2012-17 INTEGRATED DEVELOPMENT PLAN

2016/17 – 2018/19 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

EXECUTIVE SUMMARY

The Local Government Municipal Systems Act, Chapter 5, Section 26, prescribes the core components of the Integrated Development Plan. 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 Municipal Budget and Reporting Regulations, (Part 2; Budget-related policies of municipalities) require 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 Integrated Development Plan (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) model that 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 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 municipality 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.

FINANCIAL STRATEGIC APPROACH

The 2016/17 MTREF period represents the final year of the City's 5-year IDP period. The 2016/17 MTREF process commenced with a technical analysis of previous years' performance outcomes, an assessment of the economic outlook and consultation with various role players. The process encompassed the following:

- BSM provided the framework for and strategic direction of the budget;
- LTFP model forecasted taking above direction into account;
- Reiterative LTFP presentations to BSC and the BSM;
- Presentations by directorates at budget hearings on inter alia, processes to execute the City's strategies, business improvement measures and implementation readiness of capital programmes;
- Eskom's application for electricity tariff increases to National Energy Regulator South Africa (NERSA); and

- Presentations by the Utility services with regard to their proposed budgets and tariff increases.

FINANCIAL MODELLING AND KEY PLANNING DRIVERS

The alignment of the strategy of the City and the budget included alignment to the City's:
The Integrated Development Plan;

- Economic Growth Strategy (EGS) and the Social Development Strategy (SDS);
- Transversal goals as set out by the Economic and Social Clusters ;
- Built Environmental Performance Plan (BEPP);
- Core economic, financial and technical data obtained at local and national level; and
- Other issues, policies and strategies deemed important stemming from EMT/Mayco strategic sessions.

The outcome of the LTFP modelling performed incorporated the above and the assumptions outlined in the ensuing paragraphs below on which the 2016/17 MTREF was compiled.

The principles applied to the MTREF in determining and maintaining an affordability envelope included:

- Higher than inflation Repairs and Maintenance provisions to attain nationally benchmarked levels to ensure and enhance preservation of the City's infrastructure;
- Higher increases to selected cost elements subjected to higher than average inflationary pressure, e.g. staff costs;
- A 100% capital expenditure implementation rate assumed;
- Credible collection rates based on collection achievements to date and incorporating improved success anticipated in selected revenue items;
- National and Provincial allocations as per the 2016 DORA and 2016/17 MTREF Provincial Government allocations to municipalities.

ECONOMIC OUTLOOK / EXTERNAL FACTORS

Growth in emerging markets has slowed down and has led to downward revisions of economic growth forecasts particularly for developing countries. The sluggish growth experienced by South Africa is exacerbated by the lower export commodity prices, drought conditions, constraint in electricity supply and business confidence. According to Bureau of Economic Research (BER) the real growth rate is projected to average 1.6% over the next three years. It is expected that the factors causing the slow growth, e.g. electricity constraint, will improve in the next two years.

The value of the rand against the US dollar has declined continuously over the past 3 years, which is due to various factors including the decline in the global commodity prices, business confidence and the electricity supply crisis. BER projects that over the medium term the rand is expected to stabilise against the US dollar at an average of R16.6/$.

Oil prices showed a decline over the past year which is mainly driven by the supply of the commodity exceeding its demand. The fall in the oil price partly cushioned the impact of the weaker rand exchange rate. Oil prices are projected to average $38.6 per barrel over the medium term.

CPI has fluctuated between 4.3% and 6.1% over the past five years but is expected to surpass the SARB inflation target range of between 3% and 6%. CPI forecasts for at least the next 2 years are expected to remain above the 6% upper inflation target as per the latest BER forecast. The graph below depicts the CPI for the past years and projections for the next 5 years as per BER latest projection.

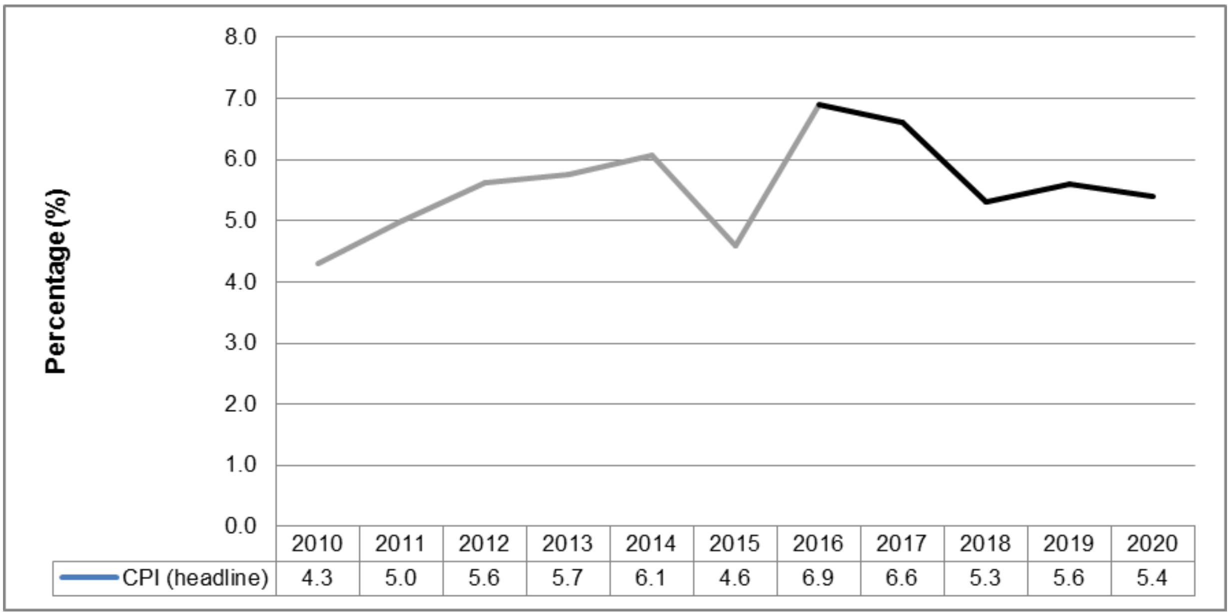


Figure 1 Consumer Price Index over recent and future years (projected)

When preparing the budget the BER forecasted CPI was at 5.1%, 6.2% and 5.6% for the calendar years 2015 to 2017, respectively, thus the City's forecasted CPI in municipal financial years was projected at 5.9% for 2016/17 and 5.5% for the two outer years. The latest BER projection however shows a higher CPI projection for 2016 and 2017. The 2017/18 MTREF will be adjusted considering this higher projected CPI.

The national inflation forecast set out in NT Circular 78 is 6%, 5.8% and 5.8% for the national fiscal years 2016 to 2018. NT Circular 79 provided updated CPI projections of 6.6%, 6.2% and 5.9% for the national fiscal years 2016/17 – 2018/19.

NATIONAL AND PROVINCIAL INFLUENCES

In drafting the 2016/17 MTREF special attention was given to National and Provincial influences which included:

a) Medium Term Budget Policy Statement (MTBPS)

The MTBPS highlighted that the South African economy has grown slower compared to what was projected at the beginning of 2015. This slow growth is due to various factors, which includes the global growth slowdown, the energy constraint, weak business confidence and low household demand.

To maintain the health of the public finance and support the social and economic transformation the MTBPS set out the following measures:

- Strengthen economic performance, to bring policy coherence and certainty where it is lacking; to give greater impetus to infrastructure investment and to address impediments that hold back enterprise development, employment and innovation;

- Build the energy capacity, water and transport networks and communication systems we need, expanding investments by state-owned companies and the private sector, alongside departmental and municipal initiatives;
- Ensure that public debt remains affordable, the public expenditure ceiling is maintained while protecting flagship social and economic programmes;
- Improve living standards and accelerate social development, working with municipalities to strengthen planning and concentrate investment in urban hubs and economic growth zones;
- Enhance state capacity and the quality and integrity of governance, reinforced financial management and procurement reforms, stepping up public sector training and institutional renewal; and
- Rapid implementation of the National Development Plan, working with the business sector, organised labour and social stakeholders to maintain a stable labour relations environment, improve confidence and promote broad-based development.

With regard to the issues raised above, the City is continuously investing in the Expanded Public Works Programme (EPWP) and has in 2013/14 implemented cost containment measures which included the reduction in the cost of National and International travel, catering and entertainment. These measures are revisited and assessed on an annual basis to ensure that maximum efficiencies are attained.

b) National Treasury MFMA circulars

The National Treasury MFMA circulars were also considered when preparing the 2016/17 MTREF. The key circulars relating to the 2016/17 MTREF are as follows:

MFMA Circular No 78 - the main focus of this circular are the 2016 Local Government Elections, the demarcation process and the changes to the local government grant allocations. It included and advised on, amongst other, the following:

- Local government reforms and changes to the fiscal framework, including allocations, grants, MBRR reporting requirements, reporting indicators and mSCOA;
- Economic challenges will continue to pressurise municipal revenue generation and collection hence a conservative approach is advised for projecting revenue. These circumstances make it essential for municipalities to reprioritise expenditure and implement stringent cost-containment measures;
- Municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interest of poor households other customers and ensuring the financial sustainability of the municipality;
- Municipalities to ensure that their tariffs are adequate to, at the minimum, cover the costs of bulk services and also to ensure that all properties are correctly billed for property rates and all services rendered;
- Guidelines for the 2016/17 MTREF Electricity, Water and Sanitation tariffs; and
- Municipalities must consider improving the effectiveness of revenue management processes and procedures and pay special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities.

MFMA Circular No 79 – the circular provides a summary and update of the country's economic outlook, inflationary targets, financial management issues, how to give effect to National Treasury's Municipal Budget and Reporting Regulations (MBRR) and the impact of the 2016 Local Government Elections on municipalities. It included, amongst other, the following:

- municipalities to review how they conduct their business to ensure value for money is obtained in all their expenditures, that revenue administration systems are operating effectively, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full;
- a municipality should re-evaluate the costs and benefits of universal or targeted provision of free basic services subsidies, in order to protect their delivery to poor households in particular;
- municipalities 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 financial sustainability; and
- Regulation on cost containment measures applicable to local government will be issued.

MFMA Circular No. 82 - The purpose of this circular is to guide municipalities and municipal entities on cost containment measures that must be implemented in an effort to address the impact of the country's economic challenges and to promote growth, address unemployment and equality, amongst others.

EXPENDITURE ANALYSIS – A THREE-YEAR PREVIEW

(a) General inflation outlook and its impact on municipal activities

CPI projected for the City is 5.9% for 2016/17 and 5.5% for the two outer years of the MTREF period. These levels are within the South African Reserve Bank (SARB) inflation targeting range of between 3% to 6% range and is depicted in the graph below.

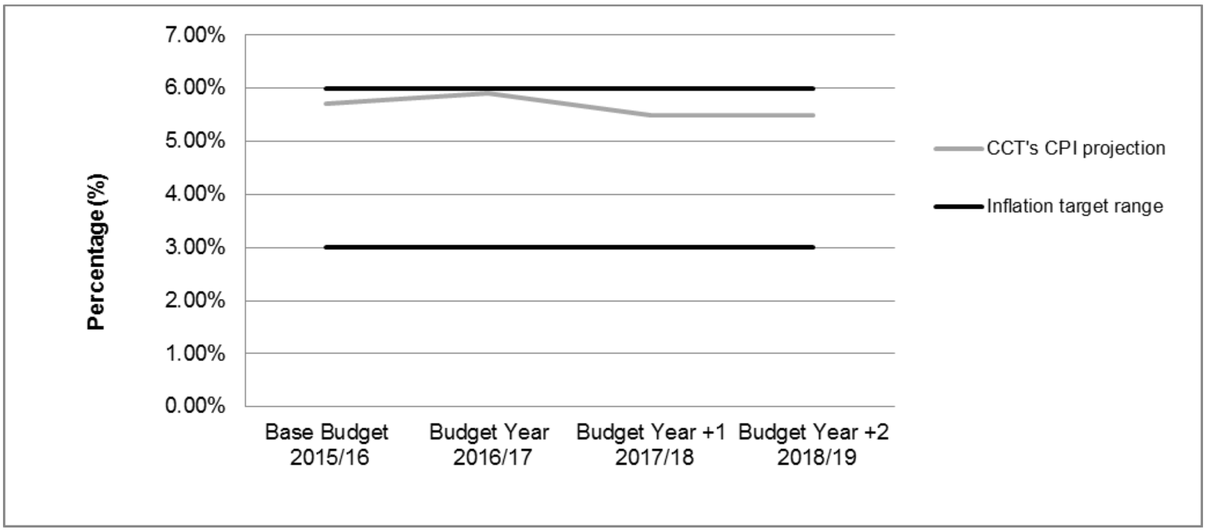
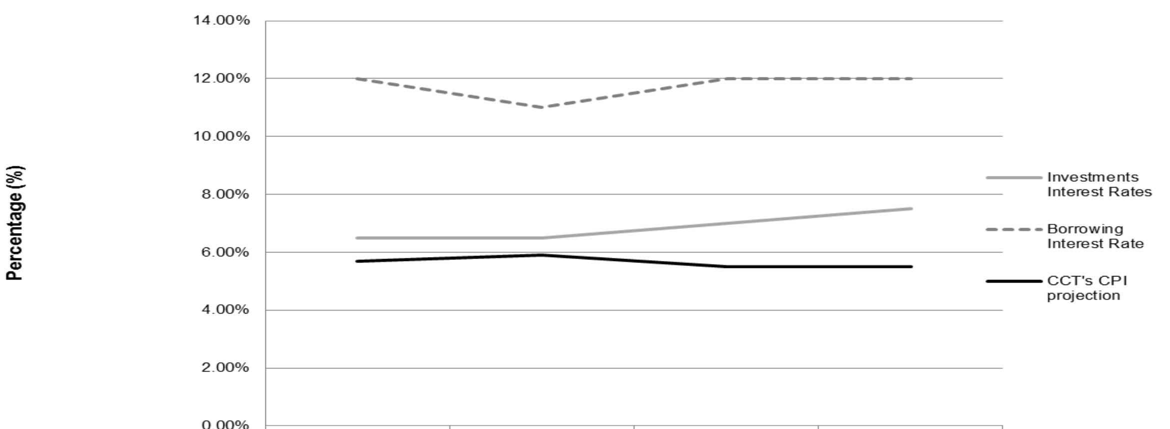


Figure 2 Consumer price index projections adopted in the MTREF

The City's projected inflation is to remain below 6% as per the graph above, however various budget elements such as salaries, repairs and maintenance, interest and depreciation cost has higher than CPI increases. This creates a fiscal gap which necessitates higher than CPI increases.

(b) Interest rates for borrowing and investment of funds

Borrowing interest rates is factored at a rate of 11% for 2016/17 and 12% for the two outer years. An average of 7% is forecasted for investment interest rate over the 2016/17 MTREF.



	Base Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Investments Interest Rates	6.50%	6.50%	7.00%	7.50%
Borrowing Interest Rate	12.00%	11.00%	12.00%	12.00%
CCT's CPI projection	5.70%	5.90%	5.50%	5.50%

Figure 3 Interest rates over the 2016/17 MTREF

(c) Collection rate for revenue services

In accordance with relevant legislation and national directives, the City's projected revenue recovery rates are based on realistic and sustainable trends. In calculating the debt impairment, the following collection rates were applied:

Table 1 Collection Rates

Services	Base Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Rates	96.0%	96.0%	96.0%	96.0%
Electricity	98.0%	98.0%	98.0%	98.0%
Water	88.0%	88.0%	88.0%	88.0%
Sanitation	89.0%	89.0%	89.0%	89.0%
Refuse	95.0%	92.0%	95.0%	95.0%
Housing	54.6%	55.0%	56.5%	58.0%

The collection rates for Rates and Service Charges are expected to remain constant over the 2016/17 MTREF period except for refuse services. The refuse collection rate was reduced due to lower collections in 2015/16; remedial processes were implemented to improve the collection rate in future. Ongoing debt management initiatives are being implemented which is intended to improve the collection rate to targeted levels.

Housing collection rate is also expected to increase over the 2016/17 MTREF, due to initiatives that include amongst other, expanded housing debt management and the Payers Incentive Scheme.

R2.257 billion was provided for debt impairment in the 2016/17 budget and is based on an average Rates and Service charges collection rate of 92.6%.

The graph below shows the debt impairment budgeted for the period 2014/15 to 2018/19.

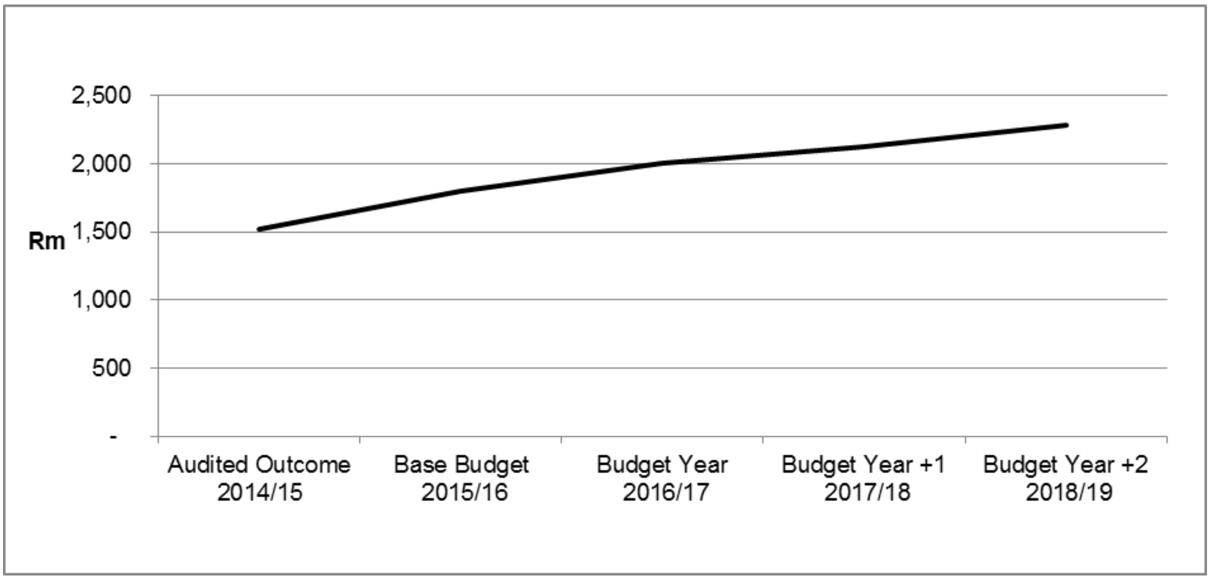


Figure 4 Debt Impairment – 2014/15 to 2018/19

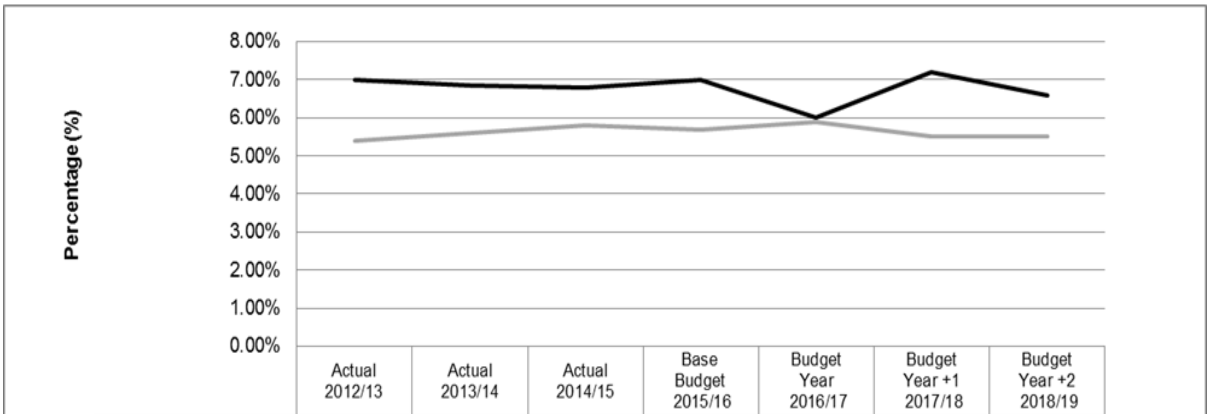
(d) Salary increases

Salaries, Wages & related staff cost expenses

A three-year salary and wage collective agreement was concluded in 2015. The term of the agreement covers the period 2015/16 to 2017/18. In the absence of an agreement for the third year of this MTREF period, the provisions for 2017/18 were also assumed for 2018/19.

In terms of the agreement, the salary and wage increases are to be annually calculated for all three years using the average CPI for the period 1 February of the previous year to 31 January of the forecasted budget year + 1%. This formula was used in determining the staff cost provisions of the MTREF. In addition, provision was made for an incremental allowance of 2% to cater for performance and other notch increases.

The graph below shows the City's consistent above-CPI salary increases for the last three years and for the projected MTREF period.



	Actual 2012/13	Actual 2013/14	Actual 2014/15	Base Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Salary Increases	7.00%	6.84%	6.79%	7.00%	6.00%	7.20%	6.60%
CCT's CPI projection	5.40%	5.60%	5.80%	5.70%	5.90%	5.50%	5.50%

Figure 5 Correlation between the City's CPI and the salary increase over the MTREF

(e) Ensuring maintenance of existing assets

Repairs & Maintenance

NT Circular 78 reminded municipalities to consider the budget management issues which were discussed in previous circulars. NT circulars 54, 55 and 58 stressed the importance of securing the health of a municipality's asset base by increased spending on repairs and maintenance. NT circular 55 further stated that "allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised. Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the benchmarks". NT Circular 55 and 70 set the percentage norm 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 9% on this ratio over the 2016/17 MTREF.

To give effect to the above directives, but still ensure that rates and tariffs are affordable, repairs and maintenance was budgeted at 1% above CPI over the 2016/17 MTREF. Repairs and maintenance was budgeted 3% above CPI in previous years.

The graph below shows the increasing expenditure trend on repairs and maintenance from 2014/15 and projected to 2018/19.

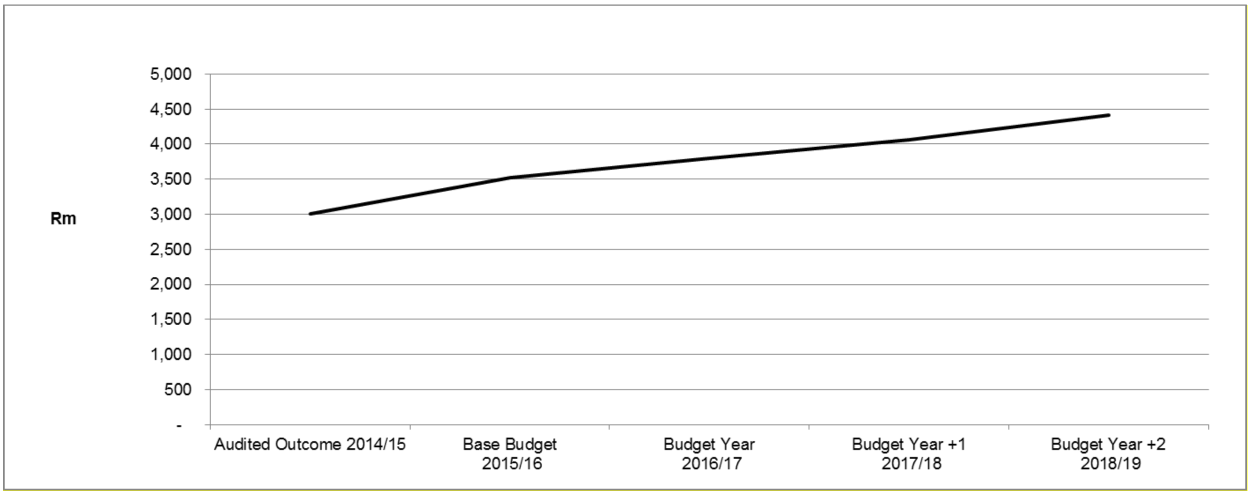


Figure 6 Increasing expenditure trend on repairs and maintenance from 2014/15 and projected to 2018/19

(f) Operating financing of capital

Depreciation

Calculation of depreciation on new capital expenditure is based on variables such as asset class and life span 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 which reflects actual values per annum. Assets under Construction (AUC) are calculated based on asset class lifespan and projected capitalisation dates.

Borrowing and Credit rating outlook

The City's borrowing is done in terms of chapter 6 of the MFMA and the City's borrowing policy, where a long term loan will only be entered into if it's affordable and sustainable. It is influenced by the capital investment requirement over the 2016/17 MTREF. 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 11 March 2016, Moody's Investors Service placed the rating of the City of Cape Town under review for possible downgrade. This action was prompted by the potential deterioration of South Africa's credit profile as captured by Moody's recent decision to put South Africa's Baa2 government bond rating on review for downgrade on 8 March 2016.
The City is rated at the high end of the range of South African municipalities rated by Moody's. The City's relative position reflects debt levels that are lower than the median of other metropolitan cities. Cape Town compares favourably with the other metros in South Africa in terms of budgetary performance and management, and displays robust cash holdings.

The City's rating is as follows:

Table 2 Credit rating outlook

Category	Currency	Current Rating 11 March 2016	Previous Rating 12 Feb 2016	Previous Rating 18 Dec 2015	Previous Rating 17 Feb 2015
Outlook	-	Rating under review	Negative	Negative	Stable
NSR Issuer Rating	Rand	A1.za	A1.za	A1.za	A1.za
NSR ST Issuer Rating	Rand	P-1.za	P-1.za	P-1.za	P-1.za
NSR Senior Unsecured	Rand	A1.za	A1.za	A1.za	A1.za

- The definitions of the rating categories are:
- 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;
- NSR Issuer Rating – A.za - Issuers or issues rated A.za present above-average creditworthiness relative to other domestic issuers;
- NSR Issuer Rating – Issuers or issues rated Aa.za demonstrate very strong creditworthiness relative to other domestic issuers;
- NSR ST Issuer Rating – P-1.za – Issuers (or supporting institutions) rated Prime-1 has a superior ability to repay short-term debt obligations;
- NSR Senior Unsecured – A.za - Issuers or issues rated A.za present above-average creditworthiness relative to other domestic issuers.

(g) Capital expenditure

The total capital budget included for the 3-year MTREF period is as follows:

Table 3 Capital Budget over the MTREF

Funding Source	**Budget Year 2016/17 R' 000**	**Budget Year+1 2017/18 R' 000**	**Budget Year +2 2018/19 R' 000**
CGD	2,286,412	2,320,642	2,354,953
CRR	946,463	1,161,893	817,719
Revenue	209,382	70,813	16,888
EFF	2,917,150	2,577,459	2,716,971
TOTAL	**6,359,407**	**6,130,807**	**5,906,531**

Grants received from National and Provincial Government remains a significant funding source over the 2016/17 MTREF. External Financing Fund (EFF) funding levels over the 3 years averages R2.7 billion.

REVENUE ANALYSIS – A THREE-YEAR PREVIEW

(a) Growth or decline in tax base of the municipality

The current unstable economic climate has restricted material service growth projections. The respective projected growth for the City's services is as follows:

Rates

Service growth for Rates is projected at 0.25% for 2016/17 and 2017/18 financial years, it is expected to increase to 1% in the 2018/19 financial year. The projected growth is due to economic growth not at sustainable levels to encourage new developments and/or home improvements. This position is expected to improve in the third year of the MTREF.

Water and Sanitation

Water and Sanitation projected zero growth over the 2016/17 MTREF. There is an expected physical reduction for 2015/16 due to the water restrictions, however, due to the adjusted tariff levels this is revenue neutral within the MTREF projections. This is based on the latest trend flowing from current economic conditions as well as water saving initiatives.

Electricity

Electricity has projected a 1.5% annual shrinkage on sales revenue over the 2016/17 MTREF, due to the impact of energy saving plans and increasing tariffs which is reducing consumption.

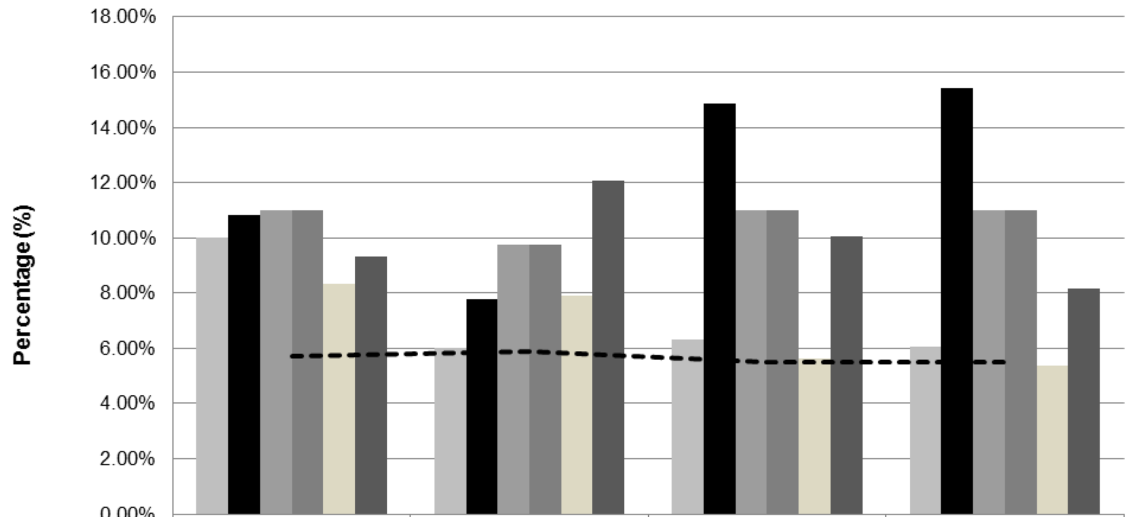
Refuse

A 2% service growth was applied over the 2016/17 MTREF for Refuse. This is as a result of the growth in the requirement for refuse services.

(b) Major tariffs and charges: Rates and Trading Services

The adverse impact of the current economic climate, the demand for new and upgraded infrastructure, savings initiatives and lower demand for services made tariff increases higher than CPI levels inevitable.

NT circular 78 of December 2015 *"National Treasury also continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities must justify in their budget documentation all increases in excess of the 6.0 per cent upper boundary of the South African Reserve Bank's inflation target in the budget narratives".* Nevertheless, it further indicates that tariffs should be cost reflective. In this regard the following represents the revenue increases included over the 2016/17 MTREF.



	Base Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Property Rates	10.00%	6.00%	6.30%	6.08%
Electricity	10.82%	7.78%	14.86%	15.40%
Water	11.00%	9.75%	11.00%	11.00%
Sanitation	11.00%	9.75%	11.00%	11.00%
Refuse	8.33%	7.92%	5.63%	5.38%
Disposal	9.31%	12.08%	10.06%	8.17%
CCT's CPI projection	5.70%	5.90%	5.50%	5.50%

Figure 1 Revenue parameters for 2016/17 MTREF period

Property Rates

An average Rates tariff increase of 6% is proposed for the 2016/17 financial year with an increase of 6.30% and 6.08% proposed, respectively, for the two outer years. The higher than CPI increases will provide for the recurring operating costs, new budget realities and for investments in new infrastructure for Rates funded services. Further contributing factors to the higher than CPI increase includes lower projected Rates service growth, higher than CPI salary and capital cost increases.

Electricity

Eskom submitted a Regulatory Clearing Account (RCA) application for the first year of the third Multi-Year Price Determination (MYPD3) period, i.e. the 2013/14 financial year. The National Energy Regulator South Africa (NERSA) assessed Eskom's application and the outcome was announced on the 01 March 2016. In this regard NERSA approved an electricity tariff increase of 9.4% for 2016/17 with the City applying a 7.78% revenue increase for the 2016/17 financial year.

The nature of business for this service is the purchasing and redistribution of electricity, where bulk purchases averages 63% of the service's total budget. The higher than CPI electricity average tariff increase is therefore mostly attributed to the NERSA approved Eskom increase on bulk purchases, which is 7.8% for the 2016/17 financial year. In addition, electricity sales are reducing due to energy saving plans, load shedding and elasticity as a result of increasing tariffs. Based on this and to ensure affordability the electricity average tariff increase was set at 7.78%, 14.86% and 15.40%, respectively, over the 2016/17 MTREF. This increase will also further cater for the continual operating costs of the service and for the investments in new infrastructure.

Water and Sanitation

According to NT circular 78, "municipalities should consider the full cost of rendering the water and sanitation services when determining tariffs related to these two services. If the tariffs are low and result in the municipality not recovering their full costs, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time".

Mindful of this, the Water and Sanitation average tariff increase was set at 9.75% for 2016/17 and 11% for the two outer years of the MTREF period. The higher than CPI tariff increase are due to various factors which mainly includes the financial impact of the capital programme (new infrastructure, expansion and rehabilitation of current infrastructure to address capacity constraints and to ensure system efficiency), repairs and maintenance programmes, cost of social package provided and recurring operational cost. Furthermore due to the current climatic conditions, the City instituted water restriction as from 1 January 2016, accompanied by the 20% reduction level tariff. The 20% reduction level tariff will be applicable for the 2016/17 financial year until further decisions regarding the water restrictions are made.

Solid Waste

Circular 78 reminds municipalities that budget management issues dealt with in previous circulars are still applicable. Circular 70 advised that *"in many instances waste tariffs do not cover the cost of providing the different components of the service. Where this is the case, municipalities should aim to have appropriately structured, cost-reflective solid waste tariffs in place by 2015".*

Solid Waste consists of two tariffs namely Disposal and Refuse. The disposal average tariff increase for 2016/17 is at 12.08% the increase for the two outer years are 10.06% and 8.17% respectively. This increase is required for capital investment and its related operating expenses. The capital investment includes amongst other, the Bellville transfer station to ensure continuity of the service at the end of a landfill site's useful life, new drop off facilities at Faure and Swartklip bringing the service closer to customers, the provision for rehabilitation of landfill sites, the construction of gas management systems allowing for future waste to energy initiatives and new airspace to be constructed to ensure sufficient capacity for the amount of waste generated.

The 7.92% average tariff increase for Refuse in 2016/17 is to maintain and improve the current standard of refuse removal service and to further promote waste minimisation. The service is piloting the roll out of home composters which will supply statistics on compost generated allowing the department to assess the viability of providing this service to all. The outer year’s average tariffs are projected to increase by 5.63% and 5.38% annually.

Housing rental stock

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 6.05% (where the unit has a separate water meter) or 8.61% (for those units which include water in the rental charge) for 2016/17. 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 is not directly aligned to the full economic cost of operating the rental units and operates on a City of Cape Town subsidized 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 Housing Debt Management 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 2016/17 housing rental charge is similar to previous annual rental increase percentages which, through targeting affordability by the City’s poorer communities, were aligned to the City’s general annual increases. The rental rate (per square meter per month) is R9.12 (where the unit has a separate water meter) or a rental charge (including water charge where applicable) of R13.37 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). A surcharge for tenants earning an monthly income above the rental income threshold (R3 500) is charged as follows at a stepped rate: R3 501 – R7 500 (8%); R7 501 – R10 000 (10%). Tenants with a monthly income >R10 000 will pay a surcharge of 25% of any amount above R10 000.

(c) Impact of national, provincial and local policies on operating revenue

2016 Division of Revenue

Equitable Share

The reviewed Equitable Share formula provide a subsidy for the provision of free basic water, electricity, sanitation and refuse removal services for the poor. It also provides funds for the institutional costs of municipalities and a community services component which provides funding towards the provision of core municipal services not included under basic services. To ensure that the funds for institutional costs and non-trading services are targeted at poorer municipalities, the formula applies a revenue-adjustment factor reflecting municipalities' ability to generate their own revenue. The revised formula used data from the 2011 Census which are to be updated annually to reflect estimates of population growth and projected increases in the cost of services such as water and electricity.

Equitable share provisions included in the budget are based on the 2016 Division of Revenue Act (DORA). The following equitable share amounts were allocated to the City as per the 2016 DORA:

2016/17 – R2.013bn
2017/18 – R2.283bn
2018/19 – R2.512bn

Fuel levy

The general fuel levy is legislated by the Taxation Laws Amendment Act (2009) that makes provision that each metro's share be announced through a Government Gazette. The fuel levy sharing amounts for each metro is therefore published annually through a Notice in the Government gazette.

The Fuel levy allocation is based on the latest available fuel sales figures within the jurisdiction of the City as a metro. The following amounts were allocated to the City as per the 2016/17 allocation letter received from NT:

2016/17 – R2.198bn
2017/18 – R2.362bn
2018/19 – R2.557bn

MAJOR PARAMETERS

The following table summarises the major parameters applied to the Operating budget:

Table 4 Summary of parameters applied to Operating Budget

	Budget Year 2016/17	**Budget Year +1 2017/18**	**Budget Year +2 2018/19**
CPI	**5.90%**	**5.50%**	**5.50%**
COLLECTION RATES			
Rates	96.00%	96.00%	96.00%
Electricity	98.00%	98.00%	98.00%
Water	88.00%	88.00%	88.00%
Sanitation	89.00%	89.00%	89.00%
Refuse	92.00%	95.00%	95.00%
Housing	55.00%	56.50%	58.00%
REVENUE PARAMETERS			
Rates	6.00%	6.30%	6.08%
Electricity	7.78%	14.86%	15.40%
Water	9.75%	11.00%	11.00%
Sanitation	9.75%	11.00%	11.00%
Refuse	7.92%	5.63%	5.38%
Disposal	12.08%	10.06%	8.17%
GROWTH PARAMETERS			
Rates	0.25%	0.25%	1.00%
Electricity	-1.50%	-1.50%	-1.50%
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)	6.00%	7.20%	6.60%
Increment provision	2.00%	2.00%	2.00%
General Expenses	5.90%	5.50%	5.50%
Repairs & Maintenance	6.90%	6.50%	6.50%
Interest Rates			
Interest paid	11.00%	12.00%	12.00%
Interest on investment	6.50%	7.00%	7.50%
Other:			
Capital (EFF component) expenditure	R2.917bn	R2.578bn	R2.717bn
Equitable Share Allocation	R2.013bn	R2.283bn	R2.512bn
Fuel levy	R2.198bn	R2.362bn	R2.557bn