

ANNEXURE: A

Comments received on the proposed mid-year adjustments to the 2012-2017 (2015/16 Review) IDP

From	MRS YS LANG & MR A C LANG
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COMMENT: ATTENTION : ACHMAT EBRAHIM CITY MANAGER Dear Sir Thank you for this opportunity to submit our comments. As pensioners, we are concerned about rising electricity, municipal etc. costs. We are very grateful for the rebate we receive but think the amount between R3 501 – R12 000 should be adjusted as it is still very expensive as we are struggling to uphold our property as well. We bought our house 40 years ago and find we cannot afford it for much longer. We will appreciate your feedback and once again - thank you.	
ACTION TAKEN BY IDP OFFICE: The IDP Office will submit the comment as part of the draft operating budget, and capital budgets, budget-related policies and the proposed tariffs for 2016/17 to ISL during April 2016.	

MID-YEAR ADJUSTMENT - ONE YEAR CORPORATE SCORECARD 2015/2016

SFA	Objective	Key Performance Indicator	Annual Target 2015/2016	PROPOSED QUARTERLY TARGETS 2015/2016		Proposed Annual target 2016/2017	MOTIVATION
				Mar-16	Jun-16		
SFA 1 - THE OPPORTUNITY CITY	1.2 Provide and maintain economic and social infrastructure to ensure infrastructure-led economic growth and development	1.B Percentage spend of capital budget	90%	55.79% Proposed Target 45.54%	90%	-	Target aligned with the Adjustment Budget tabled in Council on the 28 January 2016.
		1.C Rand value of capital invested in engineering infrastructure	R1.98bn Proposed Target R3.9bn	R0.97bn Proposed Target R1.95bn	R1.98bn Proposed Target R3.9bn	-	Target aligned with the Adjustment Budget tabled in Council on the 28 January 2016.
SFA 3 - THE CARING CITY	3.7 Provide effective primary health-care services	3.1 New Smear Positive TB Cure Rate Proposed Indicator: <u>Percentage HIV positive TB patients on anti-retroviral treatment (ART)</u>	83% (2014/2015) Proposed Target: 87% (2014/2015)	83% Proposed Target: 87%	83% (2014/2015) Proposed Target: 87% (2014/2015)	83% (2015/2016) Proposed Target: 87% (2015/2016)	It is proposed that the current indicator in the Corporate Scorecard be replaced with the new indicator as proposed. The data collation process for the existing indicator was problematic due to the changes made to the data collection and management system, ETR.net, which is under the ownership of the National Department of Health, through an external service provider.
SFA 5 - THE WELL RUN CITY	5.3 Ensure financial prudence, with clean audits by the Auditor-General	5.1 Net Debtors to Annual Income (Ratio of outstanding service debtors to revenue actually received for services) Proposed Indicator change <u>5.1 Net Debtors to annual revenue (ratio of outstanding service debtors to revenue actually received for services)</u>	21.5%	19.5%	21.5%	-	Targets are to be determined after the adjustment budget is approved at Council in January 2016

MID-YEAR ADJUSTMENT - ONE YEAR CORPORATE SCORECARD 2015/2016

INDICATOR	IDP	INDICATOR DEFINITION
<p>3.I New Smear-Positive TB Cure Rate</p> <p>Proposed Indicator change:</p> <p><u>3.I Percentage HIV positive TB patients on anti-retroviral treatment (ART)</u></p>	<p>3.7 (a)</p>	<p>The indicator measures the number of new smear-positive pulmonary TB cases started on treatment for whom there is bacteriological confirmation that the patient has responded to treatment and can be considered cured:</p> <p>Numerator: Number of new smear positive pulmonary TB cases started on treatment on whom there is bacteriological confirmation that the patient has responded to treatment and can be considered cured</p> <p>Denominator: Number of new smear-positive pulmonary TB cases</p> <p>The percentage indicates the previous financial year's figures. For 2012/13 it will be financial year 2011/12, etc.</p> <p>Proposed Definition change:</p> <p><u>This indicator measures the percentage of HIV positive TB patients on anti-retroviral treatment (ART) at the time of TB treatment outcome. There will be a reporting time lag, e.g. patients who started TB treatment between 1 July 2014 and 30 September 2014; outcomes will only be reported by October 2015.</u></p>
<p>5.I Net Debtors to annual income (ratio of outstanding service debtors to revenue actually received for services)</p> <p>Proposed Indicator change</p> <p><u>5.I Net Debtors to annual revenue (ratio of outstanding service debtors to revenue actually received for services)</u></p>	<p>5.3 (a)</p>	<p>This is a calculation where we take the net current debtors divided by the total operating revenue.</p>
<p>5.J Debt coverage by own billed revenue</p>	<p>5.3 (a)</p>	<p>This is a calculation where we take the total debt divided by the total annual operating income.</p> <p>Proposed Definition change:</p> <p><u>This is a calculation where we take the total own billed revenue divided by the total debt</u></p>

ANNEXURE: C**2012-17 INTEGRATED DEVELOPMENT PLAN****2015/16 – 2017/18 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK****EXECUTIVE SUMMARY**

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.

The Municipal Budget and Reporting Regulations, (Part 2; Budget-related policies of municipalities) require 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 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 (Medium Term Revenue and Expenditure Framework - MTREF) that 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 municipality's operating budget.

The MTREF 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.

FINANCIAL STRATEGIC APPROACH

The 2015/16 MTREF period represents the 4th year of the City's 5-year IDP period. The 2015/16 MTREF process commenced with a technical analysis of previous years' performance outcomes, an assessment of the economic outlook and consultation with various role players. The process encompassed the following:

- BSM provided the framework for and strategic direction of the budget
- MTREF model forecasted taking above direction into account
- Continuous MTREF presentations to EMT, BSC and the BSM

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- Presentations by directorates at budget hearings on inter alia their process to execute the City's strategy in their directorates, their business improvement measurements and implementation readiness of their capital programme
- Presentations by the Utility services with regard to their proposed budgets and tariff increases.

FINANCIAL MODELLING AND KEY PLANNING DRIVERS

The alignment of the strategy of the City and the budget included alignment to:

- The Integrated Development Plan
- Resource prioritisation within the IDP objectives according to the City's Economic Growth Strategy (EGS) and the Social Development Strategy (SDS)
- The City's transversal goals as set out by the Economic and Social Clusters
- Core economic, financial and technical data obtained at local and national level
- Other issues deemed important stemming from EMT/Mayco strategic sessions

The outcome of the MTREF modelling performed incorporated the above and the ensuing paragraphs outline the assumptions on which the MTREF was compiled.

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

- Higher than inflation Repairs and Maintenance provisions to attain nationally benchmarked levels to ensure and enhance preservation of the City's infrastructure;
- Higher increases to selected cost elements subjected to higher than average inflationary pressure, e.g. staff costs;
- 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;
- Cost containment measures reiterated in the 2014 MTBPS and guidelines provided in National Treasury circular 74;
- National and Provincial allocations as per the 2015 DORA and the 2015 Provincial Gazette Extraordinary;
- NERSA approved (November 2014) Eskom electricity retail tariffs

ECONOMIC OUTLOOK / EXTERNAL FACTORS

According to Bureau of Economic Research (BER) real GDP growth rates are projected not to exceed 3% over the medium term. It is expected that from 2015 the economy will be recovering as mining output returns to normal after the strike action experienced in 2014. GDP is forecasted to grow at reasonable rates the years to follow but will be restrained by influences such as the supply of electricity, poor business confidence and the absence of focussed economic policy.

Oil prices showed a decline over the last few months which is mainly driven by the supply of the commodity exceeding its demand. The fall in the oil price partly cushioned the impact of the weaker rand exchange rate which is mainly as a result of the large current account deficit. Considering these current events and the risk of future possible supply

disappointments, oil prices are projected to remain within \$100 to \$105 per barrel over the medium term. BER further forecasts the Rand to end 2015 at an average of R11.08/\$ and 2016 to end at R11.29/\$.

CPI is expected to remain within the SARB inflation target range of between 3% and 6%. CPI forecasts for at least the next 2 years are expected to remain at the upper end of the range due to the recent NERSA approved electricity tariff hikes combined with the weaker rand exchange rate. The graph below depicts the CPI for the past years and projections for the next 5 years as per BER.

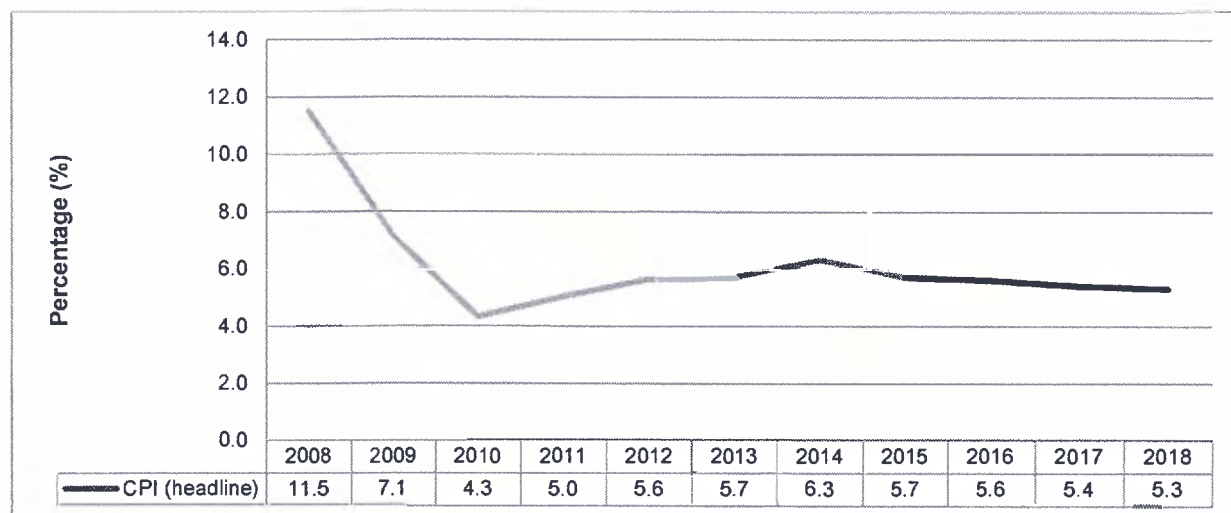


Figure 1 Consumer Price Index over recent and future years (projected)

BER forecasted CPI as 5.7%, 5.6% and 5.4% for the calendar years 2015 to 2017, respectively, based on this the City's forecasted CPI in municipal financial years is 5.7% for 2015/16, 5.5% for 2016/17 and 5.4% for 2017/18. Although current CPI levels are in the region of 4%, this is forecasted to grow to 5.2% and 6% in the 3rd and 4th quarter of 2015 respectively, reaching over the 6% mark in the 1st quarter of 2016 as per BER. The subsequent national inflation forecast set out in National Treasury Circular 74 is 6.2%, 5.8% and 5.5% for the fiscal years 2015 to 2017.

NATIONAL AND PROVINCIAL INFLUENCES

In preparing the 2015/16 MTREF special attention was given to National and Provincial influences which included:

a) Medium Term Budget Policy Statement (MTBPS)

The MTBPS highlights that South Africa's economic performance has deteriorated over the past several years and that the key priority of government is to reshape South Africa's urban environment through integrated spatial planning, investment in dynamic city development, integrated housing and transport programmes, and support for business activity and job creation. The Medium Term Strategic Framework (MTSF) priorities for structural reform over the period ahead include:

- Building the capacity of local government through the "back to basics" approach which will focus on improving service delivery, accountability and financial management. Local

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government should be effective and efficient; this will be measured by its ability to perform the basic mandate of service delivery.

- Reshaping South Africa's urban environment through integrated spatial planning and an expansion of the municipal debt market. Municipalities play a critical role in growing the economy through well-planned and well-managed urbanisation. In order to achieve this:
 - Large municipalities require massive investment to stimulate growth, maintain infrastructure and ensure that basic services are provided for growing populations;
 - Over the next three years, the government will roll-out a new approach to local government infrastructure financing;
 - Incentives will be introduced to encourage large urban municipalities to promote more compact, efficient and equitable cities;
 - Planning will focus on developing mixed-use precincts that can help to catalyse economic activity, and on upgrading informal settlements.
- Sustainable job creation remains a national priority and municipalities must ensure that they continue to explore opportunities to mainstream labour intensive approaches to delivering service and more particular to participate fully in the Expanded Public Works Programme (EPWP).

In addition the MTBPS reiterated the requirement to minimise costs and abuse. It emphasized that intensive effort has to be focused on achieving the intended savings and maximising efficiency by:

- Focussing on procurement costs;
- Reinforcing cost-containment measures to identify goods and services expenditure that can be eliminated without affecting service delivery;
- Adopting a culture of doing more with less, e.g. Treasury is working with municipalities to link the disbursement of infrastructure grants more tightly to the efficient delivery of capital projects;
- Continuing to fight waste and corruption, supported by audit institutions and stringent monitoring and reporting requirements.

With regard to the issues raised above, the City is continuously investing in the EPWP and has since 2013/14 implemented cost containment measures which included the reduction in the cost of National and International travel, catering and entertainment. These measures are revisited and assessed on an annual basis to ensure that maximum efficiencies are attained.

b) MFMA circular 74

Cognisance was also taken of MFMA Circular No 74 – Municipal Budget Circular for the 2015/16 MTREF, which amongst other included:

- Local government budget and financial management reforms, including the regulation and the financial applications and impact of mSCOA;
- Municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts;
- Municipalities are advised to determine the costs per service in determining tariffs and should take into account both primary and secondary costs of services provided, local economic conditions and affordability of service to ensure financial sustainability;

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- Municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interest of poor households other customers and ensuring the financial sustainability of the municipality;
- Municipalities still urged to implement cost containment measures on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering, events costs and accommodation;
- Municipalities should also pay particular attention to managing revenue effectively and carefully evaluate all spending decisions;
- Strengthening procurement to obtain value for money and fighting against corruption;
- Guidelines for the 2015/16 MTREF Electricity, Water, Sanitation and Solid Waste tariffs;
- The main objective of local government is to ensure the provision of basic service to communities. Municipalities must therefore prioritise the provision of basic services such as electricity, water, sanitation and refuse removal.

EXPENDITURE ANALYSIS – A THREE-YEAR PREVIEW

(a) General inflation outlook and its impact on municipal activities

CPI projected for the City is 5.7% for 2015/16, 5.5% and 5.4% for 2016/17 and 2017/18 respectively. Although current CPI levels are in the region of 4%, this is forecasted to grow to 5.2% and 6% in the 3rd and 4th quarter of 2015 respectively, reaching over the 6% mark in the 1st quarter of 2016 as per BER. These levels are within the South African Reserve Bank (SARB) inflation targeting range of between 3% to 6% range and is depicted in the graph below.

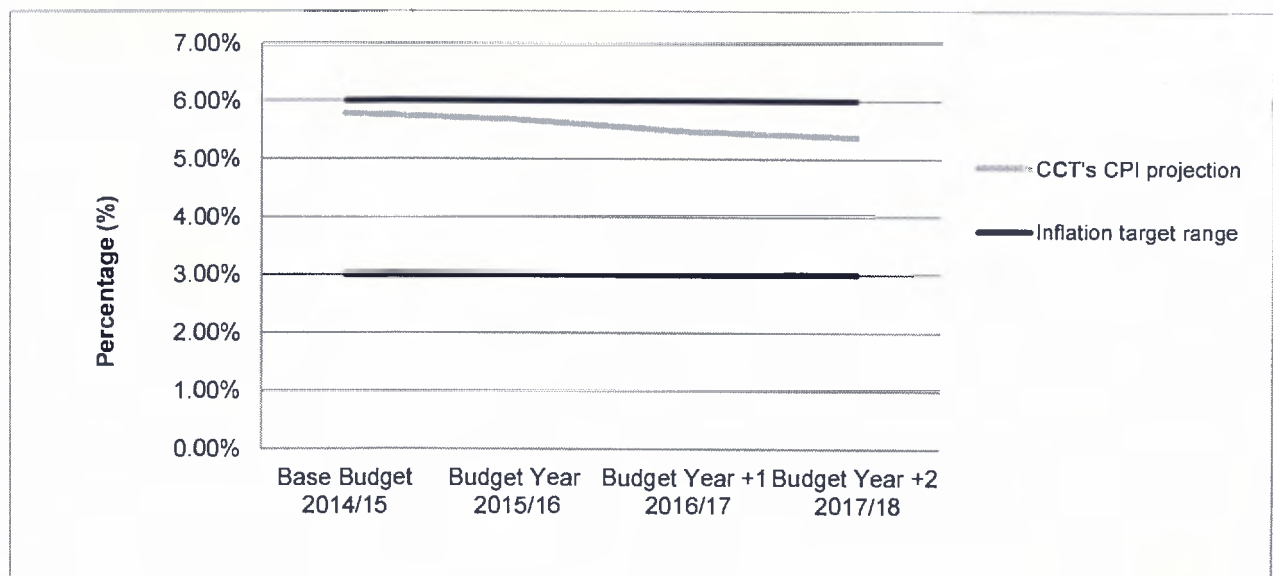


Figure 2 Consumer price index projections adopted in the MTREF

Inflation is projected to remain below 6%, however various budget elements such as salaries, repairs and maintenance, interest and depreciation cost has higher than CPI increases. This creates a fiscal gap which necessitates higher than CPI increases for Service charges and Rates.

(b) Interest rates for borrowing and investment of funds

Borrowing interest rates is factored at a prime rate stabilising at 12% over the 2015/16 MTREF. The investment interest rate has improved from the previous financial period by 1%. An average of 6.50% is forecasted over the 2015/16 MTREF.

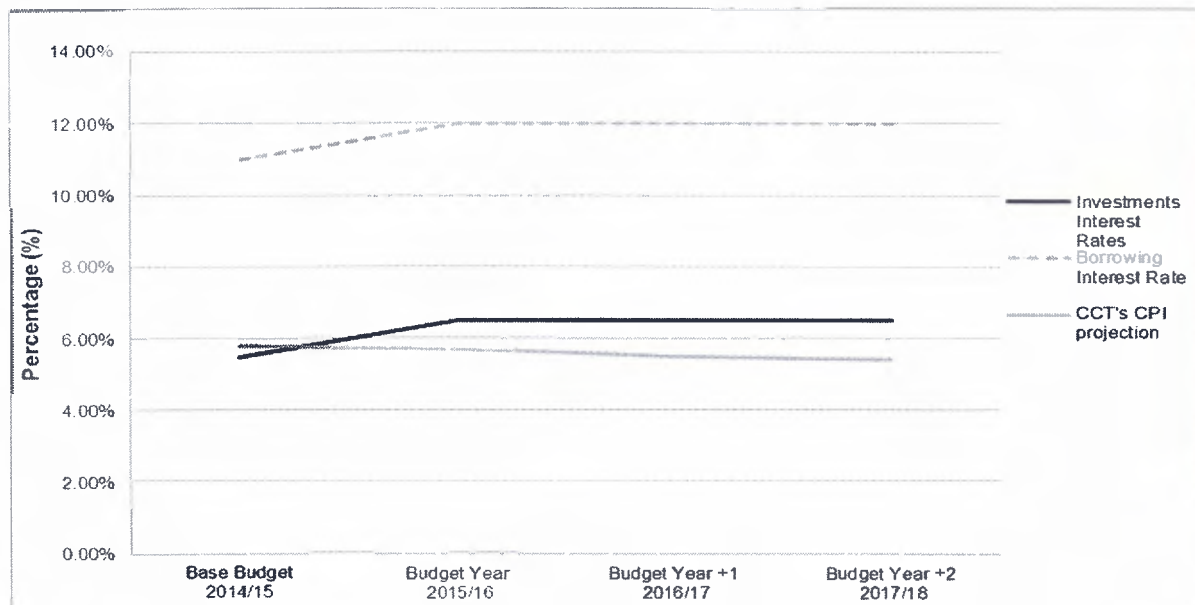


Figure 3 Interest rates over the 2015/16 MTREF

(c) Collection rate for revenue services

In accordance with relevant legislation and national directives, the City's projected revenue recovery rates are based on realistic and sustainable trends. In calculating the debt impairment, the following collection rates were applied:

Table 1 Collection Rates

Services	Base Budget 2014/15 %	Budget Year 2015/16 %	Budget Year +1 2016/17 %	Budget Year +2 2017/18 %
Rates	96.00	96.00	96.00	96.00
Electricity	98.00	98.00	98.00	98.00
Water	90.60	88.00	88.00	88.00
Sanitation	90.60	89.00	89.00	89.00
Refuse	95.00	95.00	95.00	95.00
Housing	50.40	54.60	56.60	58.20

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Property Rates, Refuse and Electricity's collection rates are expected to remain constant over the 2015/16 MTREF period. The downward adjustment of the Water and Sanitation collection rate is as a result of lower than anticipated actual outcomes. Ongoing debt management initiatives are being implemented which is intended to raise the collection rate to targeted levels.

Housing collection rate is also expected to increase over the 2015/16 MTREF, which is due to initiatives that includes amongst other, expanded housing debt management and the Payers Incentive Scheme.

A R1.8 billion was provided for debt impairment in the 2015/16 budget and is based on an average collection rate of 93.2% (excludes Housing). The graph below shows the debt impairment for the period 2013/14 to 2017/18.

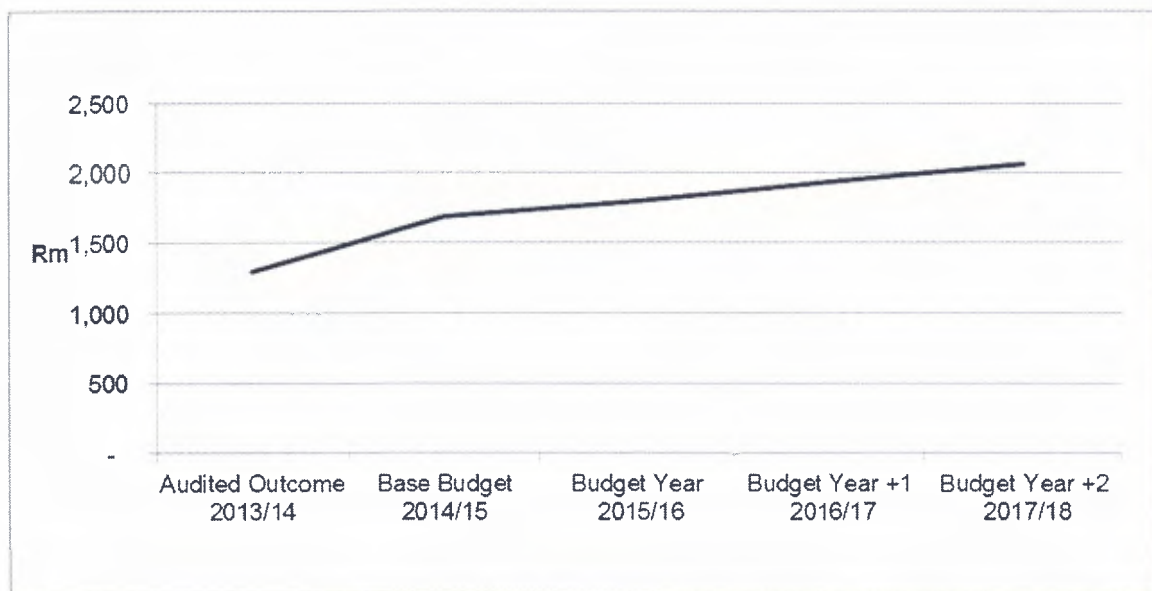


Figure 4 Debt Impairment – 2013/14 to 2017/18

(d) Salary increases

Salaries, Wages & related staff cost expenses

The South African Local Government Bargaining Council (SALGBC) Salary and Wage Collective Agreement for the period 2015 to 2018 was signed in August 2015. In terms of the agreement the salary increase was set at 7% for 2015/16.

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.

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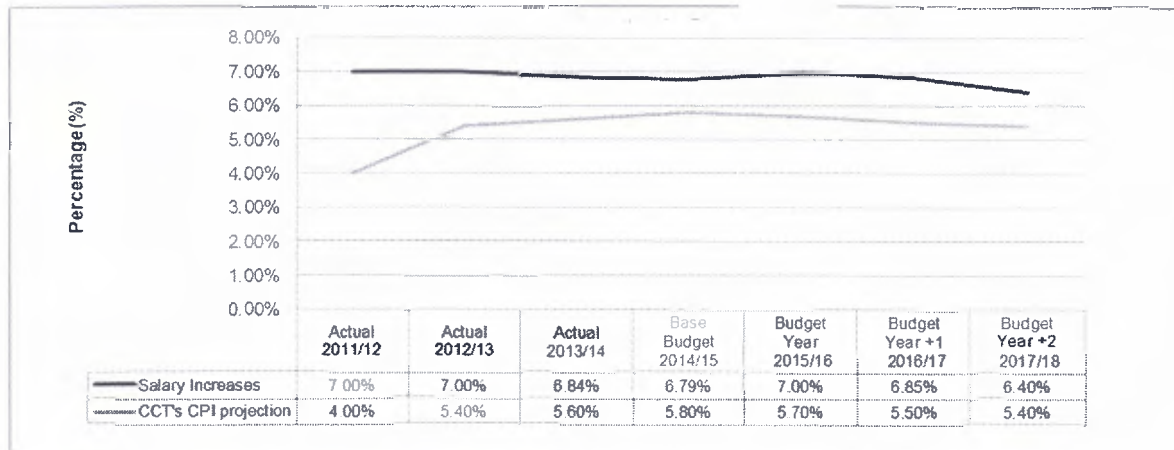


Figure 5 Correlation between the City's CPI and the salary increase over the MTREF

(e) Ensuring maintenance of existing assets

Repairs & Maintenance

NT Circular 74 reminded municipalities to consider the budget management issues which were discussed in previous circulars. NT circulars 54, 55 and 58 stressed the importance of securing the health of a municipality's asset base by increased spending on repairs and maintenance. NT circular 55 further stated that "allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised. Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the benchmarks". NT Circulars 55 and 70 set the percentage norm of operational repairs and maintenance to asset value (write-down value) of the municipality's Property Plant and Equipment (PPE) at 8%. This ratio's outcome for the City averages 9.3% over the 2015/16 MTREF.

To give effect to the above directives repairs and maintenance was budgeted at 3% above CPI over the 2015/16 MTREF.

The graph below shows the increasing expenditure trend on repairs and maintenance from 2013/14 and projected to 2017/18.

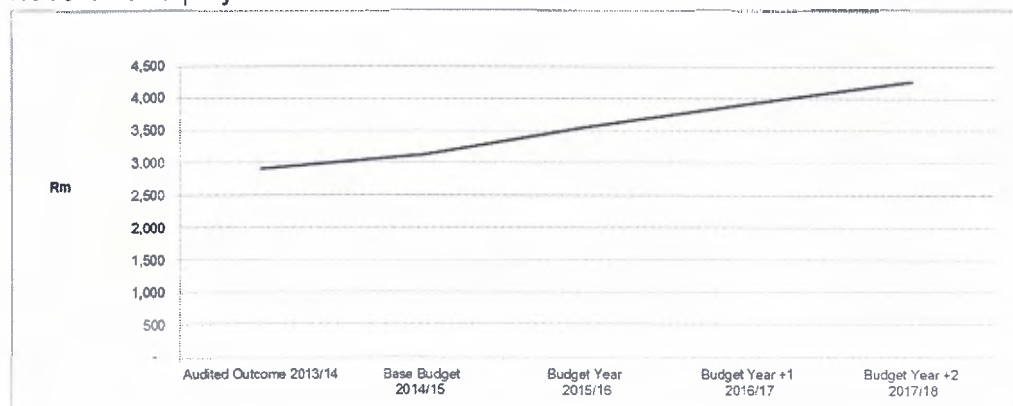


Figure 6 Increasing expenditure trend on repairs and maintenance from 2013/14 and projected to 2017/18

(f) Operating financing of capital**Depreciation**

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

Borrowing and Credit rating outlook

The City's borrowing is done in terms of chapter 6 of the MFMA and the City's borrowing policy, where a long term loan will only be entered into if it's affordable and sustainable. It is influenced by the capital investment / EFF requirement for the 2015/16 MTREF. 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.

Moody's Investors Services downgraded the credit rating for the City following the weakening of South Africa's credit profile as captured by the downgrade of the sovereign rating to Baa2 from Baa1 with a stable outlook. The City's rating was downgraded from Aa3.za/P-1 with a negative outlook to A1.za/P-1 with a stable outlook which still reflects the City's strong budgetary performance and its good liquidity position. The City is rated at the high end of the range of South African municipalities rated by Moody and it is expected that the City will maintain this relatively strong financial position in the medium term.

The City's rating is as follows:

Table 2 Credit rating outlook

Category	Currency	Current Rating 17 February 2015	Previous Rating 12 November 2014	Previous Rating 10 February 2014
Outlook	-	Stable	Stable	Negative
NSR Issuer Rating - Dom Curr	Rand	A1.za	A1.za	Aa3.za
NSR ST Issuer Rating - Dom Curr	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured - Dom Curr	Rand	A1.za	A1.za	Aa3.za

- The definitions of the rating categories are:
- 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;
- NSR Issuer Rating – A.za - Issuers or issues rated A.za present above-average creditworthiness relative to other domestic issuers;
- NSR Issuer Rating – Issuers or issues rated Aa.za demonstrate very strong creditworthiness relative to other domestic issuers;
- NSR ST Issuer Rating – P-1.za – Issuers (or supporting institutions) rated Prime-1 has a superior ability to repay short-term debt obligations;
- NSR Senior Unsecured – A.za - Issuers or issues rated A.za present above-average creditworthiness relative to other domestic issuers.

(g) Capital expenditure

The total capital budget included for the 3-year MTREF period is as follows:

Table 3 Capital Budget over the 2015/16 MTREF

Funding Source	Budget Year 2015/16 R' 000	Budget Year+1 2016/17 R' 000	Budget Year +2 2017/18 R' 000
CGD	2,835,218	2,467,206	2,419,961
CRR	978,681	948,608	505,550
Revenue	101,047	71,676	16,200
EFF	2,529,240	2,543,819	2,295,650
TOTAL	6,444,186	6,031,309	5,237,361

Grants received from National and Provincial Government remains a significant funding source over the 2015/16 MTREF. External Financing Fund (EFF) over the 3 years averages R2.5 billion.

REVENUE ANALYSIS – A THREE-YEAR PREVIEW**(a) Growth or decline in tax base of the municipality**

The current unstable economic climate has restricted material service growth projections. The respective projected growth for the City's services is as follows:

Rates

Service growth for Rates is projected to reduce from 0.5% in 2014/15 to 0.25% over the 2015/16 MTREF. The projected lower growth is due to economic growth not at sustainable levels to encourage new developments and/or home improvements.

Water and Sanitation

Water and Sanitation projected zero growth over the 2015/16 MTREF. This is based on the latest trend flowing from current economic conditions as well as water saving initiatives.

Electricity

Electricity has projected a 1% annual shrinkage of service growth over the 2015/16 MTREF, due to the impact of energy saving plans and increasing tariffs which is reducing consumption.

Refuse

A 2% service growth was applied over the 2015/16 MTREF for Refuse. This is as a result of the growth in the requirement for refuse services.

(b) Major tariffs and charges: Rates and Trading Services

The adverse impact of the current economic climate, the demand for new and upgraded infrastructure, savings initiatives and lower demand for services made tariff increases higher than CPI levels inevitable.

NT circular 70 of December 2013 *"National Treasury also continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities must justify in their budget documentation all increases in excess of the 6.0 per cent upper boundary of the South African Reserve Bank's inflation target in the budget narratives".* Nevertheless, it further indicates that tariffs should be cost reflective. In this regard the following represents the revenue increases included over the 2015/16 MTREF.

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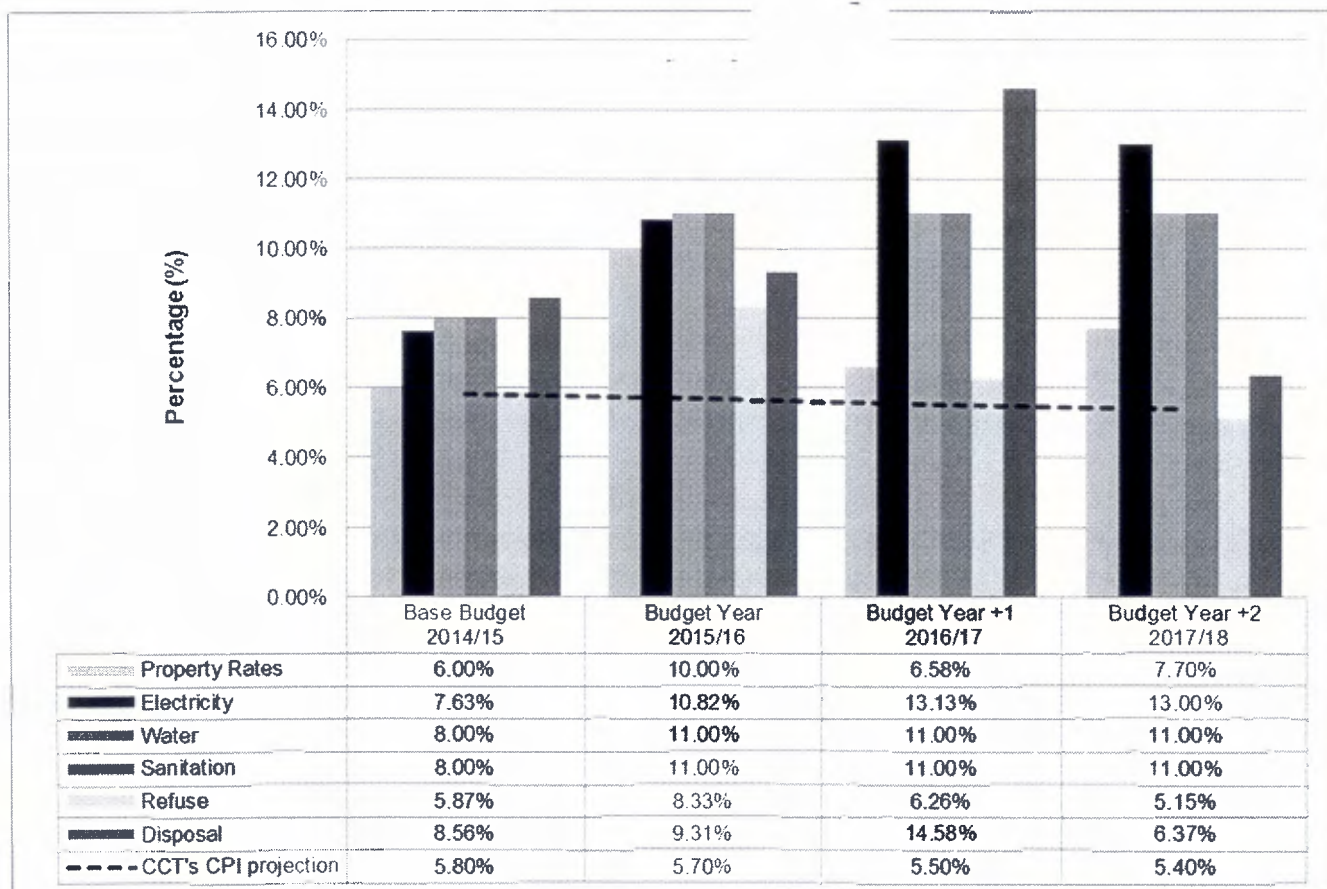


Figure 7 Revenue parameters for 2015/16 MTREF period

Property Rates

An average Rates tariff increase of 10% is proposed for the 2015/16 financial year with an increase of 6.58% and 7.70% proposed, respectively, for the two outer years. The higher than CPI increases will provide for the recurring operating costs, new budget realities and for investments in new infrastructure for Rates funded services. Further contributing factors to the higher than CPI increase includes lower projected Rates service growth, higher than CPI salary and capital cost increases.

Electricity

The nature of business for this service is the purchasing and redistribution of electricity, where bulk purchases averages 60% of the service's total budget. The higher than CPI electricity average tariff increase is therefore mostly attributed to the NERSA approved Eskom increase on bulk purchases, which is 14.24% for the 2015/16 financial year. In addition, electricity sales are reducing due to energy saving plans and increasing tariffs which is forecasted to shrink consumption by 1% annually over the MTREF period. Based on this and to ensure affordability the electricity average tariff increase was set at 10.82%, 13.13% and 13.00%, respectively, over the 2015/16 MTREF. This increase will also further cater for the continual operating costs of the service and for the investments in new infrastructure.

Eskom has requested the National Energy Regulator (NERSA) to reconsider the electricity tariffs for the 2015/16 financial year. NERSA has committed to pronounce on this application by 29 June 2015. Customers will be impacted by three specific price elements

which, if all approved, could mean an increase of just under 26% on the 2014/15 electricity prices, or a further 9,6% above the 12,69% already approved by NERSA for 2015/16. The City will have to take into consideration any legislative requirements announced to accommodate any such pronounced increases.

Water and Sanitation

According to NT circular 74, municipalities were previously advised that "If a municipality's water and sanitation tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time. As per the guidance in various previous Budget Circulars, municipalities were expected to apply cost reflective tariffs in the 2014/15 MTREF for both water and sanitation. Should this not be the case, municipalities will be required to clearly articulate the reasons and remedial actions to rectify this position in their budget document".

Mindful of this, the Water and Sanitation average tariff increase is 11% annually over the 2015/16 MTREF. The higher than CPI tariff increase are due to various factors which includes the financial impact of the capital programme (new infrastructure, expansion and rehabilitation of current infrastructure to address capacity constraints and to ensure system efficiency), the reduction in revenue due to lower usage patterns flowing from economic conditions and water savings initiatives, as well as the cumulative effect of the social package provided.

Solid Waste

Circular 74 reminds municipalities that budget management issues dealt with in previous circulars are still applicable. Circular 70 advised that "*in many instances waste tariffs do not cover the cost of providing the different components of the service. Where this is the case, municipalities should aim to have appropriately structured, cost-reflective solid waste tariffs in place by 2015*".

Solid Waste consists of two tariffs namely Disposal and Refuse. The disposal average tariff increase for 2015/16 is at 9.31% the increase for the two outer years are 14.58% and 6.37% respectively. This increase is required for capital investment and its related operating expenses. The capital investment includes amongst other, the Bellville transfer station to ensure continuity of the service at the end of a landfill site's useful life, new drop off facilities at Faure and Swartklip bringing the service closer to customers, the provision for rehabilitation of landfill sites, the construction of gas management systems allowing for future waste to energy initiatives and new airspace to be constructed to ensure sufficient capacity for the amount of waste generated.

The 8.33% average tariff increase for Refuse in 2015/16 is to maintain and improve the current standard of refuse removal service and to further promote waste minimisation. The service is piloting the roll out of home composters which will supply statistics on compost generated allowing the department to assess the viability of providing this service to all. The outer year's average tariffs are projected to increase by 6.26% and 5.15% annually.

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 4.88% (where the unit has a separate water meter) or 6.30% (for those units which include water in the rental charge) for 2015/2016. 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 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 2015/16 housing rental charge is similar to previous annual rental increase percentages which, through targeting affordability by the City's poorer communities, were aligned to the City's general annual increases. The rental rate (per square meter per month) is R8.60 (where the unit has a separate water meter) or a rental charge (including water charge where applicable) of R12.31 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 an monthly income above the rental income threshold (R3 500) is charged as follows at a stepped rate: R3 501 – R7 500 (8%); R7 501 – R10 000 (10%). Tenants with a monthly income >R10 000 will pay a surcharge of 25% of any amount above R10 000.

(c) *Impact of national, provincial and local policies on operating revenue*

2015 Division of Revenue Act

Equitable Share

The reviewed Equitable Share formula provide a subsidy for the provision of free basic water, electricity, sanitation and refuse removal services for every poor household. It also provides funds for the institutional costs of municipalities, a community services component which provides funding towards the provision of core municipal services not included under

**ANNEXURE 3 – 2015/16 MTREF IDP AMENDED CHAPTER REQUIRED TO BE INCLUDED IN THE IDP
(January 2016 ADJ BUDGET)**

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 revised formula used data from the 2011 Census which are to be updated annually to reflect estimates of population growth and projected increases in the cost of services such as water and electricity.

Equitable share provisions included in the budget are based on the 2015 Division of Revenue Act. The following indicative equitable share amounts were allocated to the City as per the 2015 DORA:

2015/16 – R1.810bn
2016/17 – R2.037bn
2017/18 – R2.264bn

Fuel levy

The general fuel levy is legislated by the Taxation Laws Amendment Act (2009) that makes provision that each metro's share be announced through a Government Gazette. The fuel levy sharing amounts for each metro is therefore published annually through a Notice in the Government gazette.

The Fuel levy allocation is based on the latest available fuel sales figures within the jurisdiction of the City as a metro. The following indicative amounts were allocated to the City as per the 2015/16 allocation letter received from NT:

2015/16 – R2.060bn
2016/17 – R2.146bn
2017/18 – R2.228bn

MAJOR PARAMETERS

The following table summarises the major parameters applied to the Operating budget:

**ANNEXURE 3 – 2015/16 MTREF IDP AMENDED CHAPTER REQUIRED TO BE INCLUDED IN THE IDP
(January 2016 ADJ BUDGET)**

Table 4 Summary of parameters applied to Operating Budget

	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
CPI	5.70%	5.50%	5.40%
COLLECTION RATES			
Rates	96.00%	96.00%	96.00%
Electricity	98.00%	98.00%	98.00%
Water	88.00%	88.00%	88.00%
Sanitation	89.00%	89.00%	89.00%
Refuse	95.00%	95.00%	95.00%
Housing	54.60%	56.60%	58.20%
REVENUE PARAMETERS			
Rates	10.00%	6.58%	7.70%
Electricity	10.82%	13.13%	13.00%
Water	11.00%	11.00%	11.00%
Sanitation	11.00%	11.00%	11.00%
Refuse	8.33%	6.26%	5.15%
Disposal	9.31%	14.58%	6.37%
GROWTH PARAMETERS			
Rates	0.25%	0.25%	0.25%
Electricity	-1.00%	-1.00%	-1.00%
Water	0.00%	0.00%	0.00%
Sanitation	0.00%	0.00%	0.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS:			
Salary increase			
Salary increase (SALGA Agreement)	7.00%	6.85%	6.40%
Increment provision	2.00%	2.00%	2.00%
General Expenses	5.70%	5.50%	5.40%
Repairs & Maintenance	8.70%	8.50%	8.40%
Interest Rates			
Interest paid	12.00%	12.00%	12.00%
Interest on investment	6.50%	6.50%	6.50%
Other:			
Capital (EFF component) expenditure	R2.529bn	R2.544bn	R2.296bn
Equitable Share Allocation	R1.810bn	R2.037bn	R2.264bn
Fuel levy	R2.060bn	R2.146bn	R2.228bn

2015/16 – 2017/18 Medium-term Revenue and Expenditure Framework

Current	Mid-year adjustments	Page
National and provincial allocations as per the 2015 Division of Revenue Bill (DORb) and the 2015 Provincial Gazette Extraordinary	National and provincial allocations as per the 2015 Division of Revenue Act (DORA) and the 2015 Provincial Gazette Extraordinary	125
In drafting the 2015/16 MTREF, special attention was given to national and provincial influences, which included the following:	In preparing the 2015/16 MTREF, special attention was given to national and provincial influences, which included the following:	125
Salaries, wages and related staff cost Expenses The three year salary and wage collective agreement for local government ends in 2014/15. In the absence of a concluded agreement, the 2015/16 MTREF was prepared using the methodology applied in the previous agreement. In terms of the agreement, the salary and wage increases were annually calculated for all three years using the average CPI for the period 1 February of the previous year to 31 January of the forecast budget year, plus a further percentage, which reduces over the MTREF period (2%, 1,25% and 1% over the three year MTREF period). The actual CPI for the period 1 February 2014 to 30 November 2015 (as per Statistics South Africa) is 6,14% (December and January outcome projected). Therefore, the salary provision made for the 2015/16 financial year is 8,14% (6,14% + 2%). 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	Salaries, Wages & related staff cost expenses The South African Local Government Bargaining Council (SALGBC) Salary and Wage Collective Agreement for the period 2015 to 2018 was signed in August 2015. In terms of the agreement the salary increase was set at 7% for 2015/16. 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.	127

above CPI salary increases for the last three years and for the projected MTREF period.		
The outcome of this ratio for the City averages 9,4% over the 2015/16 MTREF period.	The outcome of this ratio for the City averages 9,3% over the 2015/16 MTREF period.	128

Table 7.3: capital budget over the MTREF				129
Funding Source	Budget Year 2015/16 R' 000	Budget Year+1 2016/17 R' 000	Budget Year +2 2017/18 R' 000	
CGD	2,277,574 2,531,218	2,492,837 2,467,206	2,584,489 2,419,961	
CRR	1,003,958 978,681	677,004 948,608	487,265 505,550	
Revenue	183,188 105,646	15,834 71,676	16,450 16,200	
EFF	2,579,264 2,529,240	2,327,888 2,543,819	2,291,866 2,295,650	
TOTAL	6,043,985 6,144,784	5,513,563 6,031,309	5,380,070 5,237,361	

The External Financing Fund (EFF) over the three years averages R2,4 billion.	The External Financing Fund (EFF) over the three years averages R2,5 billion.	129
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2015 Division of Revenue Bill	2015 Division of Revenue Act	131
Equitable share provisions included in the budget are based on the 2015 Division of	Equitable share provisions included in the budget are based on the 2015	132

Revenue Bill (DORb) . The following indicative equitable share amounts were allocated to the City as per the 2015 DORb :	Division of Revenue Act . The following indicative equitable share amounts were allocated to the City as per the 2015 DORA.	
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Table 7.4: Summary of parameters applied to operating budget				132
	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	
EXPENDITURE PARAMETERS:				
Salary increase				
Salary increase (SALGA Agreement)	8.14% 7.00%	6.85%	6.40%	
Other:				
Capital (EFF component) expenditure	R2.579bn R2.529bn	R2.328bn R2.544bn	R2.292bn R2.296bn	