ANNEXURE A

Comments on the proposed mid-year amendments to the 2014/15 IDP review

Comment 1

Corporate score card & IDP

1) 1.B Percentage spend of capital budget: I suggest to move the target to 98%

If you budget is meaningful and you work effectively, you should be able to spend all that has been budgeted for

2) 1.D Percentage spend on repairs and maintenance:

I suggest to increase the target to 98%

3) 2.B Reduce number of accidents at five highest frequency intersections:

I suggest to lower the figure to 20

My opinion is that the traffic police are more focused to raise revenue than to prevent accidents.

Comment 2

We URGENTLY request (as we have before) that at LEAST one DECENT vehicle be allocated to the Communities Law Enforcement Specials who operate from this side.

We do not support the comment by Mr Greeves that vehicles are being made available to the L.E.s- as this is in practice not happening.

So the positive programme of using volunteer Community L.E.s that should be expanding is coming to a grinding halt due to a lack of resources!

Comment 3

I would like to know what you are doing about the lack of sport facilities in the underprivileged communities. Yes the halls and centres are there where are the resources that will enable something fruitful to develop in them.

You've built a state of the art public gym in Sea Point; don't you think we would love that too?

What are you doing about the drug abuse that is so prevalent in the Cape Flats?

There are not enough trees in my neighbourhood, when I drive around the suburbs of Cape Town I'm always in awe of the tranquil mood that just a tree can provide what your plan with regards to that?

If I told you I wanted to start a program to motivate and rehabilitate the youth of my neighbourhood, what would you do to assist me?

MID-YEAR ADJUSTMENT - ONE YEAR CORPORATE SCORECARD 2014/2015

ANNEXURE B

Key Performance Indicator	ANNUAL TARGETS 2014/15	ADJUSTMENT BUDGET MOTIVATION
1.B Percentage spend of capital budget	92% **<u>Proposed Target</u>** **<u>90%</u>**	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015. Trend information from the past 3 financial years and realistic budget projections and retentions show that 90% budget spend is a more prudent target.
1.C Rand value of capital invested in engineering infrastructure	R 1,8 bn	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015
1.D Percentage spend on repairs and maintenance	95%	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015
2.B Reduce number of accidents at five highest frequency intersections.	362 **<u>Proposed Target</u>** **<u>169</u>**	The revision is based on the the fact that the baseline for 2013/2014 is 178. The new target for 2014/2015 will be 169 accidents
2.E Percentage budget spent on Integrated information management system	40% **<u>Proposed Target</u>** **<u>70%</u>**	The targets have been changed in order to align to the approved budget cycle and the deliverables for the reporting period as from 2013/2014 - 2016/2017. The amounts (%) and deliverables are aligned in accordance with the Total Project Costs as per the MTREF. Given the nature of this project and its complications it would be beneficial to report on this indicator annually which is in line with the MTREF and budget availability.
2.G Percentage of Neighbourhood Watch satisfaction survey	65% **<u>Proposed Target</u>** **<u>70%</u>**	Proposal for amendment as per Directorate Scorecard
3.D Number of Deeds of Sale Agreements signed with identified beneficiaries on transferrable rental units	2 500 **<u>Proposed Target</u>** **<u>1 000</u>**	Despite intensified efforts to get more tenants to utilize the opportunity to take ownership of their rental units, progress remains slow for a number of reasons, such as: Tenants not being able to afford the top up payment required for transfer; tenants wanting major upgrade of their rental units before purchasing; repairs and maintenance required before purchasing; not wanting the responsibility that goes with homeownership; The Enhanced Extended Discount Benefit Scheme competes for the same funding source as the provision of all Housing Opportunities
3.E Improve basic services		

MID-YEAR ADJUSTMENT - ONE YEAR CORPORATE SCORECARD 2014/2015

Key Performance Indicator	ANNUAL TARGETS 2014/15	ADJUSTMENT BUDGET MOTIVATION
3.E (a) Number of water services points (taps) provided	1 040 **<u>Proposed Target</u>** **<u>800</u>**	The Backyarder pilot phase projects for water & sanitation provision have been completed and transferred back to Human Settlements who are the owners of Council Rental Units (CRUs). In 2014/15, the entire budget is provided for in Human Settlement Services and therefore Utility Services target setting will no longer include tap and toilet installations in backyards. At the end of 2013/14 the department had achieved its own "improved level of services" set targets for taps. going forward, the department will continue to increase and enhance its water provision where it can. As grey water continues to be a challenge, access to bulk infrastructure continues to be limited to some areas and constraints in terms of land continue to be faced in informal settlement areas. Consequently, it will become more challenging to provide taps, resulting in the further decrease in target which has been factored into the budget.
3.F (b) Number of sanitation service points (toilets) provided	3 100 **<u>Proposed Target</u>** **<u>2 800</u>**	The Backyarder pilot phase projects for water & sanitation provision have been completed and transferred back to Human Settlements who are the owners of Council Rental Units (CRUs). In 2014/15, the entire budget is provided for in Human Settlement Services and therefore Utility Services target setting will no longer include tap and toilet installations in backyards. 52
5.H Ratio of cost coverage maintained	2:1	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015
5.I Net Debtors to Annual Income [Ratio of outstanding service debtors to revenue actually received for services]	~~21,5%~~ **Proposed Target** **<u>20.96%</u>**	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015
5.J Debt coverage by own billed revenue	~~2:1~~ **Proposed Target** **<u>2.75:1</u>**	Targets are to be determined after the adjustment budget is approved at Council in Jan 2015

2012-17 INTEGRATED DEVELOPMENT PLAN

2014/15 – 2016/17 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

Introduction

Section 26 in chapter 5 of the Municipal Systems Act 32 of 2000 prescribes the core components of the 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 Municipal Budget and Reporting Regulations (particularly 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 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 a financial model (Medium-Term Revenue and Expenditure Framework, or MTREF), which aims to determine the appropriate mix of financial parameters and assumptions within which the City should operate to facilitate budgets that are affordable and sustainable at least ten years into the future. In addition, it identifies the consequential financial impact of planned capital projects on the municipality's operating budget.

The MTREF model is reviewed annually to determine the most affordable level at which the municipality can operate optimally, taking into account the fiscal overview, economic climate, national and provincial influences, IDP and other legislative imperatives, as well as internal governance and community consultation.

Financial strategic approach

The 2014/15 MTREF period represents the 3rd year of the City's 5-year IDP period.

Changes to recent years' structures, protocols and processes envisage three separate budget committees with different focus of attention and responsibilities. This was implemented to ensure further improved strategic alignment of the budget to the IDP. In addition to the Budget Steering Committee (BSC) established in terms of the Municipal Budgeting and Reporting Regulations (MBRR), the two additional budget committees namely, the Budget Strategy Committee (BSM) and the Budget Oversight Committee (BOC) were established for the 2014/15 budget process. The purpose of the BSM is to ensure that the budget is aligned to the City's strategies whereas the BOC has an oversight role ensuring that the overall strategic alignment is being met.

The 2014/15 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
- MTREF model forecasted taking above direction into account
- Continuous MTREF presentations to EMT, BSC and the BSM
- IDP community consultations
- Presentations by directorates at budget hearings on their business improvement measurements, funding the IDP and capital investment plans for 3-year MTREF period
- Presentations by the Trading services with regard to their proposed budgets and tariff increases

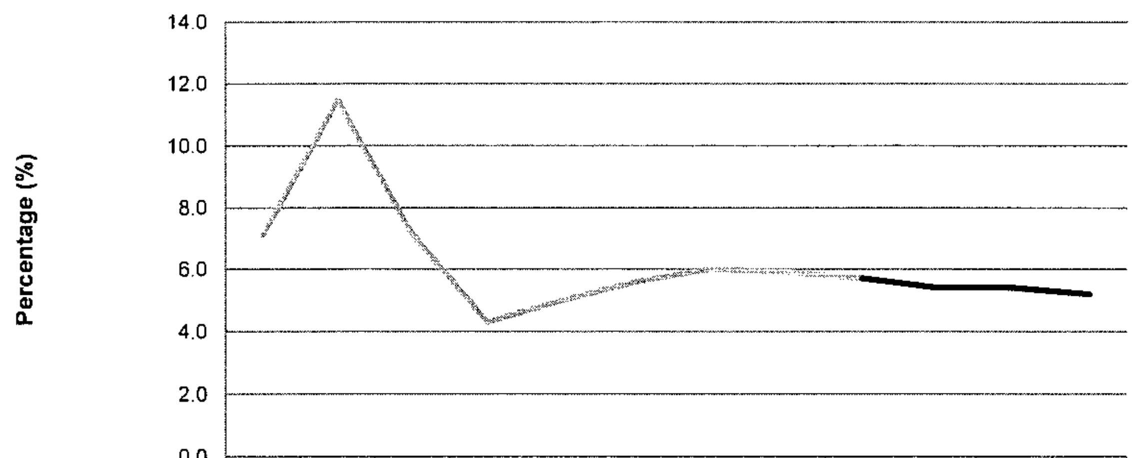
Economic outlook and external factors

According to Bureau of Economic Research (BER) growth performance is expected to revert back to the long term average. This forecast is due to the international financial markets recovering from the European Sovereign Debt crisis and the assumption that positive politics and improved economic policies will be experienced domestically. As a result, according to BER, GDP is expected to recover in 2015 to 3% and increasing steadily to 3.6% in 2017.

Oil prices are still currently volatile due to the negative fluctuations of the R/$ exchange rate and uncertainties around potential supply disruptions stemming from political tension in the Middle East. Oil prices are projected to remain at the high rate of between $100 to $110 per barrel for 2015. BER further forecasts the Rand to end 2014 at an average of R10.89/$ and is expected to end 2015 at R10.30/$.

Consumer price index forecasts

CPI is expected to remain within the SARB inflation target range of between 3% and 6%. CPI forecasts for the next 3 years are expected to remain at the upper end of the range due to food, petrol and energy costs. The graph below depicts the CPI for the past years and projections for the next 5 years as per BER.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CPI (headline)	7.1	11.5	7.1	4.3	5.0	5.6	6.0	5.9	5.7	5.4	5.4	5.2

Figure 1: Consumer price index trends – actual and forecast

BER has forecasted CPI as 5.9%, 5.7% and 5.4% for the calendar years 2014 to 2016 respectively. The City's forecasted CPI in municipal financial years is 5.8% for 2014/15, 5.6% for 2015/16 and 5.4% for 2016/17. Years 1 and 2 is higher than the inflation forecasts set out in NT Circular 70 which estimated 5.6% and 5.4% respectively for 2014/15 and 2015/16.

National and Provincial Government Influences
In drafting the 2014/15 MTREF special attention was given to National and Provincial influences which included:

a) Medium Term Budget Policy Statement (MTBPS)

The MTBPS outlined strategies and interventions required by local government in achieving economic stability and higher levels of growth, it include, among others:

i. Expanding public sector investment in infrastructure through ensuring the budgets and MTREF's acknowledge that capital programmes needs a balanced funding structure addressing not only backlogs in services but also investment in new infrastructure as well as renewing current infrastructure.
ii. Sustainable job creation - municipalities to ensure that in drafting their 2014/15 budgets and MTREFs, they continue to explore opportunities to promote labour intensive approaches to delivering services, and fully participate in the Expanded Public Works Programme.
iii. Municipalities to act as catalysts for economic growth through creating an enabling environment for investment and other activities that foster job creation.
iv. Implementing the National Development Plan through expanding electricity, transport, communications capacity and promoting industrial competitiveness.

The MTBPS further highlighted the current financial position of the country and informed amongst other, municipalities to minimise costs and abuse. The following six focus areas were highlighted for the period ahead:

i. Consultant services: Improved contract management, stricter control of consultancy fees and each government entity to develop a consultancy reduction plan over the course of this financial year.
ii. No credit cards.
iii. Travel and related costs: Restricting the type of cars hired and the number of officials travelling
iv. Advertising: Guidelines to limit non-essential costs and for better use of GCIS facilities will be developed.
v. Catering and event costs: Guidelines to be developed for reducing event costs, including better use of government facilities rather than outside venues for meetings. No public funds to be used for purchase of alcohol. The entertainment allowance will be limited to R2 000.
vi. Steps are under way to reduce long term office accommodation and government housing costs and make further savings from electricity demand management measures in government buildings.

With regard to the issues raised above, the City have further expanded their EPWP for the 2014/15 financial year, have already in the 2013/14 implemented cost cutting initiatives where provisions for National and International travel was reduced and stricter approving mechanisms applied; catering, and entertainments budgets reduced. In addition, the City continuously assesses efficiencies in the utilisation of office accommodation.

b) MFMA circular 70
   Cognisance was also taken of MFMA Circular No 70 – Municipal Budget Circular for the 2014/15 MTREF, which amongst other included:
   - Municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts.
   - Municipalities should carefully consider affordability of tariff increases;
   - Municipalities should also pay particular attention to managing revenue effectively and carefully evaluate all spending decisions.
   - Municipalities must implement cost containing measures as approved by Cabinet to eliminate non-priority spending.
   - Strengthening procurement to obtain value for money and fighting against corruption
   - Local government budget and financial management reforms, including the regulation of SCOA, the financial implication of SCOA and Management accounting and its impact on tariff setting
   - Guidelines for the 2014/15 MTREF Electricity, Water, Sanitation and Solid Waste tariffs.
   - Municipalities are urged to sign service level agreements and recover costs where unfunded/underfunded mandates are performed on behalf of other spheres of government. Unfunded/unfunded mandates pose an institutional and financial risk to the municipality as substantial amounts of own funding is allocated to non-core functions at the expense of service delivery.

Financial modelling and Key Planning drivers
The alignment of the strategy of the City and the budget included alignment to:
   - The Integrated Development Plan
   - Resource prioritisation within the IDP objectives according to the City's Economic Growth Strategy (EGS) and the Social Development Strategy (SDS)
   - The City's transversal goals as set out by the Economic and Social Clusters
   - Core economic, financial and technical data obtained at local and national level
   - Other issues deemed important at Mayco

The outcome of the MTREF modelling performed incorporated the above and the ensuing paragraphs outline the assumptions on which the 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;
- Reprioritisation of the operating budget to give effect to the MTBPS and National Treasury circular 79 and to ensure strategic alignment of the budget.

- National and Provincial allocations as per the 2013 DORA and 2013 Western Cape Provincial gazette.

EXPENDITURE ANALYSIS – A THREE-YEAR PREVIEW

General inflation outlook and its impact on municipal activities

CPI projected for the City is 5.8% for 2014/15, 5.6% and 5.4% for 2015/16 and 2016/17 respectively. 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.

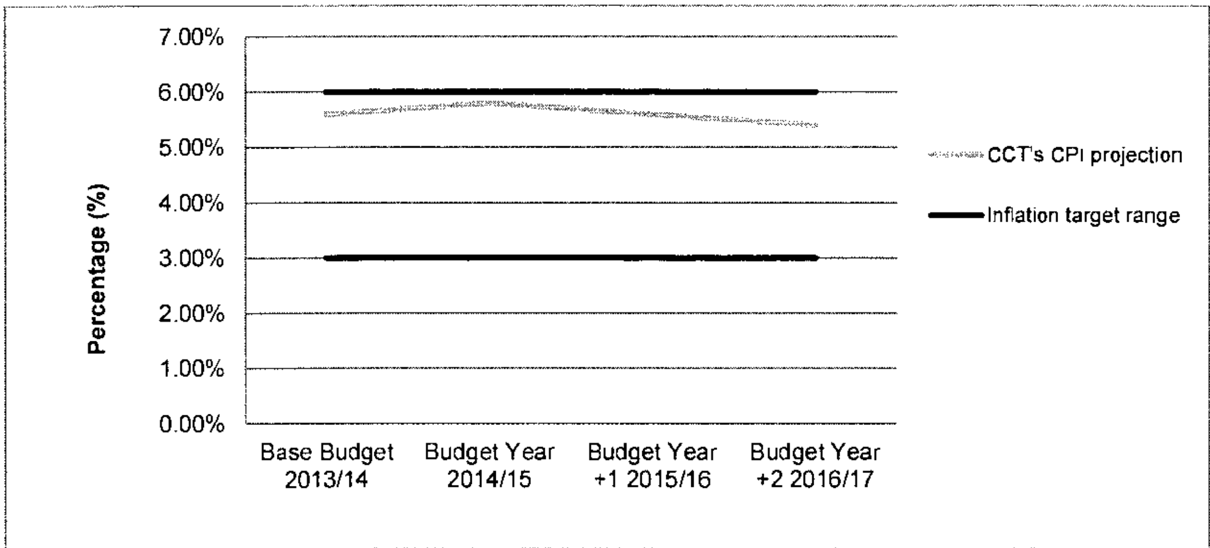


Figure 2: Consumer price index projections and Reserve Bank inflation target range

Collection rates 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 working capital reserve, the following collection rates were applied:

Table 1: Service revenue collection rates

Services	Base Budget 2013/14	2014/15	2015/16	2016/17
Rates	96.00%	96.00%	96.00%	96.00%
Electricity	98.00%	98.00%	98.00%	98.00%
Water	92.50%	90.60%	89.50%	89.00%
Sanitation	92.50%	90.60%	90.00%	90.50%
Refuse	93.00%	95.00%	95.00%	95.00%
Housing	47.00%	50.40%	52.00%	54.60%

Property Rates and Electricity's collection rates are expected to remain constant over the 2014/15 MTREF period. Refuse collection rate is expected to increase from 93% to 95% from 2013/14 to 2014/15, in line with recent years' trends. The yr. on yr. phased downward alignment of the Water and Sanitation collection rates is as a result of lower than anticipated actual outcomes. Current debt management initiatives being implemented is intended to raise the collection rate to targeted levels.

Housing collection rate is also expected to increase over the 2014/15 MTREF, which is due to initiatives that includes amongst other, expanded housing debt management and the Payers Incentive Scheme.

A R951 million was provided for debt impairment in the 2014/15 budget and is based on an average collection rate of 94% (excludes Housing). The graph below shows the debt impairment for the period 2012/13 to 2016/17.

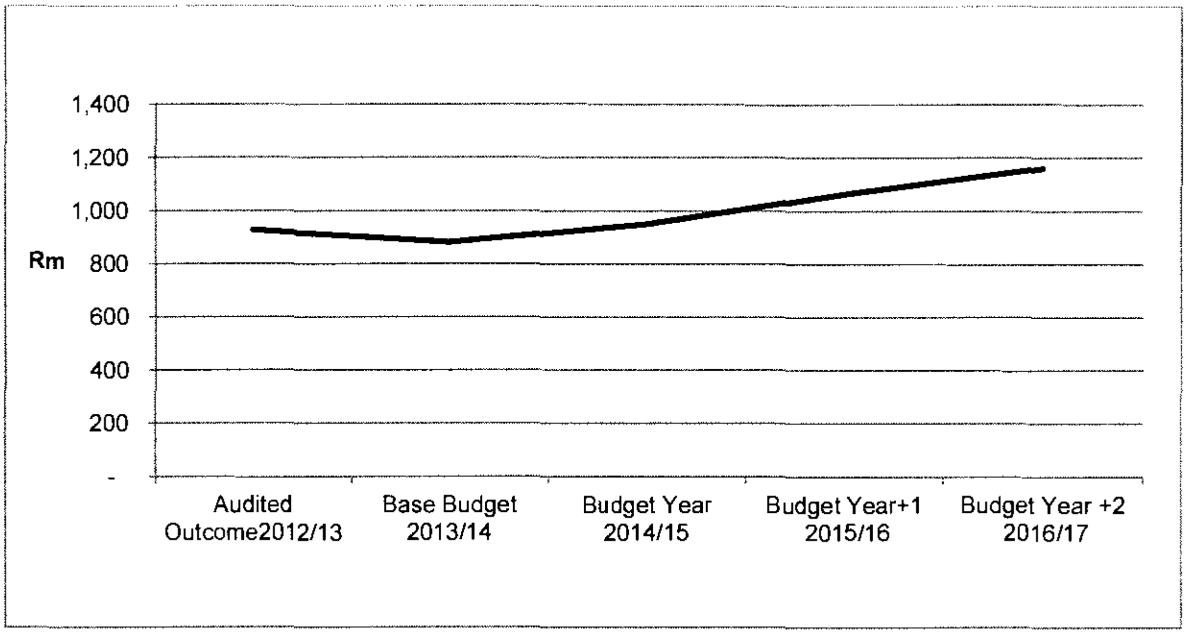


Figure 3: Provision of bad debts - 2012/13 to 2016/17

Salary increases – salaries, wages and related staff costs

A 3 year Salary and Wage collective agreement was entered into in 2012. The term of the agreement covers the 2012/13 to 2014/15 period; in the absence of an agreement for the two outer years of this MTREF period the provisions provided for 2014/15 were also assumed for the two outer years.

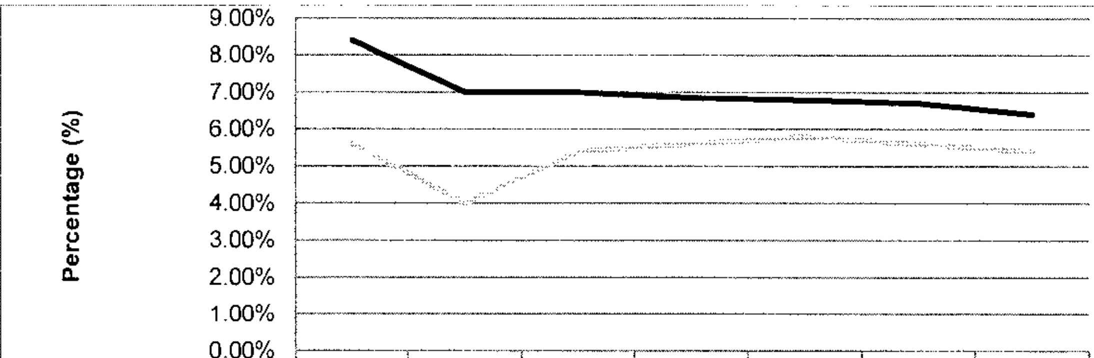
In terms of the agreement, the salary and wage increases were annually calculated for all three years using the average CPI for the period 1 February of the previous year to 31 January of the current year.

The agreement further stipulates that if, in any of these years the average CPI percentage, as per the calculation above, 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 actual CPI for the period 1 February 2013 to 31 January 2014 (ex STATSSA) is 5.79%; the salary provision made for the 2014/15 MTREF is therefore 6.79% (5.79%+1%).

In addition, provision was made for an incremental allowance of 2% to cater for performance- and other notch increases.

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



	Actual 2010/11	Actual 2011/12	Actual 2012/13	Base Budget 2013/14	Budget Year 2014/15	Budget Year+1 2015/16	Budget Year +2 2016/17
Salary Increases	8.40%	7.00%	7.00%	6.84%	6.79%	6.70%	6.40%
CCT's CPI projection	5.60%	4.00%	5.40%	5.60%	5.80%	5.60%	5.40%

Figure 4: Above-CPI salary increases

Ensuring maintenance of existing assets: Repairs and maintenance

NT Circular 70 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% this ratio outcome for the City averages 8.7% annually over the 2014/15 MTREF.

To give effect to the above directives repairs and maintenance was budgeted at 3% above CPI over the 2014/15 MTREF.

The graph below shows the increasing expenditure trend on repairs and maintenance from 2012/13 and projected to 2016/17.

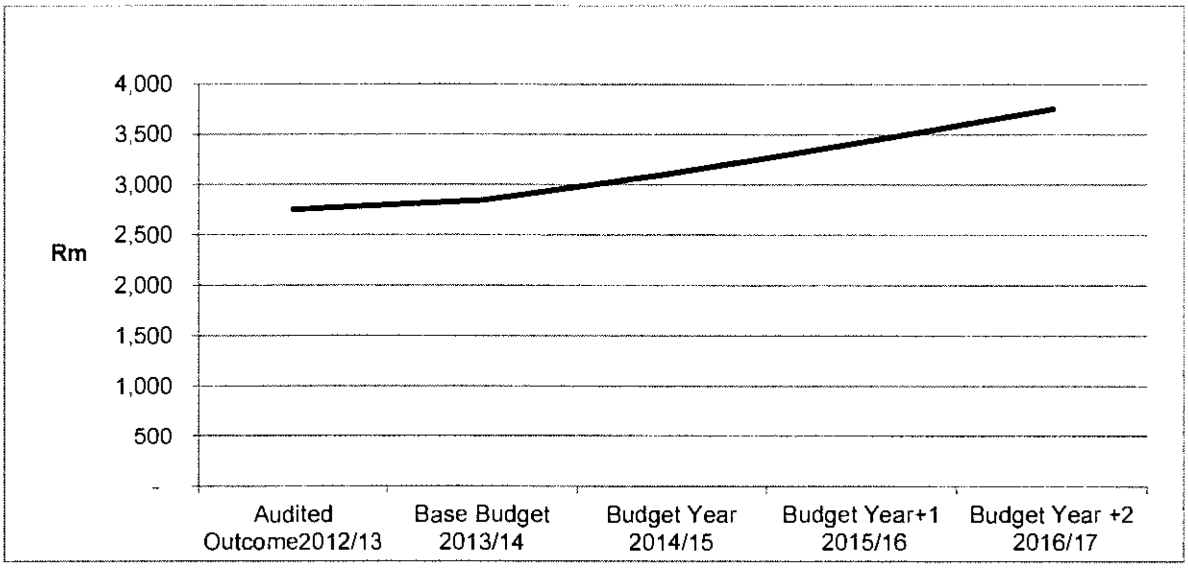


Figure 5: Repairs and Maintenance expenditure trends

Interest rates for borrowing and investment of funds

Borrowing interest rates is factored at a prime rate stabilising at 11% over the 2014/15 MTREF. The investment interest rate has improved from the previous financial period by 0.5%. An average of 5.50% was forecasted over the 2014/15 MTREF.

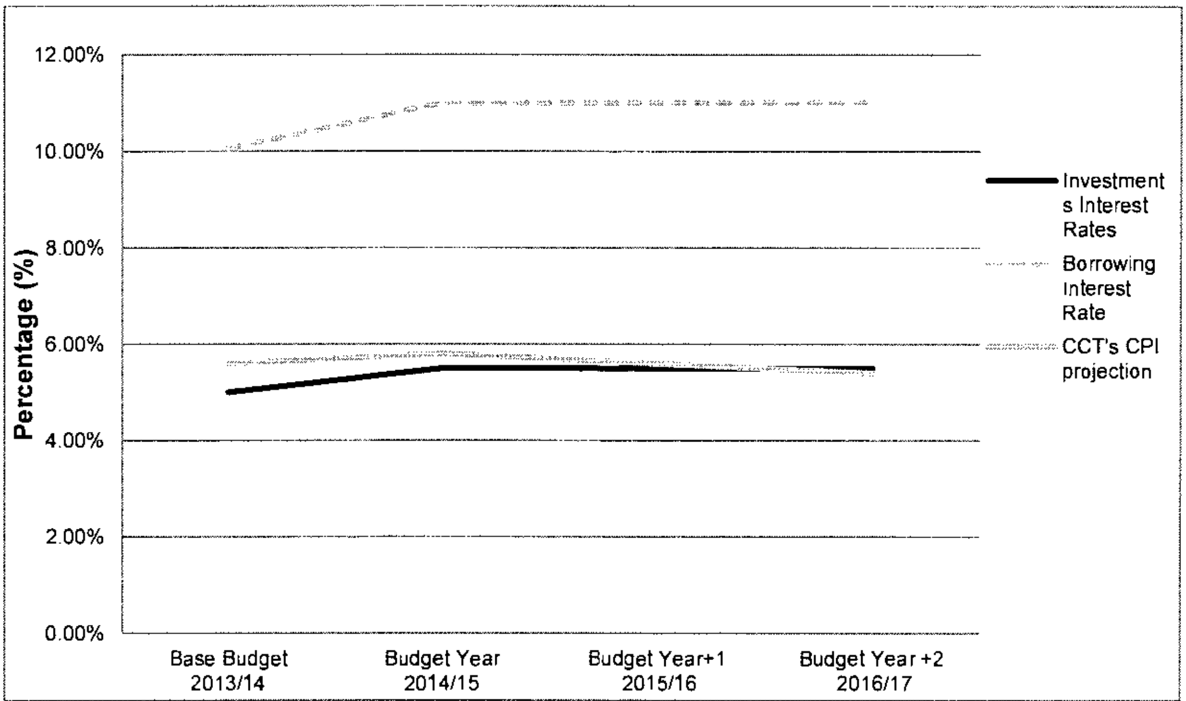


Figure 6: Investment and borrowing interest rates

Operating financing of capital
Calculation of depreciation on new capital expenditure is based on variables such as asset class life span, ranging between 9 and 50 years, depending on the nature of the asset. An annual capital expenditure implementation rate of 100% was assumed. Depreciation of existing assets is 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.

REVENUE ANALYSIS – A THREE-YEAR PREVIEW

Growth or decline in tax base and services of the municipality: Service growth
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 applied for Rates has reduced from 1% in 2013/14 to 0.5% over the 2014/15 MTREF.

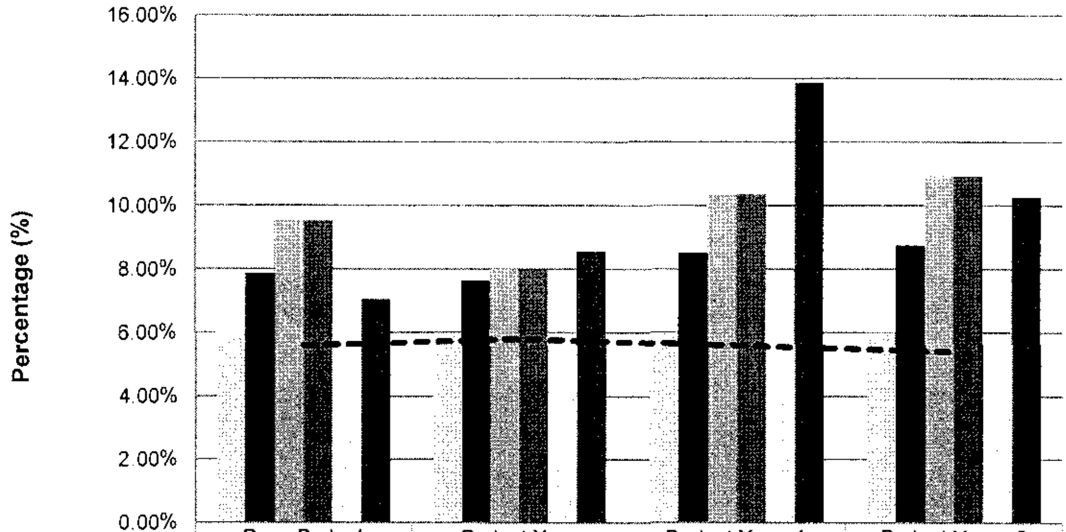
Water and Sanitation
A service growth of 1% was applied to Water and Sanitation over the 2014/15 MTREF. This is based on the average growth over the past years, on the revenue generating portion of water volumes.

Electricity
Electricity shows shrinkage in sales over the 2014/15 MTREF. This is due to the impact of energy saving plans and increasing tariffs which is reducing consumption. The Electricity Sales base is expected to shrink by 1.75% (2014/15) and 1% (2015/16 and 2016/17) over the MTREF period.

Refuse
A 2% service growth was applied over the 2014/15 MTREF for Refuse. This is as a result of the growth in the requirement for refuse services

Major tariffs and charges: Rates and trading services
The adverse impact of the current economic climate, coupled with the demand for new and upgraded infrastructure, made tariff increases higher than CPI levels inevitable.

NT circular 70 of December 2013 *"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 2014/15 MTREF.



	Base Budget 2013/14	Budget Year 2014/15	Budget Year+1 2015/16	Budget Year +2 2016/17
Property Rates	6.10%	6.00%	6.00%	6.00%
Electricity	7.86%	7.63%	8.50%	8.75%
Water	9.53%	8.00%	10.35%	10.92%
Sanitation	9.53%	8.00%	10.35%	10.92%
Refuse	6.32%	5.87%	6.07%	5.75%
Disposal	7.06%	8.56%	13.87%	10.27%
CCT's CPI projection	5.60%	5.80%	5.60%	5.40%

Figure 7: Average service revenue increases

Property Rates

The Rates revenue increase is at 6% over the 2014/15 MTREF, i.e. within the inflation target range. This increase will afford the City to provide for the recurrent operating costs, new budget realities and for the investments in new infrastructure of Rate funded services.

Electricity

The NERSA approved electricity bulk purchases increase for 2014/15 is 8.06%. Based on this, the City's average revenue increase requirement is 7.63% for the 2014/15 financial year and 8.50% and 8.75% for the two outer years respectively. The higher than CPI increase is attributed to various factors which would include the higher than CPI Eskom increase and salary increases. It furthermore caters for the increased costs of finance charges to the previous financial year, due to increased investments in new infrastructure to ensure continued optimal service delivery and an increase in the number of revenue collection teams to further improve the collection ratio.

Water and Sanitation

According to NT circular 70 municipalities were previously advised that "*If the water and sanitation tariffs are not fully cost reflective, 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*". It was further advised that "*as per the guidance in previous Budget Circulars, municipalities are expected to have cost reflective tariffs for the 2014/15 MTREF for both water and sanitation. Should this not be case, municipalities will be required to clearly articulate the reasons within the budget document including remedial actions in rectifying this position*".

The average Water and Sanitation revenue increase for 2014/15 is at 8.00% and averages 10.64% over the two outer years. The higher than CPI tariff increase requirement is as a result of the additional cost required to service informal settlement, to keep pace with the demand for maintenance of the current infrastructure, to cater for increased water demand, to ensure compliance to the Waste Water Treatment Works legislation issued by the Department of Water Affairs, the investment in new infrastructure as well as to absorb the cost impact of the lower collection ratio projected for the 2014/15 MTREF,

Solid Waste

According to Circular 70, *"municipalities are once again reminded 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".*

The Disposal average increase for 2014/15 is at 8.56%. This increase, amongst other, is required for the rehabilitation of landfill sites and for the operating costs relating to the new transfer station. The 5.87% average increase for Refuse in 2014/15 is to maintain and improve the standard of refuse removal service.

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 property for which the rent is charged.

The rates for 2014/15 are as follows:

- Rental (per square meter): R8.20
- Rental (per square meter including water charge where applicable): R11.58
- Plus the applicable premiums and deductions associated with the unit

Impact of national, provincial and local policies on operating revenue

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 indicative amounts were allocated to the City as per the 2014/15 allocation letter received from NT:

2014/15 – R2.003bn
2015/16 – R2.083bn
2016/17 - R2.180bn

Equitable share

The reviewed Equitable Share formula provide a subsidy for the provision of free basic water, electricity, sanitation and refuse removal services for every poor household. It also provides funds for the institutional costs of municipalities, 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.

Table 2: Equitable Share formula

Structure of the local government equitable share formula
$$LGES = BS + (I + CS) \times RA \pm C$$
where
LGES is the local government equitable share
BS is the basic services component – basic services subsidy x number of poor households
I is the institutional component – base allocation + [allocation per councillor * number of council seats]
CS is the community services component – [municipal health and related services allocation x number of households] + [other services allocation x number of households]
RA is the revenue adjustment factor
C is the correction and stabilisation factor

Equitable share provisions included in the budget are based on the 2014 Division of Revenue Act (DORA). Based on the calculation as set out above the City had a revenue adjustment factor of zero which meant that it did not receive any allocation from the institutional and non-trading services components on which the factor was applied. The following indicative equitable share amounts were allocated to the City as per the 2014 DORA.

2014/15 – R1.497bn
2015/16 – R1.796bn
2016/17 - R2.026bn

Capital funding sources

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

Table 3: Capital funding sources

Funding Source	2014/15 R' 000	2015/16 R' 000	2016/17 R' 000
Capital Grants and Donations	3,236,175	2,443,769	2,643,189
Capital Replacement Reserve	598,312	809,833	646,428
Revenue	219,975	124,029	15,534
External Financing Fund	2,277,157	2,688,327	2,369,189
TOTAL	**6,331,619**	**6,065,958**	**5,674,340**

Grants received from National and Provincial Government remains a significant funding source over the 2014/15 MTREF. External Financing Fund (EFF) over the 3 years averages R2.45 billion.

Borrowing and credit rating

The City's borrowing is done in terms chapter 6 of the MFMA and the City's borrowing policy and is influenced by the capital investment / EFF requirement for the 2014/15 MTREF. The City requires a credit rating to demonstrate its ability to meet its financial obligations. Potential lenders also use this rating 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 has rated the City's credit rating as Aa3.za on the 10 February 2014, which reflects the City's strong budgetary performance and its good liquidity position. The City is rated at the high end of the range of South African municipalities rated by Moody and it is expected that the City will maintain this relatively strong financial position in the medium term. The negative outlook on the City's rating mirrors the negative outlook on South Africa's sovereign rating. This position can only be improved by the stabilisation or upgrade of the sovereign rating.

Table 4: Credit rating for the City of Cape Town

Category	Currency	Current Rating 10 Feb 2014	Previous Rating 02 April 2013
Outlook	-	Negative	Negative
NSR Issuer Rating - Dom Curr	Rand	Aa3.za	Aa3.za
NSR ST Issuer Rating - Dom Curr	Rand	P-1.za	P-1.za
NSR Senior Unsecured - Dom Curr	Rand	Aa3.za	Aa3.za

The definitions of the rating categories are:
Negative Outlook - reflects that a credit rating assigned to an issuer which may be lowered.
NSR Issuer Rating – Aa3.za – Issuers or issues rated A.za present above average credit worthiness relative to other domestic issuers.
NSR Issuer Rating – Aa2.za – 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 – Issuers demonstrate very strong creditworthiness relative to other domestic issuers.

Major parameters to the operating budget

Table 5: Operating budget parameters

	2014/15	2015/16	2016/17
	%	%	%
CPI	**5.80**	**5.60**	**5.40**
COLLECTION RATES			
Rates	96.00	96.00	96.00
Electricity	98.00	98.00	98.00
Water	90.60	89.50	89.00
Sanitation	90.60	90.00	90.50
Refuse	95.00	95.00	95.00
Housing	50.40	52.00	54.60
REVENUE PARAMETERS (excluding organic growth):			
Rates	6.00	6.00	6.00
Electricity	7.63	8.50	8.75
Water	8.00	10.35	10.92
Sanitation	8.00	10.35	10.92
Refuse	5.87	6.07	5.75
Disposal	8.56	13.87	10.27
REVENUE PARAMETERS (including organic growth):			
Rates	6.50	6.50	6.50
Electricity	5.88	7.50	7.75
Water	9.00	11.35	11.92
Sanitation	9.00	11.35	11.92
Refuse	7.87	8.07	7.75
EXPENDITURE PARAMETERS:			
Salary increase			
Salary increase (SALGA Agreement)	6.79	6.70	6.40
Increment provision	2.00	2.00	2.00
General Expenses	5.80	5.60	5.40
Repairs & Maintenance	8.80	8.60	8.40
Interest Rates			
Interest paid	11.00	11.00	11.00
Interest on investment	5.50	5.50	5.50
OTHER:			
Capital (EFF component) Expenditure	R2.277bn	R2.688bn	R2.369bn
Equitable Share Allocation	R1.497bn	R1.796bn	R2.026bn
Fuel Levy	R2.003bn	R2.083bn	R2.180bn