

**Speech by the Executive Deputy Mayor and Mayoral Committee Member for Finance,
Alderman Ian Neilson: Tabling of Draft 2011/12 Budget at Council meeting of 23 February
2011**

Mr Speaker,

We table here today the final budget of this Council's term of office. It is the culmination of five years of stabilising the City's finances and growing and nurturing those finances to enable improved delivery of services to the growing population of Cape Town.

During our term of office, the population of the city is estimated to have grown by 12%, from 3.3 million to 3.7 million people.

In that period, CPI inflation has increased by 41% and the real gross geographic product by 20%.

The City has implemented two General Valuations in this period, the only city in the country to have done so. Other cities have chosen to apply for extension to the validity of their valuation rolls, due to the enormous difficulties they face over reliability of data and the extent of objections they have received. We consider it unwise to extend the validity of valuation rolls as long periods between valuations results in significant overnight shifts in rates.

The investment that the City has made since the year 2000 in valuation systems, data collection and modelling expertise is now paying off in terms of a lower objection rate and a faster resolution of objections. Most objections of the last General Valuation roll have been resolved within a year of tabling, a record not only for this city, also for the country since the creation of megacities in 2000.

Despite the growth in population, levels of service have increased across the board, as can be seen from the range of performance measurements on our score cards. The biggest injection into the City's performance has been the dramatic investment in infrastructure. A total of R19 billion has been invested during this term of office, compared to the R7 billion during the previous Council's term of office. Annual spending on repairs and maintenance had doubled.

During this term of office, the City also embarked on a programme of lending on the bond market. R4.2 billion had been raised through this programme. It is not proposed to raise any further loans before the election, but the new Council will need to decide whether or not to enter into a R1.5 billion loan towards the end of 2011.

Mr Speaker, the proposal in the draft budget is to increase the operating expenditure budget in 2011/12 by 12.6% from R19.5 billion to R21.5 billion. Operating income will rise from R19.4 billion to R21.7 billion. The income increase is through a range of rates and tariff increases and a measure of organic growth.

Budget allocations are as in the tabled schedules. This is an end-of-term budget where we continue to drive our priorities of basic services and infrastructure to support a growing economy. We also accommodate a number of new expenditures that arise from programmes and projects previously decided by Council. Primarily amongst these new expenditures is a significant increase in the

provision for IRT operations with the start of operations on the Phase 1A routes. Provision is also made for running costs for the Cape Town Stadium. In both cases allowance is also made for new income from these operations.

Of greatest concern is the persistent growth in staff salaries above the growth of the rest of the Council expenditure categories. This is partially due to the appointment of additional staff, but it is primarily due to the inordinate salary increases granted by the SALGA National Bargaining Council. These increases are putting significant pressure on availability of money for other purposes.

City staff will need to improve their performance to justify the higher salaries that they are getting. Directorates and Departments will need to carry out business improvements so that we obtain greater output and higher levels of service delivery without the need to increase staff levels.

We continue to grow Repairs and Maintenance spending beyond the inflation rate. It is proposed to increase it by 19% from R1.5 billion to R1.787 billion.

The cost of free basic services rises to R1.26 billion in the new financial year.

It is proposed to increase property rates by 5.9%. Rates categories will also be adjusted so that old age homes, hostels and flats will now all be included in the residential category rather than the commercial category as in the past. Such properties will thus pay half the rates they would have otherwise paid. This completes our phasing-in of our approach that rating be based on actual usage rather than any zoning or ownership type.

Mr Speaker, we also take care of our elderly and handicapped people. Most of such people are on fixed incomes with little ability to adjust their income when their property values increase significantly without any advantage to themselves. Particularly, many live off interest on investments and with the drop in interest rates, their income has fallen. Over the past four years, we increased the threshold for the City's old age and handicapped rebates from household income levels of R2400 per month to R8500 per month.

It is my pleasure to announce two proposed rates rebate adjustments to assist these vulnerable citizens further. We propose that a new category of rates rebate be introduced. All households with income levels between R3 000 and R4 000 per month will now receive a rates rebate of 50%.

We also propose that the income threshold for old age and handicapped people be increased to R10 000 per month, with concomitant increases in rebates for all categories between R3 000 and R10 000 per month.

The biggest increase in tariffs, as expected, is for electricity. We anticipate an increase of 26.71% in the electricity bulk tariff from Eskom. The City will thus be paying R5.47 billion to Eskom in the coming year, the biggest number in the City budget. We also believe that it is the biggest payment that Eskom gets from any customer. Eskom gets paid fully and on time. The City of Cape Town is not a reason for any financial problems at Eskom.

The City has little option but to increase its tariffs to its customers as the Eskom bulk charges comprise 2/3 of the overall cost of providing the service. The average increase for our customers will be 19.94%. However, as we will also be significantly restructuring the domestic tariffs, in line with

NERSA guidelines, each customer will experience increases above or below that average depending on their level of consumption.

The Lifeline tariff is retained, with four inclining blocks. Free Basic Electricity of 50kWhrs per month will continue to be supplied to City customers who use less than 450 kWhrs per month. The Domestic High and Domestic Low tariffs are being replaced by a single Domestic tariff that is a two-step inclining block tariff. Daily service charges are now discontinued for domestic tariffs, but are retained for commercial tariffs.

Water and Sanitation tariffs are increased by 8.28%. No changes are proposed in the tariff structure.

Solid Waste tariffs are increased by 5.5%. A dispensation is now given to Old Age Homes to allow for them to choose the number of bins they require instead of the fixed minimum previously required.

A new wheelie bin for recyclables is to be piloted in the catchment area of the newly opened Kraaifontein Transfer Station. It is approximately half the size of the normal wheelie bin, at 140 L. It will be provided free to households. It is proposed that the Builders' Rubble tariff, newly introduced this year, will be retained without an increase at R50 per ton. More time is required for this cost to work its way through the industry cost structures and for alternative disposal measures to be developed by the industry.

An area of significant action has been the management of arrears. The majority of residents are loyal to the City and pay their municipal bills. Payment ratios on property rates are at 95% and holding well at that rate. We thank the residents for their commitment, even when they have faced significant increases in rates and service charges, and even during the recent difficult financial period. It is only because of that loyalty and commitment to the City that we have been able to deliver on the infrastructure and services. We do not forget that it is the citizens' money that we hold in trust for meeting their needs.

It has been essential over these five years to increase rates and tariffs to levels that are necessary to deliver services at a standard needed for a modern city, but we have always been careful to understand the impacts of these costs on the vulnerable amongst us. There are still large numbers of poor people amongst us, of all races and creeds, who simply cannot afford to pay anything. And there are others who can only pay a little. Yet they still have the same fundamental needs as everyone else.

We have improved the package of services provided to indigent people significantly during this term of office. The threshold for qualification for the indigent package was increased to R3 000 per month household income. The package of free services was increased to provide 10.5 kL of water per month. Free basic electricity was retained at 50 kWhrs per month. We retain those levels of free services in this budget.

But most significantly, the City put into place a programme to write off arrears. Firstly, we dealt with the grievances of the past, where different rules applied to different people. All arrears prior to September 2003 were written off, at a cost of R1.5 billion. We then instituted a programme where all registered indigents and households valued at less than R300 000 could have their arrears written off if they accepted a controlled water supply at a level they could afford.

There is no need, Mr Speaker, for indigent people in Mitchells Plain or anywhere else in the city, to hold meetings to campaign for the write-off of arrears. A process for the write-offs of arrears for poor people is already in place. They simply have to come to the City's offices and make the necessary arrangements.

Mr Speaker, estimates of transfers from National Government are provided in the schedules. The quantum is based on best available information ahead of the tabling of the national budget by the Minister of Finance this afternoon. Updated figures will be incorporated into the final budget to be presented to Council for adoption in May.

The draft Capital budget proposes an increase of 20.8% from R3.995 billion to R4.828 billion. The primary increase is due to the additional state grants for Public Transport and for Housing.

Details of the relevant projects are to found in the schedules.

Mr Speaker, on behalf of the Mayor, I hereby table the Draft City Budget for the 2011/12 to 2013/14 financial years.

Thank you very much.