CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 17

INTEGRATED DEVELOPMENT PLAN

FINANCIAL PLAN

2024/25 BUDGET (MAY 2024)

Making progress possible. Together.

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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 Refuse Removal;
- Fines;
- Licences and Permits;
- Rentals; and
- Investment Interest

Property Rates and Services Charges make up 67% of the City's operating revenue for the first year of the 2024/25 MTREF 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:

- 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);
- 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 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. Ten 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 2024/25 LTFP/MTREF was prepared with the intention of keeping revenue parameters at CPI levels whilst ensuring that service delivery is not compromised and that specific priorities are addressed.

The key informants going into the 2024/25 MTREF were set out in the Strategy Brief. This Strategic Management Framework (SMF) Strategy Brief focused on the 2024/25 MTREF period and covered the remainder of the current term of office and IDP. The delivery of IDP initiatives, as the main strategic informant for the City, in this period was therefore highlighted as being a critical focus for all directorates.

The budget theme for the 2024/25 Budget is “Building for Jobs.”

LTFP rationale and financial strategies implemented

- A depreciation strategy was introduced in the 2020/21 financial year in an effort to utilise surplus cash flow to negate the recovery of depreciation charges on rate funded services by an amount of R500 million annually.
  - This strategy resulted in lower revenue parameters and was endorsed for 7 years ending in 2026/27, however, due to the risk of a high Rates revenue parameter requirement in 2027/28, at the end of the strategy term, a decision was taken to phase out this dependency;
  - The phasing out approach started in 2023/24 by reducing this dependency annually by R100 million, ending 2026/27, after which the budget will no longer be funded from this strategy.
- Implementation of the City’s capital funding strategy to ensure financial sustainability considering the expansive capital investment program addressing infrastructure needs; and
- Historical contribution made from the Energy Directorate to subsidise Rates funded services reduced from 10% to 9.5% of Electricity sales for all future years.

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;
- Net Rates contribution towards the direct cost of IRT was included at 4.4% for 2024/25 increasing by 0.2% annually for the two outer years of the MTREF;
- 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;
- National allocations are as per the 2024 DoRB (Gazette no. 50099 of 8 February 2024), and provincial allocations are based on Provincial Gazette Extraordinary 8892, dated 7 March 2024.

The following were included in the 2024/25 MTREF:

- In an effort to keep Rates increases subdued and reprioritize budgets, expenditure across various categories was reduced by R201m for Rates funded services;
- An additional reduction of R150 million was applied to debt impairment for property rates due to bad debts written off during the year resulting in underspending on this element;
- In response to the SMF Operational Review process an amount of R28.1m was included for Rates funded services to fund various initiatives.
- In addition to the SMF Operational review process an additional R83.2m was allocated to critical requirements of Rate funded services;
- During the SMF and LTFP process tariff funded services included an additional amount of R552 million which is funded from various sources e.g. tariffs, accumulated surplus, etc.

4.2 Economic influences

The compilation of the 2024/25 LTFP, and subsequently the 2024/25 MTREF Budget, commenced with a macro-environmental scan of the economy, as one of the primary determinants. Factors taken into consideration included, amongst others, GDP growth, headline CPI, interest rates, exchange rates, service growth, and GDP growth. The section below includes a brief discussion of some of these factors.

South Africa’s gross domestic product (GDP) increased by 0.1% quarter-on-quarter (q-o-q) in the fourth quarter of 2023, as published by Stats SA on 5 March 2024. The South African economy managed to narrowly escape a technical recession, as the 2023 third quarter GDP had contracted by 0.2% q-o-q.

NT MFMA Circular 128 projects GDP growth to average 1.6% from 2024 to 2025. The Circular cites the following reasons for the projection: a decline in power cuts; lower inflation, which supports household consumption; the recovery of employment and credit extensions; and new energy projects, which are expected to improved fixed investment.

The annual average headline CPI for 2023 was 6.0% as published by Stats SA. BER's forecast for headline CPI is 5.0% for 2024 and 4.6% for 2025. BER has indicated that there are still clear upside risks to the inflation outlook. The January Statement of Monetary Policy Committee is in line with BER's projections i.e. SARB also projects headline CPI at 5.0% in 2024 and 4.6% in 2025.

On interest rates, the Monetary Planning Committee (MPC) in the January 2024 sitting decided to keep the repo rate at 8.25%. The MPC statement stated that the current policy stance is restrictive, making it consistent with the inflation outlook as well as the need to address rising inflation expectations.

Lastly, on the exchange rate, according to SARB, the rand depreciated by 11% against the US dollar over the past year (2023), making it one of the worst performing emerging market currencies. SARB cites the following factors which continue to weigh on the value of the South African Rand: uncertain global environment, and various South Africa-specific factors including sluggish growth and dependence on commodity export prices. BER forecasts the average USD/ZAR exchange rate to be R18.38 in 2024 and R17.92 in 2025.

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, thus growing 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).

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 10% sample and the sub-metro level data.

4.4 National & Provincial influences

a. National Treasury MFMA Circular No. 126, issued on 7 December 2023

This budget circular provides guidance to municipalities with the compilation of their 2024/25 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 focussing 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 2024/25 budget process:

- Local Government Conditional Grants Allocations; and
- Publication of Allocations from The Municipal Disaster Response Grant and Changes From The Stopping And Reallocation Process

b. National Treasury MFMA Circular No. 128, issued on 8 March 2024

This budget circular is a follow-up to MFMA Circular No. 126 issued on 7 December 2023. It aims to provide further guidance to municipalities with the preparation of their 2024/25 MTREF budgets. The grant allocations as per the 2024 Budget Review and the 2024 Division of Revenue Bill are also key focus areas in this circular.

This Circular covers the following key focus areas for the 2024/25 budget process:

- Local government conditional grant allocations and unconditional grant allocations;
- Post 2023 MTBS changes;
- Review of the local government fiscal framework;
- Update on the review of the conditional grants;
- Funding for Local Economic Development (LED) programmes;
- Reforms to improve the efficiency and financial sustainability of Metro's trading services; and
- Criteria for the release of equitable share

c. Provincial Treasury Circular No. 06/2024, issued on 18 March 2024

The purpose of this circular is to:

- Provide an overview of the current fiscal and economic context and key highlights from the 2024 Provincial Budget;
- Provide guidance to municipalities with the finalisation of the 2024/25 Medium Term Revenue and Expenditure Framework (MTREF) Budgets and accompanied budget documentation; and
- Brief municipalities on the 2024 Strategic Integrated Municipal Engagements (SIME) process and related matters.

4.5 Budget Projection

4.5.1 Revenue Framework

a. Service Growth

Property Rates

A property rates growth of 1.93% was projected for 2024/25, with 1% and 2.5% projected for the outer years of the MTREF respectively. It is assumed that the new valuation roll to be implemented in 2026/27 financial year, together with increases in property values will result in an increase in the rates growth. Variable growth rates are applied to the property rates income foregone component due to the increase in rebate applications.

Electricity

Considering the current constricted energy environment, a shrinkage averaging 1.5% in sales volume is projected for Electricity in 2024/25 followed by an average shrinkage of 2.0% over the outer years of the MTREF period. The projected shrinkage is mainly driven by ongoing load-shedding, customers moving off the grid, and declining sales volume

Water and Sanitation

A growth of 4.5% is projected for water and sanitation for the 2024/25 financial year. The outer years of the MTREF include a projected growth of 1% for both water and sanitation. The projected growth is evident in the current trends as the City systematically stabilises to pre-drought growth rates.

Refuse

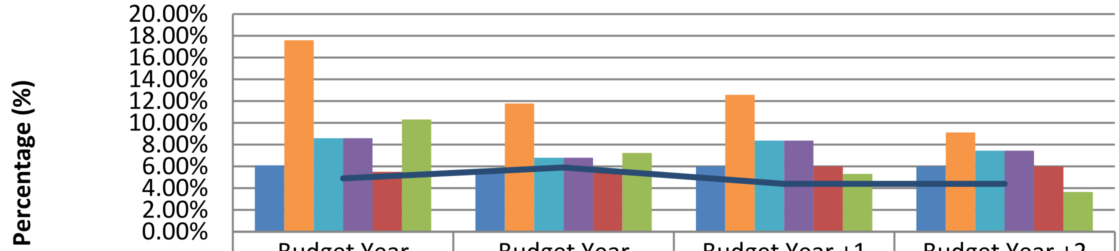
Average revenue growth over the last three years shows a consistent 2% growth on refuse revenue. Based on this, a 2% growth factor was applied over the 2024/25 MTREF. Waste disposal shows no increase over the last three years, therefore, no growth is projected for disposal over the MTREF period.

b. Major tariffs and charges: Rates and Service Charges

According to MFMA Circular No. 126, NT encourages 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 Circular, further stipulates that:

- *The "Consumer Price Index (CPI) inflation is forecasted to be within the 4 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2024/25 in their budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups." and*
- *"Municipalities must ensure that the capital repayment of loans are included in the cost when determining the tariff. In addition, they must ensure that the consumption charges for services are only based on consumption and all other variable costs. During the budgeting process, provision must be made for revenue to be generated by the tariffs levied for services to address the maintenance of infrastructure. New infrastructure developments in a municipal area of jurisdiction should be obliged to consider and incorporate energy efficiency sources of energy available such as solar or wind to respond to the ongoing global energy crisis."*

The graph below depicts the City's revenue increases over the 2024/25 MTREF.



	Budget Year 2023/24	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Property Rates	6.09%	5.70%	6.00%	6.00%
Electricity	17.60%	11.78%	12.58%	9.13%
Water	8.60%	6.80%	8.37%	7.45%
Sanitation	8.60%	6.80%	8.37%	7.45%
Refuse	5.50%	5.70%	6.00%	6.00%
Disposal	10.32%	7.24%	5.31%	3.66%
City's CPI projection	4.90%	5.90%	4.40%	4.40%

Property Rates

Property rates revenue increases are 5.70% for 2024/25 and projected at 6.00% for the two outer years of the MTREF period. These increases will allow for the continuation of providing Rates-funded services, investment in infrastructure and generators to mitigate the impact of load-shedding, servicing of informal settlements, provision of rebates to the most vulnerable, improved safety and security measures ongoing investment in repairs and maintenance, and giving effect to the IDP as it relates to Rates-funded services.

Electricity

The National Energy Regulator of South Africa (NERSA) approved an increase of 12.74% as per the Eskom's Retail Tariff and Structural Adjustment (ERTSA) application for the 2024/25 financial year. This translated to a bulk municipal increase of 12.72% for 2024/25.

The above translated to an average increase for regulated tariffs of 11.78% for 2024/25, 12.58% for 2025/26 and 9.13% for 2026/27. The increase in revenue parameter is mainly due to the following:

- The impact of the 9.82% increase in bulk purchases, as bulk purchases constitutes 66.8% of the services budget;
- 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, 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 average revenue increase applied is 6.80% for 2024/25, 8.37% for 2025/26 and 7.45% for 2026/27. The revenue increases make provision for, amongst other, 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;
- 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.

The operating impact of these major capital investments makes it extremely challenging to maintain low tariff increases. In order to achieve the lowest revenue increase, the Water and Sanitation Directorate had to prioritise expenditure related to strategic imperatives and implement austerity measures (which included reductions to the staff establishment).

Although the Water and Sanitation Directorate endeavours to keep supplying water and sanitation services at appropriate compliance, capacity, skills, service delivery and responsiveness levels, it must be stressed that the budget provision for key operational items are under severe constraint.

Refuse

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"*. In this regard, the following revenue increases are projected for Urban Waste Management over the 2024/25 MTREF period.

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.

Waste Management Sector Plan, the following items will be key in driving the legislated mandate:

- The separation of dry recyclables (paper, plastic, glass) at source that will be taken to a Material Recovery Facility for further processing and sale to the market;
- Organic Waste – 50% diversion from landfill in 2022 and 100% by 2027;
- New Drop-off Facilities within a 3 km radius;
- Extension of services to backyarders in private properties; and
- Keeping tariffs affordable, but cost-reflective

Refuse revenue is received for the removal of waste from residential and non-residential properties.

The Refuse average increase is 5.70% for the 2024/25 financial year and 6% for the two outer years. The revenue increase will be utilised for the upgrading of drop-off facilities increasing capacity of the service, waste minimisation programmes for formal- and informal settlements, including the expansion of services to informal settlements and backyarders, continuous implementation of waste minimisation initiatives, improvement of depots, maintenance programs, and daily service operations. In addition, it will make provision for the funding of informal settlements to shift from Rates funded to the Refuse tariff. A phased approach was adopted with this service to be fully funded from the Refuse tariff from 2026/27.

Disposal is the revenue received for disposal of waste from residential and non-residential properties. The Disposal average increase is 7.24% for the 2024/25 financial year whereas the increases for the two outer years are 5.31% for 2025/26 and 3.66% for 2026/27. This increase is 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 to beneficiation all landfill sites.

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

Description	2024/25 Medium Term Revenue & Expenditure Framework					
R thousand	Budget Year 2024/25	% of Total	Budget Year +1 2025/26	% of Total	Budget Year +2 2026/27	% of Total
Revenue						
Exchange Revenue						
Service charges - Electricity	21 328 255	33%	23 108 578	34%	24 992 361	34%
Service charges - Water	4 999 113	8%	5 459 168	8%	5 967 916	8%
Service charges - Waste Water Management	2 547 558	4%	2 786 890	4%	3 023 165	4%
Service charges - Waste Management	1 516 500	2%	1 637 743	2%	1 762 599	2%
Sale of Goods and Rendering of Services	677 442	1%	703 798	1%	806 316	1%
Agency services	295 891	0%	306 987	0%	318 499	0%
Interest earned from Receivables	317 698	0%	331 677	0%	346 270	0%
Interest earned from Current and Non Current Assets	1 071 910	2%	758 532	1%	648 772	1%
Rental from Fixed Assets	461 984	1%	478 143	1%	494 969	1%
Licence and permits	196	0%	205	0%	214	0%
Operational Revenue	423 647	1%	442 287	1%	461 145	1%
Non-Exchange Revenue						
Property rates	12 712 797	20%	13 559 172	20%	14 701 449	20%
Surcharges and Taxes	429 894	1%	459 987	1%	499 086	1%
Fines, penalties and forfeits	1 888 192	3%	1 890 907	3%	1 894 261	3%
Licences or permits	56 610	0%	59 101	0%	61 701	0%
Transfer and subsidies - Operational	6 919 169	11%	7 001 700	10%	7 414 387	10%
Interest	94 426	0%	98 580	0%	102 918	0%
Fuel Levy	2 749 549	4%	2 861 315	4%	2 980 467	4%
Gains on disposal of Assets	59 079	0%	61 679	0%	64 392	0%
Other Gains	5 393 297	8%	5 792 401	9%	6 221 039	9%
Total Revenue (excluding capital transfers and contributions)	**63 943 208**	**100%**	**67 798 849**	**100%**	**72 761 928**	**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 2024/25 MTREF period. The operating revenue budget is expected to grow by an average of 6.7% over the 2024/25 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.

CPI applied by the City for the 2024/25 MTREF is 5.90%, 4.40% 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 and applies the projections in municipal financial years.

To compensate for the lower CPI projection in 2022/23, the City applied a higher CPI for 2024/25. NT MFMA Circular 128, published on 08 March 2024, provides a CPI projection of 4.9% for 2024/25, 4.6% for 2025/26 and 4.5% for 2026/27.

It is worth noting that the City continued with the differentiated approach, of previous years, to give effect to a zero-based expenditure budget. 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 hard stance when it comes to the provision of overtime. Whilst in the previous year an overtime parameter increase of CPI was afforded to only the Safety & Security Directorate, the 2024/25 MTREF projects no overtime increases for any of the City's directorates.

c. Collection rate for Property Rates and Service charges

NT MFMA Circular 126 makes emphasis on municipalities to comply with Section 18 of the MFMA. 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. MFMA Circular 126 further cautions municipalities to limit their expenditure according to the anticipated revenue projections.

Both the 2022/23 and the current year-to-date collection rate outcome were taken into consideration when predicting future year collection rates, together with future initiatives to be implemented to improve future collection rates. Based on this the collection rate assumptions for the 2024/25 MTREF are:

Services	Budget Year 2023/24	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Rates	95.74%	95.75%	95.75%	95.75%
Electricity	98.50%	98.50%	96.50%	96.50%
Water	90.00%	91.50%	92.00%	93.00%
Sanitation	91.50%	93.00%	93.50%	94.50%
Refuse	92.00%	92.00%	92.00%	92.00%

The collection rate for Rates is projected at an average of 95.75% over the period of the 2024/25 MTREF. This forecast is based on the assumption that the implemented debt management initiatives will achieve desired results.

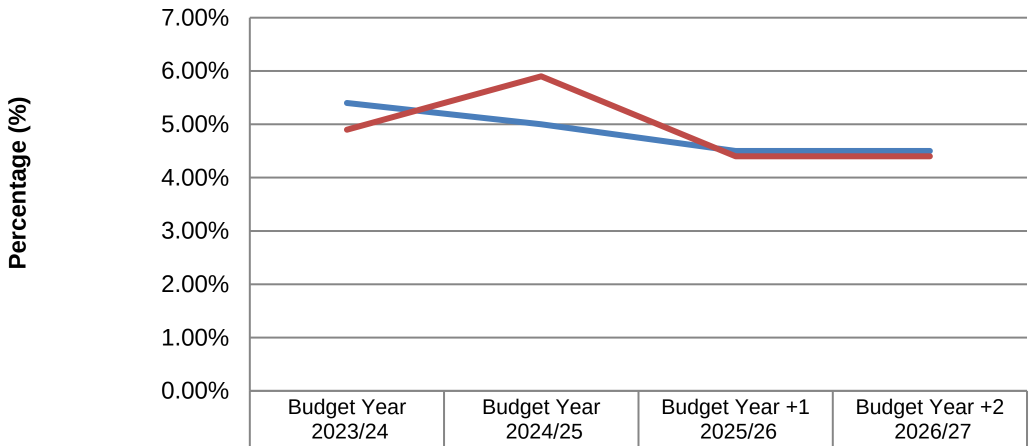
The electricity collection rate is projected at 98.5% for 2024/25, and 96.50% for the two outer years of the 2024/25 MTREF period. The electricity service is continuing with the rollout of prepaid meters and revenue protection initiatives.

The collection rate for water is projected at 91.5% for 2024/25, 92.0% and 93.0% for 2025/26 and 2026/27 respectively. The collection rate for Sanitation is projected at 93.0% for 2024/25, 93.5% for 2025/26 and 94.5% for 2026/27. Collection rates are expected to improve due to revenue raising interventions currently implemented.

The refuse collection rate is projected at 92.0% over the 2024/25 MTREF period. The projected collection rate projection is supported by the current average trend.

d. Salary increases

In the absence of the Salary & Wage agreement for the 2024/25 financial year, City's salary increase is based on the Monetary Policy Committee (MPC) calendar year CPI projections published on 24 January 2024 which equated to 5%. This is in line with the previous wage agreement, which also used the SARB CPI projections for the baseline increase. The two outer years of the MTREF period are projected to increase at 4.5%. The salary increases included in the budget are graphically shown in the ensuring graph.



	Budget Year 2023/24	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Salary Increases	5.40%	5.00%	4.50%	4.50%
CCT's CPI projection	4.90%	5.90%	4.40%	4.40%

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 2% 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 ratio outcome is 7.5% for 2024/25, which is slightly below the NT benchmark of 8%. The lower ratio outcome is due to an increase investment in new assets, which will not require immediate 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	2024/25 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Economic Growth	1 843 127	1 830 108	1 956 683
Basic Services	34 761 035	37 287 059	39 623 779
Safety	5 067 725	5 229 452	5 394 183
Housing	1 764 337	1 823 249	1 862 708
Public Space, Environment and Amenities	5 162 457	5 438 769	5 738 511
Transport	4 284 748	4 385 590	4 662 663
A Resilient City	1 022 033	1 071 090	1 131 496
A more spatially integrated and inclusive city	492 134	491 304	516 147
A capable and collaborative City government	9 944 233	10 922 217	11 917 246
Total	**64 341 828**	**68 478 838**	**72 803 417**

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 5.7% over the 2024/25 MTREF period.

The table below shows the capital funding source over the 2024/25 MTREF period

Funded by:	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Transfers recognised - capital	3 552 052	4 220 530	4 054 525
Borrowing	7 279 730	7 500 000	5 000 000
Internally generated funds	1 188 851	2 541 348	4 125 452
Total	**12 020 633**	**14 261 878**	**13 179 976**

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 27 June 2023. It has reaffirmed the existing long- and short-term national and global scale rating of Aa3.za/P-1.za and Ba3/NP, and stable outlook. The City's rating reflects its consistently strong and improving operating performance and robust financial performance supported by a track record of strong and improved financial management policies and practices, a broad and diversified economic base, and low debt levels.

The City's credit profile is constrained by growing infrastructure spending pressure to address social and environmental risks. The City also faces physical climate and water management risks, as well as social risks such as access to adequate housing and labour market challenges. The resilience in the City's cash position is expected to remain over the medium term and will help navigate the uncertain economic environment. Moody's expects the City to continue its strong financial performance with some but limited new debt in the medium term due to infrastructure spending needs. 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	Previous Rating 27 June 2023 Regular update	Current Rating 5 August 2022 Regular update	Previous Rating 14 April 2022 Update following rating action on Sovereign
Outlook	-	Stable	Stable	Stable
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

Credit rating definitions:

- 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 Thousand	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2025/26
Borrowing	7 279 730	7 500 000	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 2024/25 MTREF period.

Priority - Description	2024/25 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Economic Growth	255 615	197 639	191 957
Basic Services	6 144 129	6 873 425	7 524 833
Safety	477 243	284 709	232 759
Housing	942 811	875 577	1 076 245
Public Space, Environment and Amenities	767 389	847 805	385 114
Transport	2 556 774	3 461 953	2 866 535
A Resilient City	19 103	19 261	8 580
A more spatially integrated and inclusive city	21 975	18 000	–
A capable and collaborative City government	835 594	1 683 509	893 954
Total Capital Expenditure	**12 020 633**	**14 261 878**	**13 179 976**

Similar to the operating budget the table shows that the City's main priority is investing in basic services. Investment in basic services averages 52.1% of the capital budget over the MTREF period, the second highest investment is Transport which averages 22.4% over the same period.

4.5.4 Allocations from National and Provincial over the MTREF

National Government Allocations

The national allocations to the City as set out in the 2023 Division of Revenue Bill is shown in the table below.

Grants Description R' 000	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Current Grants	**109 664**	**85 700**	**88 200**
Finance Management Grant	*1 000*	*1 000*	*1 200*
Expanded Public Works Programme Integrated Grant	*26 664*		
Infrastructure Skills Development Grant	*12 000*	*12 700*	*13 000*
Programme and Project Preparation Support Grant	*70 000*	*72 000*	*74 000*
Infrastructure Grants	**4 301 340**	**4 743 046**	**4 684 240**
Urban Settlement Development Grant	*1 041 825*	*1 088 295*	*1 289 526*
Informal Settlements Upgrading Partnership Grant	*592 962*	*619 527*	*647 910*
Energy Efficiency and Demand Side Management Grant	*7 000*	*7 000*	*8 500*
Neighbourhood Development Partnership Grant (Capital Grant)	*160 237*	*30 000*	*47 616*
Public Transport Network Grant	*2 499 316*	*2 998 224*	*2 690 688*
Public Transport Network Grant - BFI			
Allocations-in-kind	**85 431**	**95 238**	**87 490**
Integrated National Electrification Programme (Eskom) Grant	*81 325*	*90 781*	*82 084*
Municipal Systems Improvement Grant	*1 106*	*1 457*	*2 406*
Neighbourhood Development Partnership Grant (Technical Assistance)	*3 000*	*3 000*	*3 000*
Unconditional Grant	**4 365 700**	**4 710 208**	**5 087 103**
Equitable Share	*4 365 700*	*4 710 208*	*5 087 103*
Total	**8 862 135**	**9 634 192**	**9 947 033**

The total national allocation to the City is R8.86 billion in 2024/25 increasing to R9.95 billion in 2026/27. 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 2024/25 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).

According to the NT MFMA Circular 128, the local government equitable share (LGES) formula is being updated in various ways, including improving its responsiveness to the different functions assigned to district and local municipalities. In addition, NT MFMA Circular 128 states that the LGES formula will be refined with reforms such as exploring the feasibility of introducing a cost differential model, community services components for health services and firefighting functions, objective criteria for benchmarking municipalities in relation to their administrative functions.

The DoRb issued in February 2024, via Gazette number 50099, provided for the following allocations, which have been included in the City's 2024/25 MTREF:

- 2024/25 – R4 366 million
- 2025/26 – R4 710 million
- 2026/27 – R5 087 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.

To determine the 2024/25 sharing of the general fuel levy allocations, the 2022 (latest) fuel volume sales were used. Furthermore, the allocation letter states that with regards to population data, although the Census 2022 data has been released, the Local Government Equitable Share updates to the General Fuel formula have been agreed to be used in the 2025 MTEF to allow for the full set of data to be released by StatsSA.

The general fuel levy is shown to grow by 4.5% from 2023/24 to the end of the 2024 MTEF. Metropolitan municipalities were advised that allocations for the two outer years of the 2024 MTEF are provisional, and actual allocations will be based on fuel sales.

The following amounts allocated to the City, as per the 2024/25 allocation letter, is included in the City's MTREF:

- 2024/25 – R2 750 million
- 2025/26 – R2 861 million
- 2026/27 – R2 980 million

Provincial Government Allocations

Provincial grants included in the 2024/25 MTREF is shown in the table below.

Grants Description - Per Provincial Department R' 000	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Community Safety	**387 400**	**386 840**	**403 897**
Provide resources to serve in the City of Cape Town Law Enforcement Service (LES)	*1 800*	*1 800*	*1 800*
Recruitment, training and deployment of law enforcement officers to serve in the law enforcement advancement plan (LEAP)	*360 000*	*350 000*	*365 750*
Provide Resources for the Tourism Safety Law Enforcement Unit Project	*2 000*		
Safe Schools	*23 600*	*35 040*	*36 347*
Health	**645 454**	**661 435**	**681 646**
Personal Primary Health Care Service	*327 662*	*329 268*	*334 701*
Integrated Nutrition	*5 909*	*5 937*	*6 035*
HIV and Aids	*311 883*	*326 230*	*340 910*
Human Settlements	**321 187**	**322 010**	**285 555**
Human Settlements Development Grant	*307 920*	*313 010*	*280 330*
Title Deeds Restoration Grant	*8 267*	*4 000*	
Municipal Accreditation and Capacity Building Grant	*5 000*	*5 000*	*5 225*
Transport and Public Works	**10 000**	**10 000**	**10 000**
Provision for persons with special needs	*10 000*	*10 000*	*10 000*
Transport Safety and Compliance - Rail Safety			
Cultural Affairs and Sport	**62 444**	**63 061**	**65 871**
Provincial Library Services: Conditional grant	*55 339*	*55 464*	*57 952*
Library Services: Metro Library Grant	*5 657*	*6 097*	*6 377*
Library Services: Transfer funding to enable City of Cape Town to procure periodicals and newspapers	*1 448*	*1 500*	*1 542*
Social Development	**6 500**	**0**	**0**
Expansion of the Haven District Six Shelter	6 500	0	0
Local Government	**1 018**	**1 018**	**1 018**
Community Development workers (CDW) operational support grant	1 018	1 018	1 018
Total allocation	**1 434 003**	**1 444 364**	**1 447 987**

The 2024/25 MTREF was prepared using the allocations as per Provincial Gazette Extraordinary 8892, dated 7 March 2024. 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 2024/25 MTREF.

	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
CPI	**5.90%**	**4.40%**	**4.40%**
COLLECTION RATES			
Rates	95.75%	95.75%	95.75%
Electricity	98.50%	96.50%	96.50%
Water	91.50%	92.00%	93.00%
Sanitation	93.00%	93.50%	94.50%
Refuse	92.00%	92.00%	92.00%
REVENUE PARAMETERS			
Rates	5.70%	6.00%	6.00%
Electricity	11.78%	12.58%	9.13%
Water	6.80%	8.37%	7.45%
Sanitation	6.80%	8.37%	7.45%
Refuse	5.70%	6.00%	6.00%
Disposal	7.24%	5.31%	3.66%
GROWTH PARAMETERS			
Rates	1.93%	1.00%	2.50%
Electricity	-1.50%	-2.00%	-2.00%
Water	4.50%	1.00%	1.00%
Sanitation	4.50%	1.00%	1.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS			
Salary increase			
Salary increase (SALGBC Agreement)	5.00%	4.50%	4.50%
Increment provision	2.00%	2.00%	2.00%
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	7.81%	7.31%	7.30%
OTHER			
Capital Borrowing expenditure	R7.280bn	R7.500bn	R5.000bn
Equitable Share Allocation	R4.366bn	R4.710bn	R5.087bn
Fuel levy	R2.750bn	R2.861bn	R2.980bn