CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 22

INTEGRATED DEVELOPMENT PLAN (IDP) FINANCIAL PLAN

2025/26 BUDGET (JUNE 2025)

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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 (budget-related policies of municipalities) of the MBRR 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 and policy 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 Urban Waste Management;
- Fines;
- Licences and Permits;
- Rentals; and
- Investment Interest

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 Urban 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 Rates and Tariffs

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:

- General Valuations (GV) 2022 and the subsequent Supplemental Valuations (SV);
- Valuations projections relating to SV and GV objections and appeals and impact of outstanding appeals;
- Organic growth;
- Building plan approval trends;
- 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);
- GENRA Valuations (GV) 2022 and subsequent Supplemental Valuations (SV)
- 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, inclusive of appropriations, secondary cost and accumulated surplus. 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 is assessed annually by NT by measuring the City's performance against financial ratios such as:

Cash/Cash equivalents 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 cash 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 equivalents
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.

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;
- Higher loan requirements and the impact of borrowing cost;
- Load-shedding and the impact on City services;
- 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 IRT, CAR, Water & Sanitation capital programme etc.;
- Changing political landscape;
- Increasing salary budget; and
- Natural disasters such as climate change resulting in, amongst other, flooding and fires.

The LTFP is reviewed annually by revisiting the financial plan and identifying measures to mitigate these risks. 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.

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.

A capital funding strategy was implemented to ensure financial sustainability considering the City's expansive capital investment projected. This strategy will be reviewed annually considering new influences and inform the LTFP process to ensure funded and credible budgets into the future.

An assessment to ensure implement ability 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'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 compared to the local benefit derived from the delivery of such services has continued to receive attention over the last few years as it places a continuous growing financial burden on the City's finances. Whilst analysis of the functions has been undertaken recommendations around the continued delivery of the services by the relevant authority within a constrained fiscal environment is still being assessed. Some of the transfers are gaining momentum. Clinics previously operated by the City have been transferred back to Province, and the City is continuing with the assistance of a Provincial grant to enhance law enforcement through the LEAP programme. The risk of the unavailability of this grant in future years for funding the LEAP programme is concerning.

Further, the City is continuing to explore the most appropriate models for an integrated public transport system, primary health care and library services – with the objective of delivering the services to the service levels that residents deserve and need.

The City is investing in a Process and Resource optimisation project across all directorates, especially as it relates to the Salaries, Wages and Allowances Budget. The overall intent includes the review and definition of the target operating models for the all directorates, developing a baseline and mapping of key business processes for all directorates, as it relates to Salaries, Wages and Allowances and identifying high level automation opportunities.

4 Overview of budget assumptions applied over the current MTREF

4.1 Financial Strategic Approach and Key planning drivers

The City's business model has evolved fundamentally over the years without any real complementary changes in the funding models supporting this evolution. Over the years, this has especially become evident in the context of trading services that aims to, amongst other, ensure financial sustainability in providing basic services. These services have been plagued with various risks which includes the growing population, climate change, increasing cost of doing business, changing customer behaviours', aging infrastructure and evolving regulatory environments. In an effort to mitigate these risks, the City embarked on a comprehensive tariff reform strategy coupled with curtailing of budgets for reprioritization to areas of necessity for the 2025/26 MTREF.

The key informants going into the 2025/26 MTREF were set out in the Strategy Brief. The Strategy Brief was the outcome of the Strategic Review process, emerging from consultations with each executive director, an Executive Management Team workshop and consultations with the City Manager and Executive Mayor. The purpose of the strategy brief was to give direction to the organisation for planning for the next budgeting cycle. This SMF Strategy Brief focused on the 2025/26 MTREF period and covered the remainder of the current term of office and IDP.

The budget theme adopted for the 2025/26 Budget is "Invested in Hope".

LTFP rationale and financial strategies implemented

- Structural tariff reforms to ensure financial sustainability to deliver on service delivery demands;
- Ensure that the budget is aligned to the principles of the City's capital funding strategy to ensure financial sustainability, considering the expansive capital investment program addressing infrastructure needs;
- Phasing out of the depreciation strategy, which commenced in 2020/21 in an effort to utilise surplus cash flow in order to negate the recovery of depreciation charges on rate-funded services. In 2025/26 an amount of R200 million is still included. In 2026/27 the last amount of R100 million is still included, thus in 2027/28 the budget will no longer be funded from this unsustainable strategy.
- The contribution from the electricity sales to subsidise the Rates account to be reduced and phased out;
- Budget funding reform to ensure the ring-fencing of trading services; and
- Reform and restructuring of tariff structures.

Financial Modelling and Key Planning Drivers

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

- Differentiated expenditure parameters providing for no expenditure growth on all expenditure categories, excluding categories that are regulated and zero-based-calculated e.g. employee related cost, depreciation, etc.;
- 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 interventions 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 principles of the previous SALGBC agreement in the absence of a new agreement; and
  - Budgeting at 95% of employee costs;
- A 100% capital expenditure implementation rate assumed;
- All surpluses to be redirected to supplement the funding of the capital budget in an effort to reduce borrowing requirements;
- MyCiTi net revenue contribution is 4.2% for 2025/26 and 2026/27 and limited to 5% from 2027/28 onwards;
- All expenditure programmes must be delivery-ready with focus on project preparation for outer years;
- Credible and realistic collection rates based on current- and projected trends, considering past and current trends;
- The changing in funding mechanism that allows for the introduction of the City-wide Cleaning tariff;

The following were included in the 2025/26 MTREF:

- Due to underperformance in prior years and in an effort to keep increases subdued, the EPWP budget was reduced by R39m to be reallocated to other priority areas in need. A further R52,5 million reduction in EPWP was undertaken to be reallocated to safety and security needs;
- An amount of R181 million was allocated to the Safety & Security Directorate towards the permanent employment of 528 law enforcement cadets;

- In response to the SMF Operational Review process, R182,5 million was included for Rates-funded services to fund various initiatives, and a further R18.5m was included for the Community Services & Health Directorate;
- Vlei program included until 2026/27 funded from the VAT claw back and surplus;
- Fines collection rate adjusted from 13% in 2024/25 to 17% in 2025/26 going forward, and fines income improvement of R35 million included from 2025/26;
- Trading services included various allocations to give effect to growing operational requirements;
- Base reduction to LTFP on the 2024/25's once-off allocation;
- An amount of R5,3 million was included for a digital forensic tool and software;
- The reviewed budget requirements for the Core Application Review (CAR);
- Additional investment in road infrastructure management of R150 million, R200 million and R150 million respectively over the MTREF period annually, to be funded from the VAT clawback;
- City's continuous investment in the LEAP program; and
- National allocations are as per the 2025 DoRB (Gazette No. 52626), dated 8 May 2025, and Provincial allocations are based on Provincial Gazette Extraordinary 9046, dated 26 March 2025.

4.2 Economic influences

The compilation of the 2025/26 LTFP and the ensuing MTREF Tabled Budget was informed by various macroeconomic factors, including both prevailing conditions and forecasted trends. The following section provides a brief overview of some of these factors.

The annual average headline CPI for 2024 as per Stats SA was 4.4%. The Statement of the Monetary Policy Committee (MPC), published in May 2025, forecasts headline CPI at 3.2%, 4.2% and 4.4% respectively for 2025, 2026 and 2027. The updated outlook is informed by revised assumptions such as the lower oil price, stronger exchange rate, higher fuel levy, and the cancellation of the proposed VAT increase.

Furthermore, the MPC in May 2025 reduce the repo rate to 7.25% (from 7.50%) by 25 basis points. In its March 2025 meeting, the MPC statement indicated that its forecasts, which are based on the Quarterly Projection Model, see rates stabilising at a neutral level of about 7.25%. However, the statement also emphasized that "its decisions will be made on a meeting-by-meeting basis, and will continue to be outlook depended, responsive to data developments, and sensitive to the balance of risks to the forecast."

South Africa's GDP grew by 0.6% in the fourth quarter after declining by 0.1% in the third quarter of 2024. In the first quarter of 2025 real GDP growth slowed to .01% q-o-q from a downwardly revised 0.4% expansion in Q4. NT MFMA Circular 130 forecasts GDP growth to average 1.8% from 2025 to 2027. This is in line with SARB's revised real GDP projection of 1.2% for 2025, 1.5% for 2026, and 1.8% for 2027. Circular 130 outlines the key factors for achieving faster economic growth and creating much-needed jobs greater, namely collaboration with the private sector in energy and transport, rapid implementation of structural reforms, easing of regulatory constraints and increased infrastructure investment.

Brent crude oil prices averaged $75 per barrel in the first quarter of 2025, falling short of expectations due to a significant shift in the global growth outlook triggered by the first wave of US tariffs. The Bureau for Economic Research (BER) forecasts that Brent crude will average around $67.75 per barrel in 2025. Beyond 2025, BER expects prices to decline slowly as OPEC normalises production. The R/US dollar exchange rate is projected to reach R17.88/$ in 2025 and R17.57/$ in 2026.

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, with 2022 Census data showing a population of 4 772 846 to 4 976 527 in 2024 based on the Mid-Year Population Estimates. The city has thus grown by 27.6% between the 2011 and 2022 Census (Statistics South Africa, 2023). This is slower than the 29.3% growth rate observed between the 2001 and 2011 Census (Statistics South Africa, 2001 and 2011).

While the population continues to increase, the average household size has decreased from 3.5 people per household in 2011 to 3.3 in 2022 (Statistics South Africa, 2023). 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 1.069 million households in 2011 to 1.453 million households in 2022 according to 2022 Census figures (Statistics South Africa, 2023). The City estimates there to be around 1.508 million households in 2024.

These trends of a steadily increasing population (albeit at a slowing 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, and the population projections will be updated when more census data becomes available with the 2022 Census the sub-metro level data.

4.4 National & Provincial influences

a. National Treasury MFMA Circular No. 129, issued on 10 December 2024

This budget circular provides guidance to municipalities with the compilation of their 2025/26 Medium Term Revenue and Expenditure Framework (MTREF). It is linked to the Municipal Budget and Reporting Regulations (MBRR) and the Municipal Standard Chart of Accounts (mSCOA) and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial management reform agenda by focusing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, and supply chain management processes are adhered to, mSCOA is implemented correctly, and that audit findings are addressed.

Stemming from this Circular, the following are the key focus areas for the 2025/26 budget process:

- Local Government Conditional Grants Allocations;
- Metropolitan Municipalities Trading Services Reform Performance Incentive;
- Reporting Requirements for Disaster Allocations;
- Budgeting And Reporting of the Integrated National Electrification Programme (INEP); and
- Stopping and Reallocation Guidelines.

b. National Treasury MFMA Circular No. 130, issued on 20 March 2025

The key focus areas of this Circular are listed below:

- Local Government Allocations;
- Post 2024 MTBPS changes;
- Review of the local government fiscal framework;
- Update on the review of the conditional grants;
- Funding for Local Economic Development (LED) Programmes;
- Metro Trading Services Reform Incentive;
- Alignment between the Metro Trading Service Reform and MFMA Circula No.88
- Three-year and one-year capital appropriations;
- Criteria for the release of the Equitable Share;
- Criteria for the rollover of conditional grant funds;
- Unspent conditional grant funds for 2024/25; and
- Rollover of the Urban Development Financing Grant: metro trading services component

4.5 Budget Projection

4.5.1 Revenue Framework

a. Major tariffs and charges: Rates and Trading services

According to NT MFMA Circular No. 129, NT encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between affordability to poorer households and other customers while ensuring that the tariffs are cost reflective the financial sustainability of the municipality. The Circular, further stipulates that:

- *"*Consumer Price Index (CPI) inflation is forecasted to be 4.4 per cent; therefore, municipalities are required to justify all increases more than the projected inflation target for 2025/26 in their budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups." and
- "In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative."

The graphic below is an illustration of the main factors that influenced the proposed increases in rates and tariffs.

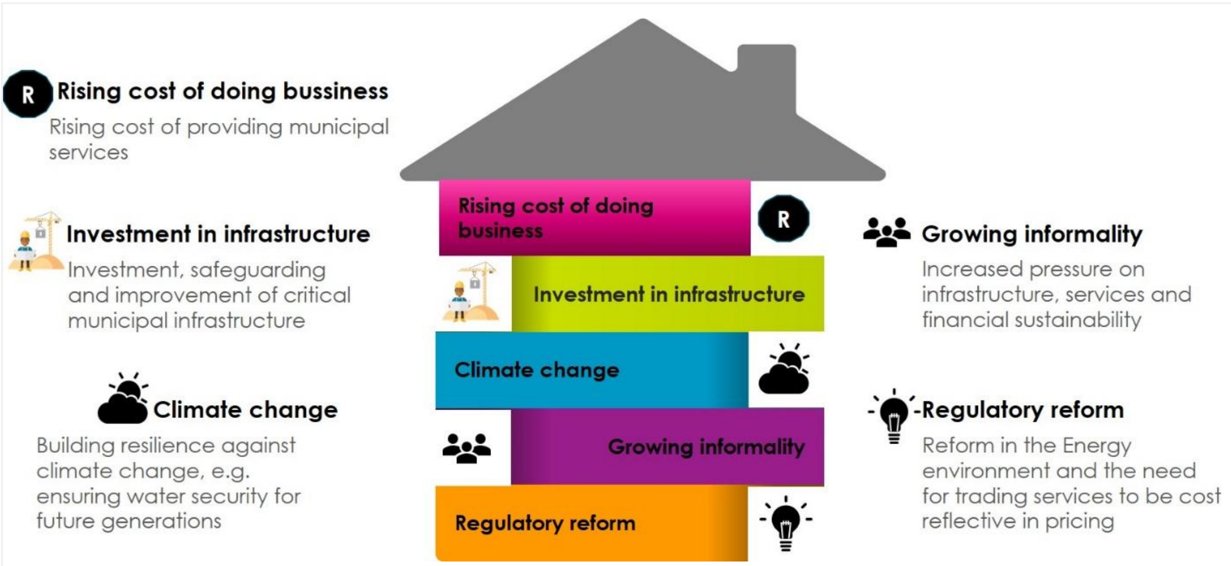


Figure 24: Rationale for Rates and tariff increases

The below section will provide a discussion of rates and tariff increases for the 2025/26 MTREF.

Property Rates

Property rates increases are based on a residential rate-in-rand increase of 7.96% in 2025/26 and projected at 6.00% for the two outer years of the MTREF period. These increases will allow for the continuation and enhancement of providing Rates-funded services and initiatives such as the provision of rebates to the most vulnerable; improving safety and security measures including the hiring additional 528 additional law enforcement cadets; continued investment in infrastructure and its maintenance to sustain and improve service delivery; enhancing firefighting initiative and fire breaks.

Electricity

The National Energy Regulator of South Africa (NERSA) approved an increase of 12.74% as per Eskom's Retail Tariff and Structural Adjustment (ERTSA) application for the 2025/26 financial year. This translated to a corresponding municipal tariff increase of 11.32% for 2025/26.

However, taking into account the funding adjustments and structural changes, the average tariff increase for the City will amount to 7.2% for 2025/26, which is 4.12 percentage points lower than the approved Eskom increase. The outer years of the 2025/26 MTREF are projected to increase by 5.36% and 6.19% respectively.

The average tariff increase is mainly due to the following:

- Eskom bulk purchases;
- A change in funding methodology;
- A reform to the tariff structure;
- Shrinkage in energy sales due to the implementation of alternative energy sources by consumers;
- Capital investment in alternative energy sources, e.g. refurbishment of Steenbras power station, ground mounted PVs, etc.;
- Repairs and maintenance for, amongst other, the High Voltage Gas Insulated Switchgear (GIS);
- Load-shedding mitigation initiatives such as embedded generation, Roggebaai OCGT, power heroes aggregators and wheeling; and
- Theft and vandalism of infrastructure assets requiring replacement and or repair.

Water and Sanitation

In NT MFMA Circular 99, NT 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 tariff structure reform implemented means that individual customers will experience variable increases in water and sanitation for 2025/26. The main factors determining the average tariff increases include current meter size, level of consumption and the value of the property. The broad trends that will be observed are:

- Poorer households would be paying less;
- More affluent households would be paying more;
- Charities, Old Age Homes, Homeless Shelters, Religious institutions, etc. would be paying less; and
- Industrial and Commercial business will be paying more.

The average tariff increases make provision for, *inter alia*, the following investments:

- To ensure sustainable and resilient provision of water, budgetary provision for the New Water Plan, which includes initiatives to further invest in the underground extraction of water from aquifers and re-use scheme;
- Upgrades and extensions to the wastewater treatment plants;
- Operating requirements to implement large capital investments and provision of surplus to fund future capital investments;
- Continued investment in asset replacement programs to ensure proper asset management, with specific focus on sewer network replacement as well as the upgrading of sewer pump stations;
- Ongoing investment in upgrading and rehabilitation of assets to adhere to compliance standards;
- Generators for pump stations and treatment plants to mitigate the impact of load-shedding; and
- Water demand management initiatives to optimise the use of water sources.

Urban Waste Management
Guidance on budgeting for solid waste matters was provided in NT 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"*.

Urban Waste Management comprises three services funded by tariffs: Refuse Collection, Disposal, and the City-wide Cleaning tariff.

The refuse collection tariff is a means of recovering the cost to provide the 240-litre wheelie bin, the fueled refuse compactor truck, human resources, the servicing of the bin at least once a week and hauling the waste to a properly licensed facility, collection of dry recyclable waste from dedicated areas as well as the servicing of informal settlements. The value of the monthly tariff is derived from the number of bins issued as well as the frequency of the service with thrice and five times a week defined as an enhanced service, while the once-a-week collection is a basic service.

This tariff is projected to increase by 7.36% in 2025/26 and 6.00% in the outer years of the MTREF. The higher than 6% tariff increase for 2025/26 is to fund waste minimisation initiatives, to assist in funding the cost of servicing informal settlements, and to build up a CRR to fund the purchasing of fleet.

Disposal is the revenue received for the disposal of waste from residential and non-residential properties. The Disposal average increase is 5.28% for the 2025/26 financial year whereas the increases for the two outer years are 8.65% for 2026/27 and 5.68% for 2027/28. These increases are required for the sustained operational requirement of the service, the development of landfill infrastructure, growth and upgrading of transfer stations, plant replacement, additional material recovery facilities, and landfill gas generation.

In an effort to minimise the impact on the end-user, it has since been decided to phase in the tariff reform over a period of time. Accordingly, for 2025/26, city-wide area cleansing services will be funded by a City-wide Cleaning tariff, and a contribution from the rates account via a contribution from Electricity sales. This is not an additional or new expense to customers: savings in electricity costs will buffer the financial impact of the introduction of the new City-wide Cleaning tariff. This is made possible by reducing the Rates contribution included in the cost of each electricity unit. The City-wide Cleaning tariff is therefore not a new charge, but merely a change in the method of how City customers contribute to the funding of this service. The tariff is projected to increase in the two outer years by 4.80% for 2026/27 and 9.75% for 2027/28.

b. Service Growth

GROWTH PARAMETERS	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Rates	0.74%	2.50%	1.00%
Electricity	-1.50%	-1.50%	-1.80%
Water	4.00%	2.00%	2.00%
Sanitation	4.00%	2.00%	2.00%
Refuse	2.00%	2.00%	2.00%
City-wide Cleaning	N/A	1.00%	1.00%

Property Rates
A growth of 0.74% was projected for 2025/26, with 2.5% and 1.0% projected for the outer years of the MTREF respectively. The 2.5% growth projected in 2026/27 is a result of an anticipated General Valuation. Variable growth rates are applied to the respective Property rates income foregone components.

Electricity
Considering the current constricted energy environment, a shrinkage averaging 1.6% in sales volume is projected over the MTREF period. Service growth is predicted to decline due to customers defecting or partially defecting from the grid as well as using more energy efficient appliances. This has largely driven the need for structural changes to the service and network costs.

Water and Sanitation
A growth of 4.0% is projected for both water and sanitation in the 2025/26 financial year. The outer years of the MTREF include a projected growth of 2% for both water and sanitation. The projected growth is evident in the current trends as the City systematically stabilises to pre-drought growth rates.

Urban Waste Management
The growth in the refuse collection service is marked by the increase in the number of 240 litre wheelie bins that show a steady pattern of 2% per annum. The City-wide Cleaning tariff on the other hand is premised on the projected increase in the quantum of waste handled and at present this is deemed to be 1% per annum after factoring in waste diversion efforts.

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

Description	2025/26 Medium Term Revenue & Expenditure Framework					
R thousand	Budget Year 2025/26	% of Total	Budget Year +1 2026/27	% of Total	Budget Year +2 2027/28	% of Total
Revenue						
Exchange Revenue						
Service charges - Electricity	23 663 555	33%	24 309 320	33%	25 094 791	31%
Service charges - Water	5 776 241	8%	6 257 772	8%	7 434 130	9%
Service charges - Waste Water Management	2 966 006	4%	3 235 545	4%	3 850 787	5%
Service charges - Waste Management	1 658 640	2%	1 764 463	2%	1 869 504	2%
Sale of Goods and Rendering of Services	816 579	1%	814 104	1%	862 368	1%
Agency services	302 874	0%	310 022	0%	337 339	0%
Interest earned from Receivables	339 731	0%	364 128	0%	418 418	1%
Interest earned from Current and Non Current Assets	758 522	1%	648 785	1%	789 055	1%
Rental from Fixed Assets	494 307	1%	530 622	1%	613 594	1%
Licence and permits	205	0%	214	0%	224	0%
Special rating levies	494 107	1%	523 753	1%	555 178	1%
Operational Revenue	423 376	1%	439 920	1%	465 425	1%
Non-Exchange Revenue						
Property rates	13 768 100	19%	14 946 054	20%	15 943 920	20%
Fines, penalties and forfeits	1 878 556	3%	1 892 592	3%	1 916 560	2%
Licences or permits	50 301	0%	52 565	0%	54 877	0%
Transfer and subsidies - Operational	7 329 561	10%	7 404 716	10%	7 561 017	9%
Interest	98 675	0%	103 115	0%	107 652	0%
Fuel Levy	2 851 776	4%	2 972 451	4%	3 096 441	4%
Operational Revenue	906 078	1%	980 527	1%	1 089 489	1%
Gains on disposal of Assets	70 772	0%	60 884	0%	110 999	0%
Other Gains	6 084 343	9%	6 600 539	9%	7 562 025	9%
Total Revenue (excluding capital transfers and contributions)	**70 732 307**	**100%**	**74 212 092**	**100%**	**79 733 792**	**100%**

It is evident from the preceding table that the main sources of revenue is consistently *Service charge – Electricity* 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 10% of the City’s operating revenue source over the 2025/26 MTREF period. The operating revenue budget is expected to grow by an average of 6.2% over the 2025/26 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 NT guidance issued in Circular 129. CPI applied is 4.50%, 4.50% and 4.40% over the respective three years of the MTREF. The City utilised BER's CPI projections at a point in time during the planning process, these projections are converted to municipal financial years. National Treasury MFMA Circular 129, published on 10 December 2024, provides a CPI projection of 4.4%, 4.5% and 2.5% for the respective years of the 2025/26 MTREF. However, these projections are based on the national fiscal year (April to March).

The City continued with the differentiated approach of previous years to give effect to a zero-based expenditure budget parameter increases. This was done to ensure that the inflation rate has minimal impact on the expenditure budget. CPI was considered in determining miscellaneous (sundry) tariffs.

b. Contracted Services, Overtime and Operational Cost

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

With this backdrop, in order to safeguard the provision of municipal services whilst still ensuring financial sustainability, no expenditure parameter was applied to contracted services and other operational costs. Thereby allowing funds to be freed up and assist with the reprioritisation of needs to give effect to the IDP.

The City has taken a hard stance when it comes to the provision of overtime. The 2025/26 MTREF projects no overtime parameter increase for any of the City's directorates.

c. Collection rate for Property Rates and Service charges

Section 18 of the MFMA requires municipalities to ensure that they fund their MTREF budgets from realistically anticipated revenues to be collected. 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 forecasted 2025/26 MTREF collection are based on the current year-to-date rolling collection rate outcomes along with the continuous implementation of debt management initiatives.

The table below provides a summary of collection rates applied for each respective trading service and Property Rates. It is followed by a discussion of the assumptions applied:

Services	Budget Year 2024/25	Budget Year+1 2025/26	Budget Year +2 2026/27	Budget Year +3 2027/28
Rates	95.75%	95.75%	95.75%	95.75%
Electricity	98.50%	98.50%	98.64%	98.68%
Water	91.00%	91.00%	92.50%	94.00%
Sanitation	92.50%	92.50%	93.50%	95.00%
City-wide Cleaning	N/A	95.00%	95.00%	95.00%
Refuse	92.00%	94.00%	94.00%	94.00%

The collection rate for Property Rates is projected at an average of 95.75% over the 2025/26 MTREF. This forecast is based on the assumption that the continuous implementation of debt management initiatives will achieve desired results.

The Electricity collection rate is projected at 98.61% over the 3-year period of 2025/26.

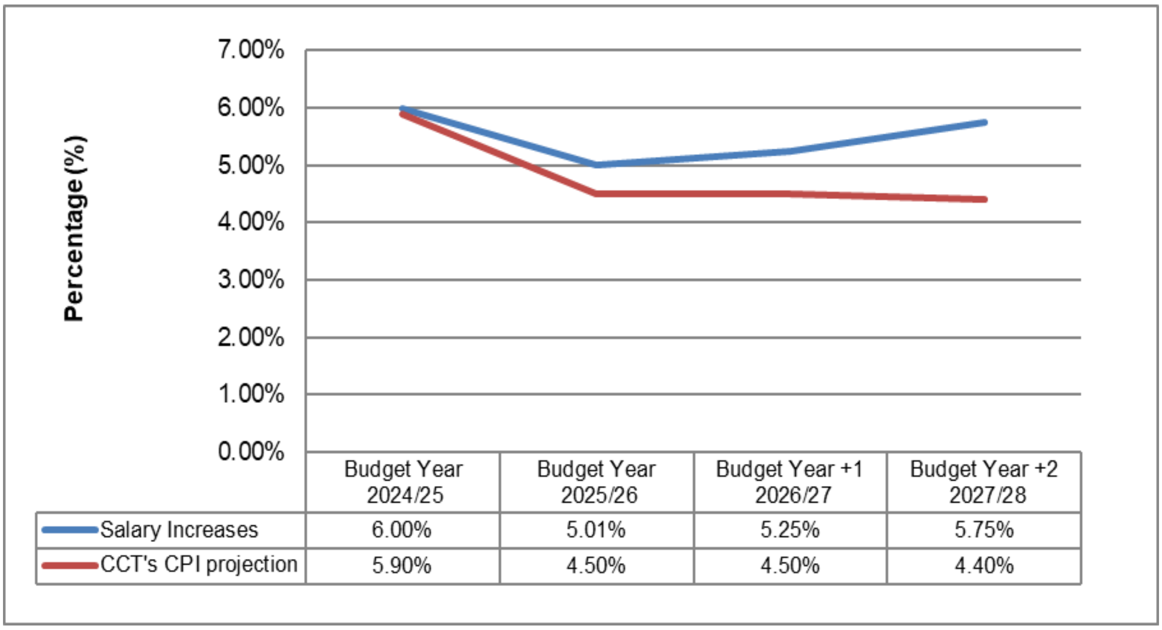
MTREF. The electricity generation and distribution department has been able to maintain this high level of revenue collection because of continued interventions by the revenue protection teams, where the department actively chases down the non-payers and making the necessary arrangements with customers to pay their bills.

The Water and Sanitation collection rates for 2025/26 remains at 2024/25 levels. This brings the collection ratio in line with the latest trends and projections for the rest of this financial year as well as the longer term financial plan.

On the Refuse Collections tariff, having observed a healthy recovery in performance over a twelve months rolling period, the collection ratio is currently set at 94% for all three years of the 2025/26 MTREF. This will be closely monitored and adjusted accordingly based on performance. In light of having assessed the prospect of payment of the new tariff and taking into account the arguably reasonable rebates afforded to residential customers, the City-wide Cleaning Tariff is based on a collectability of 95% of the total value of the bill from paying customers. Once again, performance will be closely monitored and collection rates will be amended where required.

d. Salary increases

In line with the 5-year SALGBC agreement, the salary parameter for 2025/26 is 5.01%. This increase is based on the average CPI published by STATS SA from February 2024 to January 2025 (which equated to 4.26%), plus zero-point seven five percent (average CPI +0.75%) The two outer years of the MTREF period are projected to increase at 5.25% and 5.75% respectively. The salary increases included in the budget are graphically shown in the ensuring graph.



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. In addition, provision was made for an incremental allowance of 1.5% to cater for performance- and other notch increases.

e. Maintenance of existing assets

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 is 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 were provided for support services.

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 percent. The budget ratio outcome is 8.4% in 2025/26 and 8.0% in 2026/27 with both respective years falling within the NT benchmark of 8%. The budget ratio outcome for 2027/28 is 7.6%. However, the average over the 2025/26 MTREF is 8.0% which falls within the NT benchmark. Notwithstanding, the City is investing adequately in new infrastructure as well as the renewal and upgrading of existing assets.

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.

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

Priority - Description	2025/26 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Economic Growth	1 915 847	1 964 028	2 029 072
Basic Services	39 579 443	41 259 789	43 942 593
Safety	5 472 849	5 638 944	5 862 257
Housing	1 805 523	1 857 302	1 967 431
Public Space, Environment and Amenities	5 537 257	5 748 780	5 906 198
Transport	4 706 689	4 862 461	5 236 131
A Resilient City	1 099 083	1 165 974	1 227 260
A more spatially integrated and inclusive city	512 965	513 486	520 808
A capable and collaborative City government	10 647 351	11 829 341	12 596 782
Total	**71 277 006**	**74 840 106**	**79 288 532**

As shown in the table, 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

Capital funding strategy was endorsed to ensure financial sustainability considering the expansive capital investment. The following principles were applied:

- Reprioritisation and reduction of the capital budget to remain within affordable borrowing thresholds;
- Budgeting for cash surpluses that will be directed to fund the capital program and reduce dependency on loans; and
- Capital strategy to be reviewed annually considering the City's financial position to ensure budgets are fully funded and sustainable.

Similar to previous years, the capital budget was assessed considering matters such as procurement, implementation readiness, technical- and financial feasibility, and strategic alignment. This assessment was conducted using the City's Project Readiness Assessment (PRA) and Execution Readiness Assessment (ERA) tools.

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 IDP. The capital budget is expected to grow by an average of 4.7% from 2024/25 and over the 2025/26 MTREF period.

The table below shows the capital funding source over the 2025/26 MTREF period

Capital funding R thousands	Budget Year 2025/26	Budget Year+1 2026/27	Budget Year +2 2027/28
Transfers recognised - capital	3 855 190	4 180 136	2 856 189
Borrowing	5 000 000	5 000 000	5 000 000
Internally generated funds	4 007 449	5 047 301	5 028 104
TOTAL	**12 862 639**	**14 227 436**	**12 884 293**

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 on 7 May 2025. It has upgraded the long-term national and global scale ratings from Aa3.za to Aa2.za and from Ba3 to Ba2 respectively. It has affirmed the existing short-term national and global scale ratings of P-1.za and NP respectively, and changed the outlook from positive to stable. The upgrade reflects Cape Town's strong financial management practices, which underpin its ability to maintain a consistently robust operating performance and very strong liquidity despite a backdrop of tight financial conditions and a low-growth environment. The City has undertaken various initiatives aimed at enhancing revenue collection and managing expenditure growth, strengthening its credit profile.

The City's large and diversified economic base will continue to support its consistently good operating performance and strong liquidity. Moody's expects the City's debt burden to remain moderate compared to international peers. Strengthened tax collection rates will support structural revenue growth, increasing the City's self-funding capacity and reducing borrowing needs versus planned requirements. 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 7 May 2025 Update following upgrade**	**Previous Rating 3 July 2024 Update following outlook change**	**Previous Rating 23 June 2023 Regular update**
Outlook	-	Stable	Positive	Stable
NSR Issuer Rating	Rand	Aa2.za	Aa3.za	Aa3.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aa2.za	Aa3.za	Aa3.za

Credit rating definitions:

- Positive Outlook - reflects that a credit rating assigned to an issuer may be increased.
- 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 – Aa2.za - Issuers or issues rated Aa2.za demonstrate very strong creditworthiness relative to other domestic issuers and issuances.
- NSR ST Issuer Rating – P-1.za – Issuers (or issuances) rated Prime-1 represent the strongest likelihood of repayment of short-term debt obligations relative to other domestic issuers or issuances.
- NSR Senior Unsecured – Aa2.za - Issuers or issues rated Aa2.za demonstrate the very strong creditworthiness relative to other domestic issuers and issuances.

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 Thousand	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Borrowing	5 000 000	5 000 000	5 000 000
Borrowing Interest Rate (%)	12%	12%	12%

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 2025/26 MTREF period.

Priority - Description	2025/26 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Economic Growth	209 570	139 014	243 537
Basic Services	6 190 882	7 663 489	7 726 114
Safety	277 611	202 102	492 963
Housing	1 181 359	950 827	1 019 218
Public Space, Environment and Amenities	865 557	659 515	589 046
Transport	3 035 835	3 220 751	1 777 999
A Resilient City	90 261	51 272	43 893
A more spatially integrated and inclusive city	9 900	25 500	23 250
A capable and collaborative City government	1 001 663	1 314 967	968 275
Total Capital Expenditure	**12 862 639**	**14 227 436**	**12 884 293**

Similar to the operating budget the table shows that the City's main priority is investing in basic services. Investment in basic services averages 54.0% of the capital budget over the MTREF period, the second highest investment is Transport which averages 20.0% over the same period.

4.5.4 Allocations from National and Provincial over the MTREF

National Government Allocations

The City's budget was compiled using the DoRb (B15-2025) as introduced in the National Assembly (proposed section 76) explanatory summary of Bill and prior notice of its introduction published in the Government Gazette No. 52626 of 8 May 2025.

The national allocations to the City as set out in the 2025 Division of Revenue Bill (B15-2025) is shown in the table below.

Grants Description R' 000	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Current Grants	**42 126**	**28 200**	**28 800**
Finance Management Grant	*1 000*	*1 200*	*1 300*
Expanded Public Works Programme Integrated Grant	*14 926*		
Infrastructure Skills Development Grant	*26 200*	*27 000*	*27 500*
Infrastructure Grants	**4 774 408**	**4 865 584**	**3 563 167**
Urban Settlement Development Grant	*1 088 294*	*1 137 976*	*1 189 436*
Informal Settlements Upgrading Partnership Grant	*619 527*	*647 910*	*677 209*
Energy Efficiency and Demand Side Management Grant	*7 000*	*8 500*	*9 000*
Urban Development Financing Grant	*182 100*	*129 200*	*112 191*
Public Transport Network Grant	*2 877 487*	*2 941 998*	*1 575 331*
Allocations-in-kind	**79 642**	**84 958**	**99 598**
Integrated National Electrification Programme (Eskom) Grant	*73 642*	*76 958*	*91 598*
Neighbourhood Development Partnership Grant	*6 000*	*8 000*	*8 000*
Unconditional Grant	**4 693 517**	**4 984 545**	**5 209 949**
Equitable Share	*4 693 517*	*4 984 545*	*5 209 949*
Total	**9 589 693**	**9 963 287**	**8 901 514**

The total national allocation to the City is R9.590 billion in 2025/26 decreasing to R8.902 billion in 2027/28. The main components of the allocation consists of the Equitable Share and Infrastructure grants

Equitable Share

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

The DoRb (B15-2025) dated 8 May 2025 issued via Gazette number 52626, provided for the following allocations, which have been included in the City's 2025/26 MTREF:

- 2025/26 – R4 694 million
- 2026/27 – R4 985million
- 2027/28 – R5 210 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 following amounts allocated to the City, as per the 2025/26 allocation letter, is included in the City's MTREF:

- 2025/26 – R2 852 million
- 2026/27 – R2 972 million
- 2027/28 – R3 096 million

Metropolitan municipalities were advised that allocations for the two outer years of the 2025 MTEF are provisional, and actual allocations will be based on fuel sales.

Provincial Government Allocations

Provincial grants included in the 2025/26 MTREF is shown in the table below.

Grants Description - Per Provincial Department R' 000	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Department of Police Oversight and Community Safety	**351 800**	**367 550**	**382 993**
Provide resources to serve in the City of Cape Town Law Enforcement Service (LES)	*1 800*	*1 800*	*1 881*
Recruitment, training and deployment of law enforcement officers to serve in the law enforcement advancement plan (LEAP)	*350 000*	*365 750*	*381 112*
Department of Education	***35 040***	***36 347***	***37 621***
Safe schoold: School Resource Officer Project	*35 040*	*36 347*	*37 621*
Department of Health and Wellness	**642 363**	**665 362**	**689 242**
Personal Primary Health Care Service	*336 476*	*345 527*	*354 822*
Integrated Nutrition	*6 068*	*6 232*	*6 400*
HIV and Aids	*299 819*	*313 603*	*328 020*
Department of Infrastructure	**330 648**	**346 470**	**311 300**
Human Settlements Development Grant	*304 420*	*334 470*	*292 900*
Title Deeds Restoration Grant	*7 171*		
Municipal Accreditation and Capacity Building Grant	*19 057*	*12 000*	*18 400*
Western Cape Mobility Department	**18 236**	**10 000**	**10 000**
Provision for persons with special needs	*10 000*	*10 000*	*10 000*
Public Transport Safety	*8 236*		
Department of Cultural Affairs and Sport	**63 570**	**64 409**	**66 039**
Community Library Services Grant	*57 473*	*58 032*	*59 375*
Library Services: Metro Library Grant	*6 097*	*6 377*	*6 664*
Department of Economic Development and Tourism	**2 000**	**0**	**0**
Provide Resources for the Tourism Safety Law Enforcement Unit Project	2 000	0	0
Department of Local Government	**1 018**	**1 018**	**1 018**
Community Development workers (CDW) operational support grant	1 018	1 018	1 018
Total allocation	**1 444 675**	**1 491 156**	**1 498 213**

The 2025/26 MTREF was prepared using the allocations as per Provincial Gazette Extraordinary 9046, dated 26 March 2025. 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 provides a summary of the major parameters applied to the 2025/26 MTREF.

	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
CPI	**4.50%**	**4.50%**	**4.40%**
COLLECTION RATES			
Rates	95.75%	95.75%	95.75%
Electricity	98.50%	98.64%	98.68%
Water	91.00%	92.50%	94.00%
Sanitation	92.50%	93.50%	95.00%
City Cleaning	95.00%	95.00%	95.00%
Refuse	94.00%	94.00%	94.00%
AVERAGE RATES AND TARIFF INCREASES			
Rates	7.96%	6.00%	6.00%
Electricity	7.20%	5.36%	6.19%
Water	Varied	Varied	Varied
Sanitation	Varied	Varied	Varied
Refuse	7.36%	6.00%	6.00%
Disposal	5.28%	8.65%	5.68%
City-wide Cleaning	N/A	4.80%	9.75%
GROWTH PARAMETERS			
Rates	0.74%	2.50%	1.00%
Electricity	-1.50%	-1.50%	-1.80%
Water	4.00%	2.00%	2.00%
Sanitation	4.00%	2.00%	2.00%
Refuse	2.00%	2.00%	2.00%
City Cleaning	N/A	1.00%	1.00%
MAJOR PARAMETERS			
Salary increase			
Salary increase (SALGBC Agreement)	5.01%	5.25%	5.75%
Increment provision	1.50%	1.50%	1.50%
Operational cost	No increase	No increase	No increase
Repairs & Maintenance	Differentiated	Differentiated	Differentiated
Interest Rates			
Interest paid	12.00%	12.00%	12.00%
Interest on investment	7.55%	7.31%	7.30%
OTHER			
Capital Borrowing expenditure	R5.000bn	R5.000bn	R5.000bn
Equitable Share Allocation	R4.694bn	R4.985bn	R5.210bn
Fuel levy	R2.852bn	R2.972bn	R3.096bn