 6%.

b) Contracted services, overtime and operational cost
The underlying budget theme remains cost containment and budget efficiencies and to give effect to this a combination of a zero-based budgeting and a differentiated approach was adopted based on the nature of expenditure and previous years' expenditure performance. This approach included reducing the base and applying differentiated parameters to elements in the above mentioned categories of expenditure over the 2018/19 MTREF. In addition budget reprioritisation was also implemented to assist with the cost of providing new sources of water supply.

c) Interest rates for investment of funds
The City's investments are done in terms of the Cash Management and Investment policy, which aims to secure the sound and sustainable management of the City's surplus cash and investments. An average investment rate of 7% is forecasted over the 2018/19 MTREF.

d) Collection rate for Property rates and service charges

Service	Base Budget 2017/18	Budget 2018/19	Budget Year +1	Budget Year +2
Rates	96.0%	96.0%	96.0%	96.0%
Electricity	98.0%	98.0%	98.0%	98.0%
Water	82.0%	73.0%	73.0%	82.0%
Sanitation	86.0%	86.0%	86.0%	86.0%
Refuse	93.0%	93.0%	93.0%	93.0%

The **Property Rates** collection rate remains at 96%, which is supported by previous years' outcomes.

Electricity collection rate remains at 98% over the 2018/19 MTREF. This is mainly attributed to the continuous role out of prepaid meters and revenue protection initiatives.

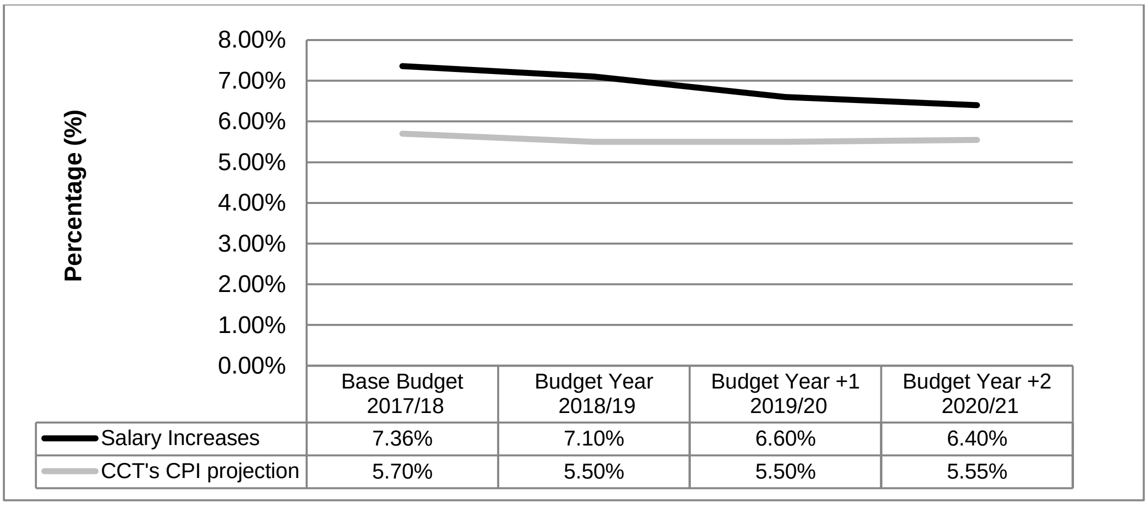
The actual collection rate outcome for **Water and Sanitation** over the past years was lower than anticipated. The projected budgeted collection rate was therefore reduced to a more realistic collection rates for the 2018/19 MTREF. The projected collection rate for Water is 73% for the first two years of the MTREF, in 2020/21 it is expected to improve to 82%. Sanitation collection rate is projected at 86% over the 3-year MTREF. The lower collection rate is predominantly driven by non-paying high water users during the period of water restriction where tariffs are much higher than the standard tariff (to reduce consumption).

The projected **Refuse** collection rate for the 2018/19 MTREF remains constant at 93%. This is due to ongoing debt management initiatives implemented.

e) Salary increases
There is currently no salary and wage collective agreement in place for the 2018/19 MTREF period. The process is currently under consultation; no finality on the matter has been reached to date. In the absence of an agreement the same methodology as per the previous agreement was applied to project the salary increases for future years.

In terms of the agreement, the salary and wage increases are to be annually calculated using the average CPI for the period 1 February of the previous year to 31 January with a 2% added in the first year and 1% for the subsequent years. This formula was used in determining the staff cost provisions over the MTREF. A further provision of 2% was made for an incremental allowance to cater for performance and other notch increases.

Salary increases included in the budget are graphically illustrated in the graph:



	Base Budget 2017/18	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Salary Increases	7.36%	7.10%	6.60%	6.40%
CCT's CPI projection	5.70%	5.50%	5.50%	5.55%

In addition to the above, the City instituted a change in the method of budgeting for salaries. Previous years' outcome showed a constant under performance on salaries. Based on this it was decided that salaries will be budgeted at 95% over the MTREF period.

f) Ensuring maintenance of existing assets

As per 2017/18, a differentiated approach was applied to the expenditure elements relating to repairs and maintenance for the 2018/19 MTREF. This approach considered the nature of the work that individual services provide. The following varying parameters were applied:

- 10% reduction to 2017/18 base with no increase over the 2018/19 MTREF for services that are supportive in nature;
- A CPI increase to services whose main function is not providing repairs & maintenance, however the nature of their business and facilities is such that it requires proper maintenance provision; and
- CPI + 1% applied to services that needs to secure the health of their assets

National Treasury circulars 55 and 70 set the ratio of operational repairs and maintenance to asset value (write down value of the municipality's property, plant and equipment (PPE) at 8%. The City averages 7.5% over the 2018/19 MTREF. The lower ratio outcome is as a result of the reprioritisation of the budget and the accelerated capital investment in new water supply initiatives. This new capital investment would not require immediate repairs and maintenance.

g) Operational financing for capital

Depreciation

Calculation of depreciation on new capital expenditure is based on variables such as asset class and lifespan, depending on the nature of the asset. An annual capital expenditure implementation rate of 100% was assumed. Depreciation of existing assets is calculated based on simulated SAP data that reflect actual values per annum. Assets under construction (AUC) are calculated based on asset class lifespan and projected capitalisation dates.

Credit outlook and Borrowing

The City needs a credit rating to demonstrate its ability to meet its short-and long-term financial obligations. Potential lenders also use it to assess the City's credit risk, which in turn affects the pricing of any subsequent loans taken. Factors used to evaluate the creditworthiness of municipalities include the economy, debt, finances, politics, management and institutional framework.

On 15 February 2018, Moody's Investors Service provided an update to the City's credit analysis. The City's global scale rating is currently on review for possible downgrade, mirroring the status of the National Government, who was placed on review for downgrade in November 2017. The review was sighted as a result of economic and fiscal challenges, such as growth and budgetary revenue shortfalls. Currently South Africa maintains credit strengths that still support its Baa3 rating.

The City's rating currently is at Aaa.za/P-1.za, which reflects the City's credit profile of stable financial performance, strong financial debt management, low debt and diverse economic profile. The City's credit profile is, however, constrained by the water shortage, the impact it has on water revenue and the increased capital expenditure required to ensure the supply of water. The City's rating over the last period was as follows:

Category	**Currency**	**Current Rating 15 February 2018**	**Previous Rating 1 December 2017 Following action on sovereign rating**	**Previous Rating 14 June 2017 Following action on sovereign rating**	**Previous Rating 6 April 2017 Following action on sovereign rating**
Outlook	-	Global rating under review	Global rating under review	Negative	Global rating under review
NSR Issuer Rating	Rand	Aaa.za	Aaa.za	Aaa.za	Aaa.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aaa.za	Aaa.za	Aaa.za	Aaa.za

The City's borrowing is done in terms of chapter 6 of the MFMA as well as the City's borrowing policy, in terms of which a long-term loan will only be entered into if it's affordable and sustainable. The City's loan requirements are determined by the capital investment requirement (excl. transfers recognised: capital) and the projected cash position. The City primarily borrows against future revenue generating assets.

Over the 2018/19 MTREF it is projected that the City will have a favourable cash position thus reducing the borrowing requirement vs. the capital requirement. Borrowing over the MTREF is calculated on an interest rate of 11% based on the annuity method.

The table below reflects the proposed borrowing over the 2018/19 MTREF.

	2018/19	2019/20	2020/21
Borrowing (R' 000)	5,000,000	5,200,000	6,000,000
Borrowing Interest Rate (%)	11%	11%	11%

2.5.5 Revenue analysis

a) Growth

Electricity

Electricity projected shrinkage in sales revenue over the 2018/19 MTREF, shrinkage of 2.68% is projected for 2018/19 and 2% for the two outer years. The shrinkage is as a result of continued energy saving plans which results in reduced consumption.

Property Rates

Service growth for Rates is projected at 0.5% for 2018/19, 1% for 2019/20 and 0.5% for 2020/21. The projected growth is based on the current property valuations. A one percent is projected in 2019/20 to account for the change expected as a result of 2018 General Valuation (GV) to be implemented in 2019/20.

Water & Sanitation

Water volumetric growth for base calculations is expected to shrink by 20% in 2018/19. The projected shrinkage is due to the expected permanent reduction in water usage as a result of the water restrictions and permanent water saving measures implemented by consumers. The Sanitation revenue budget is aligned to water volumes, thus the same water shrinkage projections was applied for Sanitation.

No growth is projected for the two outer years of the MTREF as it is expected that consumer's ability to save water would have plateaued out. It would also be prudent for the new base to be established before making further projections.

Refuse

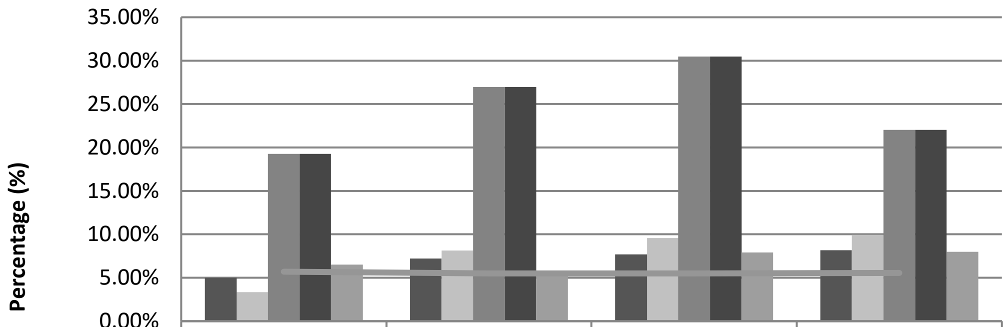
The average revenue growth over the last 3 years shows that a 2% growth for Refuse is sustainable over the 2018/19 MTREF. The growth is driven by the growth in the requirement for this service.

b) Major tariffs and charges

MFMA circular 89 and 91 states that "National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to justify all increases in excess of the projected inflation target for 2018/19 in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative."

The circular further acknowledged that “municipal own revenue sources are shrinking due to widespread drought and households opting for alternative sources of energy”. Electricity services are urged to work towards achieving fully cost-reflective tariffs and Water tariffs should cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure.

Considering the above and to ensure future financial sustainability, the following revenue increases are applied for 2018/19 MTREF.



	Base Budget 2017/18	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Property Rates	5.00%	7.20%	7.70%	8.16%
Electricity	3.34%	8.14%	9.56%	9.96%
Water	19.25%	26.96%	30.45%	22.04%
Sanitation	19.25%	26.96%	30.45%	22.04%
Refuse	6.51%	5.70%	7.90%	8.00%
City's CPI projection	5.70%	5.50%	5.50%	5.55%

Electricity

Last year was the end of the Multi–Year Price Determination (MYPD) agreement. Eskom thus applied to the National Energy Regulator of South Africa (NERSA) for an increase for the 2018/19 financial year. In this regard NERSA approved an average percentage price increase of 5.23% to Eskom for the 2018/19 financial year, which translated into a 7.32% increase for municipalities. There is currently no longer term price increase agreement in place i.e. only an increase for the 2018/19 financial year of the MTREF was approved.

The nature of business for the Electricity service is the purchasing and redistribution of electricity, where bulk purchases averages 61% of the service’s total budget. The Electricity revenue increase is therefore partly attributed to the NERSA-approved Eskom increase on bulk purchases, which is 7.32% for the 2018/19 financial year. In the absence of a longer term price increase agreement, a 10% increase was applied for the two outer years. In addition, the higher than CPI increases on other expenditure items, the reducing Electricity sales and investments in new infrastructure further contribute to the revenue increase requirement.

Based on the above, the electricity average revenue increases are 8.14%, 9.56% and 9.96%, respectively over the 2018/19 MTREF.

Rates

A revenue increase of 7.2% is proposed for the 2018/19 financial year, 7.7% and 8.16% is projected for the 2019/20 and 2020/21 years respectively. The higher than CPI increase is as a result of reduced revenue received from the sharing of the Fuel Levy, higher capital cost, new budget realities and the increased cost of capital investment.

Water and Sanitation

MFMA Circular 89 states that "municipalities must ensure that the tariffs charged are able to cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure". The subsequent MFMA Circular 91 reiterated this view stating that "the full costs of new schemes will eventually have to be recovered from water users through tariffs".

In light of the above, the average revenue increase for Water and Sanitation, based primarily on the negative volumetric growth and other factors, is projected at 26.96% for 2018/19, 30.45% and 22.04% for the two outer of the MTREF respectively.

The revenue base for Water and Sanitation was calculated from a level 1 volumetric consumption level, as adjusted for growth, to ensure stability in the forecasting, obtaining a revenue neutral position on the restriction levels and to prevent commitments been created, which cannot be sustained at the projected volumetric consumption levels.

Factors contributing to the high revenue parameters include:

- Various initiatives are planned over the next few years in light of the current severe drought condition to ensure sustainability and resilience in the provision of water for the City which in an effort to ensure water security includes investment in desalination, underground extraction from aquifers and water reclamation / reuse initiatives;
- The continued investment in asset replacement programmes to ensure proper asset management;
- Acceleration of repairs and maintenance programmes as well as staffing strategy to ensure that service delivery and responsiveness expectations are met;
- Further roll out of water demand management initiatives to limit the abuse of water; and
- Significantly lower collection rate.

In addition, due to the current climatic conditions, level 6b water restriction will continue for the 2018/19 financial year and level 6 restrictions tariff will still be applicable from 1 July 2018.

Refuse

Solid Waste consists of 3 services of which two are Tariff funded and one funded by Property Rates. The tariff funded services consists of Disposal and Refuse.

The Disposal average increase for 2018/19 is at 14.83% while the increases for the two outer years are 10.87% and 14.24% respectively. This increase is required for capital investment and its related operating expenses. The capital investment includes the development of material recovery facilities and regional landfill sites, upgrading of transfer stations and landfill sites, and the purchasing of land for the regional land fill site.

The Refuse average increase is 5.7% for 2018/19 and 7.9% and 8% for the two outer years respectively. The average increase will allow, inter alia, for amongst other, the service to comply with the NEMWA waste minimisation requirements by increasing the removal of recycling at the source and upgrading of solid waste depot facilities.

Housing rental (Council rental properties)

The monthly rental charge for the City's housing rental properties is based on a rate per square meter applied to the size of the unit being rented coupled with a set of premiums/deductions based on the location, maintenance level, facilities et al of the specific property for which the rent is charged.

Through addressing the economic challenges faced by many poorer communities residing in, particularly, the City's rental stock, the average total monthly rental charge percentage increase associated with the City's rental properties has been retained at an affordable level and is based on an annual increase of 7.02% (where the unit has a separate water meter) or 14.30% (for those units which include water in the rental charge) for 2018/19.

The annual rental charge percentage increase, acknowledging the ongoing multi-year implications of inflation on the costs associated with the management of rental properties including, inter alia, maintenance of the properties, administrative costs is not directly aligned to the full economic cost of operating the rental units and operates on a City of Cape Town subsidized basis for the financial differential between the economic cost recovery based rental (CPI linked) and the actual amount charged.

Tenants who were in occupation of the City's rental properties in 2007 receive a subsidy of 20% of the rental charge being the final portion of the phase out program which was not fully implemented by the City to facilitate affordability of long standing tenants. This key initiative, reflected within the City's Housing Debt Management Policy, supports affordable rentals to many poor communities and supports the City's initiatives in terms of its housing debt collection drives whilst supporting the City's housing debtor book that it does not unduly increase due to, potentially, unreachable charges.

The proposed 2018/19 housing rental charge is in line with previous annual rental increases and is again aimed at ensuring affordability for the City's poorer communities. The rental rate (per square meter per month) is R10.37 (where the unit has a separate water meter) or a rental charge (including water charge where applicable) of R16.87 per square meter per month.

The City's housing premiums and deductions charge structure addressing the variations in the City's diverse rental properties remains as follows:

Discounts on account
- Outside toilet (R20 per month)
- External Water (R30 per month)
- No ceiling (R15 per month)

Premiums on account
- Saleable unit (R4,50 per month)
- Well maintained (R5 per month)
- Local environment (R3,50 per month)
- Well located (R5 per month)
- Hot water cylinder (R4 per month).

A surcharge for tenants earning a monthly income above the rental income threshold (R3 500) is charged as follows at a stepped rate of 8% for those earning R3 501 – R7 500 and 10% for those earning R7 501 – R10 000. Tenants who earn more than R10 000 per month will pay a surcharge of 25% of any amount above R10 000. A two (2) year lease agreement will be signed which will not be renewed if the income remains more than R10 000.

c) Capital funding
The total capital budget included over the MTREF is:

Funded by:	**Budget Year 2018/19 R' 000**	**Budget Year+1 2019/20 R' 000**	**Budget Year +2 2020/21 R' 000**
Transfers recognised - capital	2,066,296	2,118,842	2,296,333
Public contributions & donations	76,200	78,600	112,100
Borrowing	5,000,000	5,200,000	6,000,000
Internally generated funds	2,134,726	1,846,252	1,543,351
Total	9,277,222	9,243,694	9,951,784

2.5.6 Local Government Equitable share and Fuel levy

Local Government Equitable share

In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions. The local government equitable share is an unconditional transfer that supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges).

The equitable share provision included in the budget is based on the 2018 Division of Revenue Bill. The following equitable share amounts were allocated to the City:

2018/19 – R2 575 million
2019/20 – R2 816 million
2020/21 – R3 092 million

Sharing of the General Fuel levy

The sharing of the general Fuel Levy with metropolitan municipalities was introduced in 2008/09 as a replacement for the RSC levies previously collected by municipalities. The general Fuel Levy is legislated by the Taxation Laws Amendment Act (Act 17 of 2009), which provides that each metropolitan's share should be announced in the government gazette.
The Fuel Levy allocation is based on the 2016 fuel volume sales. The following amounts were allocated to the City as per the 2018/19 allocation letter (subject to approval of the Minister of Finance):

2018/19 – R2 558 million
2019/20 – R2 640 million
2020/21 – R2 746 million

	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
CPI	**5.50%**	**5.50%**	**5.55%**
COLLECTION RATES			
Rates	96.00%	96.00%	96.00%
Electricity	98.00%	98.00%	98.00%
Water	73.00%	73.00%	82.00%
Sanitation	86.00%	86.00%	86.00%
Refuse	93.00%	93.00%	93.00%
REVENUE PARAMETERS			
Rates	7.20%	7.70%	8.16%
Electricity	8.14%	9.56%	9.96%
Water	26.96%	30.45%	22.04%
Sanitation	26.96%	30.45%	22.04%
Refuse	5.70%	7.90%	8.00%
Disposal	14.83%	10.87%	14.24%
GROWTH PARAMETERS			
Rates	0.50%	1.00%	0.50%
Electricity	-2.68%	-2.00%	-2.00%
Water	-20.00%	0.00%	0.00%
Sanitation	-20.00%	0.00%	0.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS:			
Salary increase			
Salary increase (SALGBC Agreement)	7.10%	6.60%	6.40%
Increment provision	2.00%	2.00%	2.00%
Operational cost	Differentiated	Differentiated	Differentiated
Repairs & Maintenance	Differentiated	Differentiated	Differentiated
Interest Rates			
Interest paid	11.00%	11.00%	11.00%
Interest on investment	7.00%	7.00%	7.00%
Other:			
Capital Borrowing expenditure	R5.000bn	R5.200bn	R6.000bn
Equitable Share Allocation	R2.575bn	R2.816bn	R3.092bn
Fuel levy	R2.558bn	R2.640bn	R2.746bn