

## Table of Contents

1	Introduction .....	2
2	Long Term Financial Plan – an overview .....	2
2.1	Background.....	2
2.2	Guiding Principles .....	3
2.3	Financial strategies and Non-financial Strategies.....	3
3	Financial Strategies .....	4
3.1	Revenue raising strategies.....	4
3.2	Asset and Liability management strategies .....	6
3.3	Financial management strategies.....	7
3.4	Capital financing strategies .....	8
3.5	Operational Financing Strategies and strategies which enhances cost-effectiveness.	9
4	Overview of budget assumptions applied over the current MTREF .....	10
4.1	Financial Strategic Approach and Key planning drivers.....	10
4.2	Economic influences .....	12
4.3	Demographic Trends.....	12
4.4	National Influences.....	13
4.5	Budget Projection.....	16
4.5.1	Revenue Framework.....	16
4.5.2	Expenditure Framework.....	20
4.5.3	Capital .....	24
4.5.4	Allocations from National and Provincial over the MTREF .....	27
4.5.5	Major Parameters .....	30

## **1 Introduction**

The Local Government Municipal Systems Act, Chapter 5, Section 26, prescribes the core components of the Integrated Development Plan (IDP). Section 26 (h) requires the inclusion of a financial plan, which should include a budget projection for at least the next three years. This financial plan aims to determine the financial affordability and -sustainability levels of the City over the medium term.

Part 2 of the Municipal Budgeting and Reporting Regulations (MBRR) (budget-related policies) requires the Accounting Officer to ensure that budget-related policies are prepared and submitted to Council. One of these policies relates to the long-term financial plan, which aims to ensure that all long-term financial planning is based on a structured and consistent methodology, thereby ensuring long-term financial affordability and sustainability.

## **2 Long Term Financial Plan – an overview**

### **2.1 Background**

A municipality's financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the IDP. It provides guidance for the development of current budgets and assesses financial impacts on outer years' budgets by incorporating capital expenditure outcomes, operating expenditure trends, optimal asset management plans and the consequential impact on rates, tariffs and other service charges.

The City has developed a financial model, namely the Long Term Financial Plan (LTFP), which aims to determine the appropriate mix of financial parameters and assumptions within which the City should operate to facilitate affordable and sustainable budgets for at least 10 years into the future. In addition, it identifies the consequential financial impact of planned capital projects on the City's operating budget.

The LTFP model is reviewed annually to determine the most affordable level at which the City can operate optimally taking the following into account:

- Fiscal overview;
- Economic climate;
- Demographic trends;
- National- and Provincial influences;
- IDP and other legislative imperatives; and
- Internal governance, community consultation and service delivery trends.

## 2.2 Guiding Principles

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

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

## 2.3 Financial strategies and Non-financial Strategies

### Financial Strategies

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

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

### Non – financial strategies

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

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

- Trends in demand for free or subsidised basic services;
- Impact of national, provincial and local policies;
- Ability of the municipality to spend and deliver on the programmes;
- Implications of organisational restructuring and other major events into the future;
- Consideration of the Cost Containment Regulatory 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 68% of the City's operating revenue for the first year of the 2023/24 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.

The National Treasury benchmarking assessment in May 2023 on the tabled 2023/24 MTREF concluded on the City's sustainability as follows:

- 2023/24 MTREF is funded and sustainable over the MTREF;
- Financial ratios are good and indicates financial sustainability;
- Budget assumptions are credible and revenue estimates are realistic - increases are informed by tariffs and growth in consumption as well as bulk purchases;
- The impact of load shedding on consumers' affordability was considered;
- Positive cash flow projections over the MTREF;
- The City has sufficient cash available to pay creditors; and
- There are adequate cash backed reserves.

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

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

- Instability of grant funding – equitable share, fuel levy and others;
- Limited revenue raising initiatives;
- Increasing community/service demand with limited resources;
- Expenditure parameters higher than revenue parameters;
- Higher loan requirements and the impact of borrowing cost;
- 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, Broadband, Congestion alleviation etc.;
- Changing political landscape;
- Increasing salary budget; and
- Natural disasters such as COVID-19 e.g. on economy and revenue.

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. An assessment to ensure implementability of the capital budget is performed annually before inclusion to the capital program in the MTREF. This assessment or Project Readiness Assessment (PRA) includes the screening and reviewing of projects for procurement and implementation readiness, technical and financial feasibility and strategic alignment.

The City's borrowing is done in terms of Chapter 6 of the MFMA as well as the City's Borrowing Policy, in terms of which a long-term loan will only be entered into if it is affordable and sustainable. The City's loan requirements are determined by the capital investment requirement (excl. Transfers Recognised: Capital) and the projected cash position. The City primarily borrows against future revenue generating assets.

### **3.5 Operational Financing Strategies and strategies which enhances cost- effectiveness**

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

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

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

The City'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 traction 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. As a start, minor roads that were being maintained by the Provincial Government are actively being transferred to the City's authority along with necessary funding; some of the City clinics (a total of 10 so far) have been transferred to the Province, and the City is continuing its partnership with the Provincial Government to enhance Law Enforcement through the LEAP programme. 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. This process will be conducted for a period of 18 months up until June 2024

#### **4 Overview of budget assumptions applied over the current MTREF**

##### **4.1 Financial Strategic Approach and Key planning drivers**

The 2023/24 LTFFP/MTREF was prepared with the intention of keeping revenue parameters as low as possible to assist already struggling communities and businesses and also to buffer the impact of the 2022 GV whilst ensuring that service delivery is not compromised and specific priorities addressed.

The key informants going into the 2023/24 MTREF were set out in the Strategy Brief, which iterated the IDP 2022-27 and the City's vision of a 'City of Hope' for all. The City's focus is therefore to create conditions for a faster, job-creating economic growth.

The key focus areas of the IDP:

- Economic Growth and Jobs;
- Safety; and
- Basic services.

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

##### **LTFFP 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, the rates revenue parameter will be required to increase by a higher percent in 2027/28 when this strategy comes to an end with no complimentary strategy to mitigate the impact.

It was therefore decided to reduce this annually (starting in 2023/24) by R100 million, phasing in the impact on the Rates account over the next 4 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 certain expenditure elements (Other expenditure, Contracted services and Inventory consumed).
- The differentiated parameters applied to repairs and maintenance growth was based on the previous year's actual expenditure, service delivery needs and efficiencies identified.
- The following staff and vacancies 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 SALGBC agreement;
  - Budgeting at 95% of employee costs; and
  - Inflationary increases applied to overtime for the Safety & Security Directorate only. No overtime increases for other directorates.
- A 100% capital expenditure implementation rate assumed.
- All expenditure programmes must be delivery ready with focus on project preparation for outer years.
- Credible and realistic collection rates based on current- and projected trends considering past and current trends.
- National- and provincial allocations as per the 2023 Division of Revenue Act (DoRa) (Act 5 of 2023) and the Provincial Gazette Extraordinary 8730, dated 14 March 2023.

The following were included in the 2023/24 MTREF:

- A reduction of R50 million on debt impairment for property rates due to bad debts written off during the year resulting in underspending on this element.
- An amount of R856,6 million additional operating provision added, which consisted of requirements identified when assessing the 2021/22 performance outcome (R86,6 million), provision made in the January 2023 adjustment budget of a permanent nature (R98,4 million) and requirements stemming from the SMF process and the mayoral priorities (R671,5 million).
- Subsequent to the tabling of the budget in March amendments were affected in the Approved Budget.

The annexure was updated with changes affected in the 2023/24 January adjustments budget where applicable.

## 4.2 Economic influences

The drafting of the 2023/24 LTFF and subsequent MTREF commenced with a macro-environmental scan of the economy as one of its primary determinants. Factors taken into consideration included the CPI, interest rates, exchange rates, service growth and GDP, which is briefly discussed below.

The South African gross domestic product (GDP) declined by 1.3 percent in the fourth quarter of 2022 as reported by Stats SA. The lower growth can mainly be attributed to shrinkage in finance, trade, mining, agriculture, manufacturing and general government services. According to National Treasury, improved GDP growth of 2.5 percent is expected for the 2022 calendar year, largely due to strong agriculture and services sector growth in the third quarter. However, GDP growth is expected to decline to 0.9 percent for 2023, averaging 1.7 percent for 2024 and 2025. The subdued growth projections is mainly due to the persistent power cuts, energy constraints, deteriorating rail and port infrastructure, and a weaker global outlook.

The main factors influencing the fuel price is the Rand/Dollar exchange rate and the price of crude oil. The Rand/Dollar exchange rate has deteriorated over the last period, plunging to levels beyond R19 to the US Dollar. The weak exchange rate can be attributed to various factors as it relates to South Africa, including fears around US sanctions, S&P Global Ratings cutting the outlook to stable from positive, being put on the global grey list by the Financial Action Task Force (FATF), and the worsening energy crisis. The Rand/Dollar exchange rate is therefore unpredictable. Crude oil prices have fluctuated between 84 and 65 US Dollar per barrel over the first few months of 2023. The main contributing factor to the change in prices is the increase in crude oil inventories. It is estimated that crude oil will average 84 US Dollars in 2023.

According to Stats SA, headline consumer inflation was lower at 7.1 percent year-on-year in March 2023, after reaching a peak of 7.8 percent in 2022. Inflation has broken through the top end of the South African Reserve Bank's (SARB) target range of 3-6 percent. The main drivers fueling inflation is the increases in electricity and food price inflation. The SARB has been implementing increases to the repurchase rate to restore inflation to levels of the target range. The repurchase rate was increased to 7.75 percent per year in March 2023. The aim of policy is to anchor inflation expectations more firmly around the mid-point of the target band and to increase confidence of attaining the inflation target sustainably over time.

## 4.3 Demographic Trends

Cape Town has the second-largest population of all cities in South Africa and is the main urban centre in the Western Cape. The City has seen steady population growth (albeit at a slowing annual growth rate), with an estimated 4 756 255 people in 2022, thus growing by 1.6 % from 2021 to 2022 (Statistics South Africa, 2022). According to estimates, the total population of Cape Town will reach at least 5,8 million by 2040 (City of Cape Town, 2018).

While the population continues to increase, the average household size has decreased from 3,5 people per household in 2011 to 3,2 in 2016 (Statistics South Africa, 2011 and 2016). A growing population, together with a decreasing average household size has resulted in a significant increase in the number of households in Cape Town, growing from approximately 1 million households in 2011 to an estimated 1,5 million households in 2022 (City of Cape Town, 2022, using Mid-year Population Estimates and 2016 Community Survey).

These trends of a steadily increasing population (albeit at a declining growth rate) and an increasing number of households form some of the informants to City planning and service delivery for the residents of Cape Town. These trends will continue to be monitored and refined, and more information will be available and used from the 2022 Census, when the data is available.

#### 4.4 National Influences

##### a) National Treasury MFMA Circular No. 122, issued on 9 December 2022

This budget circular provides guidance to municipalities with the compilation of their 2023/24 MTREF. It is linked to the MBRR and the Municipal Standard Chart of Accounts (mSCOA), and strives to support municipalities' budget preparation processes so that minimum requirements are achieved.

Key focus areas stemming from this Circular include:

- Macroeconomic performance and projections states that *'It is noted that variations in regional specifics are possible, however, any variation of assumptions must be explicitly set out and well explained in the budget narratives, in the absence of which the Treasuries will refer the budget back to council for alignment to the macroeconomic performance projections'*.
  - The City's stance is **not to adopt the clause** where NT states that they will refer the budget back to council to not approve if the City's tariffs are above inflation. The City's revenue parameters are robustly discussed at various budget committees before being endorsed by Council. The City furthermore always provides reasons for higher than inflation parameters in its budget documentation.
- Key focus areas for the 2023/24 budget process including local government conditional grant allocations.

Under the heading of **Re-enforcing the 2023 Division of Revenue Bill, (DoRB) to facilitate improved intergovernmental relations** it is stated that *"...Going forward, a municipality may therefore only institute litigation against any organ of state, state-owned enterprise, public-and/ or municipal entity after exhausting all dispute resolution mechanisms."*

  - The City's stance in this regard is that it will **not adopt this part of the Circular** as it is of the view that this is problematic for municipalities as it purports to state that the provision in DoRb (on which it seeks to place reliance in this Circular) obligates municipalities to exhaust alternative dispute mechanisms in respect of ALL litigation against other organs of state before initiating litigation and that Section 31 gives statutory justification for holding persons liable for legal costs before the court has declared the litigation premature.

- However, Section 31 of DoRb merely limits itself to litigation only over the application of DoRb or any Division of Revenue matters, and then simply restates the constitutional obligation to try and resolve those via Intergovernmental Relations Framework Act (IGRFA) means first.
- The Circular further state the upcoming DoRB will now “facilitate” the personal liability of anyone “responsible” for the institution of “such litigation” via a set-off process. However, Section 31 permits no such action - it simply confirms that the IGRFA must be followed and if it is not correctly applied then any legal costs associated with a court declining to hear a matter for non-compliance must be regarded fruitless and wasteful. This thus implies that those costs must then be dealt with by the municipal manager as he/she would decide if this expenditure indeed constitutes any fruitless or wasteful expenditure.
- Municipalities should guard against deducting pension from employees and not paying it over to the pension funds. Such practices are an act of financial misconduct and should be treated accordingly.
- Version 6.7 of the mSCOA chart, released with the Circular, to be utilised for the preparation of the 2023/24 MTREF, amendments to A1 schedules and credibility of data strings municipalities must be aware of and consider.
- Other mSCOA-related requirements and recommendations for municipalities to consider including mSCOA training initiatives.
- Municipalities to ensure that they fund their MTREF budgets from realistically anticipated revenues to be collected.
- Municipalities to set cost reflective tariffs to ensure recovery of the full cost of rendering the services.
- Municipalities urged to enforce a culture of payment for services through their normal credit control processes.
- STS Meters: Municipalities are required to obtain the National Treasury’s input prior to proceeding with any current procurement or proposed procurement process before the Office of the Chief Procurement Officer (OCPO), have entered into a transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters that align to minimum and critical technical specifications for local government.
- The key reforms included in the Update to the Policy Framework for Municipal Borrowing is set out in the Circular.
- Municipalities must refer to relevant Councillor Pension Scheme or personal funeral policies in existence for any funeral benefits relating to burial of councillors.
- Municipalities to note the criteria for the release of the Equitable Share Allocation.
- All municipalities are reminded of Section 8 of the Municipal Property Rates Act (MPRA) on the determination of categories of rateable properties that has been revised through the Local Government Municipal Property Rates Amendment Act, 2014.
- Municipalities are encouraged to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.
- Expected submissions include amongst other:
  - Bulk water- and electricity invoices for the three months immediately preceding respectively the tabled and adopted budgets.

**b) National Treasury MFMA Circular No. 123, issued on 3 March 2023**

This Budget Circular is a follow-up to NT MFMA Circular No. 122 issued on 9 December 2022 and is aimed at providing further guidance to municipalities with the preparation of their 2023/24 MTREF. It focusses primarily on the grant allocations as per the 2023 Budget Review and the 2023 DoRB.

The Circular also covers the following:

- An update on the economic outlook.
- Local government conditional grant allocations and Equitable Share in terms of the DoRB published on 22 February 2023.
- An update to **Re-enforcing the 2023 Division of Revenue Bill, (DoRB) to facilitate improved intergovernmental relations.**
- The City's stance in this regard remains as set out in the above narrative relating to NT MFMA Circular 122. Where the City decides to institute judicial proceedings against another organs of state, it will within 10 working days of the launch of those proceedings, notify the National Treasury and the relevant provincial treasury, of the details thereof, including any compliance by the City with Chapter 4 of the IGR prior to it initiating the said litigation.
- Updated version 6.7 of the mSCOA chart will go live on 13 March 2023 for the preparation of the 2023/24 MTREF.
- The City notes the lateness of making the updated version available and has been in liaison with NT in this regard.
- Municipalities must, with immediate effect, inform the National- and relevant Provincial Treasury of any intention to replace the financial system currently operating at the municipality prior to inviting proposals from system providers. Municipalities are also required to adhere to all previous circulars issued in this regard.
- Municipalities are required to ensure that the impact of load shedding is included in their budgets as well as ensuring continuous service delivery and are reminded that it may only introduce a load shedding levy or surcharge with the approval of the Minister of Finance and in terms of the legislated processes set out in the MFMA and Municipal Fiscal Powers and Functions Act, 2007.
- Employee related increases confirmed at 5.4% according to the Reserve Bank's Monetary Committee Statement for January 2023.
- An update of the Eskom bulk tariff increase as provided by NERSA.
- The 2022/23 unspent conditional process will be managed in accordance with Section 22 of the DoRb, in order to ensure that the unspent conditional grants in the 2022/23 financial year return to the National Revenue Fund (NRF).

**c) Provincial Treasury Municipal Circular 5/2023 issued 23 March 2023**

In addition to reiterating the key aspects included in the MFMA Circulars 122 and 125, this circular also highlighted:

- The current fiscal and economic context and key highlights from the 2023 National and Provincial Budgets; and
- The 2023 Strategic Integrated Municipal Engagements (SIME) process, dates and other related matters.

#### **d) National Treasury Benchmarking Engagement Outcome**

MFMA Budget Circular 122 requires the municipality to include in the adopted budget National Treasury's input to the tabled budget as an Annexure and the municipality's explanation of how the input was addressed in the adopted budget:

- The NT Benchmarking engagement took place on 5th May 2023 in Pretoria;
- The recommendations / resolutions and outcome of the engagement was received on 16 May 2023; and
- None of the recommendations/resolutions required amendments to the budget.

### **4.5 Budget Projection**

#### **4.5.1 Revenue Framework**

##### **a. Service Growth**

##### **Property Rates**

No growth is projected for Property Rates for 2023/24. Growth of 0.25% is projected for the outer years of the MTREF. The projections are due to the unstable and unpredictable property market resulting from the lagging impact of the pandemic as well the effects of the GV2022. Variable growth rates are applied to the property rates income forgone component due to the increase in applications for rebates.

##### **Electricity**

NT Circular 123 states that "municipality's factor in the impact of load shedding on their electricity revenue projections, taking into account current experience in terms of load shedding practices by Eskom". The circular further states that "Municipalities should also budget for reduced bulk purchases and sales to municipal customers".

Considering the current constricted energy environment, a shrinkage averaging 2.7% in sales volume is projected for Electricity over the period of the 2023/24 MTREF, with the highest shrinkage expected in 2023/24. The 5% shrinkage projected for 2023/24 is as a result of declining supply and subsequent demand on electricity consumption which reduces sales. This decline is mainly driven by ongoing load shedding, customers moving off the grid by investing in alternative energy sources and higher than inflation increases in electricity.

##### **Water and Sanitation**

A growth of 3% is projected for water and sanitation for the 2023/24 financial year. The outer years of the MTREF include a projected growth of 2% for 2024/25 and 1% for 2025/26 for both water and sanitation. The projected growth is evident in the current trends as the City systematically stabilises to pre-drought growth rates.

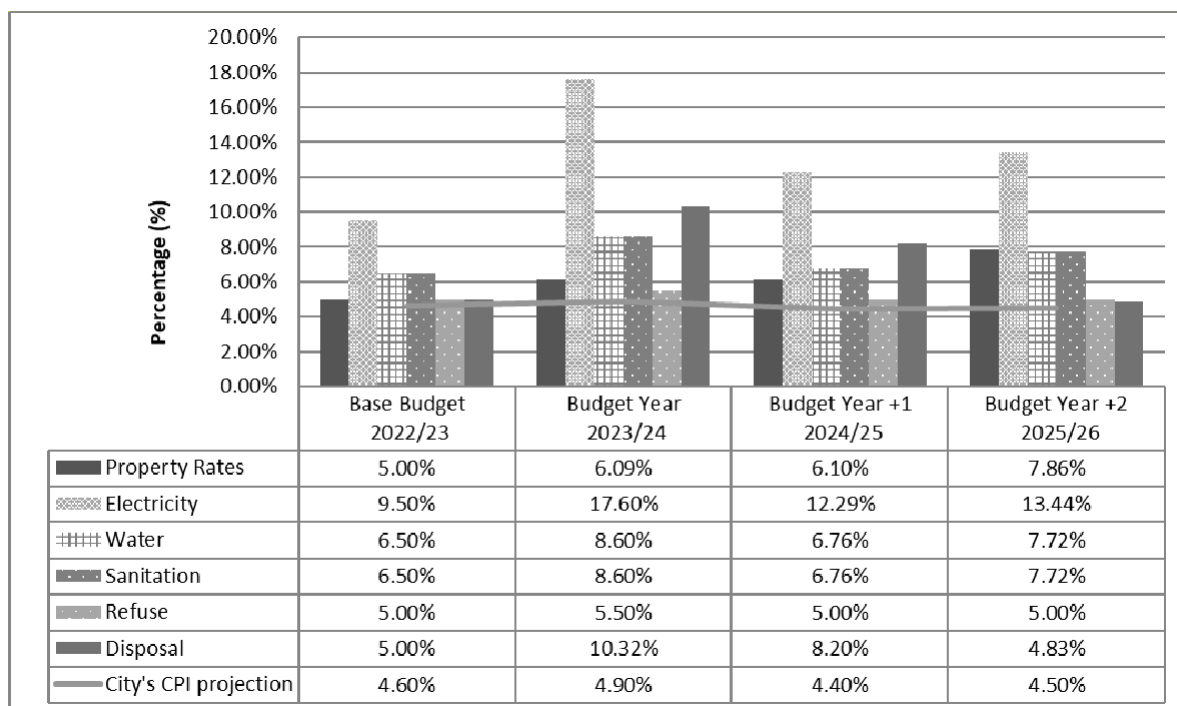
##### **Refuse**

Average revenue growth over the last 3 years shows a consistent 2% growth on Refuse revenue. Based on this a 2% growth factor was applied over the 2023/24 MTREF. Waste Disposal shows a zero increase over the last 3 years, therefore, no growth is projected for Disposal over the MTREF period.

**b. Major tariffs and charges: Rates and Service Charges**

NT continues to encourage municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. Circular 123 states that “*The Consumer Price Index (CPI) inflation is forecasted to be within the 3 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2023/24 in their budget narratives and pay careful attention to tariff increases across all consumer groups.*”

The graph below depicts the City’s revenue increases over the 2023/24 MTREF.



**Property Rates**

The property rates revenue increases are 6.09% for 2023/24, 6.10% and 7.86% respectively 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, increased rebate to protect consumers against the impact of GV2022, ongoing investment in repairs and maintenance, and giving effect to the IDP.

**Electricity**

The National Energy Regulator of South Africa (NERSA) approved an increase of 18.65% as per the Eskom’s Retail Tariff and Structural Adjustment (ERTSA) application for the 2023/24 financial year on 28 February 2023, together with the schedule of standard tariffs. On 2 March 2023, Eskom submitted a revised version with a lower increase of 10% for Homelight 20 Amp customers. This translated in a municipal increase of 18.49% for 2023/24 as per NERSA media statement 16 March 2023. This increase was applied to Electricity bulk purchases for 2023/24 financial year with an increase of 15% assumed for the outer years of the MTREF period.

The above translated in an average revenue increase of 17.6% for 2023/24, 12.29% for 2024/25 and 13.44% for 2025/26. The increase in revenue parameter is mainly due to the following:

- The impact of the 18.49% increase in bulk purchases, as bulk purchases constitutes 67% of the services budget;
- Capital investment in alternative energy sources, e.g. refurbishment of Steenbras power station, ground mounted PVs;
- Consequential operational cost of Capital investment program, e.g. Steenbras Crack Propagation maintenance programme; establishment of a project management office and retail energy supply contract management, IPP, EG and SSEG contracts and Operational cost for running of PV plants; and
- Cost of expanding indigent relief to buffer the impact of GV 2022 on vulnerable consumers.

The subsequent consultation paper released by NERSA on the 04 April 2023 indicates that based on a still to be determined Electricity Pricing Determination Methodology utilities are encouraged to submit a Cost of Supply (CoS) model. An average guideline increase of 15.10% is proposed for 2023/24 for municipalities. The City is not in agreement with this proposal and has provided an application in this regard to NERSA.

### **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 8.60% for 2023/24, 6.76% for 2024/25 and 7.72% for 2025/26. To ensure the lowest revenue increase, expenditure was reprioritised while still ensuring that the strategic imperatives of the service could continue. The revenue increase makes provision for, amongst other, the following:

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

## **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 2023/24 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.

Refuse revenue is received for the removal of waste from residential and non-residential properties. The Refuse average increase is 5.50% for the 2023/24 financial year and 5% for the two outer years. The average increase will fund, inter alia, upgrading of drop-off facilities to accommodate the expansion in the service, waste minimisation programmes for formal and informal settlements, increased rebate offering to protect consumers against the impact of GV2022, expansion of services to informal settlements and backyarders, continuous implementation of waste minimisation initiatives, upgrading of depots, maintenance programs, and the typical day-to-day service operations.

Disposal is the revenue received for the disposal of waste from residential and non-residential properties. The Disposal average increase is 10.32% for the 2023/24 financial year whereas the increases for the two outer years are 8.20% for 2024/25 and 4.83% for 2025/26. This increase is required for the continued operational requirement of the service, the development of landfill infrastructure, development and upgrading of transfer stations, plant replacement, additional material recovery facilities, and landfill gas generation to beneficiation at all landfill sites

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

Description R thousand	2023/24 Medium Term Revenue & Expenditure Framework					
	Budget Year 2023/24	% of Total	Budget Year +1 2024/25	% of Total	Budget Year +2 2025/26	% of Total
<b>Revenue</b>						
<b>Exchange Revenue</b>						
Service charges - Electricity	19 681 652	33%	23 053 339	36%	26 511 338	38%
Service charges - Water	4 579 473	8%	4 823 071	8%	5 271 284	8%
Service charges - Waste Water Management	2 311 393	4%	2 477 605	4%	2 693 652	4%
Service charges - Waste Management	1 395 627	2%	1 534 284	2%	1 646 512	2%
Sale of Goods and Rendering of Services	608 999	1%	632 338	1%	662 389	1%
Agency services	285 197	0%	299 365	0%	314 254	0%
Interest earned from Receivables	293 710	0%	299 223	0%	312 668	0%
Interest earned from Current and Non-Current Assets	1 369 275	2%	1 035 487	2%	880 214	1%
Rental from Fixed Assets	432 907	1%	412 461	1%	426 897	1%
Licence and permits	185	0%	193	0%	202	0%
Operational Revenue	367 731	1%	367 377	1%	385 409	1%
<b>Non-Exchange Revenue</b>						
Property rates	11 857 238	20%	12 587 669	20%	13 582 225	19%
Surcharges and Taxes	365 452	1%	381 532	1%	398 701	1%
Fines, penalties and forfeits	1 903 535	3%	1 253 950	2%	1 256 377	2%
Licences or permits	71 292	0%	80 028	0%	83 629	0%
Transfer and subsidies - Operational	6 774 693	11%	6 958 864	11%	7 410 322	11%
Interest	89 165	0%	93 088	0%	97 277	0%
Fuel Levy	2 639 290	4%	2 760 474	4%	2 886 917	4%
Gains on disposal of Assets	173 795	0%	61 953	0%	64 684	0%
Other Gains	5 005 958	8%	4 807 554	8%	5 151 071	7%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>60 206 568</b>	<b>100%</b>	<b>63 919 855</b>	<b>100%</b>	<b>70 036 023</b>	<b>100%</b>

It is evident from the preceding table that the main sources of revenue is consistently *Service charges – 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 11% of the City’s operating revenue source over the 2023/24 MTREF period. The operating revenue budget is expected to grow by an average of 7.9% over the 2023/24 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 percent but slightly deviates from the NT guidance. CPI applied by the City for the 2023/24 MTREF is 4.90%, 4.40% and 4.50% over the respective three years. The City utilised BER’s CPI projections at a point in time during the planning process and applies the projections in municipal financial years. NT MFMA Circular 123, published in March 2023, provides a CPI projection of 5.3% for 2023/24, 4.9% for 2024/25 and 4.7% for 2025/26. Showing an upward adjustment of 0.6%, from 4.7% previously published in NT MFMA Circular 122 in December 2022.

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

**b. Contracted Services, Overtime and Operational Cost**

As in previous years, the 2023/24 LTFP process commenced with an in-depth analysis of the previous year’s performance outcomes in an effort to allow for a zero-based budget approach. Stemming from this process additional funding was made available for fuel and due diligence cost.

To safeguard the provision of municipal services but still ensure 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. An overtime parameter increase of CPI was afforded to only the Safety & Security Directorate.

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

**c. Collection rate for Property Rates and Service charges**

NT MFMA Circular 123 makes reference to NT MFMA Circulars No. 93, paragraph 3.1 and No. 98, paragraph 4.1 as it relates to collection rates. The emphasis is on municipalities to comply with Section 18 of the MFMA and 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.

Both the 2021/22 and the current year-to-date collection rate outcome was 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 2023/24 MTREF are:

Services	Base Budget 2022/23	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Rates	95.50%	95.74%	96.19%	96.37%
Electricity	99.00%	98.50%	98.50%	98.50%
Water	89.00%	90.00%	91.00%	92.00%
Sanitation	91.00%	91.50%	92.50%	93.50%
Refuse	90.00%	93.00%	93.00%	93.00%

The collection rate for Rates is projected at an average of 96.1% over the period of the 2023/24 MTREF. The forecast is based on the assumption that the implemented debt management initiatives will achieve desired results.

The Electricity collection rate is projected at an average of 98.5% for the 2023/24 MTREF period. The collection rate projection over the MTREF was adjusted downwards by 0.5% due to the lower collection rate outcome in 2021/22. The electricity service is continuing with the rollout of prepaid meters and revenue protection initiatives.

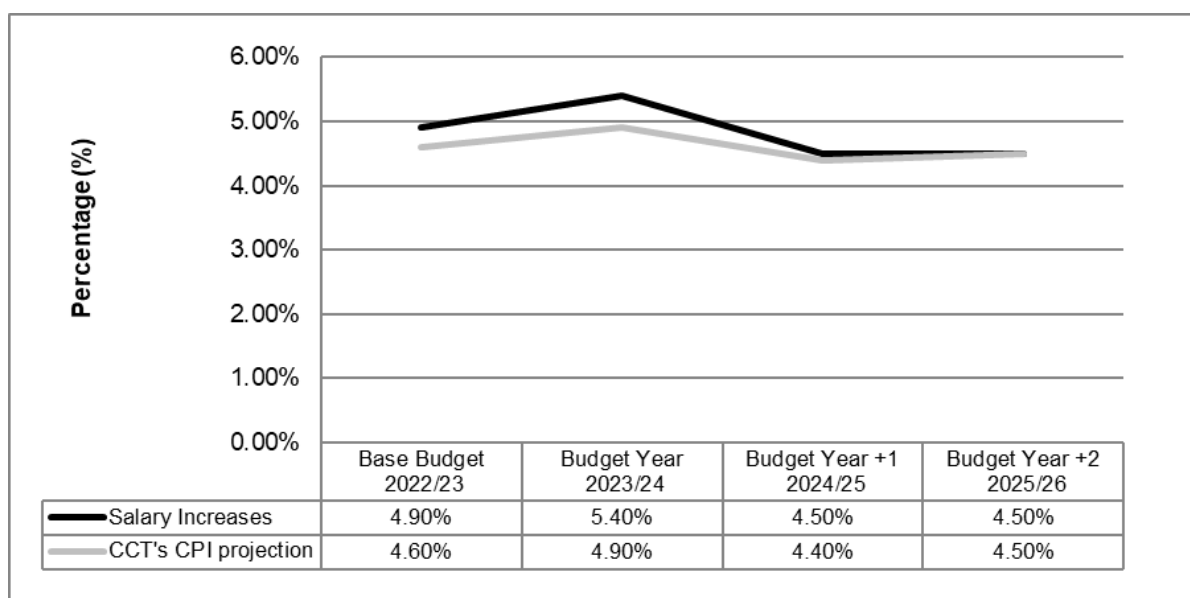
The collection rate is projected at 90% for Water and at 91.5% for Sanitation for the 2023/24 financial year, slightly higher than the collection rates budgeted for in the 2022/23 adjustments budget. A 91% and 92% for water and 92.5% and 93.5% for sanitation collection rate is projected, respectively, for the outer years of the MTREF. Collection rates are expected to improve due to revenue raising interventions currently implemented.

The Refuse collection rate is projected at 93% over the 2023/24 MTREF period. The improved collection rate projection is supported by the current average trend and the increase rebate offering to indigent customers.

**d. Salary increases**

The South African Local Government Bargaining Council (SALGBC) Salary and Wage Collective Agreement concluded in 2021 was utilised in budgeting for employee related costs for 2023/24. This agreement’s period of operation only provides increases for financial years 2021/22 to 2023/24, thus no agreement is in place for financial years 2024/25 and 2025/26.

In accordance with the terms of the agreement, the salary and wage increase for 2023/24 was calculated using the CPI percentage for 2023 as projected in the January 2023 MPC Statement. The CPI projected by the January 2023 MPC Statement was 5.4% for 2023. Furthermore, in the absence of an agreement for the last two years of the MTREF period an increase of 4.5% was forecasted. The salary increases included in the budget are graphically shown in the ensuing 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 2% to cater for performance- and other notch increases.

**e. Maintenance of existing assets**

NT MFMA Circular 123 states, amongst other, that “*the new leadership is advised to address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery*”. Furthermore, NT MFMA Circular 55 states that municipal councils, mayors and municipal managers are urged to ensure that allocations to repairs and maintenance, and the renewal of existing infrastructure are prioritised.

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

- Higher than CPI increases were applied to services where the nature of business 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 and underperforming directorates

NT MFMA Circulars 55 and 70 set the ratio of operational repairs and maintenance to asset value (write down value of the municipality’s property, plant and equipment (PPE)) at 8%. The ratio outcome for 2023/24 is in line with the NT norm showing that the City is investing adequately in protecting its asset base by effectively providing for repairs and maintenance.

**f. Operational financing for capital depreciation**

Calculation of depreciation on new capital expenditure is based on variables such as asset class and lifespan, depending on the nature of the asset. An annual capital expenditure implementation rate of 100% was assumed. Depreciation of existing assets is calculated based on simulated system data, which reflect actual values per annum.

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

Priority - Description	2023/24 Medium Term Revenue & Expenditure Framework		
	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>R thousand</b>			
Economic Growth	1 743 340	1 690 918	1 755 193
Basic Services	32 253 854	35 188 755	39 104 950
Safety	4 985 748	4 422 244	4 512 909
Housing	1 701 915	1 786 426	1 861 849
Public Space, Environment and Amenities	4 805 978	5 252 298	5 557 152
Transport	4 353 707	4 303 778	4 493 771
A Resilient City	998 506	1 044 504	1 095 512
A more spatially integrated and inclusive city	464 232	489 135	511 632
A capable and collaborative City government	9 279 777	10 136 692	11 453 623
<b>Total</b>	<b>60 587 057</b>	<b>64 314 751</b>	<b>70 346 590</b>

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 providing basic services.

### 4.5.3 Capital

#### a. Funding Sources of Capital budget

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 done utilising 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 new term of office IDP. The capital budget is expected to grow by an average of 31.2% over the MTREF period.

The ensuing table shows the capital funding source over the 2023/24 MTREF.

Funded by:	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Transfers recognised - capital	2 819 523	3 580 157	4 404 488
Borrowing	3 500 000	8 826 561	11 942 999
Internally generated funds	4 937 703	1 141 215	983 298
<b>Total</b>	<b>11 257 226</b>	<b>13 547 932</b>	<b>17 330 785</b>

#### 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	Current Rating 23 June 2023 Regular update	Previous Rating 5 August 2022 Regular update	Previous Rating 14 April 2022  Update following rating action on Sovereign
Outlook	-	Stable	Stable	Negative
NSR Issuer Rating	Rand	Aa3.za	Aa3.za	Aa3.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aa3.za	Aa3.za	Aa3.za

- Stable Outlook – reflects that a credit rating assigned to an issuer is unlikely to change.
- Negative Outlook - reflects that a credit rating assigned to an issuer may be lowered.
- Rating under Review - a review indicates that a rating is under consideration for a change in the near term.
- NSR Issuer Rating – Aaa.za - Issuers or issues rated Aaa.za demonstrate the strongest creditworthiness relative to other domestic issuers.
- NSR ST Issuer Rating – P-1.za – Issuers (or supporting institutions) rated Prime-1 have the strongest ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
- NSR Senior Unsecured – Aaa.za - Issuers or issues rated Aaa.za demonstrate the strongest creditworthiness relative to other domestic issuers.

The City’s borrowing is done in terms of Chapter 6 of the MFMA as well as the City’s Borrowing Policy, in terms of which a long-term loan will only be entered into if it’s affordable and sustainable. The City’s loan requirements are determined by the capital investment requirement (excl. Transfers Recognised: Capital) and the projected cash position. The City primarily borrows against future revenue generating assets.

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

R Thousand	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Borrowing	3 500 000	9 000 000	12 300 000
Borrowing Interest Rate (%)	12%	11%	11%

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

The table below shows the composition of the Capital budget per priority over the 2023/24 MTREF period.

Priority - Description	2023/24 Medium Term Revenue & Expenditure Framework		
	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>R thousand</b>			
Economic Growth	217 541	220 207	174 529
Basic Services	5 930 543	7 341 168	8 502 363
Safety	417 708	391 380	342 332
Housing	877 375	809 034	834 139
Public Space, Environment and Amenities	670 502	741 829	845 812
Transport	1 870 681	2 655 199	3 529 045
A Resilient City	135 233	154 287	313 425
A more spatially integrated and inclusive city	16 774	16 000	8 000
A capable and collaborative City government	1 120 869	1 218 828	2 781 140
<b>Total Capital Expenditure</b>	<b>11 257 226</b>	<b>13 547 932</b>	<b>17 330 785</b>

Similar to the operating budget the table shows that the City's main priority is investing in basic services. Investment in basic services averages 52.0% of the capital budget over the MTREF period, the second highest investment is Transport which averages 18.9% 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 Act and the 2023 Division of Revenue Amendment Bill gazette number 49550 is shown in the table below.

Grants Description R' 000	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>Current Grants</b>	<b>137,890</b>	<b>84,950</b>	<b>89,901</b>
<i>Finance Management Grant</i>	1,000	1,000	1,138
<i>Expanded Public Works Programme Integrated Grant</i>	59,093		
<i>Infrastructure Skills Development Grant</i>	8,920	11,000	11,500
<i>Programme and Project Preparation Support Grant</i>	68,877	72,950	77,263
<b>Infrastructure Grants</b>	<b>3,511,552</b>	<b>4,197,688</b>	<b>4,984,839</b>
<i>Urban Settlement Development Grant</i>	938,100	1,053,373	1,100,564
<i>Informal Settlements Upgrading Partnership Grant</i>	535,717	598,952	625,785
<i>Energy Efficiency and Demand Side Management Grant</i>	9,000	9,000	8,000
<i>Neighbourhood Development Partnership Grant (Capital Grant)</i>	250,890	36,116	40,000
<i>Public Transport Network Grant</i>	1,777,845	2,500,247	3,210,490
<b>Allocations-in-kind</b>	<b>59,908</b>	<b>191,304</b>	<b>60,304</b>
<i>Integrated National Electrification Programme (Eskom) Grant</i>	57,408	188,304	57,304
<i>Neighbourhood Development Partnership Grant (Technical Assistance)</i>	2,500	3,000	3,000
<b>Unconditional Grant</b>	<b>4,066,769</b>	<b>4,475,653</b>	<b>4,953,531</b>
<i>Equitable Share</i>	4,066,769	4,475,653	4,953,531
<b>Total</b>	<b>7,776,119</b>	<b>8,949,595</b>	<b>10,088,575</b>

The total national allocation to the City is R7.78 billion in 2023/24 increasing to R10.09 billion in 2025/26. 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 2023/24 MTREF budget.

##### Equitable Share

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

NT MFMA Circular 123 indicated that the local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk

water and electricity costs over the 2023 Medium Term Expenditure Framework (MTEF) period. It also includes allocations for operational and maintenance costs associated with the provision of free basic services. Local Government Equitable Share (LGES) grew at an annual average rate of 7.8% over the National MTEF.

The DoRa (Act 5 of 2023), provided for the following allocations, which have been included in the City's MTREF:

- 2023/24 – R4 067 million
- 2024/25 – R4 476 million
- 2025/26 – R4 954 million

### **Sharing of the Fuel Levy**

The General Fuel Levy is legislated by the Taxation Laws Amendment Act (Act 17 of 2009), which provides that each metropolitan's share should be announced in the government gazette.

The General Fuel Levy allocation letter, as received from NT for the 2023/24 MTREF, states that 2021 (latest) fuel volume sales were used to determine the 2023/24 sharing of the General Fuel Levy allocations. It further indicates that in 2022, the national budget reflected that given the revenue improvement, the government proposed tax relief to help support the economic recovery. Most of the relief was provided through an adjustment to personal income tax brackets and rebates. In addition, there was no increase in either the General Fuel Levy or the Road Accident Fund levy. Regardless growth in the metropolitan sharing of the General Fuel Levy is shown to grow by 9.2% over the 2023 MTEF.

Metropolitan municipalities were advised that allocations for the two outer years of the 2023 MTEF are provisional, and actual allocations will be based on fuel sales.

The following amounts allocated to the City, as per the 2023/24 allocation letter, is included in the City's MTREF:

- 2023/24 – R2 639 million
- 2024/25 – R2 761 million
- 2025/26 – R2 887 million

## Provincial Government Allocations

Provincial grants included in the 2023/24 MTREF is shown in the table below.

Grants Description - Per Provincial Department R' 000	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>Provincial Treasury</b>	<b>1 200</b>	<b>-</b>	<b>-</b>
<i>WESTERN CAPE FINANCIAL MANAGEMENT CAPABILITY GRANT</i>	1 200		
<b>Community Safety</b>	<b>352 327</b>	<b>376 684</b>	<b>388 218</b>
<i>Provide resources to serve in the City of Cape Town Law Enforcement Service (LES)</i>	4 666	3 084	3 178
<i>Recruitment, training and deployment of law enforcement officers to serve in the law enforcement advancement plan (LEAP)</i>	331 661	350 000	350 000
<i>Tourism Safety</i>	2 000		
<i>Safe Schools: School Resource Officer Project</i>	14 000	23 600	35 040
<b>Health</b>	<b>627 066</b>	<b>678 307</b>	<b>701 938</b>
<i>Personal Primary Health Care Service</i>	324 552	344 817	353 616
<i>Integrated Nutrition</i>	5 909	6 068	6 232
<i>HIV and Aids</i>	296 605	327 422	342 090
<b>Human Settlements</b>	<b>335 374</b>	<b>338 400</b>	<b>368 400</b>
<i>Informal Settlements Upgrading Partnership Grant</i>	317 360	331 900	363 400
<i>Provincial Emergency Housing Grant</i>	1 500	1 500	
<i>Provincial Contribution towards the Acceleration of Housing Delivery</i>	9 014		
<i>Municipal Accreditation &amp; Capacity Building Grant</i>	7 500	5 000	5 000
<b>Transport and Public Works</b>	<b>23 132</b>	<b>23 944</b>	<b>10 000</b>
<i>Provision for persons with special needs</i>	10 000	10 000	10 000
<i>Transport Systems – Public Transport Safety</i>	13 132	13 944	
<b>Cultural Affairs and Sport</b>	<b>65 985</b>	<b>67 421</b>	<b>70 749</b>
<i>Provincial Library Services: Conditional grant</i>	53 826	55 925	58 436
<i>Library Services: Metro Library Grant</i>	5 573	5 657	6 007
<i>Library Services: Replacement Funding for Most Vulnerable B3 Municipalities</i>	928		
<i>Library Services: Transfer funding to enable City of Cape Town to procure periodicals and newspapers</i>	5 658	5 839	6 306
<b>Local Government</b>	<b>1 018</b>	<b>1 018</b>	<b>1 018</b>
<i>Community Development workers (CDW) operational support grant</i>	1 018	1 018	1 018
<b>Total allocation</b>	<b>1 406 102</b>	<b>1 485 774</b>	<b>1 540 323</b>

The 2023/24 MTREF was prepared using the allocations as per Provincial Gazette Extraordinary 8730, dated 14 March 2023. In addition, allocations from the Provincial Gazette Extraordinary 8866, dated 16 January 2024 were incorporated in the January Adjustment Budget. 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 2023/24 MTREF.

	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>CPI</b>	<b>4.90%</b>	<b>4.40%</b>	<b>4.50%</b>
<b>COLLECTION RATES</b>			
Rates	95.74%	96.19%	96.37%
Electricity	98.50%	98.50%	98.50%
Water	90.00%	91.00%	92.00%
Sanitation	91.50%	92.50%	93.50%
Refuse	93.00%	93.00%	93.00%
<b>REVENUE PARAMETERS</b>			
Rates	6.09%	6.10%	7.86%
Electricity	17.60%	12.29%	13.44%
Water	8.60%	6.76%	7.72%
Sanitation	8.60%	6.76%	7.72%
Refuse	5.50%	5.00%	5.00%
Disposal	10.32%	8.20%	4.83%
<b>GROWTH PARAMETERS</b>			
Rates	0.00%	0.25%	0.25%
Electricity	-5.00%	-1.50%	-1.50%
Water	3.00%	2.00%	1.00%
Sanitation	3.00%	2.00%	1.00%
Refuse	2.00%	2.00%	2.00%
<b>EXPENDITURE PARAMETERS</b>			
Salary increase			
Salary increase (SALGBC Agreement)	5.40%	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%	11.00%	11.00%
Interest on investment	8.38%	7.47%	7.30%
<b>OTHER</b>			
Capital Borrowing expenditure	R3.500bn	R9.000bn	R12.300bn
Equitable Share Allocation	R4.067bn	R4.476bn	R4.954bn
Fuel levy	R2.639bn	R2.761bn	R2.887bn