CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Integrated Development Plan (IDP)

2022 – 2027

Financial Plan

IDP FINANCIAL PLAN

TABLE OF CONTENTS

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 Municipal Budgeting and Reporting Regulations (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.

2. Long Term Financial Plan – an overview

2.1 Background

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.

2.2 Guiding Principles

The LTFP policy is drafted in line with the requirements of Part 2 of the MBRR – budget-related policies. This policy aims to ensure that all long-term financial planning is based on a structured and consistent methodology therefore enabling delivery of City strategies whilst ensuring the City's long term financial sustainability and affordability in order to achieve objectives over the medium- and long term. The guiding principles of the LTFP include:

- Future financial sustainability inclusive of realistic revenue sources;
- Optimal collection of revenue, taking into consideration the socio economic environment;
- Optimal utilisation of grant funding;
- Continuous improvement and expansion in service delivery framework; and
- Prudent financial strategies.

2.3 Financial strategies and Non-financial Strategies

Financial Strategies

An intrinsic feature of the LTFP is to give effect to the City's financial strategies. These strategies include:

- Maintaining or improving basic municipal services;
- Maintaining fair, equitable and cost reflective rates and tariff increases;
- Continuous improvement to the financial position;
- Ensuring funding for asset maintenance and renewal;
- Ensuring realistic revenue sources and affordable debt levels to fund the capital budget;
- Optimising utilisation of previous years' surpluses (if any);
- Achieving and maintaining a breakeven/surplus in the total operating budget (inclusive of appropriations and secondary budget); and
- Ensuring full cost recovery for the provision of internal services.

Non – financial strategies

The LTFP is a key component for achieving the goals listed in the IDP and must consider the IDP inclusive of other City strategies and frameworks. In preparing the LTFP, the following considerations are included:

- Fiscal overview considered by reviewing past financial performance and taking into account strategic and policy direction of the City to ensure sustainability.
- In addition, the LTFP being a forecasting model requires assumptions on, amongst other, the following internal and external factors:
    - Demographic trends related to socio economic factors e.g. population migration, employment, health, development of businesses, and new residential areas etc.;
    - General inflation outlook and its impact on municipal activities;
    - Affordability of municipal rates and tariffs;
    - Credit rating outlook;
    - Interest rates for borrowing and investment of funds;
    - Rates, tariffs, charges and timing of revenue collection;
    - Growth/decline in tax base of the municipality;
    - Collection rates for each revenue source;
    - Price movements on specifics e.g. bulk purchases of water and electricity, fuel etc.;
    - Average salary increases;
    - Industrial relations climate, reorganisation and capacity building;

- Changing demand characteristics (demand for services);
  - Trends in demand for free or subsidised basic services;
  - Impact of national, provincial and local policies;
  - Ability of the municipality to spend and deliver on the programmes;
  - Implications of organisational restructuring and other major events into the future;
  - Consideration of the Cost Containment Regulatory measures; and
  - Sector Plans and Infrastructure Masterplans.
- Intergovernmental fiscal transfers/allocations/subsidies from National- and Provincial government play a pivotal role in the finances of the City. The following unconditional transfers/allocations must be considered, as a minimum, when projecting the budget:
  - Local Government Equitable Share;
  - Fuel levy; and
  - Grants related to the provision of Provincial government functions.

The annual updated LTFP must identify the following:

- Assumptions and parameters to be used to compile the operating- and capital budget over the next MTREF;
- Future operating revenue and expenditure projections based on assumptions and parameters;
- Future affordability of projected capital plans; and
- Funding requirements, which include external funding.

The financial strategies mentioned above are underpinned by the following sub-strategies supported by policy, processes and directives in the City to ensure that the City remains financially sustainable.

3. Financial Strategies

3.1 Revenue raising strategies

The primary revenue sources of a municipality, other than grants and subsidies, are from the following sources:

- Property Rates;
- Service Charges - Water, Sanitation, Electricity and Refuse Removal;
- Fines;
- Licences and Permits;
- Rentals; and
- Investment Interest

Property Rates and Services Charges make up over 70% of the City's operating revenue and it is therefore of utmost importance that revenue maximisation is attained and this is practised by the City with the implementation of various policies and strategies.

The objectives of the City's Credit Control and Debt Collection Policy, which covers revenue collection of properties rates, water, sanitation, electricity and refuse removal, are:

- Focusing on all outstanding debt as raised on the debtor's account;
- Providing for a common credit control and debt collection policy;

- Promoting a culture of good payment habits amongst debtors and instilling a sense of responsibility towards the payment of accounts and reducing municipal debt;
- Using innovative, cost effective, efficient and appropriate methods, subject to the principles provided for in the policy, to collect as much of the debt in the shortest possible time without any interference in the process; and
- Effectively and efficiently dealing with defaulters in accordance with the terms and conditions of the policy.

The City's Tariff Policies i.e. The Water & Sanitation Tariff Policy, The Electricity Tariff Policy, and the Solid Waste Management Tariff Policy all provide for consistent consumptive tariff application for differing categories of users and service requirements. The individual policies further sets out processes to curb illegal connections, installation of flow limiting devices on indigent and non-indigent properties (water & sanitation) and steps to reduce the abuse of the rebate system etc. It further provides for rebates available to assist the consumer.

The City's Rates Policy is reviewed and adopted annually to ensure compliance with the City's strategic objectives and latest applicable legislation. It allows for certain exemptions, reductions and rebates based on the ownership of properties. This policy is based on the guiding principles of equity, affordability, poverty alleviation, social and economic development, financial sustainability and cost efficiency.

Projecting revenue parameters

With the annual review of the City's LTFP, projections of revenue and ensuring realistic revenue envelopes from these sources over the short-, medium- and long term, the following considerations are taken into account:

Property Rates:

- Supplemental Valuations (SV) and General Valuations (GV) applicable to the relevant years of the MTREF;
- Impact of outstanding GV objections and appeals;
- Organic growth;
- Building plan approval trends;
- Valuations projections relating to SV and GV objections and appeals;
- Income foregone provision – council determined rebates and changes to pensioner/social and indigent rebates; and
- Collection rates.

Electricity

- Consumption patterns – winter and summer;
- Assessment of reduced consumption and declining revenue sales due to shrinkage as a result of continued energy saving and efficiency plans by consumers;
- NERSA and ESKOM deliberations;
- Revenue assessment of different levels of consumers – lifeline, residential, small commercial and large commercial;
- Collection rates;
- Vandalism and electricity theft; and
- Impact of free basic service.

Water & Sanitation

- Consumption patterns – winter and summer, restriction levels, drought (if applicable);
- Impact of tariff/financial model i.e. ability of variable consumption patterns of ability to cover fixed cost (Fixed Basic Charges);
- Projected growth or contraction;
- Collection rates; and
- impact of free basic service

Total Municipal Account (TMA)

An annual assessment is performed to assess the impact of proposed increases in rates and tariffs on the consumer. This involves the calculation of the TMA for residential consumers, which include the following datasets:

- Consumer consumption profile;
- Consumer property information;
- Installation details;
- Current Indigent/social relief package; and
- Proposed rates and tariff increases.

Depending on the outcome of this assessment e.g. too high in certain categories of property value or consumer, the tariffs/social relief package are reviewed.

3.2 Asset and Liability management strategies

The City's Asset Management Policy sets out a framework for the accounting treatment and safeguarding of Property Plant and Equipment (PPE), including the proper recognition, measurement, disposal and retirement of it. It further prescribes responsibilities regarding assets for all functionaries within the City. A physical asset verification process is performed annually and conducted simultaneously throughout the City. This process is coordinated by the Treasury department although each department in the City is responsible for the verification of its own assets. In addition, the City insures all its assets in terms of the General Insurance Fund Policy document.

Liability management strategies of the City are included in the City's Borrowing Policy. These include:

- Enabling the City to exercise its obligation of having sufficient cash resources to implement capital programmes;
- Governing the taking up of short- and long-term debt according to the legislative framework;
- Maintaining debt within specified limits and ensuring adequate provision for the repayment of debt; and
- Maintaining financial sustainability.

3.3 Financial management strategies

Local governments face an ongoing challenge to deliver on service delivery needs in an environment where revenue is constrained. The need to have strategies in place to balance competing demands is therefore critical to ensure that municipalities can provide service delivery needs in a financially sustainable manner. In a local government context, financial sustainability is the ability of a municipality to meet its service delivery mandate, manage expected financial risks over the longer term period i.e. 20 years without the need to introduce knee jerk, significant, or disruptive revenue and expenditure adjustments.

One of the City's main financial strategies is to strive to have a balanced/surplus annual budget. This is achieved by taking, inter alia, the following criteria into account:

- Affordability – determines whether the City can afford the current long term financial commitments and the impact of rates and tariffs on the consumer;
- Credibility - determines whether the budget assumptions are credible and whether the budget is funded in accordance with the provision of section 18 of the MFMA; and
- Sustainability - determines whether the City is financial sustainable.

The City's financial strategy remains geared for long-term financial viability and sustainability within a framework of smoothed revenue generation over the medium term.

The financial sustainability of the City's budget are assessed annually by NT by measuring the City's performance against financial ratios such as:

Cash/Cash equivalent at year-end

A positive cash position over the MTREF would indicate if the City's MTREF (medium term) budget is sustainable. A favourable cash position is also evident of a favourable opening cash balance and operating surpluses in the outer years.

Cash plus investment less application of funds

This ratio tends to understand how the municipality has applied the available cash and investments. A good measure is that the total cash/equivalents and long term investments should be more than the commitments for each corresponding year of the MTREF. If so, it reflects that the City is able to afford its commitments over the medium term.

Monthly average payments covered by cash or cash equivalent

This measure outlines the level of financial risk in the event of the municipality being under financial stress i.e. it indicates the number of times average monthly payments are covered.

The latest National Treasury benchmarking assessment in May 2022 on the tabled 2022/23 MTREF concluded on the City's sustainability as follows:

- 2022/23 MTREF is funded and sustainable over the MTREF;
- Financial ratios are good and indicates financial sustainability;
- Budget assumptions are credible and revenue estimates are realistic – increases are informed by tariffs and growth in consumption;
- Positive cash flow projections over the MTREF;
- The City has sufficient cash available to pay creditors; and
- There are adequate cash backed reserves

These annual measurements on sound (current) financial positions are however limited to the **short to medium term.**

During the annual LTFP process and whilst drafting the MTREF the City assesses the risks impeding financial sustainability and reviews the financial strategies to mitigate such risks. These risks – not unique to the City – can be categorised as requiring a short-, medium- or long terms strategy. Such risks include:

- Instability of grant funding – equitable share, fuel levy and others;
- Limited revenue raising initiatives;
- Increasing community/service demand with limited resources;
- Expenditure parameters higher than revenue parameters;
- Impact of aging infrastructure - Insufficient investment;
- Lower collection rates:
  - Consumer resistance to pay
  - ‘Taxing’ the same consumer in different ways
- Growing population of non-paying consumers;
- Increasing social package;
- Increasing job creation programmes;
- Reduction in service growth (moving ‘off the grid’);
- Long term viability of other major commitments such as CAR, Broadband, Congestion alleviation etc.;
- Changing political landscape;
- Increasing salary budget; and
- Natural disasters such as COVID-19 e.g. on economy and revenue.

Mitigating measures focussed on the requirement of the LTFP and the MTREF. A reduction in the LGES/Fuel Levy grant would for example require the re-assessment/reprioritisation of expenditure funded from this grant. These measures relevant to the MTREF are annually reviewed and included in the budget assumptions write-up as part of the MBRR budget documentation inclusions.

3.4 Capital financing strategies

The City’s LTFP 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. This is done annually to determine the most affordable level at which the City can operate optimally. In addition, it identifies the consequential financial impact of planned capital projects on the City’s operating budget. An assessment to ensure implementability of the capital budget is performed annually before inclusion to the capital program in the MTREF. This assessment or Project Readiness Assessment (PRA) includes the screening and reviewing of projects for procurement and implementation readiness, technical and financial feasibility and strategic alignment.

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 is affordable and sustainable. The City’s loan requirements are determined by the capital investment requirement (excl. Transfers Recognised: Capital) and the projected cash position. The City primarily borrows against future revenue generating assets.

3.5 Operational Financing Strategies and strategies which enhances cost-effectiveness
In addition to ensuring maximisation of the City's revenue sources as set out in the revenue raising strategies, the City strives to **secure conditional grant funds** from both National and Provincial governments as well as local or international funders.

The City has developed a system of monitoring compliance to conditions for all grants. In addition, grant compliance reports are distributed to all levels of management in the City. The monitoring system has remedial measures built into it in cases of non-compliance. The City also established the Grant Fund Technical Review Committee (GFTRC) in 2017 to oversee the governance of projects implemented from transversal grants including USDG, ISUPG, NDPG, HSDG and PPPSG.

Setting of cost reflective tariffs - The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act, which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This requirement is reiterated annually in the annual budget circulars provided by National Treasury to ensure municipalities compile a credible budget.

The City introduced a costing guidelines document setting out detailed costing principles to ensure that all costs are charged out correctly and tariff-funded services specifically are fully cost reflective.

The City's **budgeting approach** annually ensures that savings and optimisation of costs are practised. It commences with an extensive assessments of previous years' budget outcomes to ensure funding is allocated to give the best effect to service delivery. Another feature to this approach is to give effect to a form of a zero-based budgeting. This is achieved through, amongst other, the application of differentiated parameter increases, interventions in the form of budget reductions and the reprioritisation of budgets. Special focus areas also included in the budgeting approach includes repairs and maintenance, which is viewed as one of the City's essential strategies aimed at preserving and protecting the City's asset base.

The Municipal Cost Containment Regulations and the City's **Cost Containment** Policy embedded in the City's operations also continue to assist in driving cost down by ensuring that the value for money is achieved and resources of the municipality are used effectively, efficiently and economically.

The impact of **unfunded and underfunded mandates** on municipal budgets has also received traction over the last few years as it places a continuous growing financial burden on the City's finances. To curb the growing expenditure, the City attempted to curb expansion in expenditure in certain of these functions. The City initiated a feasibility study with the intent to present a paper on options to allow key decision makers to take informed decisions on each of the identified functions (functional assignments and mandates), which are either unfunded/underfunded. This study is expected to culminate in the development of a generic roadmap to conclude on decisions for implementation. A portfolio approach has been adopted instead of a functional approach with the portfolio including Health, Libraries, Roads, Licences, Law Enforcement and Public Transport.

The City is also investing in an **Optimisation and Digitalisation Project** whereby an organisational scan is conducted to identify areas cost efficiencies and effectiveness through process and technological changes.

4. Overview of budget assumptions applied over the current MTREF:

4.1 Financial Strategic Approach and Key planning drivers

The 2022/23 LTFP/MTREF was prepared with the intention of keeping revenue parameters as low as possible to assist already struggling communities and businesses, but also to ensure that service delivery is not compromised and specific priorities addressed.

The key informants over the coming year as provided during the Strategic Review phase of the Strategic Management Framework (SMF) process are:

- Constrained financial envelope and increase uncertainty;
- COVID-19 Crisis response;
- National Government Failure;
- Infrastructure Investment;
- Advocacy- intergovernmental collaboration;
- Response to growing informality;
- Staff Safety;
- Asset, land and facility protection;
- Utility business model reform;
- Containing costs; and
- Concerted implementation of transversal strategies/initiatives.

The Strategy Brief required City directorates to focus resources and efforts towards implementing the priorities included in the Strategy Brief.

LTFP rationale and financial strategies implemented

- The depreciation strategy, which provides operating account relief via reduced depreciation costs and which commenced in the 2020/21 financial year, is continued with for this MTREF in an effort to utilise available cash and reduce tariffs.
    - This strategy sees the City using its surplus cash flow via the recovery of a depreciation charge of R500 million per annum over seven years.
- Various cost savings initiatives were also implemented to achieve a budget that is realistic, sustainable and credible - still ensuring the continuation of services and keeping revenue increases at low levels.
- Utilising own funding to reduce borrowing requirement but gearing for debt take up as project preparation improves. The City has low level of Debt Leverage and has strength to support a stronger debt profile.

Financial Modelling and Key Planning Drivers

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

- To cover the cost of living increase as per the SALGBC agreement, the City had to identify permanent reductions across the organisation in the 2021/22 financial year. This amounted to R287 million for Rates-funded services and was incorporated in the January 2022 adjustments budget.
- In an effort to reprioritise budgets within the Rates-funded services environment a base reduction of R40 million was applied in areas such as cost containment related expenditure, contracted services and other sundry expenditure elements, an amount of R50 million to debt impairment and increased Agency income of R10 million. These amendments were based on previous years' implementation performance.
- Differentiated expenditure parameters provide for no expenditure growth on certain expenditure elements (other expenditure, contracted services and inventory consumed).
- The differentiated parameters applied to repairs and maintenance growth was based on the previous year's actual expenditure, service delivery needs and efficiencies identified.
- The following staff and vacancies intervention were included:
  - A differentiated percentage budget approach on vacancies (assumptions on vacancy period for different post levels);
  - Cost of living increase applied as per the SALGBC agreement;
  - Budgeting at 95% of employee costs; and
  - Inflationary increases applied to overtime for the Safety & Security directorate only. No overtime increases for other directorates.
- A 100% capital expenditure implementation rate assumed.
- All expenditure programmes must be delivery ready with focus on project preparation for outer years.
- New IDP is not an "add-on" demand creating a vertical layer for the budget. The budget is required to resource an IDP i.e. to detect the priority of programmes in the IDP evaluate the budget allocation.
- Credible and realistic collection rates based on current- and projected trends considering the past and current trends.
- National- and Provincial allocations as per the 2022 Division of Revenue Bill (DoRb) and the Provincial Gazette Extraordinary 8566 dated 14 March 2022.

The following were included in the 2022/23 MTREF:

- A reduction of R175.2 million - additional expenditure included in the 2020/21 for health related COVID-19 expenditure – but no longer required in the 2022/23 financial year.
- In response to the SMF Operational Review process and subsequent amended Strategy Brief to address the mayoral priorities towards driving the priorities and programmes in the new IDP an amount of R110 million was included.
- The aforementioned was absorbed by reprioritization of expenditure of R100 million and R10 million from higher than anticipated Equitable Share.
- A further R373.6 million provision was made for Rate funded services, to drive the priorities and programmes set out in the IDP and requirements identified over the past few months. This was funded by a combination of reprioritisation of the budget, improved investment interest estimates, higher than anticipated Fuel Levy and Equitable Share allocations.

- R125.5 million was allocated as the City's funding portion to the Law Enforcement Advancement Program (LEAP) for the 2022/23 financial year.
- The following main changes were affected post tabling of the budget in March 2022:
  - Update of Provincial Grant allocations based on latest Provincial Gazette Extraordinary 8566 Dated 14 March 2022;
  - Inclusion of additional expenditure and revenue (fines) within Rates and Insurance Fund;
  - Shifting of R27.26 million from the Capital budget to the Operating budget of the Public Transport Network Grant for Public Transport Interchanges projects within the Urban Mobility directorate.

4.2 Economic influences

The drafting of the 2022/23 LTFP and subsequent MTREF commenced with a macro-environmental scan of the economy as one of its primary determinants. Factors taken into consideration included the CPI, interest rates, exchange rates, service growth and GDP, which is briefly discussed below.

In 2020 the economy contracted by 6.4 percent with the onset of the pandemic, however, in 2021 the economic activity has recovered more rapidly than expected. According to STATSA GDP expanded by 4.9 percent in 2021. This growth is expected to be subdued in future years due to various structural constraints in the domestic- and global economy such as inadequate electricity supply, pandemic-induced job losses, higher global inflation and changes to monetary policies. Real GDP growth is expected to moderate to 2.1 percent in 2022, averaging 1.8 percent for the period 2023 and 2024.

In recent months, global- and domestic factors contributed to the fluctuation in the rand exchange rate. The rand/dollar exchange rate is currently hovering between R15 and R16 to the US dollar. BER projects the rand to average R15.13 against the US dollar in 2022. The price of crude oil has been rising steadily over the last months and has breached the 90 US dollar mark for the first time in 7 years. A combination of factors is pushing oil prices higher including imbalances between supply and demand and the escalating Russia-Ukraine conflict. The crude oil price is expected to remain volatile and is estimated to average 100.4 US dollars per barrel in 2022.

According to Stats SA, headline consumer inflation was at 5.7 for two consecutive months (January and February) at the start of the year but accelerated to 5.9 percent year-on-year in March and remained unchanged in April. Inflation is moving closer to the top of the South African Reserve Bank's (SARB) target range of 3-6 percent due to the current market demand and constraints in supply of goods and services. In the May 2022 MPC statement, the 3rd meeting for the year, the repo rate was increased by 50 basis points to 4.75 percent per year. It is expected that the rise in the repo rate will keep inflation expectations anchored and moderate the future path of interest rates. The SARB's model indicates that the interest rate will gradually normalise through to 2024.

4.3 Demographic Trends

Cape Town has the second-largest population of all cities in South Africa and is the main urban centre in the Western Cape. The City has seen steady population growth (albeit at a slowing annual growth rate), with an estimated 4 678 900 people in 2021 (Statistics South Africa, 2021). According to current estimates, the total population of Cape Town will reach approximately 5.5 million by 2035 (City of Cape Town, 2018).

While the population continues to increase, the average household size has decreased from 3.5 people per household in 2011 to 3.2 in 2016 (Statistics South Africa, 2011 and 2016). A growing population, together with a decreasing average household size, has resulted in a significant increase in the number of households in Cape Town; growing from approximately 1 million households in 2011 to an estimated 1.46 million households in 2021 (City of Cape Town, 2022, using Mid-year Population Estimates and 2016 Community Survey).

This trend of a steadily increasing population growth (albeit at a declining growth rate) and an increasing number of households form some of the informants to City planning and service delivery for the residents of Cape Town. These trends will continue to be monitored and refined as needed to also inform COVID-19 recovery responses and planning. More information will be available and used from the 2022 Census when the data is released.

Cape Town has seen a steady population growth; the average annual growth rate has declined from 2.3 percent over the 2011-2015 period to 2.0 percent over the 2016-2021 period. The population is expected to grow to around 5 million by 2025 according to Statistics South Africa, equating to an average annual growth rate of 1.7 percent over the 2022-2025 period. The City's capital budget is expected to grow by an average of 28.3% over the next 3 years, showing that infrastructure investment is growing as population is growing.

4.4 National & Provincial Influences

National Treasury MFMA Circular No. 112, issued on 6 December 2021

The purpose of this annual budget circular is to guide municipalities with the compilation of the 2022/23 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 focus areas stemming from this circular:

- Macro-economic forecasts to be considered when preparing the 2022/23 MTREF municipal budgets.
- Key focus areas for the 2022/23 budget process including local government conditional grant allocations.
- IDP Consultation Process Post 2021 Local Government.
- Version 6.6 of the mSCOA chart released with the circular to be utilised for the preparation of the 2022/23 MTREF.
- Other mSCOA-related requirements and recommendations for municipalities to consider.

- Municipalities to set cost reflective tariffs to ensure that recovery of the full cost of rendering the service.
- The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2022 MTEF period.
- All municipalities are reminded of section 8 of the Municipal Property Rates Act (MPRA) on the determination of categories of rateable properties that has been revised through the Local Government Municipal Property Rates Amendment Act, 2014.
- Municipalities are encouraged to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.
- Municipalities to justify all tariff increases in excess of the projected inflation target for 2022/23.
- National Treasury supports municipalities to develop and implement long-term financial models and strategies.
- The new leadership is advised to:
  - Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
  - Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

National Treasury MFMA Circular No. 115, issued on 4 March 2022

This budget circular is a follow-up to MFMA Circular No. 112 that was issued on 06 December 2021 and aimed to provide further guidance to municipalities with the preparation of their 2022/23 MTREF. It focusses primarily on the grant allocations as per the 2022 Budget Review and the 2022 Division of Revenue Bill.

The Circular also included the following:

- An update on the economic outlook.
- Local government conditional grants allocation and Equitable Share in terms of the Division of Revenue Bill published on 23rd February 2022.
- Release of Version 6.6.1 of the mSCOA chart with the circular to be utilised for the preparation of the 2022/23 MTREF.
- Additional mSCOA related requirements to be considered e.g. how to account for depreciation and change in calculation of consumer deposits and the introduction of an e-learning mSCOA training course.
- An update of the Eskom bulk tariff increase provided, guidance to provide for water and electricity losses and a reminder to municipalities to have a UIFW reduction plan approved by Council are additions under the Revenue Budget write-up.
- Municipalities must be mindful that the Equitable Share is meant to fund basic municipal services to the indigent.
- In addition to the criteria for the release of Equitable share instalments, criteria for the rollover of conditional grants are set out.
- The 2021/22 unspent conditional process will be managed in accordance with section 21 of DoRA, in order to ensure that the unspent conditional grants against the 2021/22 financial year return to the National Revenue Fund (NRF).

- Compliance to section 16 of DoRA in relation to the allocation or transfer of funds by municipalities to other organs of state in order to implement projects on behalf of the municipalities was highlighted.

Provincial Treasury Municipal Circular 1/2022 issued 25th January 2022

In addition to reiterating the key aspects included in MFMA Circular 112, this circular also highlighted:

- Economic and Fiscal environment of the Western Cape;
- A reminder to municipalities to include their compliance with B-BBEE in their AFS and annual reports and included The B-BBEE Commission's Explanatory Notice No.2 of 2021 as an annexure to the circular; and

  Key dates of the 2022/23 Integrated Planning and Budgeting Process.

4.5 Budget Projection:

4.5.1. Revenue Framework

a. Service Growth

Property Rates

No growth is projected for Property Rates for 2022/23 and 2023/24. A 0.25 percent growth is projected for year 3 of the MTREF. This is due to the unstable/unpredictable property market resulting from the lagging impact of the pandemic. Variable growth rates are applied to the property rates income forgone component due to the increase in application for rebates.

Electricity

A shrinkage of 3% is projected for 2022/23 with an average shrinkage of 1.5 percent in sales revenue projected over the outer years of the 2022/23 MTREF period. The approach is mainly due to a sustained declining demand on electricity consumption and thereby sales. This shrinkage in sales is however not filtering fully to the electricity bulk purchases expenditure component, due an increase in theft and vandalism.

Water and Sanitation

A growth of 4 percent is projected for water and 3 percent for sanitation for the 2022/23 financial year. A 2 and a 1 percent growth is projected for Water and Sanitation respectively over the outer years of the MTREF. The projected growth is evident in the current trends and can mainly be attributed to the expected increase in consumption as the City experiences the "bounce-back" after the drought flowing from the withdrawal of water restrictions and restriction tariffs.

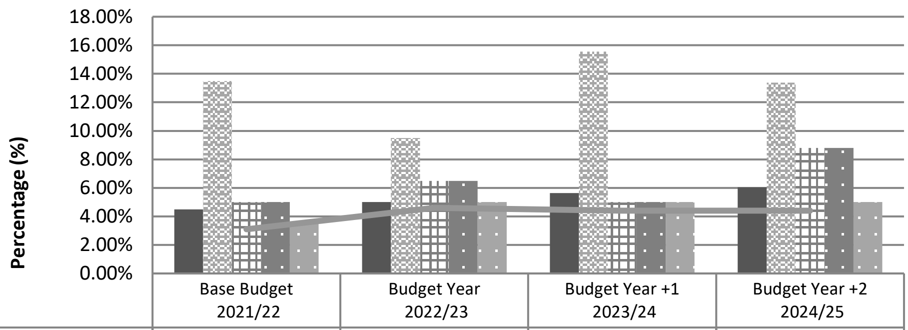
Refuse

Average revenue growth over the last 3 years shows a consistent 2 percent growth for Refuse revenue. Based on this a 2 percent growth factor was applied over the 2022/23 MTREF. Waste Disposal shows a zero increase over the last 3 years, therefore, no growth is projected for Disposal over the MTREF period.

b. Major tariffs and charges: Rates and Service Charges

National Treasury, in NT Circular 112, continues to encourage municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The CPI inflation is forecasted to be within the lower limit of the 3-6 percent target band, therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2022/23 in their budget narrative and pay careful attention to tariff increases across all consumer groups.

The graph below depicts the City's revenue increases over the 2022/23 MTREF.



	Base Budget 2021/22	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Property Rates	4.50%	5.00%	5.63%	6.03%
Electricity	13.48%	9.50%	15.56%	13.37%
Water	5.00%	6.50%	5.00%	8.80%
Sanitation	5.00%	6.50%	5.00%	8.80%
Refuse	3.50%	5.00%	5.00%	5.00%
City's CPI projection	3.10%	4.60%	4.40%	4.40%

Property Rates

The revenue parameter for Property Rates for the 2022/23 financial year is within the inflation target range. This increase will allow for the continuation of providing Rates-funded services, investment in infrastructure, servicing of informal settlements and ongoing investment in repairs and maintenance. In addition, it will give effect to the requirements stemming from the new term of IDP.

Electricity

National Energy Regulator of South Africa (NERSA) at a meeting held on 9 March 2022, made a determination on Eskom's Retail Tariff and Structural Adjustment (ERTSA) application and approved an average tariff increase of 9.61% for Eskom's standard tariff customers and an increase of 8.61% for municipalities. The increase for Eskom's standard tariff customers will be effective from 1 April 2022 and for municipalities from 1 July 2022.

The City applied an 8.61% for bulk purchases as per the approved application and in the absence of future year, increases applied a 15% bulk purchases increase for the outer years. The nature of business for the Electricity service is the purchasing and redistribution of electricity, where bulk purchases constitute a large portion of the electricity service's budget. Bulk purchases as percent of electricity expenditure averages 67% over the MTREF. The electricity average revenue increases are 9.50%, 15.56% and 13.37%, respectively over the 2022/23 MTREF. The revenue increase requirement are due to, amongst other, the following:

- Shrinkage in sales growth due to consumers moving towards alternative sources of energy;

- Increase in bulk purchases without a concomitant increase in sales income due to vandalism and theft;
- The establishment of a Generation Department to investigate and prepare the directorate for future alternative generation possibilities including the building of ground mounted PV plants;
- Inclusion of mayoral priorities as it relates to initiatives to end loadshedding; and
- Additional security in order to help curb the increase in theft and vandalism

Water and Sanitation

NT MFMA Circular 99 stated that "Municipalities should take strategic action to ensure effective water management and resilience to drought, including the security of water supply, environmental degradation, and pollution of resources to achieve economic growth, development and socio – economic priorities in an equitable and sustainable manner."

The average revenue increase applied is 6.5% for 2022/23, 5.0% for 2023/24 and 8.8% for 2024/25. To ensure the lowest revenue increase, expenditure was reduced while still ensuring that the strategic imperatives of the service could continue. The revenue increase makes provision for, amongst other, the following:

- To ensure sustainable and resilient provision of water, budgetary provision for the New Water Plan was made, which includes initiatives to further invest in the underground extraction of water from aquifers;
- Water demand management to limit the abuse and loss of water;
- Interventions aimed at improving the water quality in the marshes;
- Improving response times for sewerage blockages and to reduce these blockages with preventative maintenance;
- Upgrades and extensions to the wastewater treatment plants;
- Continued investment in asset replacement programs to ensure proper asset management, with a specific focus on sewer network replacement as well as the upgrading of sewer pump stations;
- Ongoing investment in repairs and maintenance programs and maintaining required compliance standards;
- Supplying water and sanitation at appropriate compliance, capacity, skills, service delivery and responsiveness levels; and
- COVID-19 pandemic requirements, which has been incorporated into permanent aspects of the service levels.

Refuse

Guidance on budgeting for solid waste matters was provided in National Treasury MFMA Circular 99, stating that "Investments in waste collections and treatment infrastructure should be made in tandem with industrial and urban developments to minimise pollution to our land and waters". In this regard, the following revenue increases are projected for Urban Waste Management over the 2022/23 MTREF.

Urban Waste Management consists of 3 services of which two are tariff-funded (the third is funded by Property Rates). The tariff-funded services consists of Refuse and Disposal.

- Refuse revenue is received for the removal of waste from residential and non-residential properties. The Refuse average increase is 5% over the 2022/23 MTREF period. The average increase will fund, amongst other, the upgrading of drop-off facilities to accommodate the expansion in the service, waste minimization programmes for formal & informal settlements, expansion of services to informal settlements and backyarders, continuous implementation of waste minimisation initiatives, upgrading of depots, maintenance programs and the typical day-to-day service operations.
- Disposal is the revenue received for the disposal of waste from residential and non-residential properties. The Disposal average increase for 2022/23 is 5% whereas the increases for the two outer years are 5% and 10% respectively. This increase is required for the continued operational requirement of the service, the development of landfill infrastructure, development and upgrading of transfer stations, plant replacement, additional Material Recovery Facilities and Landfill Gas generation to beneficiation at all landfill sites.

c. High-level summary of Operating revenue by sources over the MTREF

R thousand	Budget Year 2022/23	% of Total	Budget Year +1 2023/24	% of Total	Budget Year +2 2024/25	% of Total
Revenue By Source						
Property rates	11 519 486	22%	12 132 471	21%	12 858 482	21%
Service charges - electricity revenue	17 241 469	32%	19 624 539	34%	21 913 943	36%
Service charges - water revenue	3 928 012	7%	4 121 615	7%	4 523 452	7%
Service charges - sanitation revenue	2 014 506	4%	2 155 521	4%	2 366 762	4%
Service charges - refuse revenue	1 381 241	3%	1 501 125	3%	1 629 348	3%
Rental of facilities and equipment	389 180	1%	405 996	1%	423 707	1%
Interest earned - external investments	1 118 566	2%	1 119 454	2%	970 357	2%
Interest earned - outstanding debtors	367 515	1%	383 143	1%	399 529	1%
Fines, penalties and forfeits	1 262 193	2%	1 264 511	2%	1 266 932	2%
Licences and permits	73 251	0%	76 474	0%	79 839	0%
Agency services	271 616	1%	283 567	0%	296 044	0%
Transfers and subsidies	6 260 172	12%	6 454 997	11%	6 693 166	11%
Other revenue	3 466 403	7%	3 472 498	6%	3 579 018	6%
Gains	3 992 365	7%	4 086 014	7%	4 289 972	7%
Total Revenue (excluding capital transfers and contributions)	**53 285 975**	**100%**	**57 081 926**	**100%**	**61 290 550**	**100%**

It is evident from the preceding table that the main sources of revenue is consistently, Electricity service charges followed by Property Rates. In addition, the table shows that the Operating budget is sensitive to a change in grant funding. *Transfers and Subsidies* is the third largest contributor to the City's revenue and averages 11% of the City's operating revenue source over the 2022/23 MTREF period. The operating revenue budget is expected to grow by an average of 7.2% over 2022/23 MTREF period.

4.5.2. Expenditure Framework

a. General inflation outlook and its impact on municipal activities

The City's CPI projection is within the SARB's inflation target range of between 3% and 6% but slightly deviates from the National Treasury guidance. CPI applied by the City for the 2022/23 MTREF is 4.60%, 4.40% and 4.40% over the respective three years. The City utilised BER's CPI projections at a point in time during the planning process and applies the projections in municipal financial years. NT MFMA latest Circular 115, published in March 2022, provides a CPI projection of 4.8%% for 2022/23, 4.4% for 2023/24 and 4.5% for 2024/25. Showing an upward adjustment of 0.8%, from 4.00% previously published in Circular 112 in December 2021.

The inflation rate had little impact on the City's expenditure budget as the City continued with the differentiated approach to give effect to a zero-based expenditure budget. Inflation was therefore not the primary driver of expenditure. CPI was considered in determining miscellaneous (sundry) tariffs

b. Contracted Services, Overtime and Operational Cost

The 2022/23 LTFP process commenced with an in depth analysis on previous year's performance outcomes with emphasis on reducing areas of underperformance. In an effort to safeguard the provision of municipal services but still ensure financial sustainability, no expenditure parameter was applied to contracted services and other operational costs. This strategy freed up funds to assist with reprioritisation of needs and balancing the budget at affordable levels. In addition, cost element categories were reprioritised to give effect to the requirements stemming from the new term of office IDP. For example, an overtime parameter increase of CPI was afforded to the Safety & Security directorate only.

In addition, the Municipal Cost Containment Regulations and the City's Cost Containment Policy embedded in the City's operations also continued to assist in driving down costs and ensuring that value for money is achieved and resources of the municipality used effectively, efficiently and economically.

c. Collection rate for Property Rates and Service charges

NT MFMA Circular 112 makes references to previous MFMA Circulars 93 and 98 as it relates to collection rates. It indicates that emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. In addition, municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

The year to date collection rate outcome has shown improvements in collection rates across most services. This led to the upward adjustment of collection rates in the 2021/22 adjustments budget. Based on this result and assuming that this trend will continue, the collection rate assumptions as shown in the ensuing table were made for the 2022/23 MTREF.

Service	Base Budget 2021/22	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Rates	95.14%	95.50%	95.74%	96.19%
Electricity	99.00%	99.00%	99.00%	99.00%
Water	91.00%	91.00%	92.00%	93.00%
Sanitation	93.00%	93.00%	94.00%	95.00%
Refuse	90.00%	90.00%	92.00%	92.00%

The Rates collection rate is projected at 95.5% for 2022/23, which shows an improvement to the previous budgeted collection rate. The higher projected collection rate is a result of the implementation of various strategies such as continued debt management initiatives, system enhancements and resolving valuation objections.

The Electricity collection rate is projected to average 99% over the 2022/23 MTREF period. This high collection rate projection is mainly attributable to the continuous rollout of prepaid meters and revenue protection initiatives.

The collection rate is projected at 91% for Water and at 93% for Sanitation for the 2022/23 financial year, similar to the collection rates budgeted for in the 2021/22 adjustments budget. A 92% and 93% for water, and 94% and 95% for sanitation collection rate is projected, respectively, for the outer years of the MTREF. The expected increase in the collection rate is based on the latest projections, which include increased debt management action as well as systematically moving out of the COVID-19 environment.

The Refuse collection rate is projected at 90% for 2022/23 and expected to increase to 92% over the outer years of the MTREF. The collection rate projection is supported by the current in-year 12 months' average trend, which shows an average collection rate outcome of 90% as at January 2022.

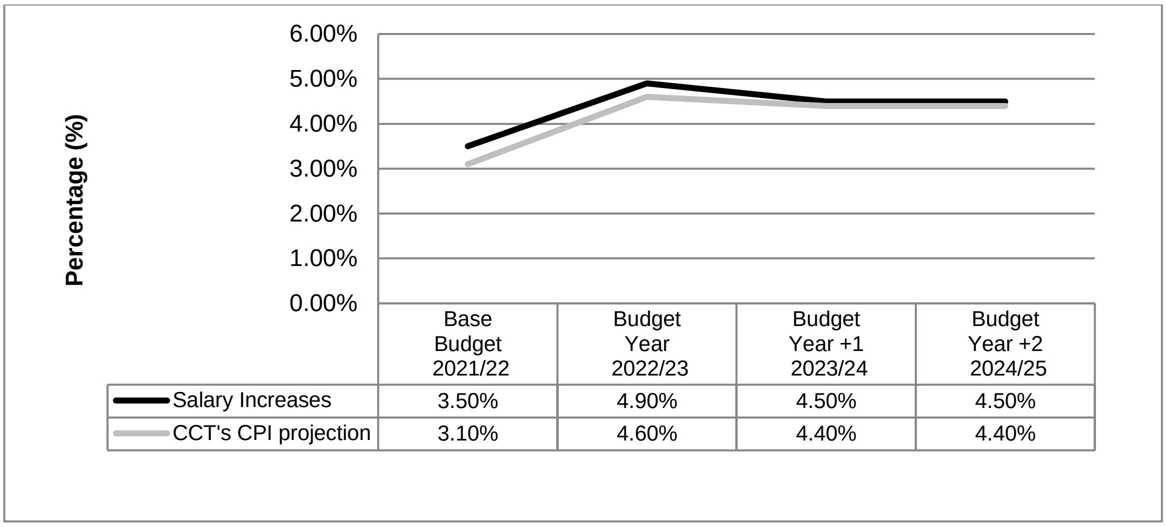
d. Salary increases

In 2021, a new three-year Salary & Wage national collective agreement was entered into at the Bargaining Council. The terms of this agreement covers the municipal financial years 2021/22 to 2023/24. In the absence of an agreement for the last year of the City's MTREF, the principle applied for 2023/24 was similarly applied for 2024/25.

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

- 2022/23: CPI percentage for 2022 as projected by January 2022 MPC; and
- 2023/24: CPI percentage for 2023 as projected by January 2023 MPC

The CPI projected by the January 2022 MPC Statement was 4.9% for 2022. The salary increases included in the budget are graphically shown below.



	Base Budget 2021/22	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Salary Increases	3.50%	4.90%	4.50%	4.50%
CCT's CPI projection	3.10%	4.60%	4.40%	4.40%

A provision of 2% was made for incremental allowances for T-grade level 13 and below. In addition, the City continued with the method of budgeting for salaries at 95% and partial budgeting for vacancies. This approach was adopted as the turnaround time of vacancies has attributed significantly to the underperformance on the salaries budget.

e. Maintenance of existing assets

NT MFMA Circular 112 states “municipalities must ensure that they render basic services, maintain their assets and clean environment”. It further advises municipalities to refer to annual budget circulars of previous years for guidance on budget preparation not covered in this circular. In this regard, NT MFMA Circular 55 states that municipal councils, mayors and municipal managers are urged to ensure that allocations to repairs and maintenance, and the renewal of existing infrastructure are prioritised.

Investment in infrastructure is a core component of ensuring economic growth. In addition, asset maintenance is pivotal to prevent breakdown of infrastructure assets and to avoid interruption to service delivery. To ensure infrastructure assets are maintained adequately and considering past performance on these costs, the following repairs and maintenance increases were applied:

- Higher than CPI increases were applied to services where the nature of business are primarily to provide repairs and maintenance and where the condition of the assets must be secured;
- CPI increases were applied to services where the main business is not providing repairs and maintenance but the nature of business and facilities requires a proper maintenance provision; and
- No increases provided for support services and underperforming directorates.

NT MFMA Circulars 55 and 70 set the ratio of operational repairs and maintenance to asset value (write down value of the municipality’s property, plant and equipment (PPE)) at 8%. The ratio outcome for 2022/23 is 7.9%, slightly lower than then the National Treasury norm but this is due to the quantum of new assets budgeted in 2022/23, which will not require immediate repairs and maintenance. The outcome shows that the City is investing adequately in protecting its asset base by effectively providing for repairs and maintenance.

f. 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 system data which reflect actual values per annum.

g. High level summary of Operating Expenditure Budget aligned to IDP

Priority - Description	2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Economic Growth	1 558 572	1 547 900	1 552 674
Basic Services	28 168 543	30 687 082	33 492 333
Safety	4 173 591	4 505 446	4 709 228
Housing	1 611 765	1 675 178	1 771 396
Public Space, Environment and Amenities	4 653 343	4 894 707	5 165 817
Transport	3 848 458	3 941 056	4 062 313
A Resilient City	899 505	942 272	992 066
A more spatially integrated and inclusive city	408 229	419 428	436 839
A capable and collaborative City government	8 475 040	9 183 134	9 927 186
Total	**53 797 046**	**57 796 203**	**62 109 851**

Shown in the table above the City is consistently investing more than 50% of the Operating expenditure budget on the core function of municipalities, which is basic services.

4.5.3. Capital

a. Funding Sources of Capital budget

The capital budget was assessed considering matters such as procurement, implementation readiness, technical- and financial feasibility, and strategic alignment. This assessment was done utilising the City's Project Readiness Assessment (PRA) tool.

The capital budget was prepared with the aim of preserving the City's current infrastructure and expanding in areas where further capital investments are required to give effect to the City's new term of office IDP. The capital budget is expected grow by an average of 28.3% over the MTREF period.

The table below shows the capital funding source over the 2022/23 MTREF.

Funded by:	Budget Year 2022/23 R' 000	Budget Year+1 2023/24 R' 000	Budget Year +2 2024/25 R' 000
Transfers recognised - capital	2,271,867	2,643,500	3,551,397
Borrowing	2,000,000	6,479,900	7,480,175
Internally generated funds	3,235,452	1,850,816	1,647,098
Total	**7,507,319**	**10,974,216**	**12,678,671**

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

Moody’s Investors Service published their latest credit opinion for the City of Cape Town on 14 April 2022. It has reaffirmed the existing long- and short-term national and global scale rating of Aa3.za/P-1.za and Ba3/NP, and changed the outlook from negative to stable. This update follows after the City received its 17th consecutive unqualified audit report and after the change in outlook of the sovereign (the Republic of South Africa) from negative to stable.

The City’s rating reflects its moderate financial performance supported by its prudent financial management, large and diversified economic base. The City has consistently generated robust operating surplus with stronger liquidity and lower debt than that of its peers in South Africa also rated by Moody’s.

The City’s credit profile is constrained by capital spending pressure, related to infrastructure backlogs and population growth. It is also constrained by the structurally weak economic environment, worsened by the ongoing coronavirus restrictions, which is expected to moderate the City's operating performance. The resilience in the City's cash position is expected to remain. The low debt level, together with the City's liquidity reserves places the city in a favourable position to raise funding. In addition, any movement in the South African sovereign rating will impact directly on the City’s global scale rating.

The City’s known ratings over the last period are:

Category	Currency	Current Rating 14 April 2022 Update following rating action on Sovereign	Previous Rating 26 November 2021 Update following review conclusion	Previous 29 July 2021 Downgrade after sector review
Outlook	-	Stable	Negative	Rating(s) under review
NSR Issuer Rating	Rand	Aa3.za	Aa3.za	Aa3.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aa3.za	Aa3.za	Aa3.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 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.

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

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

R' 000	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Borrowing	2,000,000	6,479,900	7,480,175
Borrowing Interest Rate (%)	11%	11%	11%

c. High level summary of Capital Budget alignment to the IDP

The table below shows the composition of the Capital budget per priority over the 2022/23 MTREF period.

Priority - Description	2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Economic Growth	234,403	264,871	365,611
Basic Services	3,541,083	5,427,167	6,055,964
Safety	188,551	152,361	215,787
Housing	865,428	881,561	990,618
Public Space, Environment and Amenities	363,244	687,255	659,855
Transport	1,380,376	2,073,481	2,975,673
A Resilient City	197,823	183,895	259,610
A more spatially integrated and inclusive city	2,208	1,023	16,023
A capable and collaborative City government	734,202	1,302,603	1,139,530
Total Capital Expenditure	**7,507,319**	**10,974,216**	**12,678,671**

Similar to the operating budget the table shows that the City's main priority is investing in basic services. Investment in basic services averages 48.1% of the capital budget over the MTREF period, second to Transport which averages 20.3% over the same period.

4.5.4. Allocations from National and Provincial and other entities over the MTREF

National Government Allocations

The national allocations to the City as set out in the 2022 Division of Revenue Bill is shown in the table below.

Grants Description R Thousand	2022/23	2023/24	2024/25
Current Grants	**120 822**	**80 877**	**86 450**
Finance Management Grant	*1 000*	*1 000*	*1 000*
Expanded Public Works Programme Integrated Grant	*42 406*		
Infrastructure Skills Development Grant	*11 446*	*11 000*	*12 500*
Programme and Project Preparation Support Grant	*65 970*	*68 877*	*72 950*
Infrastructure Grants	**3 013 516**	**3 399 764**	**4 152 728**
Urban Settlement Development Grant	*965 544*	*1 008 100*	*1 053 373*
Informal Settlements Upgrading Partnership Grant	*549 012*	*573 210*	*598 952*
Energy Efficiency and Demand Side Management Grant	*9 000*	*9 000*	*9 000*
Neighbourhood Development Partnership Grant (Capital Grant)	*175 699*	*185 699*	*30 000*
Public Transport Network Grant	*979 261*	*854 755*	*887 403*
Public Transport Network Grant - BFI	*335 000*	*769 000*	*1 574 000*
Allocations-in-kind	**138 461**	**155 119**	**189 304**
Integrated National Electrification Programme (Eskom) Grant	*133 461*	*150 119*	*188 304*
Neighbourhood Development Partnership Grant (Technical Assistance)	*5 000*	*5 000*	*1 000*
Unconditional Grant	**3 656 394**	**3 983 337**	**4 341 849**
Equitable Share	*3 656 394*	*3 983 337*	*4 341 849*
Total	**6 929 193**	**7 619 097**	**8 770 331**

The total national allocation to the City is R6.93 billion in 2022/23 increasing to R8.77 billion in 2024/25. The main components of the allocation consists of the Equitable Share and Infrastructure grants. Allocations in kind, even though allocated to be spend in the City does not flow via the City's budget, all other grants are included in the City's 2022/23 MTREF budget.

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).

NT MFMA Circular 115 indicated that the local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period. Local Government Equitable Share (LGES) grew at an annual average rate of 10.3 per cent over the National MTEF. R28.9 billion is added to the LGES over the MTEF to increase coverage of the provision of free basic services.

The equitable share allocation to the City is therefore higher than anticipated and higher than the indicative allocations reflected in the 2021 DoRA. The DoRb issued in February 2022, via Gazette number 45903, provided for the following allocations, which have been included in the City's MTREF:

- 2022/23 – R3 656 million
- 2023/24 – R3 983 million
- 2024/25 – R4 342 million

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 General Fuel Levy allocation letter, as received from National Treasury for the 2022/23 MTREF, stated that the 2020 (latest) fuel volume sales were used to determine the 2022/23 sharing of the general fuel levy allocations. In 2021, the local government sphere was subjected to budget reductions for the MTEF period ending 2023/24, due to the COVID-19 pandemic and being in a constrained fiscal environment. These reductions will continue to have an impact on the sharing of the general fuel levy allocations with all the metropolitan municipalities for the period. Metropolitan municipalities are currently advised by the fiscus that the allocations for the two outer years of the 2022 MTEF are provisional and the actual allocations will be based on fuel sales.

The fuel levy allocation was more than anticipated for the 2022/23 financial year as it was based on fuel sales for the 2020 year, which saw the country at pandemic restriction level 5 with minimal travelling allowed. This resulted in a contracted economy affecting all sectors. The first year of the 2022/23 MTREF reflects a higher than anticipated fuel levy, but a decrease in the outer years is still expected.

The following amounts allocated to the City, as per the 2022/23 allocation letter, is included in the City's MTREF:

- 2022/23 – R2 667 million
- 2023/24 – R2 637 million
- 2024/25 – R2 706 million

a) Provincial Government Allocations

Provincial grants included in the 2022/23 MTREF is shown in the table below.

Grants Description - Per Provincial Department R Thousand	2022/23	2023/24	2024/25
Community Safety	**403 852**	**354 006**	**354 165**
Provide resources to serve in the City of Cape Town Law Enforcement Service (LES)	*2 852*	*2 966*	*3 084*
Recruitment, training and deployment of law enforcement officers to serve in the law enforcement advancement plan (LEAP)	*400 000*	*350 000*	*350 000*
Resourcing Funding for Establishment and Support of a K9 Unit	*1 000*	*1 040*	*1 081*
Health	**685 086**	**681 289**	**695 356**
Personal Primary Health Care Service	*361 420*	*361 420*	*361 420*
Integrated Nutrition	*6 832*	*6 832*	*6 832*
HIV and Aids	*316 834*	*313 037*	*327 104*
Human Settlements	**341 259**	**342 530**	**364 980**
Human Settlement Development Grant (Beneficiaries)	*318 630*	*333 530*	*358 480*
Settlement Assistance	*1 500*	*1 500*	*1 500*
Titke-Deeds Restoration	*11 129*		
Municipal Accreditation and Capacity Building Grant	*10 000*	*7 500*	*5 000*
Transport and Public Works	**10 000**	**10 000**	**10 449**
Provision for persons with special needs	*10 000*	*10 000*	*10 449*
Transport Safety and Compliance - Rail Safety	-	-	-
Economic Development and Tourism	**-**	**-**	**-**
Provide resources for the tourism safety law enforcement unit project	-	-	-
Cultural Affairs and Sport	**63 542**	**64 863**	**67 128**
Provincial Library Services: Conditional grant	*52 712*	*53 769*	*55 782*
Library Services: Metro Library Grant	*5 492*	*5 573*	*5 577*
Library Services: Transfer funding to enable City of Cape Town to procure periodicals and newspapers	*5 338*	*5 521*	*5 769*
Local Government	**1 034**	**1 034**	**1 034**
Community Development workers (CDW) operational support grant	1 034	1 034	1 034
Total allocation	**1 504 773**	**1 453 722**	**1 493 112**

The table shows that the City receives the largest share of the provincial allocation for the purposes of Health services.

4.5.5. Major Parameters

The following table summarises the major parameters applied to the 2022/23 MTREF operating.

	Budget Year 2022/23	**Budget Year +1 2023/24**	**Budget Year +2 2024/25**
CPI	**4.60%**	**4.40%**	**4.40%**
COLLECTION RATES			
Rates	95.50%	95.74%	96.19%
Electricity	99.00%	99.00%	99.00%
Water	91.00%	92.00%	93.00%
Sanitation	93.00%	94.00%	95.00%
Refuse	90.00%	92.00%	92.00%
REVENUE PARAMETERS			
Rates	5.00%	5.63%	6.03%
Electricity	9.50%	15.56%	13.37%
Water	6.50%	5.00%	8.80%
Sanitation	6.50%	5.00%	8.80%
Refuse	5.00%	5.00%	5.00%
Disposal	5.00%	5.00%	10.45%
GROWTH PARAMETERS			
Rates	0.00%	0.00%	0.25%
Electricity	-3.00%	-1.50%	-1.50%
Water	4.00%	2.00%	1.00%
Sanitation	3.00%	2.00%	1.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS			
Salary increase			
Salary increase (SALGBC Agreement)	4.90%	4.50%	4.50%
Increment provision (T1-T13 only)	2.00%	2.00%	2.00%
Operational cost	No increase	No increase	No increase
Repairs & Maintenance	Differentiated	Differentiated	Differentiated
Interest Rates			
Interest paid	11.00%	11.00%	11.00%
Interest on investment	5.13%	5.70%	5.70%
OTHER			
Capital Borrowing expenditure	R2.000bn	R6.480bn	R7.480bn
Equitable Share Allocation	R3.656bn	R3.983bn	R4.342bn
Fuel levy	R2.667bn	R2.637bn	R2.706bn