

CAPE TOWN'S FINANCIAL TRACK RECORD

How the City of Cape Town has spent money wisely, to create jobs and alleviate poverty

[Note to editors: The following statement was distributed at a press conference held at Parliament on 18 April by Lindiwe Mazibuko, DA National Spokesperson, James Lorimer, DA Shadow Minister of Co-operative Governance, and Ian Neilson, DA PR Ward Candidate for the City of Cape Town.]

Introduction

One of the most important measures of a government's commitment to the welfare of its citizens is how it manages its finances, and spends the public's money. As stewards of the nation's wealth and future hopes, our leaders are expected to collect the people's money fairly and efficiently, manage it honestly and prudently, spend it wisely and effectively, and account for it openly and transparently. When this does not happen, critical functions of municipalities – like the delivery of services and building of infrastructure – simply cannot happen. Unfortunately, many local governments in South Africa fail to live up to their obligations, a fact that can only change if voters decide to lend their votes to a different party.

While no party or administration can claim to have a perfect record in government, the Democratic Alliance's track record of openness, efficiency and prudence in financial administration has showed that the local sphere of government can actually work – to deliver services, build infrastructure, and create real opportunities for ordinary South Africans, and particularly for those living in poverty.

Voters in the upcoming municipal elections deserve a frank assessment of how different parties perform in this critical area of governance, which has the potential to profoundly affect the lives of those at the bottom end of the economic ladder, and it is for this reason that we are today outlining our record in managing the City of Cape Town's finances.

Spending money wisely and effectively

The most important question for most residents is how a City goes about spending its money. Does it waste it on enriching the politicians, as is common in many South African municipalities, or does it spend its grants wisely, especially those funds earmarked for the poor? As we have discussed elsewhere, the DA is noted for spending its full share of [Provincial Infrastructure Grants](#) and [Municipal Infrastructure Grants](#), in comparison to the ANC municipalities and provinces, some of which were even penalised by the National Treasury for failure to spend their grants. This is money earmarked strictly for infrastructure development for poor communities. Compared to ANC municipalities, which only spent 75% of their Municipal Infrastructure Grants last year, the DA spent 99% of ours.

We have used public money to ease the burden on the poor. The City's Indigent Policy is one of the most supportive in the country:

- Households earning less than R3000 per month, or owning houses valued at less than R200 000, **receive a rates rebate of 100%.**

- Households earning between R3000 and R4000 per month will **receive a rates rebate of 50% from 1 July 2011.**
- Households earning less than R3000 per month, or owning houses valued at less than R300 000, **receive 10.5 kL of free water per month.**
- All other households **receive 6 kL of free water per month.**
- All households in the City of Cape Town supply area who use less than 450 kWhrs per month **receive 50 kWhrs of free electricity per month.** In the next financial year, we have proposed that old age and handicapped households qualify for rebates if they have incomes of no more than R10 000 per month.

This indigent policy is designed to assist people to break free of the poverty cycle. It is part and parcel of our efforts to build an Open, Opportunity Society for All.

The DA-led City has also increased its **capacity to spend**, especially its capital budget. Under the previous ANC administration in Cape Town, less than two-thirds of its capital budget was spent, on average, between 2002 and 2006. But the DA has substantially increased that rate since coming into office:

- Under the **ANC**, in **2002/03**, Cape Town achieved a **67.8%** spending rate on its capital budget.
- Under the **ANC**, in **2003/04**, Cape Town achieved a **60%** spending rate on its capital budget.
- Under the **ANC**, in **2004/05**, Cape Town achieved a **63.2%** spending rate on its capital budget.
- Under the **ANC**, in **2005/06**, Cape Town achieved a **71.4%** spending rate on its capital budget.
- Under the **DA**, in **2006/07**, Cape Town achieved a **77.4%** spending rate on its capital budget.
- Under the **DA**, in **2007/08**, Cape Town achieved a **78%** spending rate on its capital budget.
- Under the **DA**, in **2008/09**, Cape Town achieved a **96.5%** spending rate on its capital budget.
- Under the **DA**, in **2009/10**, Cape Town achieved a **83%** spending rate on its capital budget.

The ANC averaged **65.6%** expenditure; the DA's administration has averaged **83.7%** annually.

Additionally, during the ANC's five years at the City's helm, it invested only R7 billion in **infrastructure development** while the DA more than **doubled that to R19 billion** during our five-year term. We also doubled our annual spending on **maintenance and repairs**.

And the DA has done all of this without sacrificing the need to ensure that small and medium sized businesses, and particularly those from disadvantaged backgrounds, are able to play their own role in growing the City and supporting government initiatives. When the DA came to office, we scrapped some of the existing procurement rules, which had been dressed up as Black Economic Empowerment by the ANC, but which actually served only to channel contracts to the well-connected. The result was the exact opposite of what our critics claimed would happen: in 2006, 40% of Cape Town's supplies were procured from **Historically Disadvantaged Individuals (HDIs)** and **Small and Medium Enterprises (SMMEs)**, but that figure rapidly climbed above 60%. It reached 80% by the fourth quarter of 2009. The number of vendors doing

business with the city jumped from 10,000 in 2007 to 15,000 by 2010. In doing so, we **increased black economic empowerment**, by creating an environment of openness and opportunities for all.

Collecting money fairly and efficiently

It is essential that administrations collect money fairly and efficiently. Metros derive the bulk of their public funds from three sources: national grants and subsidies, rates and service charges. While the national allocations are determined by a formula applied to each metro, the council has a significant impact on rates collection and service charge collection.

Rates make up 24% of the City of Cape Town's income and pay for services such as the building and maintenance of roads and parks, plus the running of clinics and libraries, as well as fire, rescue and traffic services. Our **collection rate for the last financial year was 96%**, meaning that residents were happy to pay their rates on time knowing that the money would go toward service delivery.

However, rates must be fair for both the ratepayers and the City. That is why the City implemented **two general valuations** during the past five years, the only city in the country to do so. This means that property rates are more likely to reflect the true value of a property in Cape Town than elsewhere because they are more up-to-date. Meanwhile, other cities simply applied to extend the validity of their valuation rolls rather than perform fresh valuations, leading to less reliable rates determinations, and less fairness for both parties.

Service charges for electricity, water, wastewater and refuse make up 53% of the City's revenue. Between 2009 and 2010, the rand value of the service charges we collected grew by 25,6%, hence it is a crucial and growing segment of our funds. However, service charges must be fair to consumers and should only rise within reasonable limits. Despite the massive price escalations from Eskom for electricity, and the general rise in transport, material and labour costs, the proposed increases by the City of Cape Town in the coming year compare favourably to those of other metros such as Johannesburg:

- In **Johannesburg**, service charges for **electricity** are rising **35%** in 2011/12; in **Cape Town**, they are rising **19.9%**.
- In **Johannesburg**, service charges for **water** are rising at **13%** in 2011/12; in **Cape Town**, they are rising **8.3%**.
- In **Johannesburg**, service charges for **refuse collection** are rising at **6%** in 2011/12; in **Cape Town**, they are rising **5.5%**.
- In **Johannesburg**, service charges for **property rates** are rising at **6.7%** in 2011/12; in **Cape Town**, they are rising **5.9%**.

Managing money honestly and prudently

Once funds are available to a municipality, they must be managed according to an Integrated Development Plan (IDP) which lays out the short- and long-term objectives for metro spending. These plans must be practical, able to cope with exigencies of the present and respond to the vagaries of the future. If a metro manages its money well, it will be reflected in the Moody's International credit rating, which tells investors how deeply they can trust the metro's financial system for continued stability and growth.

In 2010, Moody's showed confidence in our finances by assigning to the city an **issuer rating** of

P-1.za. This is Moody's highest rating. Moody's also confirmed the City's double-A **long-term credit rating** for the fourth consecutive year, highlighting the City's buoyant budgetary performance and its comfortable liquidity position. No metro in the country has a higher rating. Moody's further added that Cape Town's key financial metrics and its budgetary position are expected to remain sound in the medium term and is supported by an overall prudent financial policy and a relatively robust economic base.

This rating has positive implications for the economic future of Cape Town, assisting the City in negotiations with creditors for future loans and ensuring more favourable lending rates. It means that companies will be confident in doing business with the City, safe in the knowledge that it can pay its accounts. Ultimately, this is a boon not only for investors, but city residents who benefit from new job opportunities, a greater municipal tax base and a dynamic business environment.

Accounting for money openly and transparently

The City of Cape Town doesn't just collect, manage and spend money on our residents' behalf, but ensures that we are accountable for how we did so. The most authoritative indicator of how we have performed is expressed in the **Auditor-General's annual audit report** of the metro. Cape Town has received an **unqualified audit opinion for every year that we have been in office**, an indication of the DA's commitment to sound financial leadership and accountability.

To the national and provincial treasuries, the unqualified report means that the funds they have provided have been properly utilised and accounted for. Residents and ratepayers are also reassured that the money they have paid for rates and services has been spent prudently, while financial institutions can take comfort from the knowledge that their loans to the City are in safe hands, and will be repaid.

We are able to achieve these unqualified audits, the hallmark of DA administrations everywhere we govern, because we have built accountability into our whole system of governing. For instance, within the City of Cape Town is an independent directorate called **Internal Audit**, which provides us with fiscal oversight, even before the A-G looks at our books. It makes sure we're on the right track with our financial accounting before there are problems. Our Internal Audit directorate has proven so effective that the Accountant-General of the National Treasury asked it to assist in generating and retaining chartered accountants in the public sector, ultimately to build capacity for efficient, effective and transparent financial management. The directorate facilitated the establishment of the City as a primary site for training candidate chartered accountants in the 2009/10 financial year.

The DA also ensures that **transparency** is built into every element of our financial decision-making process:

- When we took the City of Cape Town in 2006, we **opened all council meetings and Mayoral Committee (Mayco) meetings** to the public. To this day, Cape Town is the only metro that holds open Mayco meetings.
- The DA also **opened up the meetings of the Bid Adjudication Tender Award Committee** which decides all contracts between the City and outside suppliers. No ANC metro does this.
- We also established the first **municipal Standing Committee on Public Accounts** which, similar to its national parliamentary SCOPA counterpart, is chaired by a member of an opposition party. The ANC has not instituted this in any of its metros.

- Finally, we **release monthly reports on our financial performance to the public**, freely available on our website. No other ANC metro does this.

Conclusion

As municipal elections approach, it is timely to consider the way in which various local administrations in South Africa have managed their finances. In this regard, the DA has achieved much in the City of Cape Town over the past five years. There is room for improvement, of course, and we are aware of the challenges ahead of us, but we have put the City in a stronger position, and we can now look forward to robust growth that will enhance the lives of all residents in the years to come.

We highlight these differences to show voters that where the DA governs, it governs well. We brought open, transparent and prudent fiscal management to the City of Cape Town and other municipalities, and given the chance we can bring it to all that we govern. South Africans now have a choice they can trust.