ANNEXURE A: OVERVIEW OF BUDGET ASSUMPTIONS APPLIED TO THE 2013/14–2015/16 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK

A contribution of ~~R866 million~~ R881 million towards debt impairment was provided for the 2013/14 budget, and is based on an average collection ratio of 94% (excluding housing). The graph below shows the provision for bad debts for the period 2011/12 to 2015/16.

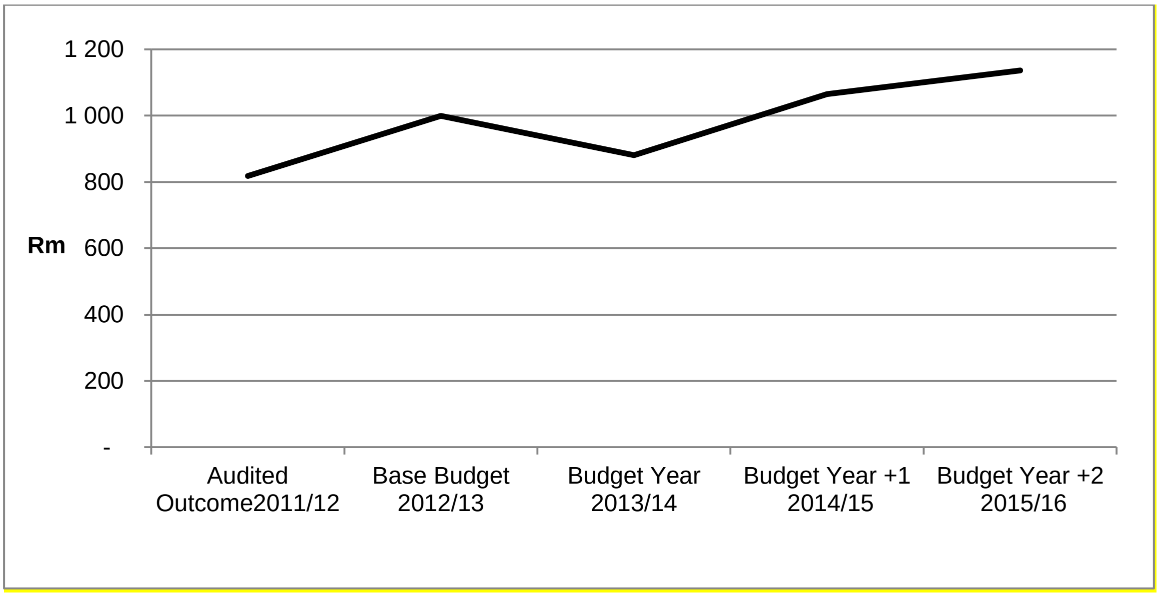


Figure 7.3: Provision for bad debts, 2011/12–2015/16

Salary increases – salaries, wages and related staff costs

A three-year salary and wage collective agreement was entered into in 2012. The term of the agreement covers the 2012/13–2014/15 period. In the absence of an agreement for the third year of this MTREF period, the provisions provided for in 2014/15 were assumed for 2015/16 as well.

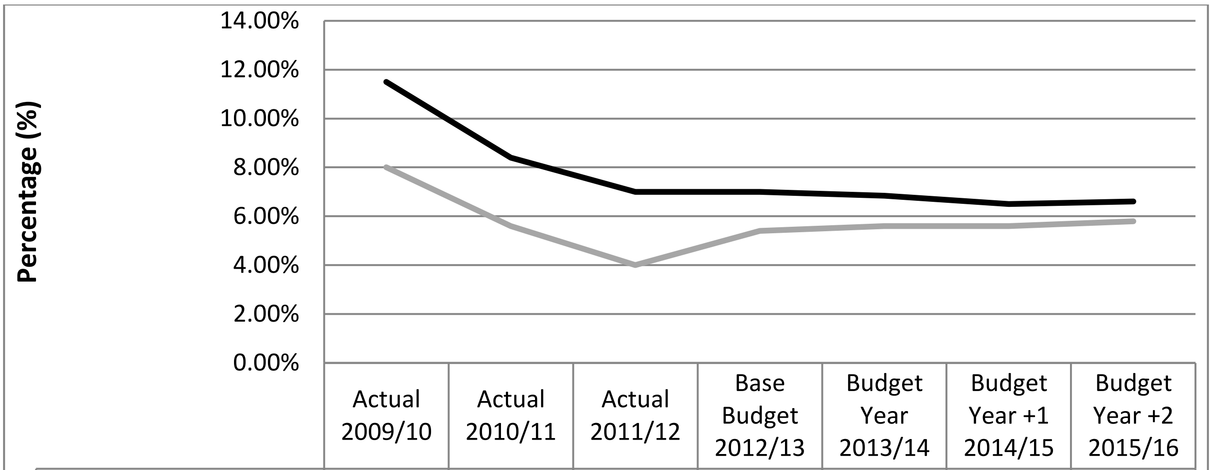
In terms of the agreement, the salary and wage increases are to be calculated as follows:

2013/14 financial year: Average CPI percentage for the period 1 February 2012 to 31 January 2013, plus 1,25%
2014/15 financial year: Average CPI percentage for the period 1 February 2013 to 31 January 2014, plus 1%

The agreement further stipulates that if, in any of these years, the average CPI percentage calculated above is less than 5%, the average CPI will be deemed to be 5%, and if the average CPI is above 10%, the average CPI will be deemed to be 10%. The actual CPI for the period 1 February 2012 to 31 January 2013 (according to Statistics South Africa) is 5,59%; the salary provision for the 2013/14 MTREF is therefore 6,84% (5,59% + 1,25%).

In addition, provision was made for an incremental allowance of 2% to cater for performance and other notch increases.

The graph below shows the consistent above-CPI salary increases for the last three years and for the projected MTREF period.



	Actual 2009/10	Actual 2010/11	Actual 2011/12	Base Budget 2012/13	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Salary Increases	11.50%	8.40%	7.00%	7.00%	6.84%	6.50%	6.60%
CCT's CPI projection	8.00%	5.60%	4.00%	5.40%	5.60%	5.60%	5.80%

Figure 7.4: Above-CPI salary increases

Ensuring maintenance of existing assets: Repairs and maintenance

The medium-term budget policy statement highlighted municipalities' underspend on repairs and maintenance. National Treasury Circular 66 refers back to Circular 54, 55 and 58, which stressed the importance of securing the health of a municipality's asset base by increased spending on repairs and maintenance. Circular 58 of 2011 particularly indicated that "allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised".

In this regard, repairs and maintenance was budgeted at 3% above CPI over the MTREF. The graph below shows the increasing expenditure trend on repairs and maintenance from 2011/12 and projected to 2015/16.

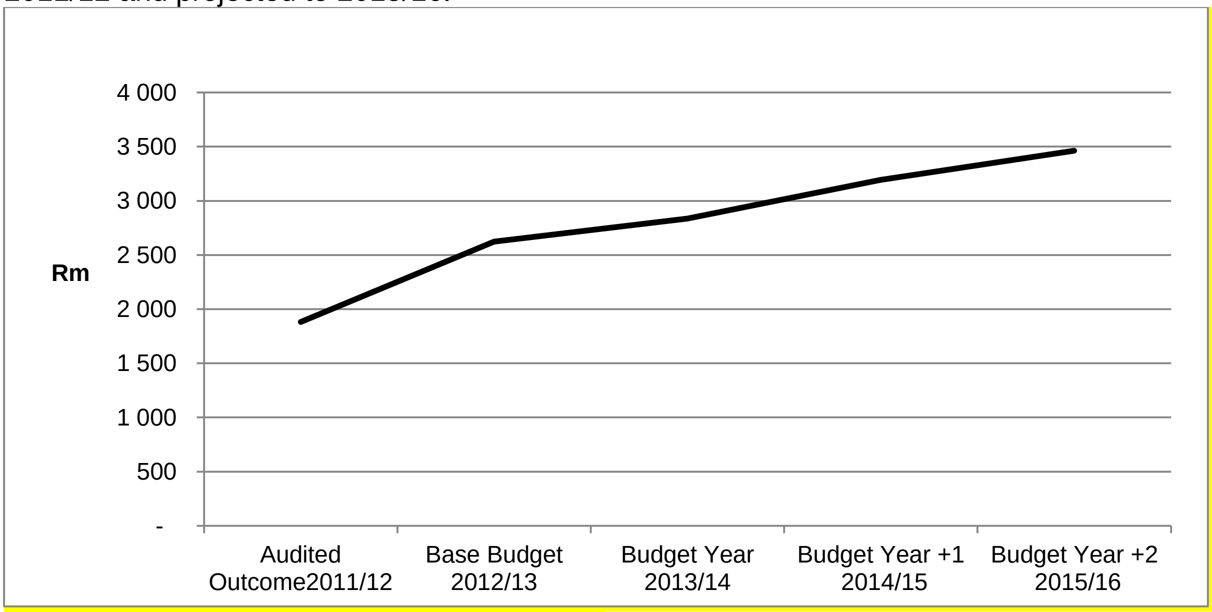


Figure 7.5: Repairs and maintenance expenditure trends

Interest rates for borrowing and investment of funds

Borrowing interest rates are factored at a prime rate of 10,06% for 2013/14, and are expected to increase to 10,89% in 2015/16. The investment interest rate has plummeted from the previous financial period by 1,04%; 5,00% was applied for 2013/14, and it is expected to increase to 5,88% in 2015/16.

costs of municipalities, and for a community services component, which provides funding for the delivery of core municipal services not included under basic services. To ensure that the funds for institutional costs and non-trading services are targeted at poorer municipalities, the formula applies a revenue-adjustment factor reflecting municipalities' ability to generate their own revenue. The formula used data from the 2011 Census, which will be updated annually to reflect estimates of population growth and projected increases in the cost of services such as water and electricity.

Structure of the local government equitable share formula

$$LGES = BS + (I + CS) \times RA \pm C$$

where

LGES is the local government equitable share

BS is the basic services component – basic services subsidy x number of poor households

I is the institutional component – base allocation + [allocation per councillor * number of council seats]

CS is the community services component – [municipal health and related services allocation x number of households] + [other services allocation x number of households]

RA is the revenue adjustment factor

C is the correction and stabilisation factor

Figure 7.8: Equitable share formula

Equitable share provisions included in the budget are based on the 2013 DoRA ~~DoRb.~~ Based on the calculation as set out above, the City had a revenue adjustment factor of zero, which meant that it did not receive any allocation from the institutional and non-trading services components to which the factor was applied. The following amounts were allocated to the City as per the 2013 DoRA ~~DoRb~~.

2013/14 – R1,243 billion
2014/15 – R1,502 billion
2015/16 – R1,815 billion

As in previous years' DoRA ~~DoRb~~, municipalities are guaranteed to receive at least 90% of the indicative allocations for the middle year of the national Medium-Term Expenditure Framework. The figures above reflect 100% of the allocations.

Capital funding sources

The total capital budget included for the three-year MTREF period is as follows:

Table 7.2: Capital funding sources

Funding source	2013/14 R' 000	2014/15 R' 000	2015/16 R' 000
Capital grants and donations	~~2 583 308~~ 2 912 542	~~2 533 667~~ 2 781 196	~~2 474 896~~ 2 499 798
Capital Replacement	~~700 820~~ 640 632	~~579 857~~ 713 606	~~558 106~~ 647 832

Reserve			
Revenue	~~16 968~~ 16 781	~~15 874~~ 15 636	~~16 447~~ 16 347
External Financing Fund	~~2 149 497~~ 2 030 434	~~2 048 074~~ 2 171 385	~~2 442 586~~ 2 457 696
TOTAL	**~~5 450 593~~ 5 600 388**	**~~5 177 472~~ 5 681 823**	**~~5 492 034~~ 5 621 672**

Grants received from national and provincial government remain a significant funding source over the 2013/14 MTREF. The External Financing Fund over the three years averages R2.2 billion.

Borrowing and credit rating

The City's borrowing occurs in terms of its borrowing policy, and is influenced by the capital investment/External Financing Fund requirement for the 2013/14 MTREF. The City requires a credit rating to demonstrate its ability to meet its financial obligations. Potential lenders also use this rating 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.

Moody's ratings agency maintained the rating and outlook for the City as 'double A' (Aa2.za) for the past four years. In 2012, due to South Africa's national rating being downgraded from A3 to Baa1, the City's rating was also downgraded to Aa3. The City's rating is as follows:

Table 7.3: Credit rating for the City of Cape Town

Category	Currency	Rating	Annual rating ~~2012/13~~ 2013/14	Previous rating
Outlook	-	Negative	~~14 December 2012~~ 02 April 2013	Negative
NSR issuer rating	Rand	Aa3.za	~~14 December 2012~~ 02 April 2013	~~Aa2.za~~ Aa3.za
NSR ST issuer rating	Rand	P-1.za	~~14 December 2012~~ 02 April 2013	P-1.za
NSR senior unsecured	Rand	Aa3.za	~~14 December 2012~~ 02 April 2013	~~Aa2.za~~ Aa3.za

The definitions of the rating categories are as follows:
Negative outlook – Reflects that a credit rating assigned to an issuer may be lowered
NSR issuer rating – Aa3.za – Issuers or issues rated A.n demonstrate above-average creditworthiness relative to other domestic issuers.
NSR issuer rating – Aa2.za – Issuers or issues rated Aa.n demonstrate very strong creditworthiness relative to other domestic issuers.
NSR ST issuer rating – P-1.za – Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
NSR senior unsecured – Issuers demonstrate very strong creditworthiness relative to other domestic issuers.

Major parameters to the operating budget

Table 7.4: Operating budget parameters

	2013/14	2014/15	2015/16
	%	%	%
CPI	5,60	5,60	5,80
COLLECTION RATES			
Rates	96,00	96,00	96,00
Electricity	98,00	98,00	98,00
Water	92,50	93,50	94,00
Sanitation	92,50	93,50	94,00
Refuse	93,00	93,00	93,00
Housing	47,00	48,50	49,50
REVENUE PARAMETERS (excluding organic growth):			
Rates	6,10	6,00	6,00
Electricity	7,86	9,92	9,26
Water	9,53	9,58	10,00
Sanitation	9,53	9,58	10,00
Refuse	6,32	5,54	8,03
Disposal	7,06	9,52	8,44
REVENUE PARAMETERS (including organic growth):			
Rates	7,10	7,00	7,00
Electricity	7,86	9,92	9,26
Water	10,53	10,58	11,00
Sanitation	10,53	10,58	11,00
Refuse	8,32	7,54	10,03
EXPENDITURE PARAMETERS:			
Salary increase			
Salary increase (South African Local Government Association agreement)	6,84	6,50	6,60
Increment provision	2,00	2,00	2,00
General expenses	5,60	5,60	5,80
Repairs and maintenance	8,60	8,60	8,80
Interest rates			
Interest paid	10,06	10,55	10,89
Interest on investment	5,00	5,38	5,88
OTHER:			
Capital (External Financing Fund component) expenditure	~~R2,149 bn~~ R2,030 bn	~~R2,048 bn~~ R2,171 bn	~~R2,443 bn~~ R2,458 bn
Equitable share allocation	R1,243 bn	R1,502 bn	R1,815 bn
Fuel levy	R1,896 bn	R2,015 bn	R2,108 bn