

Update: State of the Cities Finances

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STATE OF THE CITY FINANCES REPORT 2007



State of Cities Finances Report 2007

- Highlighted the national strategic significance of city financing issues
- Traced the origins and development of financing of urban services in South Africa;
- Provided an overview of the then financial position of the cities
 - Based on analysis of city audited financial statements for 2003 – 2006
- Outlined key city expenditure-side challenges
 - poverty, growth and maintenance
- Outlined key revenue side challenges
 - taxation, accountability and revenue administration
- Discussed improvement in city financial administration
 - including audit results

State of Cities Finances Report 2007 (cont)

- Highlighted
 - the importance of ensuring an appropriate replacement, such as a local business tax, for the RSC levies which had just been abolished;
 - anomalies and deficiencies in the flow of funds to cities, (especially in housing and transport-related functions); and
 - potential threats to the financial strength of the cities, notably through the restructuring of the electricity distribution industry
- Concluded that the financial position of cities had been improving to the end of 2006
 - one could argue that city finances had never been stronger
- Outlined a city financial agenda
 - to ensure that this position was sustained into the future

2007 Cities' financial agenda

1. Work to ensure that a new business tax is implemented at least for the cities
2. Review current approach to restructuring of EDI
3. Work to achieve greater clarity of functional responsibilities and relationships, especially in relation to housing, transport & land-use planning
4. Establish mechanisms to facilitate co-operation across city regions
5. Investigate implications for the cities of the drive towards the single public service, and ensure that such initiatives strengthen rather than weaken city administrations
6. Work to simplify financial regulations and procedures
7. Cities should strengthen their voice, and act more deliberately in their own interests

Update

- Will be part of the State of the Cities Report 2010
- Added financial information for two additional financial years
 - Work by Alan Yorke
 - Now have city financial data on a common (new) accounting basis over six years: 2003 – 2008
- Supplementing this analysis of AFS with updated research on key issues
 - RSC replacement
 - EDI restructuring
 - Financial implications of 2010
 - Funding of public transport

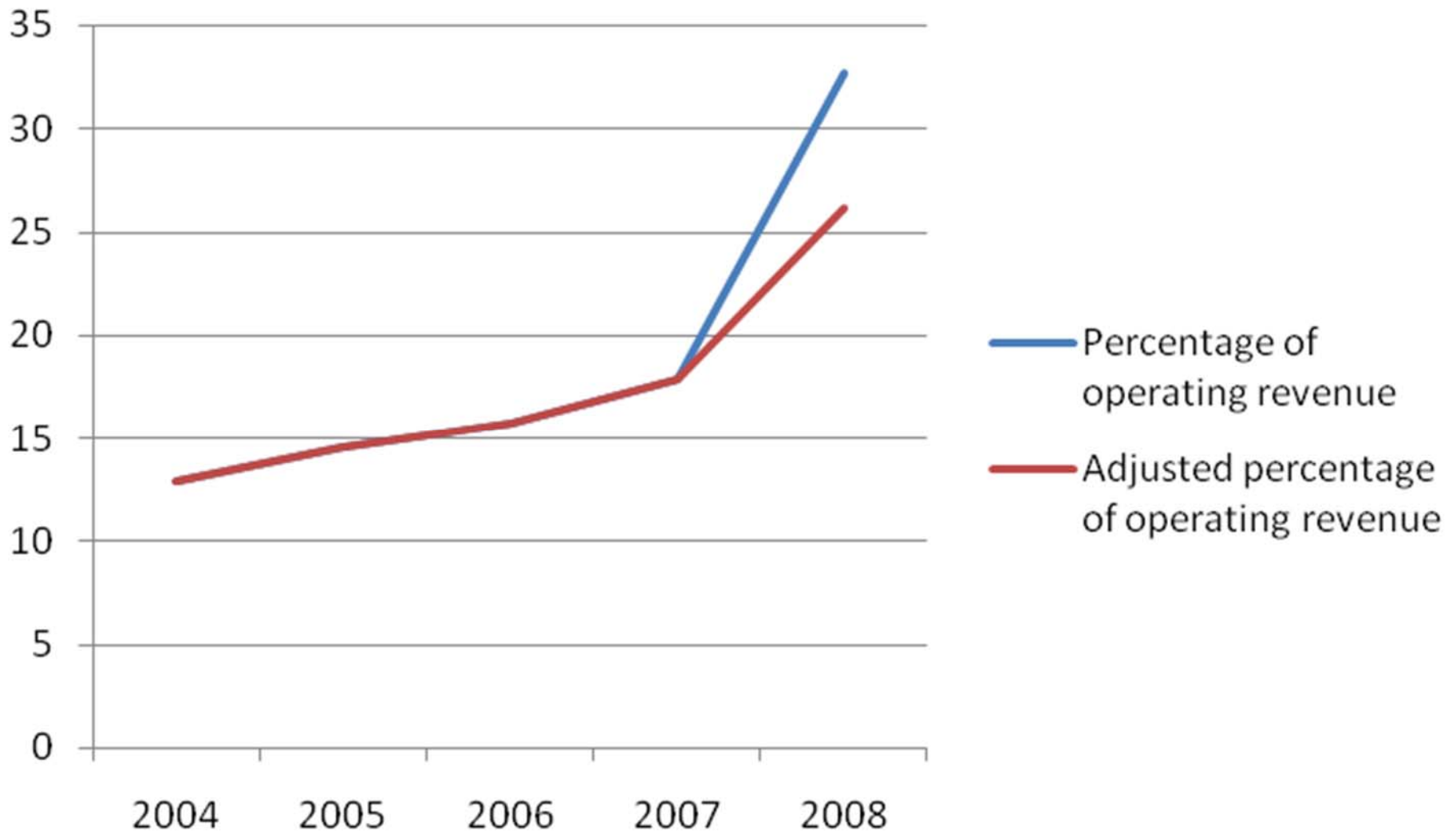
Improvement in audit opinions

- 2006: only two of the nine cities managed to achieve an unqualified audit report
- 2008: five of the nine had managed to achieve unqualified reports

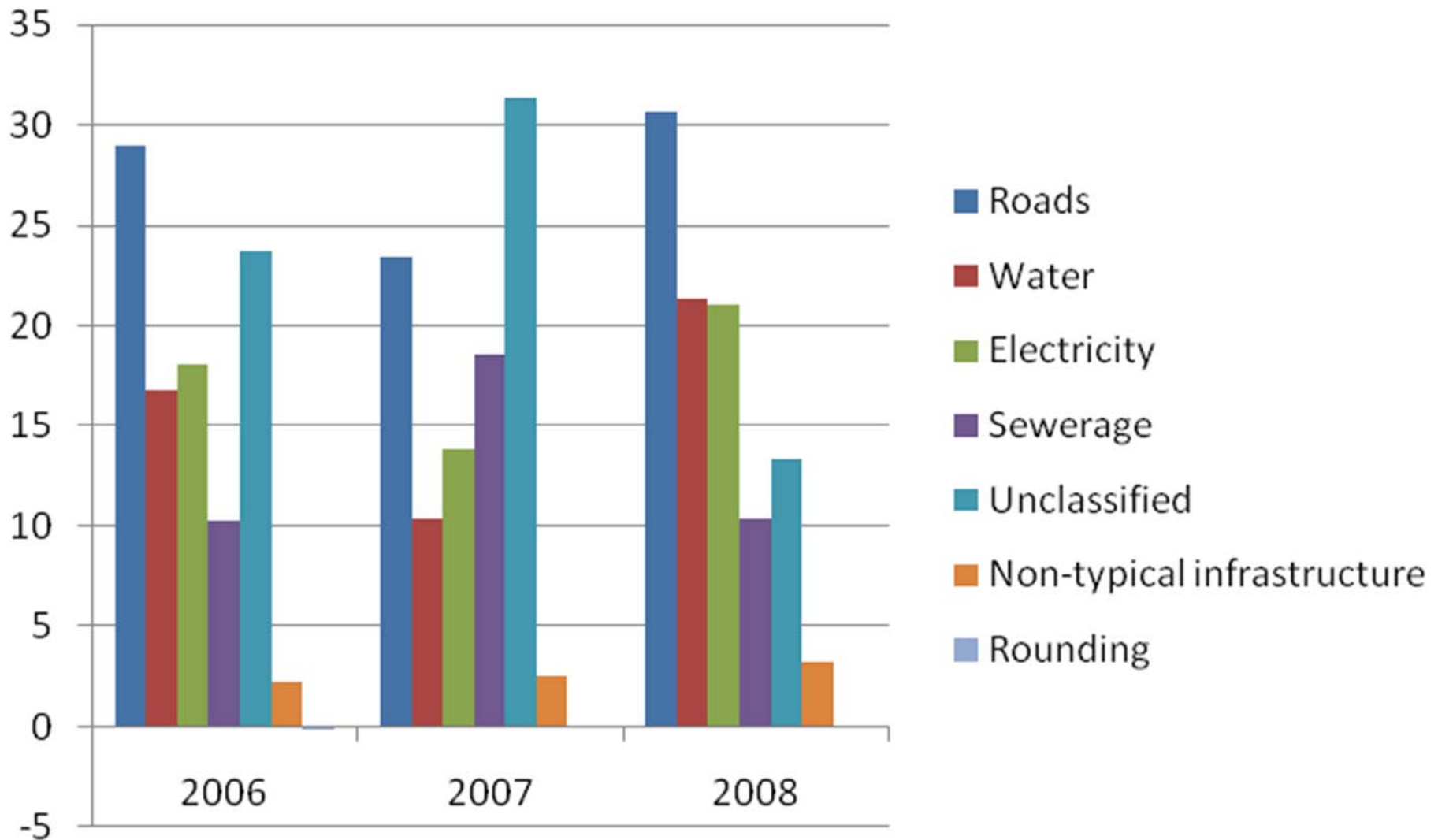
Audit findings

MUNICIPALITY	QUALIFIED	UNQUALIFIED	ADVERSE	DISCLAIMER
Municipality				
Buffalo City	YES			
Cape Town		YES		
Joburg		YES		
Ekurhuleni	YES			
Ethekwini		YES		
Mangaung				
Msunduzi		YES		
NM Bay		YES		
Tshwane	YES			

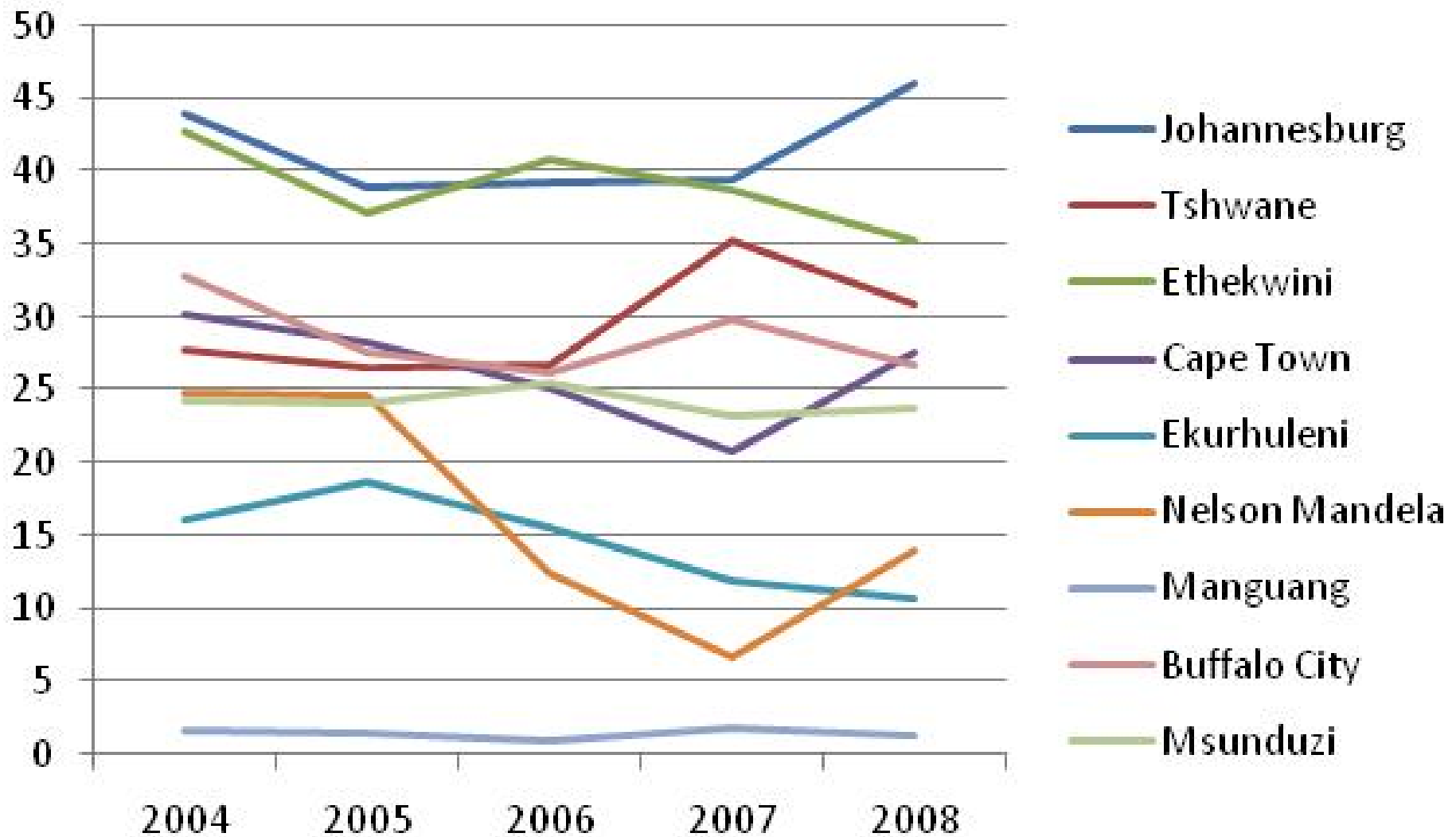
Capital expenditure (as % of operating expenditure)



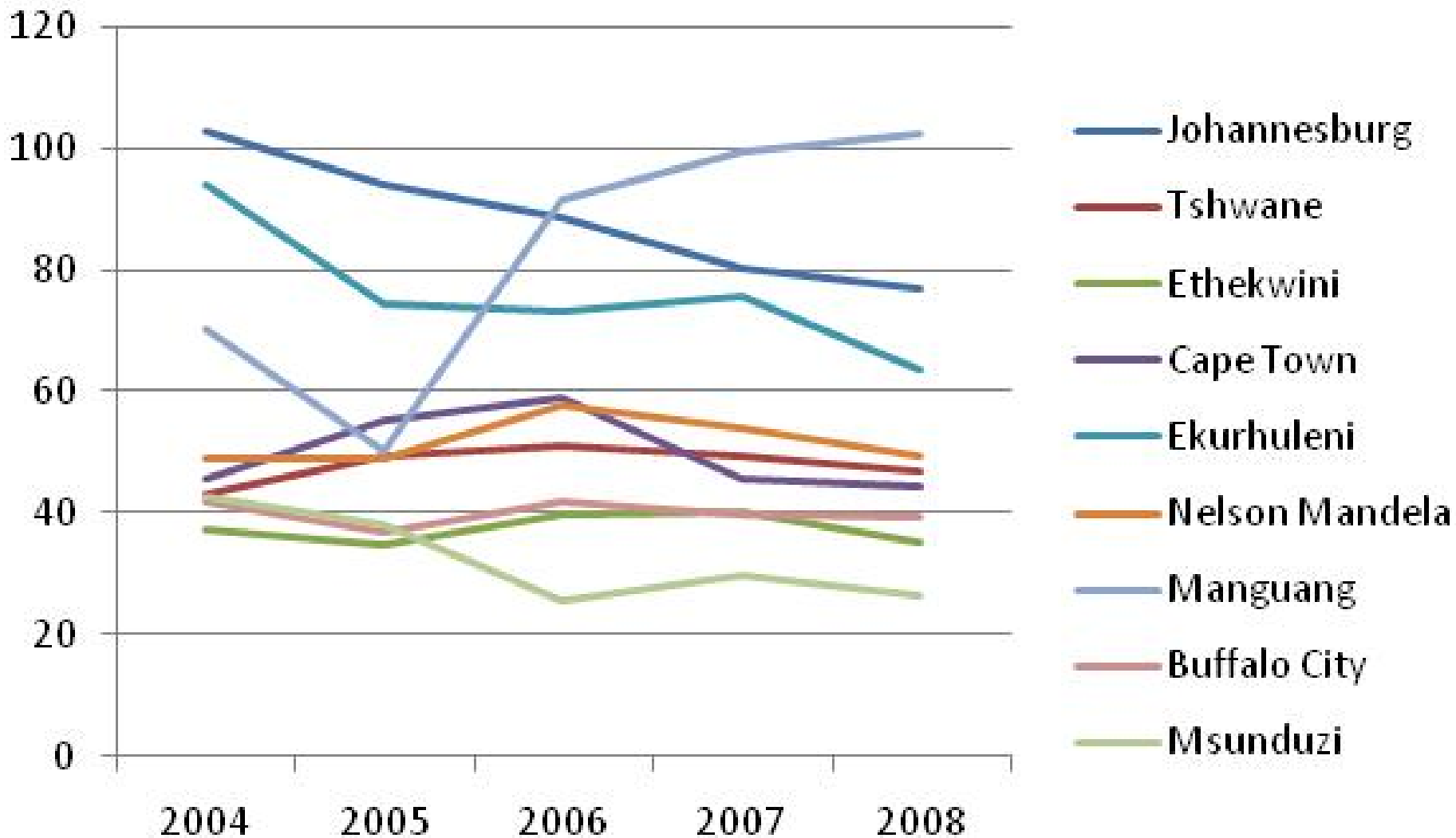
City infrastructure spending (% spent on major functions)



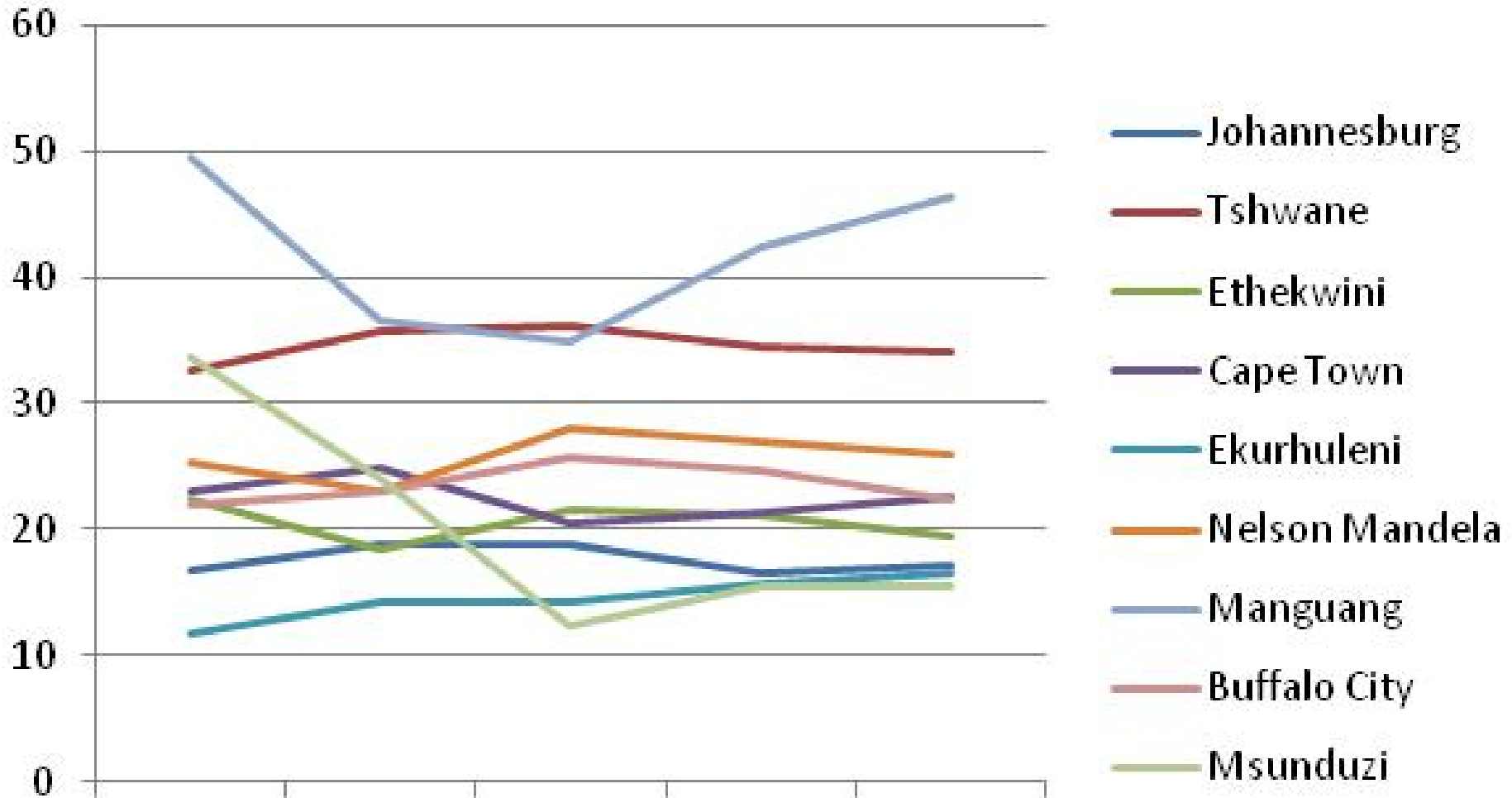
City long-term indebtedness (as % of annual revenue)



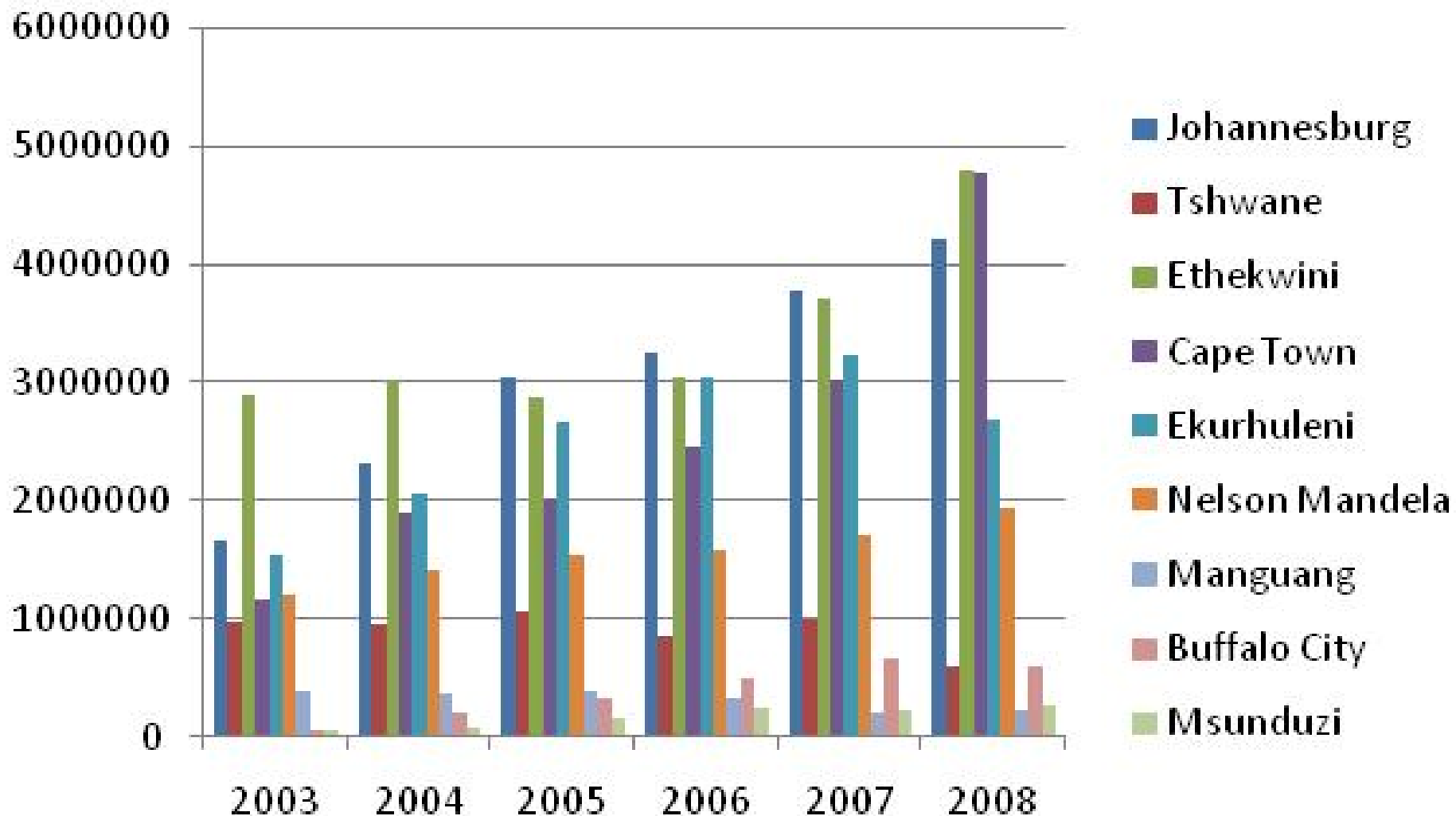
Gross debtors outstanding (% of billed revenue)



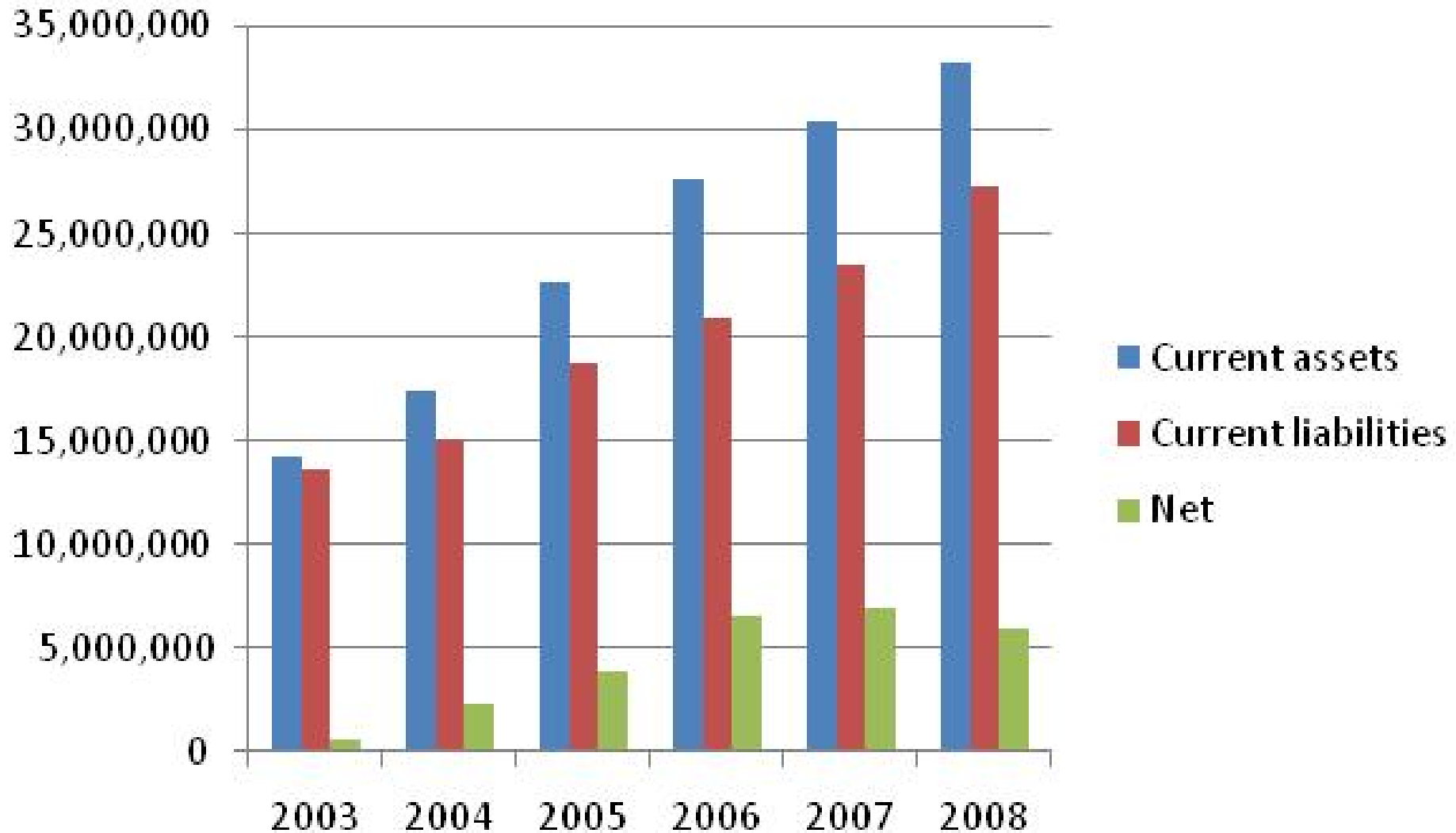
Net Debtors outstanding (% of billed revenue)



Net cash and investments (R m)



Aggregate working capital weakened for the first time in 2008



Early conclusions

- South African cities continued to improve their financial position to 2008
 - financial stress has apparently emerged more recently in several cities
- Subdued appetite among cities for debt-financing of infrastructure
 - implies inappropriate city revenue structures
 - cities are the one part of the municipal sector that could be debt-financing some of their own infrastructure
- 2010 expenditure will leave cities with a substantial financial hangover
 - enough to imply diversion of resources from core service delivery mandate
- Public transport is the **BIG** new issue

Funding public transport

- Capital cost of BRT for a metro will be about R15bn
 - How much in grants – how much borrowed?
- Assuming 2/3rd borrowed then per annum debt service costs will peak at about R1.5 billion a year
- Maintenance at 5% of asset value pa = R750m
- Operational subsidies R600m per annum?
- Total annual operating cost of R2850 million per year

Very rough estimate of BRT costs

Capital cost R15 bn of which city finances 2/3 rd from borrowing		
Capital charges	1500m	at peak
Maintenance	750m	5% pa of asset value
Operating subsidy	600m	Based on Cape Town modeling
Total pa operating	2850m	
Joburg rates income		3.8 bn (2009/10)
Joburg 'fuel levy' income		2243m (2009/10)

Key proposal

- Introduce local business tax as long term replacement for RSC levies
- Use share of fuel levy to finance public transport
 - Together with other less substantial sources
 - Parking levy?
 - Road use tax?

Quote from 2009 Division of Revenue Bill

“Further reforms under consideration include the sharing of the general fuel levy and/or transfer duty in the medium term, a local business tax in the longer term, as well as grants as a guaranteed revenue source for municipalities or categories of municipalities.”