Overview of budget assumptions applied to the 2019/20 MTREF

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.

The MBRR (Part 2; Budget-related policies of municipalities) 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.

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 budgets, which are affordable and sustainable 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 fiscal overview, economic climate, National- and Provincial influences, IDP and other legislative imperatives, internal governance and community consultation into account in its deliberations.

The key budget assumptions of the 2019/20 MTREF include a discussion of the sources of information used to develop assumptions for revenue and expenditure that drive the 3-year MTREF of the City under the following headings:

- Financial Strategic Approach;
- Financial Modelling and Key Planning Drivers;
- Economic outlook / external factors;
- National and Provincial influences;
- Expenditure analysis – a three-year preview;
- Revenue analysis – a three-year preview; and
- Local Government Equitable Share and Fuel Levy.

2. Financial Strategic Approach

The 2019/20 MTREF was prepared in the backend of the water crisis, which still has an impact on the organisation's operations. The financial challenges requiring attention in commencing with the LTFP included:

- Keeping revenue parameters and tariffs at affordable levels to consumers;
- Protection of the City's revenue base;
- Impact of the amended Water Program;
- Shrinkage in the consumer base, due to alternative energy sources and water saving initiatives by consumers;
- Impact of the new salary agreement; and
- Shrinkage in government grants and fuel levy, all the while ensuring alignment with the IDP and affordable revenue parameters.

The budget theme for the 2019/20 MTREF was therefore a restrained MTREF.

The key challenges facing the administration and service delivery imperatives resulting in identification of strategic priorities was the thrust of the City Manager's Strategic Brief to the organisation in preparation of the 2019/20 MTREF. In addition, the Executive Mayor's Budget Brief stressed that the budget over the MTREF must:

- Be a manifestation of the latest City strategies;
- Be implementable and;
- Remain sustainable per the City's or local government mandate.

Subsequent to the tabling of the budget, the latest interim results for the year under review projects more favourable net cash inflows than previously anticipated, mainly due to improved revenue collection and expenditure management. Based on these projections, scope exists for further allocations to the 2019/20 operating budget of R800 million for once-off allocations and R240 million for permanent allocations.

In addition, the borrowing requirement over the MTREF period was reduced from R2.5 billion in 2019/20 to R1.1 billion and from R6 billion in the outer years to R3 billion respectively.

The announcement of COVID-19 by the World Health Organisation (WHO) as a pandemic on 12th March 2020 was followed by the announcement by the President of declaring a national state of disaster in terms of the Disaster Management Act on 15th March 2020. On the 26th March 2020 the President announced a nationwide lockdown in response to the COVID-19 pandemic to manage the spreading of the COVID-19 virus.

The economic, social and financial shock of the COVID-19 pandemic and the accompanying and ongoing economic, social and financial stress is impacting the City more than only just an event requiring once-off response. This shock impacted more on the City's current operations **(**financial and strategic) than the need to address additional requirements. If only additional requirements, the City would have been able to respond financially without much structural impact in both current year as well as 2020/21 MTREF. However, the projected underspend and to a much greater extent the impact on the City's revenue are concerning factors which required material financial interventions.

The impact of the additional requirements stemming from the City's response to the pandemic, the projected underspend based on work not being able to go ahead due to the lockdown, the increased debt impairment due to the consumer payment behaviour and the loss of revenue as a result of rates and tariff payments as well as sundry revenue sources such as bus fares, events, facility rental, fines etc. necessitated the need for an Adjustment Budget in terms of Government Gazette 43181 dated 30th March 2020 and Annexure to MFMA Circular 99 on 8th April 2020.

2.1. Financial Modelling and Key Planning Drivers

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

- Staff and vacancies:
  - budgeting at 95% of employee costs
  - a differentiated per cent budget approach on vacancies;
- Lower loan take-up based on proposed capital plan and current cash position;
- Increased equitable share allocation to the Water & Sanitation department (R200 million) to keep its revenue increases lower;
- No increases on overtime provision except for labour intensive directorates where higher than inflation increases are applied;
- Repairs and maintenance growth based on previous year's actual expenditure, service delivery needs and efficiencies identified;
- A 100% capital expenditure implementation rate;
- Credible collection rates based on collection achievements to date and incorporating improved success anticipated in selected revenue items; and
- National- and Provincial allocations as per the 2019 DoRA, 2019 Provincial Government Gazette and further amendments thereto.

2.2. Economic outlook / external factors

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

The economy recovered from a technical recession in the first half of 2018 but growth still remained subdued and ended the fourth quarter at 1.4%. According to National Treasury, growth is expected to reach 1.5% in 2019 and improving to 2.1% in 2021 due to, inter alia, business and consumer confidence improvements. Emerging risks to the growth outlook still exists, which includes the electricity supply shortages, national elections and volatility in the international markets.

Major influences to the oil price are the Brent Crude oil price and the Rand/Dollar exchange rate. In recent months Brent Crude oil price increased to levels of R64.00/$ per barrel. The main reasons for the increase were as a result of the contraction in oil supply by global suppliers and US sanctions on various countries. The cost of Brent crude oil is expected to average R67.2/US$ over the next 3 years. BER further forecasts the Rand to end 2019 at an average of R14.22/$ and 2021 at R14.44/$.

Inflation averaged 4.7% for 2018, which was mainly due to international developments, such as declined international oil prices and favourable exchange rates during that period. Inflation outlook fluctuated over the last few months due to various influences. The City's CPI forecast was based on BER projection during the budget planning phase. In addition, due to the actual CPI for 2017/18 being lower than the budgeted amount, the City reduced the projected CPI for 2019/20. The City's CPI forecast, in municipal financial years, is therefore 4.14% for 2019/20 and 5.05% for the two outer years.

2.3. National and Provincial influences

a) National Treasury MFMA Circular No. 93, issued in December 2018

The purpose of this annual budget circular is to guide municipalities with the compilation of the 2019/20 MTREF, in particular to ensure that funded budgets are adopted by municipal councils.

The objectives of the circular are to, amongst other, demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda and associated "game changers". Key themes from this circular include the following:

- economic and fiscal choices confronting government over the next several years;
- macro-economic forecasts to be considered when preparing the 2019/20 MTREF municipal budgets;
- Changes to local government allocations;
- The equitable share and the allocation of the general fuel levy to local government constitute unconditional funding, municipalities were reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities;
- Conditional grant funding must be utilised for the intended purpose within the stipulated timeframes, as specified in the annual DoRB. Monies not spent must be returned to the fiscus and requests for roll-overs will only be considered where unforeseen and unavoidable circumstances led to underspending of conditional grants;
- Reforms to local government fiscal framework;
- Version 6.3 of the mSCOA chart is effective from 2019/20 and must be used to compile the 2019/20 MTREF;
- Municipalities must comply with Section 18 of the MFMA and ensure that they fund their 2019/20 MTREF budgets from realistically anticipated revenues to be collected;
- The importance of comparing the valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are realistic;
- The need for municipalities to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability;

- Water service to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting;
- Municipalities to consider the following when compiling their 2019/20 MTREF budgets:
  - improving the effectiveness of revenue management processes and procedures;
  - paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as highlighted in MFMA Circular No. 82;
  - ensuring value for money through the procurement process;
  - the affordability of providing free basic services to all households; and
  - curbing consumption of water and electricity by indigents to ensure that they do not exceed their allocation.

b) National Treasury MFMA Circular No. 94, issued in March 2019

This is a follow-up to MFMA Circular No. 93 with the key focus being grant allocations per the 2019 Budget Review and the 2019 DoRB;

In addition to the previous circular the following main guidelines were provided:

- Reviewed macro-economic forecasts was provided;
- Allocations included in the budget must correspond to the allocations listed in the DoRB;
- Changes to allocations;
- Borrowing proceeds to be used to fund current and future capital expenditure, i.e. long-term debt may not be incurred to replenish internally generated funds, which were spent in prior financial years; and;
- Impact of VAT on tariffs.

c) National Treasury MFMA Annexure to Circular No. 99, issued in April 2020

The annexure to MFMA Circular No. 99 provided further guidance to municipalities regarding Government Gazette No. 43181 on exemption from the Act and Regulations that was published on 30 March 2020.

Of importance pertaining to the 2019/20 financial year is the amended reporting requirements and the allowance of one adjustments budget between the date of the declaration of the national state of disaster and 15 June 2020.

3. Expenditure analysis – a three-year preview

The preparation of the 2019/20 operating expenditure budget built on the approach adopted in the 2018/19 budget. Interventions introduced in 2018/19 to reduce expenditure, such as budget reprioritisation, budget cuts, differentiated budgeting and budgeting for salaries at 95% were all continued with in the 2019/20 MTREF. Additional interventions introduced this year include budgeting for certain internal cost at 95% (based on past performance) and partially budgeting for vacancies. This allowed for funding to be redirected to areas giving effect to the City's strategies, further investment in the sustainable provision of water and keeping Rates and Tariff increases at lower levels.

3.1. General inflation outlook and its impact on municipal activities

The City continued with the differentiated approach adopted in previous years in the compilation of this year's budget. Inflation was therefore not the only or primary driver.

In assessing previous years' CPI outcomes against City projections, it was identified that the actual CPI for 2017/18 compared to the City's projection was lower. To correct this overstatement in the previous year the proposed 2019/20 CPI was reduced by 1%. CPI applied over the 2019/20 MTREF is therefore 4.14% for 2019/20 and 5.05% for the two outer years.

The City's proposed CPI projections for the 2019/20 MTREF are within the South African Reserve Bank's (SARB) inflation target range of between 3% and 6%. In terms of MFMA Circular No. 94, NT's CPI projection is 5.2% for 2019/20 and 5.4% for the two outer years. The City's CPI projection over the MTREF is therefore lower than the proposed NT CPI projections.

3.2. Contracted Services, Overtime and Operational Cost

This year's budget theme is a restrained MTREF and echoes the interventions implemented last year. Cost containment and efficiencies was the key drivers to this year's budgeting approach. It consisted of a combination of zero based and a differentiated budgeting approach, which was implemented based on the nature of expenditure and the previous year's expenditure performance.

This approach included reducing/increasing the base and applying differentiated parameters based on performance and needs to elements that forms part of contracted services, overtime and other operational cost expenditure types. Budget reprioritisation was also affected to ensure the budget is kept relevant to the City's strategies.

Cost containment measures as per MFMA Circular No. 82 also continued to be implemented to ensure that value for money is achieved and the resources of the municipality are used effectively, efficiently and economically.

3.3. Interest rates for borrowing and investment of funds

The City's investments are done in terms of the Cash Management and Investment policy, which aims to secure sound and sustainable management of the City's surplus cash and investments. An average investment interest rate of 7% is forecast over the 2019/20 MTREF.

3.4. Collection rate for Property Rates and Service charges

Table 1 Collection Rates

Services	Base Budget 2018/19	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Rates	96.0%	93.0%	96.0%	95.0%
Electricity	98.0%	98.0%	98.0%	98.0%
Water	70.7%	84.0%	82.0%	82.0%
Sanitation	86.0%	85.5%	95.0%	95.0%
Refuse	93.0%	87.0%	93.0%	93.0%

While the Rates collection rate is expected to average 96% over the MTREF, it is expected to be potentially impacted on by the higher service charges increases over the MTREF. The projected collection rate was adjusted downward to 93% due to the COVID-19 pandemic and the ability of the consumers to pay.

The Electricity collection rate remains at 98% over the MTREF. This is mainly attributed to the continuous role out of prepayment meters and revenue protection initiatives. The impact of the COVID-19 pandemic resulted in only a slight decline in 2019/20 collection rate, although it was based on recalculation of adjusted lower base.

The Water and Sanitation collection rate shows an increase, which is predominantly as a result of a change in the manner in which indigent debtors are transacted, the improved 2018/19 outcome, debt management initiatives and the improved year to date outcome. The projected collection rate for Water is 89% and Sanitation is 90% for 2019/20. These collection rates were reduced to 84.0% and 85.5% respectively due to the COVID-19 pandemic and the ability of the consumers to pay.

The projected Refuse collection rate remains constant at 93% for the MTREF. This is due to ongoing debt management initiatives implemented. A drop to 87% for the Refuse collection are included in the May Adjustment Budget due to the COVID-19 pandemic and the ability of the consumers to pay.

The impact of increased debt impairment to cater for the lower collection rates are incorporated in the May 2020 Adjustment Budget.

3.5. Salary increases

In 2018, a new three-year Salary & Wage collective agreement was entered into. The term of this agreement covers the municipal financial years 2018/19 to 2020/21. In the absence of an agreement for the last year of the MTREF the principle applied for 2019/20 was assumed for 2021/22.

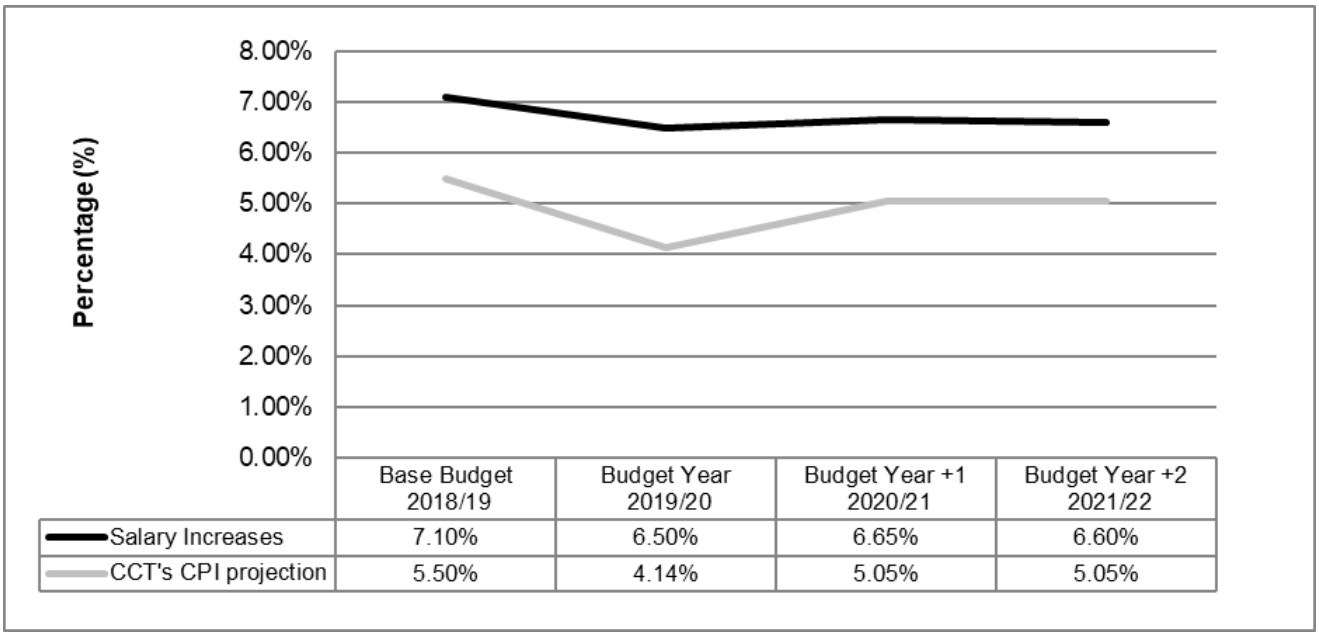
In terms of the agreement, the salary and wage increases per municipal financial year are to be calculated as follows:

- 2019/20: CPI percentage for 2019 as projected by January 2019 MPC plus 1.5%; and
- 2020/21: CPI percentage for 2020 as projected by January 2020 MPC plus 1.25%.

Furthermore, the agreement states that if in any of these years the average CPI percentage is less than 5%, the average CPI will be deemed to be 5%, and in the event that the average CPI is above 10% the average CPI will be deemed to be 10%.

The CPI projected by the January 2019 MPC Statement was 4.8% for 2019. Based on this, the salary provision for the 2019/20 financial year was 5% plus 1.5%. A further provision of 2% was made for incremental allowances to cater for performance- and other notch increases.

The salary increases included in the budget are graphically shown below.



	Base Budget 2018/19	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Salary Increases	7.10%	6.50%	6.65%	6.60%
CCT's CPI projection	5.50%	4.14%	5.05%	5.05%

Figure 1 Correlation between the City's CPI and the salary increase over the MTREF

In addition to the above increases, the City continued with the method of budgeting for salaries at 95% as introduced in 2018/19, due to previous years' outcomes showing a recurring under performance. The salary budget was further discounted by only partially budgeting for vacancies.

This approach was adopted as the turnaround time of vacancies has attributed mostly to the underperformance on the salaries budget.

3.6. Ensuring maintenance of existing assets

The differentiated approach introduced in previous years was again applied to expenditure accounts relating to Repairs and Maintenance for the 2019/20 MTREF. The approach considered previous year's performance, service delivery needs, efficiencies and the nature of the function that individual services provide. The following varying parameters were applied:

- CPI increase to services, which although their main function is not providing repairs and maintenance, the nature of their business and facilities requires a proper maintenance provision;
- CPI + 1% increase for services where the nature of their business is primarily to provide repairs and maintenance and where health of assets must be secured; and
- No increase for services that is supportive in nature.

NT Circular No. 55 and NT Circular No. 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 City averages 7.8% over the 2019/20 MTREF. The lower ratio outcome is as a result of the reprioritisation of the budget and the accelerated capital investment in new water supply initiatives. This new capital investment will not require immediate repairs and maintenance.

3.7. Operational financing for capital

a) 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 SAP data that reflect actual values per annum. Assets under construction (AUC) are calculated based on asset class lifespan and projected capitalisation dates.

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.

On 19 March 2019, Moody's Investors Service provided an update to the City's credit opinion. The City's global and national scale ratings were confirmed with the outlook changed to stable from negative.

The City's national scale rating is currently Aaa.za/P-1.za, which reflects the City's credit profile of strong financial performance characterised by consistent annual operating surplus, prudent financial management, low debt, a diverse economic profile and strong liquidity. The City's credit profile is constrained by Cape Town's capital spending pressure as a result of water shortage because of drought, infrastructure backlogs and population growth. The City's known ratings over the last period were as follows:

Table 2 Credit rating outlook

Category	Currency	Current 6 April 2020 Update following downgrade of Sovereign	Previous 13 March 2020	Previous 11 Nov 2019 Update following change in outlook
Outlook	-	Negative	Negative	Negative
NSR Issuer Rating	Rand	Aaa.za	Aaa.za	Aaa.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	Aaa.za	Aaa.za	Aaa.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 which 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; and
- 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.

It is projected that the City will have a favourable cash position thus reducing the borrowing requirement as opposed to the capital requirement.

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

R Thousand	2019/20	2020/21	2021/22
Borrowing	1,091,580	3,000,000	3,000,000
Borrowing Interest Rate	8.1%	11.0%	11.0%

4. Revenue analysis – a three-year preview

4.1. Growth

c) Property Rates

A Rates growth of 1% is projected for 2019/20, due to the results of the 2018 General Valuations (GV) to be implemented in 2019/20. The outer years is expected to grow by 0.5% annually. This position will be reviewed depending on the GV objection process.

d) Electricity

Shrinkage in sales revenue for Electricity of 1.5% is projected for 2019/20 and 2.5% for the two outer years. This shrinkage is due to continued energy saving and efficiency plans introduced by consumers resulting in reduced consumption and declining revenue sales.

e) Water and Sanitation

Zero (base) growth is projected for Water and Sanitation over the MTREF, due to consumer behaviour uncertainty. This position will be reviewed in future years when more information/data is available and consumption levels have stabilised. It is viewed to be prudent for the new base to be established before making future projections.

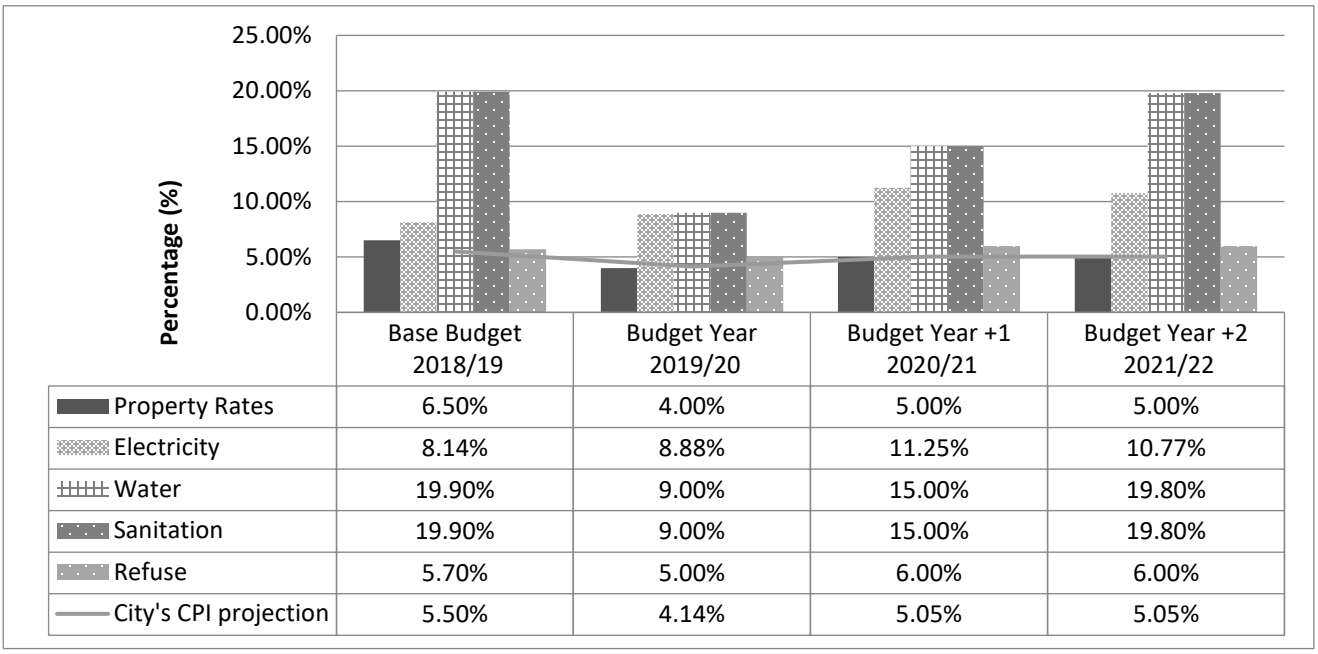
f) Refuse

The average revenue growth over the last 3 years shows that a 2% growth for Refuse is sustainable over the 2019/20 MTREF. The growth is driven by the growth in the requirement for this service.

4.2. Major tariffs and charges: Rates and Trading services

MFMA Circular No. 93 states that" National Treasury 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 Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2019/20 in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative."

Considering the above and to ensure future financial sustainability, the following revenue increases are applied for 2019/20 MTREF.



	Base Budget 2018/19	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Property Rates	6.50%	4.00%	5.00%	5.00%
Electricity	8.14%	8.88%	11.25%	10.77%
Water	19.90%	9.00%	15.00%	19.80%
Sanitation	19.90%	9.00%	15.00%	19.80%
Refuse	5.70%	5.00%	6.00%	6.00%
City's CPI projection	5.50%	4.14%	5.05%	5.05%

Figure 2 Revenue parameters for the MTREF period

g) Property Rates

The revenue parameter for Property Rates over the 2019/20 MTREF is at levels below the upper limit of the inflation target range. The low increase was as a result of various corporate initiatives proposed to reduce cost and reprioritise budgets.

h) Electricity

According to MFMA Circular No. 93, municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability.

On 7 March 2019, NERSA provided a decision on Eskom's Regulatory Clearing Account application for year 5 (2017/18) of the third multi-year price determination and Eskom's fourth Multi-Year Price Determination (MYPD) for the period of 2019/20 to 2021/22. The approved allowable revenue by NERSA resulted in an average annual percentage price increase of 9.41%, 8.10% and 5.22%, respectively for the period 2019/20 to 2022/23, to Eskom.

This translated in an estimated Eskom increase to municipalities of 15.63% for 2019/20 and 10% for the two outer years. This increase influences the bulk purchases cost and therefore the Electricity revenue increase requirement. The business of the electricity service is the purchasing and redistribution of electricity; thus bulk purchases is a major influencing factor in determining the revenue increase. Bulk purchases averages 65.5% of the department's total expenditure budget.

Due to the implementation of corporate cost savings measures the revenue increase for electricity was kept at levels lower than the projected Eskom increase for 2019/20. The electricity average revenue increase projected over the 2019/20 MTREF is 8.88%, 11.25% and 10.77%, respectively.

The higher than CPI increase is as a result of the bulk purchases cost, declining electricity sales, business enhancement initiatives, investment in new infrastructure and other higher than CPI cost.

i) Water and Sanitation

MFMA Circular N93 states that "Municipalities must ensure that the tariffs charged are able to cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure."

In this regard the average revenue increases for water and sanitation is projected at 9% for 2019/20, and 15% and 19.8 % for the two outer years of the MTREF respectively. No increase to fixed basic charge is proposed for the 2019/20 financial year.

The higher than CPI increase proposed for water and sanitation is due to various factors, which include the following:

- Expenditure requirements for the New Programme to ensure sustainable and resilient provision of water. Initiatives include the further investment in underground extraction from aquifers and cost of temporary desalination plants;
- Water demand management initiatives to limit the abuse of water;
- The continued investment in asset replacement programmes to ensure proper asset management and in the repairs and maintenance programme;
- Ensuring and maintaining required standard compliance; and
- Supplying water and sanitation at appropriate compliance, capacity, skills, service delivery and responsiveness levels.

j) Refuse

Solid Waste consists of 3 services of which two are tariff-funded and one funded by Property Rates. The tariff-funded services consist of Refuse and Disposal.

Refuse is the revenue received for the removal of waste from residential and non-residential properties. The refuse average increase is 5.00% for 2019/20 and 6.00% for the two outer years. The average increase will allow, inter alia, the service to comply with the National Environment Management Waste Act (NEMWA) waste minimisation requirements by increasing the removal of recycling at the source and upgrading the solid waste drop off facilities and depots.

Disposal is the revenue received for the disposal of waste from residential and non-residential properties. The disposal average increase for 2019/20 is 5.00%, the increases for the two outer years are 11.50% and 13.50% respectively. This increase is required for the continued operational requirement of the service and for the capital investment on new, replacement and renewed assets.

The capital investment includes the introduction of mini recovery facilities, development of landfill infrastructure, development and upgrading of transfer stations and plant replacement.

k) Housing rental (Council rental properties)

The monthly rental charge for the City's housing rental properties is based on a rate per square meter applied to the size of the unit being rented coupled with a set of premiums/deductions based on the location, maintenance level, facilities et al of the specific property for which the rent is charged.

Through addressing the economic challenges faced by many poorer communities residing in, particularly, the City's rental stock, the average total monthly rental charge percentage increase associated with the City's rental properties has been retained at an affordable level and is based on an annual increase of 4.73% (where the unit has a separate water meter) or 8.36% (for those units which include water in the rental charge) for 2019/20.

The annual rental charge percentage increase, acknowledging the ongoing multi-year implications of inflation on the costs associated with the management of rental properties including, inter alia, maintenance of the properties, administrative costs etc., is not directly aligned to the full economic cost of operating the rental units and operates on a City subsidised basis for the financial differential between the economic cost recovery based rental (CPI linked) and the actual amount charged.

Tenants who were in occupation of the City's rental properties in 2007 receive a subsidy of 20% of the rental charge being the final portion of the phase out program, which was not fully implemented by the City to facilitate affordability of long standing tenants. This key initiative, reflected within the City's Credit Control and Debt Collection Policy, supports affordable rentals to many poor communities and supports the City's initiatives in terms of its housing debt collection drives whilst supporting the City's housing debtor book that it does not unduly increase due to, potentially, unreachable charges.

The proposed 2019/20 housing rental charge is in line with previous annual rental increases and is again aimed at ensuring affordability for the City's poorer communities. The rental rate (per square meter per month) is R10.86 (where the unit has a separate water meter) or a rental charge (including water charge where applicable) of R18.28 per square meter per month.

The City's housing premiums and deductions charge structure addressing the variations in the City's diverse rental properties remains as follows:

- Discounts on account
  - Outside toilet (R20 per month)
  - External Water (R30 per month)
  - No ceiling (R15 per month)
- Premiums on account
  - Saleable unit (R4,50 per month)
  - Well maintained (R5 per month)
  - Local environment (R3,50 per month)
  - Well located (R5 per month)
  - Hot water cylinder (R4 per month)

4.3. Capital funding

The capital budget was prepared considering very strict assessment criteria to ensure mainly the ability to implement the capital budget. In this regard the “Brick Wall” approach was adopted where screening and reviewing of projects took place for procurement and implementation readiness, technical and financial feasibility and strategic alignment. This process culminated in the proposal of the following capital budget over the 2019/20 MTREF.

Table 3 Capital Budget over MTREF

Funded by:	Budget Year 2019/20 R' 000	Budget Year+1 2020/21 R' 000	Budget Year +2 2021/22 R' 000
Transfers recognised - capital	2,398,573	3,100,527	3,665,514
Borrowing	1,091,580	3,000,000	3,000,000
Internally generated funds	3,218,486	2,806,816	2,862,583
Total	**6,708,639**	**8,907,343**	**9,528,097**

5. 2019 Division of Revenue Act (DoRA) and Fuel Levy

5.1. 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 that supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges).

2019/20 – R2 816 million
2020/21 – R3 081 million
2021/22 – R3 378 million

5.2. 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 Fuel Levy allocation for 2019/20 was based on the 2017 fuel volume sales. Allocations for year 2 and 3 of the MTREF period is indicative, the actual allocations will be based on fuel sales.

The following amounts were allocated to the City, as per the 2019/20 allocation letter, was included in the City's 3-year budget:

2019/20 – R2 571 million
2020/21 – R2 665 million
2021/22 – R2 805 million

6. Major parameters

The following table summarises the major parameters applied to the 2019/20 MTREF Budget:

Table 4 Summary of parameters applied to Operating Budget

	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
CPI	**4.14%**	**5.05%**	**5.05%**
COLLECTION RATES			
Rates	93.00%	96.00%	95.00%
Electricity	98.00%	98.00%	98.00%
Water	84.00%	82.00%	82.00%
Sanitation	85.50%	95.00%	95.00%
Refuse	87.00%	93.00%	93.00%
REVENUE PARAMETERS			
Rates	4.00%	5.00%	5.00%
Electricity	8.88%	11.25%	10.77%
Water	9.00%	15.00%	19.80%
Sanitation	9.00%	15.00%	19.80%
Refuse	5.00%	6.00%	6.00%
Disposal	5.00%	11.50%	13.50%
GROWTH PARAMETERS			
Rates	1.00%	0.50%	0.50%
Electricity	-1.50%	-2.50%	-2.50%
Water	0.00%	0.00%	0.00%
Sanitation	0.00%	0.00%	0.00%
Refuse	2.00%	2.00%	2.00%
EXPENDITURE PARAMETERS:			
Salary increase			
Salary increase (SALGBC Agreement)	6.50%	6.65%	6.60%
Increment provision	2.00%	2.00%	2.00%
Operational cost	Differentiated	Differentiated	Differentiated
Repairs & Maintenance	Differentiated	Differentiated	Differentiated
Interest Rates			
Interest paid	8.11%	11.00%	11.00%
Interest on investment	7.00%	7.00%	7.00%
Other:			
Capital Borrowing expenditure	R1.092bn	R3.000bn	R3.000bn
Equitable Share Allocation	R2.816bn	R3.081bn	R3.378bn
Fuel levy	R2.571bn	R2.665bn	R2.805bn