CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 20

OVERVIEW OF BUDGET ASSUMPTIONS APPLIED TO THE 2020/21 MTREF REQUIRED TO BE INCLUDED IN ANNEXURE 19 (IDP)

Overview of budget assumptions applied to the 2020/21 MTREF

1. Introduction

The Local Government Municipal Systems Act, Chapter 5, Section 26, prescribes the core components of the Integrated Development Plan (IDP). 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.

Part 2 of the MBRR (Budget-related policies) requires the Accounting Officer to ensure that budget-related policies are prepared and submitted to Council. One of these policies relates to the long-term financial plan, which aims to ensure that all long-term financial planning is based on a structured and consistent methodology, thereby ensuring long-term financial affordability and sustainability.

A municipality's financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the 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 affordable and sustainable budgets for 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 City can operate optimally taking the following into account:

- Fiscal overview;
- Economic climate;
- Demographic trends;
- National- and Provincial influences;
- IDP and other legislative imperatives; and
- Internal governance, community consultation and service delivery trends

The key budget assumptions of the 2020/21 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 (including demographics);
- National and Provincial influences;
- Expenditure analysis – a three-year preview;
- Revenue analysis – a three-year preview; and
- Local Government Equitable Share and Fuel Levy.

2. Financial Strategic Approach

The backdrop of the 2020/21 MTREF preparation was against the following scenario - a 2018/19 financial year outcome confirming that the City's budget requires material review and adjustment - major under-expenditure coupled with over-recovery of revenue consistently result in a much higher than anticipated surplus. This furthermore manifests in balance sheet positions on, for example, a high surplus/free cash position for a public sector institution such as a municipality.

In addition, the public outcry on the seemingly high rates and tariffs for the 2019/20 financial year needed urgent intervention and consideration during the drafting of the 2020/21 MTREF.

The LTFP theme for the 2020/21 MTREF was therefore getting to a realistic, deliverable MTREF and addressing the Cape Town opprobrium (public outcry).

The direction provided during the Strategic Review phase of the Strategic Management Framework (SMF) process was for the organisation to focus, plan, review and reprioritise programs ensuring alignment to the following themes/topics:

- Implementation of the following:
  - Current IDP
  - MSDF; and
  - The Water Strategy.;
- Maintain Assets;
- Protect existing infrastructure and staff to ensure service delivery; and
- Violent crime and social challenges.

The Organisational Strategy Brief 2020/21 in preparation of the 2020/21 MTREF issued in this regard provided a summary of the strategic drivers and budgeting priorities for the City to guide and inform the organisation's planning of the MTREF.

LTFP rationale and financial strategies implemented

The following new strategies to address the financial challenges were implemented in addition to the principles applied to the LTFP discussed later in this section:

- A more stringent approach to loan take-up
  The decision was made to utilise previous years' surpluses to fund capital instead of borrowing. External loans to cover the EFF-funded capital projects of R4.6 billion will therefore not be taken up in the 2020/21 financial year.

- A depreciation strategy in an effort to utilise available cash and reduce tariffs.
  - This strategy sees the City using its surplus cash flow to negate the recovery of a depreciation charge of R500 million per year over seven years. This is done in order to offset tariff increases, due to loans not taken up previously.
  - This has resulted in the Budgeted Financial Performance (MBRR Table A4) showing a bottom-line deficit although the City's budget is fully funded as reflected in the Budgeted Cash Flow statement (MBRR Table A7) and the Funding Compliance Measurement (MBRR Table SA10).

- A strategy of providing for a revenue budget but not including a portion of the revenue in the calculation of the rate-in-the-Rand (for Rates) or the tariff calculation (for Water & Sanitation and Electricity).
  - This strategy was in response to continuous previous years' trends of collection of higher than budgeted revenue as a result of 'old' debt being paid in current years.
  - An intervention factor was applied reducing the revenue parameter (on which Rates and Tariffs are calculated) but keeping the budgeted revenue at the original level. This was applied to the services as follows:
    - **Water & Sanitation -** R100 million: The collection rate was increased to cover the reduction of debt impairment to the value of R100 million, which resulted in a lower revenue parameter. Water & Sanitation has shown improved collection of debt over recent months.
    - **Electricity -** R100 million; and
    - **Rates** - R150 million
  - The City's favourable cash position would allow for any risk of this strategy to be carried against the balance sheet and not the specific service.

2.1 Financial Modelling and Key Planning Drivers

The principles applied to the MTREF in determining and maintaining a sustainable financial plan included:

- A base reduction on various expenditure categories of R356 million across all directorates in response to performance outcome of the 2018/19 financial year.
- Staff and vacancies:
  - Budgeting at 95% of employee costs; and
  - a differentiated percentage budget approach on vacancies.
- No increases on overtime provision except for labour intensive directorates where higher than inflation increases are applied.
- Repairs and maintenance growth based on the previous year's actual expenditure, service delivery needs and efficiencies identified.
- A 100% capital expenditure implementation rate.
- 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 2020 Division of Revenue Bill and 2020 Provincial Government Preliminary Allocation Circular.

The following were included in the MTREF:

- In response to the SMF Operational Review process, additional allocations of R504 million to various directorates across the organisation were made.
- To capacitate the newly approved HR business model, R21 million was allocated across directorates.
- To provide for the City's portion of the Law Enforcement Advancement Program (LEAP), R133 million, R146 million and R125 million was allocated for the 2020/21 financial year and two outer years' respectively. The funding for LEAP will be covered by the Revenue strategy from Rates i.e. collection of rates without adding it to the rate-in-the-Rand, therefore not resulting in an additional revenue parameter increase.

- The City noted with concern the risk after the 3-year contract expires in 2023/24 as the City might be faced with additional expenditure of R550 million (estimated rates revenue increase requirement of 6%).

2.2 Economic outlook / external factors

The preparation of the LTFP and the drafting of the MTREF commenced with a macro environmental scan of the economy as one of its determinants. The factors taken into consideration included the CPI, interest rates, exchange rates, service growth and GDP, which is briefly discussed below.

The envisaged growth of National Treasury of 1.5% in 2019 did not materialise and, in contrast, the economy experienced a technical recession with two successive quarters of economic decline. The economy recovered from a technical recession in the first half of 2018 but growth still remained subdued and ended the fourth quarter at 1.4%. According to National Treasury, real GDP is expected to grow at 0.9% in 2020 and improve to 1.3% in 2021, however, Moody's recently cut South Africa's growth forecast to 0.4% for 2020, on the back of the global corona virus outbreak.

Major influences to the oil price are the Brent Crude oil price and the R/$ exchange rate. Brent Crude oil price reduced over the last few months reaching levels of $32.00 per barrel in early March. The price reduction is a consequence of reduced demand, due to the international spread of the corona virus and suppliers not reaching consensus on how to support the energy markets during this time. The cost of Brent Crude oil is expected to average $65 over the next 3 years. The Rand is currently trading at over R16/$ but the Bureau of Economic Research (BER) forecasts that the Rand will end at an average of R15.25/$ in 2020 and at R15.38/$ in 2021.

According to the National Treasury 2020 Budget review, the current low inflation levels is as a result of weak domestic demand and low global inflation. In addition, it advises on the risk that higher administered prices and exchange rate depreciation could put upward pressure on inflation. The City's CPI forecast was based on BER projection during the budget planning phase.

Demographic trends

The population of Cape Town in 2019 was estimated at 4 488 546, growing at 2.01% from 2018 to 2019 (Mid-year Population Estimates, Statistics South Africa, 2019). This makes Cape Town one of the larger metropolitan municipalities in South Africa and the main urban centre in the Western Cape.

Cape Town's population is expected to continue to grow as has been the trend. It is estimated that the population will grow to around 4.7 million in 2025 (City of Cape Town, 2018). Moreover, the number of households in Cape Town in 2019 was 1 402 million, an increase of 10.7% since 2015 (City of Cape Town 2019, using Mid-year estimates). The average household size has declined from 3.3 persons in 2015 to 3.2 person in 2019 (City of Cape Town, 2019).

These trends of steadily increasing population growth (albeit at a declining growth rate) and increasing numbers of households, with fewer persons per household, form some of the informants to City planning and service delivery for the residents of Cape Town.

2.3 National and Provincial influences

a) National Treasury MFMA Circular No. 98, issued in December 2019

The purpose of this annual budget circular is to guide municipalities with the compilation of the 2020/21 MTREF.

The objectives of the circular are to, inter alia, demonstrate how municipalities should undertake annual budget preparation in accordance with the budget- and financial reform agenda and associated "game changers".

Key themes from this circular include the following:

- The dire economic environment confronting government over the next several years;
- Macro-economic forecasts to be considered when preparing the 2020/21 MTREF municipal budgets;
- Changes to local government allocations;
- The equitable share and the allocation of the general fuel levy to local government constitute unconditional funding. Municipalities were reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities;
- Conditional grant funding must be utilised for the intended purpose within the stipulated timeframes, as specified in the DoRB published in February 2020. Funds not spent must be returned to the fiscus and requests for roll-overs will only be considered in extenuating circumstances;
- Addressing unfunded budgets in local government;
- Changes to the structure of local government allocations;
- Version 6.4 of the mSCOA chart is effective from 2020/21 and must be used to compile the 2020/21 MTREF;
- Municipalities must comply with Section 18 of the MFMA and ensure that they fund their 2020/21 MTREF budgets from realistically anticipated revenues to be collected;
- Municipalities should pay attention to reconcile the valuation roll data to the billing system to ensure that revenue anticipated from property rates are accurate;
- Setting cost reflective tariffs and having a credible budget to ensure tariffs results in financial sustainability;
- Municipalities to consider the following when compiling their 2020/21 MTREF budgets:
  - Improve the effectiveness of revenue management processes and procedures;
  - Pay special attention to cost containment measures by, inter alia, controlling unnecessary spending on 'nice-to-have' items and non-essential activities as per the Municipal Cost Containment Regulations (MCCR) issued on 7 June 2019;
  - Ensure value for money through the procurement process;
  - Affordability of providing free basic services to all households; and
  - Curb consumption of water and electricity by indigents to ensure that they do not exceed their allocation.

b) National Treasury MFMA Circular No. 99, issued in March 2020

This budget circular is a follow-up to MFMA Circular No. 98 and aims to provide further guidance to municipalities with the preparation of the 2020/21 MTREF with the key focus being grant allocations per the 2020 Budget Review and the 2020 DoRB.

The Circular further sets out the key focus areas for the 2020/21 Municipal Budget process, highlighting the need for municipalities to improve their collection rates; reminding municipalities that all allocations included in their budgets must correspond to the allocations listed in the DoRB and provided the response to the Finance and Fiscal Commission (FFC)'s recommendations.

The key themes from this circular – over and above what was covered in the previous circular - are:

- Reviewed macro-economic forecasts;
- Eskom Bulk Tariff increases: In absence of NERSA determination, municipalities to utilise the March 2019 increases;
- Budgeting issues: The wage bill, Pension fund and SARS contributions, Water management and attracting economic investments;
- Borrowing for multi-year capital projects and Refinancing of existing loans: Reiterating the requirements of the MFMA; and
- Highlighting the criteria for the roll-over of conditional grant funding.

3. Expenditure analysis – a three-year preview

3.1 General inflation outlook and its impact on municipal activities

The CPI applied over the 2020/21 MTREF is 5.10%, 4.98% and 5.01% over the respective three years as projected by BER at a point in time during the planning process. This is within the South African Reserve Bank's (SARB) inflation target range of between 3% and 6%. In terms of MFMA Circular No. 98, NT's CPI projection is 4.9% for 2020/21 and 4.8% for the two outer years. This was further reduced in MFMA Circular No. 99, issued in March 2020, to 4.5% for 2020/21 and 4.6% for the two outer years.

3.2 Contracted Services, Overtime and Operational Cost

The outcome of the 2018/19 performance had a strong influence on the MTREF approach similar to previous years where budget reductions, reprioritisation and a differentiated approach was implemented. The differentiated approach consisted of a combination of zero-based, and different percentage increases based on the nature of expenditure, the nature of the service department (e.g. labour intensive in the case of overtime) and previous performance.

The MCCR, followed by the City's Cost Containment Policy approved by Council in October 2019, reiterated the importance of ensuring that value for money is achieved and resources of the municipality are used effectively, efficiently and economically.

3.3 Interest rates for investment of funds

Investments are made in terms of the City's Cash Management and Investment Policy, which aims to secure sound and sustainable management of the City's surplus cash and investments. Similar to the previous financial year, an average investment interest rate of 7% is forecast over the 2020/21 MTREF.

3.4 Collection rate for Property Rates and Service charges

Table 1 Collection Rates

Services	Base Budget 2019/20	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Rates	96.0%	96.0%	96.0%	96.0%
Electricity	98.0%	99.0%	99.0%	99.0%
Water	81.3%	91.2%	91.2%	91.2%
Sanitation	95.0%	94.2%	94.2%	94.2%
Refuse	93.0%	90.0%	90.0%	90.0%

The collection rate for Rates remains at 96% over the MTREF.

Electricity collection rate improves from 98% to 99% over the 2020/21 MTREF. This is mainly attributed to the continuous roll-out of prepayment meters and revenue protection initiatives. (Measures for once-off cushioned tariff increase).

The water and sanitation collection rates has increased to a projected 91.2% for water and 94.2% for sanitation over the MTREF. These further increases, after the previous upward adjustment resulting from the change in the manner in which indigent debtors are transacted in the 2018/19 financial year, are based on the latest trends.

The GV 2018 resulted in more than 40 000 single residential properties (previously receiving a rebate and highly indebted) no longer receiving a rebate, which will further increase non-payment of debt. The refuse collection rate has therefore been reduced from 93% to 90% over the 2020/21 MTREF although ongoing debt management initiatives will be implemented.

3.5 Salary increases

The 2020/21 financial year is the last year of the 3-year salary and wage collective agreement approved in 2018. In the absence of an agreement for the two outer years of the 2020/21 MTREF, the principle applied for 2020/21 was assumed.

In terms of the salary and wage collective agreement, the increases per municipal financial year are to be calculated as follows:

- 2020/21: CPI percentage for 2020 as projected by January 2020 Monetary Policy Committee (MPC) plus 1.25%; and
- 2021/22 and 2022/23: Projected at 6.5% in the absence of an agreement.

Furthermore, the salary and wage collective agreement states that if in any of these years the average CPI percentage is less than 5%, the average CPI will be deemed to be 5%, and in the event that the average CPI is above 10% the average CPI will be deemed to be 10%.

The CPI projected by the January 2020 MPC Statement was 4.7% for 2020. Based on this, the salary provision for the 2020/21 financial year was 5% plus 1.25%. A further provision of 2% was made for incremental allowances to cater for performance- and other notch increases.

The following table shows the correlation between the City's CPI and the salary increase over the MTREF.

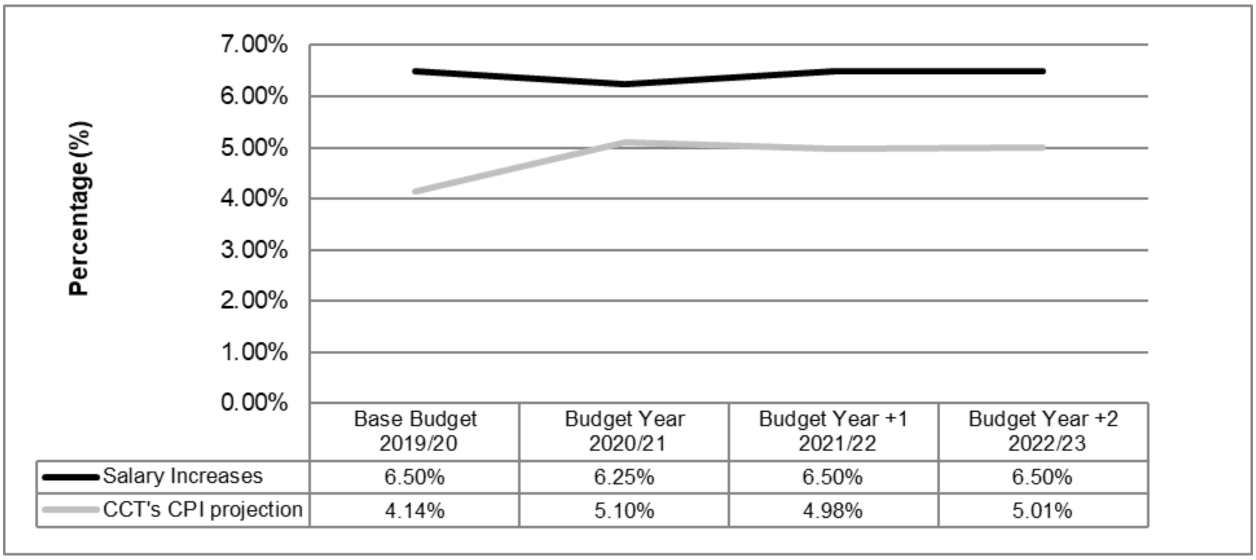


Figure 1 Correlation between the City's CPI and the salary increase over the MTREF

In addition to the above increases, the City continued with the method of budgeting for salaries at 95% as introduced in the 2018/19 financial year. The 2020/21 MTREF also saw the continuation of budgeting partially for vacancies, due to previous years' outcomes showing a recurring under performance. This approach was adopted as the turnaround time of vacancies has attributed significantly to the underperformance on the salaries budget.

3.6 Ensuring maintenance of existing assets

The differentiated approach introduced in previous years was applied to repairs and maintenance expenditure accounts for the 2020/21 MTREF. This approach considered previous year's performance, service delivery needs, efficiencies and the nature of the function that individual services provide. The following varying parameters were applied:

- CPI increase to both services where the nature of their business is primarily to provide repairs and maintenance and where health of assets must be secured and for services, which although their main function is not providing repairs and maintenance, the nature of their business and facilities requires a proper maintenance provision; and
- No increase for support services.

NT Circular No. 55 and NT Circular No. 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 8.18% over the 2020/21 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 will not require immediate repairs and maintenance.

3.7 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 rating 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 up. Factors used to evaluate the creditworthiness of municipalities include the economy, debt, finances, politics, management and institutional framework.

On 13 March 2020, Moody's Investors Service provided an update to the City's credit opinion. The City's global and national scale ratings as well as its negative outlook were confirmed.

The City's national scale rating is currently Aaa.za/P-1.za, which reflects the City's credit profile of strong financial performance supported by prudent financial management, a large and diverse economic profile and predictable sources of revenue from property taxes and service charges. The City has consistently generated operating surpluses, strong liquidity compared with that of its peers in South Africa, and low debt. The City's credit profile is constrained by Cape Town's capital spending pressure as a result of the drought-related water shortages, infrastructure backlogs and population growth. The City's known ratings over the last period are:

Table 2 Credit rating outlook

Category	Currency	Current	Previous 11 November 2019 Update following change in outlook	Previous 19 March 2019 Update following change in outlook
Outlook	-	Negative	Negative	Stable
NSR Issuer Rating	Rand	Aaa.za	Aaa.za	Aaa.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aaa.za	Aaa.za	Aaa.za

- Stable Outlook – reflects that a credit rating assigned to an issuer is unlikely to change;
- Negative Outlook - reflects that a credit rating assigned to an issuer which may be lowered;
- Rating under Review - a review indicates that a rating is under consideration for a change in the near term;
- NSR Issuer Rating – Aaa.za - Issuers or issues rated Aaa.za demonstrate the strongest creditworthiness relative to other domestic issuers;
- NSR ST Issuer Rating – P-1.za – Issuers (or supporting institutions) rated Prime-1 have the strongest ability to repay short-term senior unsecured debt obligations relative to other domestic issuers; and
- NSR Senior Unsecured – Aaa.za - Issuers or issues rated Aaa.za demonstrate the strongest creditworthiness relative to other domestic issuers.

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 (excluding Transfers Recognised: Capital) and the projected cash position. The City primarily borrows against future revenue generating assets.

It is projected that the City will have a favourable cash position thus reducing the borrowing requirement as opposed to the capital requirement. Borrowing over the MTREF is calculated on an interest rate of 11% based on the annuity method.

The below table reflects the borrowing and interest rate over the MTREF.

R Thousand	2020/2	2021/22	2022/2
Borrowing	-	5 250 000	5 000 000
Borrowing Interest Rate (%)	11.0%	11.0%	11.0%

4. Revenue analysis – a three-year preview

4.1 Growth

Property Rates
A Rates growth is projected at 0.5% for the 2020/21 financial year. This is as a result of the GV being implemented in 2019/20. The outer years are expected to grow by 1.0% annually.

Electricity
Shrinkage in sales revenue of 1.5% is projected over the 2020/21 MTREF. The shrinkage is due to continued energy saving and efficiency plans introduced by consumers, which results in reduced consumption and declining revenue sales.

Water and Sanitation
A shrinkage in growth of 3.5% is projected for water and 3% for sanitation for 2020/21 and was applied for the MTREF from the original 2019/20 volumetric projection based on consumer usage behaviour. A 1% growth is projected for the two outer years of the MTREF. This position will be reviewed in future years when more information/data is available and consumption levels have stabilised. It is viewed to be prudent for the new base to be established before making future projections.

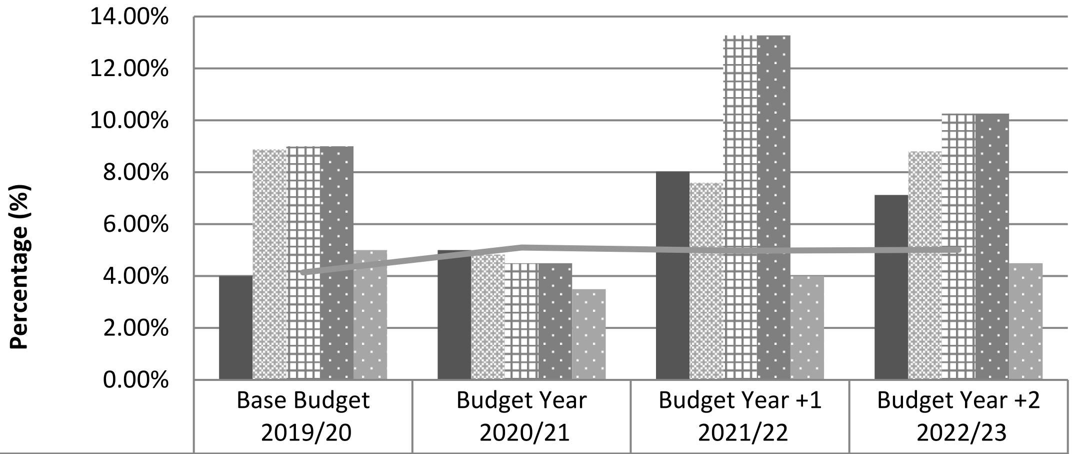
Refuse
The average revenue growth over the last 3 years shows that a 2% growth for refuse is sustainable over the 2020/21 MTREF. This projected increase is driven by the growth in the requirement for this service.

4.2 Major tariffs and charges: Rates and Trading services

MFMA Circular No. 98 encourages municipalities to maintain acceptable levels of tariff increases to all consumers and requires municipalities to justify increases in excess of inflation.

The Circular further reiterates the need to set cost reflective tariffs, which is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) that states that tariffs must "*reflect the costs reasonably associated with rendering the service*". This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

Considering the above and to ensure future financial sustainability, the following revenue increases are applied for 2020/21 MTREF.



	Base Budget 2019/20	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Property Rates	4.00%	5.00%	8.03%	7.12%
Electricity	8.88%	4.83%	7.60%	8.81%
Water	9.00%	4.50%	13.28%	10.26%
Sanitation	9.00%	4.50%	13.28%	10.26%
Refuse	5.00%	3.50%	4.00%	4.50%
City's CPI projection	4.14%	5.10%	4.98%	5.01%

Figure 2 Revenue parameters for the MTREF period

Property Rates

The revenue parameter for Property Rates for the 2020/21 financial year is at level below the upper limit of the inflation target range. The low increase is as a result of various corporate initiatives proposed to reduce cost and reprioritise budgets.

Electricity

On 9 March 2020, NERSA provided a decision on Eskom's Retail Tariff and Structural Adjustment Application and Schedule of tariffs for the period 1 April 2020 to 31 March 2021. The approved allowable revenue by NERSA resulted in an average annual percentage price increase of 8.76% for the 2020/21 Eskom financial year.

This translated in an estimated Eskom increase to municipalities of 6.9% for 2020/21. This increase influences the bulk purchases cost and therefore the electricity revenue increase requirement. The business of providing an electricity service is the purchasing and redistribution of electricity, thus bulk purchases is a major influencing factor in determining the revenue increase. Bulk purchases averages 65% of the Energy & Climate Change directorate's total expenditure budget.

Due to the implementation of corporate cost savings measures the revenue increase for electricity was kept at levels lower than the projected Eskom increases for the MTREF. The electricity average tariff increase projected for the 2020/21 MTREF is 4.83%. The slightly below CPI increase is as a result of the bulk purchases cost, declining electricity sales, business enhancement initiatives, investment in new infrastructure and other higher than CPI costs.

Water and Sanitation

The average revenue increases applied for the MTREF for water and sanitation is 4.5% for 2020/21, 13.28% and 10.26% respectively for the two outer years.

Five levels of tariffs are recommended for the 2020/21 financial year of which the Level 1 tariffs are recommended for implementation from 1 July 2020. The proposed 2020/21 increase is also applicable for the no-restriction and emergency levels. The proposed 2020/21 increases for level 2 and level 3 are both 6.5% for water and 6.5% and 8% respectively for sanitation.

The proposed increases for water and sanitation are due to various factors including the following:

- Requirements for the New Water Plan to ensure sustainable and resilient provision of water. Initiatives include the further investment in underground extraction from aquifers;
- Water demand management initiatives to limit the abuse of water;
- Upgrades and extensions to the wastewater treatment plants;
- Continued investment in asset replacement programmes to ensure proper asset management;
- Continued investment in the repairs and maintenance programme and maintaining required compliance standards; and
- Supplying water and sanitation at appropriate compliance, capacity, skills, service delivery and responsiveness levels.

Within the context of continued service delivery, the increases below CPI recommended for implementation from 1 July 2020 have predominantly been achieved via the phasing of the New Water Plan as well as alignment of the operational cost associated with the latest water consumption levels.

Refuse

Solid Waste consists of three services of which two are tariff-funded and one funded by Property Rates. The tariff-funded services consist of Refuse and Disposal.

Refuse revenue is the revenue received for the removal of waste from residential and non-residential properties. The refuse average increase is 3.50% for 2020/21 and 4.00% and 4.50% for the two outer years. The average increase will allow, amongst other, the introduction of drop-off facilities being upgraded to accommodate the growing need as well as waste minimisation initiatives. The change in rebate allocation will see property values under R300 000 receive 100% rebate.

Disposal revenue is the revenue received for the disposal of waste from residential and non-residential properties. The disposal average increase for 2020/21 is 5.00% whereas the increases for the two outer years are 7.50% and 15.58% respectively. This increase is required for the continued operational requirement of the service and for the capital investment on new-, replacement- and renewed assets. The capital investment includes the development of landfill infrastructure, development and upgrading of transfer stations, plant replacement, the addition of two Material Recovery Facilities and Landfill Gas Generation to Beneficiation at all landfill sites.

Housing rental (Council rental properties)
The monthly rental charge for 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 3.76% (where the unit has a separate water meter) or 4.14% (for those units which include water in the rental charge) for 2020/21.

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-subsidised basis for the financial differential between the economic cost recovery based rental (CPI linked) and the actual amount charged.

Tenants who are occupying rental properties since 2007 receive a subsidy of 20% of the rental charge, this 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 Credit Control and Debt Collection Policy, supports affordable rentals to many poor communities and 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 2020/21 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 R11.27 (where the unit has a separate water meter) or a rental charge (including water charge where applicable) of R19.04 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.

4.3 Capital funding

The capital budget was prepared considering very strict assessment criteria to ensure mainly the ability to implement the capital budget. In this regard the "Brick Wall" approach was adopted where screening and reviewing of projects takes place for procurement and implementation readiness, technical and financial feasibility and strategic alignment. This process culminated in the proposal of the following capital budget over the 2020/21 MTREF:

Table 3 Capital Budget over MTREF

Capital funding R thousands	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Transfers recognised - capital	2 838 423	3 312 729	3 424 875
Borrowing	-	5 250 000	5 000 000
Internally generated funds	5 868 760	1 041 468	2 308 021
TOTAL	**8 707 183**	**9 604 197**	**10 732 896**

5. 2019 Division of Revenue Bill (DoRb) and Fuel Levy

5.1 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, which supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges).

The DoRB provided the following, which was included in the City's 3-year budget:
2020/21 – R3 081 million
2021/22 – R3 378 million
2022/23 – R3 678 million

5.2 Sharing of the Fuel Levy

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 for 2020/21 was based on the 2018 fuel volume sales. Allocations for the two outer years of the 2020/21 MTREF is indicative; the actual allocations will be based on fuel sales. The following amounts were allocated to the City, as per the 2020/21 allocation letter, and was included in the City's 3-year budget:
2020/21 – R2 595 million
2021/22 – R2 734 million
2022/23 – R2 817 million

6. Major parameters

The following table summarises the major parameters applied to the 2020/21 MTREF operating budget:

Table 4 Summary of parameters applied to Operating Budget

	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CPI	**5.10%**	**4.98%**	**5.01%**
COLLECTION RATES			
Rates	96.00%	96.00%	96.00%
Electricity	99.00%	99.00%	99.00%
Water	91.20%	91.20%	91.20%
Sanitation	94.20%	94.20%	94.20%
Refuse	90.00%	90.00%	90.00%
REVENUE PARAMETERS			
Rates	5.00%	8.03%	7.12%
Electricity	4.83%	7.60%	8.81%
Water	4.50%	13.28%	10.26%
Sanitation	4.50%	13.28%	10.26%
Refuse	3.50%	4.00%	4.50%
Disposal	5.00%	7.50%	15.58%
GROWTH PARAMETERS			
Rates	0.50%	1.00%	1.00%
Electricity	-1.50%	-1.50%	-1.50%
Water	-3.50%	1.00%	1.00%
Sanitation	-3.00%	1.00%	1.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS			
Salary increase			
Salary increase (SALGBC Agreement)	6.25%	6.50%	6.50%
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	R0bn	R5.25bn	R5.00bn
Equitable Share Allocation	R3.08bn	R3.38bn	R3.68bn
Fuel levy	R2.59bn	R2.73bn	R2.82bn