

BUDGET FACT SHEET 2

A Brief Overview of the 2011/12 City of Cape Town Budget and Spending on Sanitation

The municipal budget provides important information on the amount of funds that are allocated and spent each year to provide critical basic services to poor households (such as the provision of sanitation in informal settlements). This fact sheet uses the City of Cape Town as a case study to show how budgets are organised, how funds are raised by the City, and how to read the budget to identify what the key priorities are.

Every municipal budget is made up of two sides: an **operating** and a **capital** side. Each of the two sides has its own *sources of revenue* (where the money is coming from) and its own types of *expenditure* (what money is being spent on). For example, we have two types of expenditure (or *spending*) in the City of Cape Town budget: OPERATING expenditure and CAPITAL expenditure.

This fact sheet takes us through both Operating and Capital revenue and expenditure, also looking more closely at spending on sanitation and informal settlements in the City of Cape Town.



1 THE CAPITAL BUDGET: WHERE DOES IT COME FROM?

The total **capital budget** for Cape Town in 2011/12 is

R4.8 BILLION



Capital expenditure refers to spending on **municipal assets** and infrastructure, such as land, buildings, roads and so on.

For example, as one of its capital projects, the City plans to spend R6.5 million on water and sanitation infrastructure in Khayelitsha Driftsands Site C in 2011/12.

WHERE DOES THE CAPITAL BUDGET COME FROM?

Money for the capital budget comes mostly from two sources: from national and provincial government through grants and transfers to the municipality; and from borrowing. For 2011/12, transfers and grants make up about 52% (R2.7 billion) of the total capital budget. Borrowing, on the other hand, makes up about 27% (R1.4 billion) of the total capital budget. In order to ensure there is adequate money to pay for their planned expenditure, municipalities may decide to borrow funds by taking out a loan.

The **total capital** expenditure for the City for 2011/12 was originally R5.1 billion. However in January 2012 the City approved a revised budget called an Adjustments Budget. In the Adjustments Budget for 2011/12, the total capital budget was reduced by R278 million to R4.8 billion.¹

ORIGINAL BUDGET FOR 2011/12	R 5.1 BILLION
REDUCED BY	- R 278 MILLION
NEW ADJUSTED BUDGET FOR 2011/12	R 4.8 BILLION



MAIN SOURCES OF THE CAPITAL BUDGET 2011/12

2 CAPITAL EXPENDITURE: WHAT IS THE BUDGET SPENT ON?

THE THREE LARGEST EXPENSES IN THE 2011/12 CAPITAL BUDGET ARE:



Road transport (R1.4 billion or 31%)



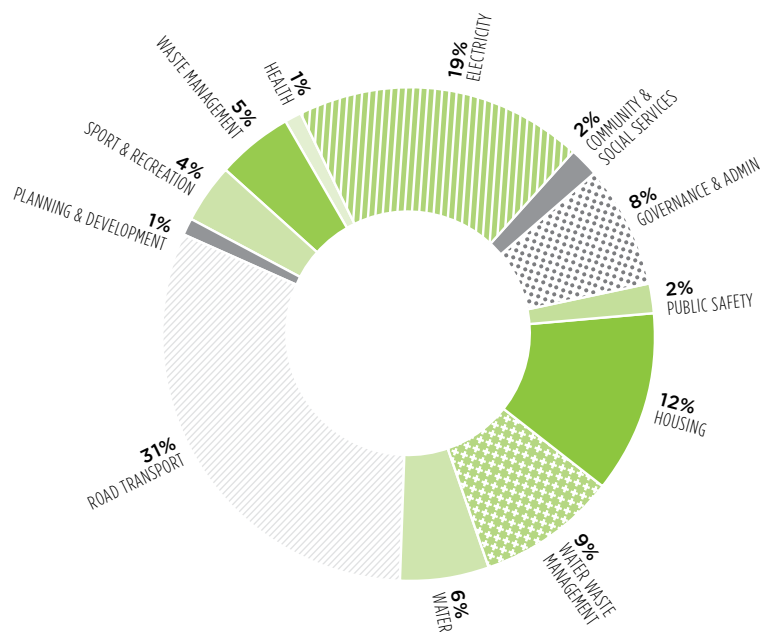
Electricity (R879 million or 19%) and



Housing (R561 million or 12%)

In 2011/12, the City plans to spend a total of R407 million on sanitation (referred to as waste water management) and R286 million on water.

**CAPITAL EXPENDITURE
CAPE TOWN 2011/12 ADJUSTED BUDGET**



3 OPERATING REVENUE: WHERE DOES MONEY FOR THE OPERATING BUDGET COME FROM?

The total **operating budget** for Cape Town in 2011/12 is

R21.7 BILLION



Operating expenditure refers to the day-to-day spending of the municipality - for instance: general expenses, salaries and wages, and repairs and maintenance.

WHERE DOES THE OPERATING BUDGET COME FROM?

Most of money in the City's operating budget comes from service charges (mainly electricity charges) and property rates. In the adjusted operating budget for 2011/12, service charges account for **56%** (R12.1 billion) of the total budget.¹

The pie chart on the right illustrates the different sources of revenue for the City's adjusted operating budget for 2011/12.²

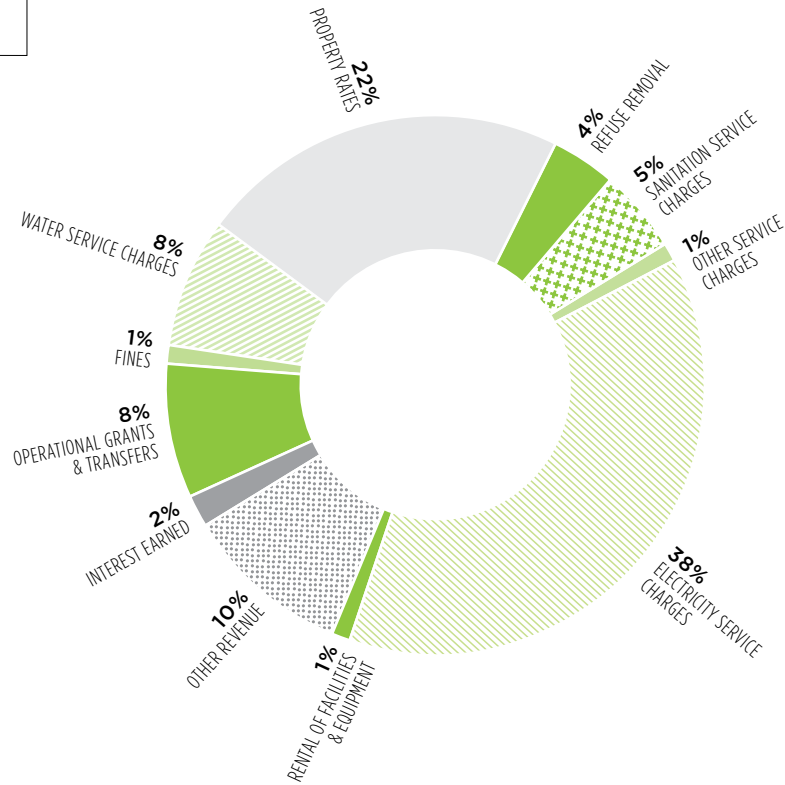
We notice that, in essence, the majority of the City's operating revenue comes from service charges for electricity, water, and sanitation and refuse removal. So although property rates are an important source of revenue for the operating budget for Cape Town (bringing in **22%** of the total in 2011/12 or R4.7 billion), they are not more important than money which the City collects from people who pay for water, electricity, rubbish collection, and sanitation services (sewerage).



MAIN SOURCES OF THE OPERATING BUDGET 2011/12

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**SOURCES OF OPERATING REVENUE
CAPE TOWN ADJUSTED 2011/12 BUDGET**

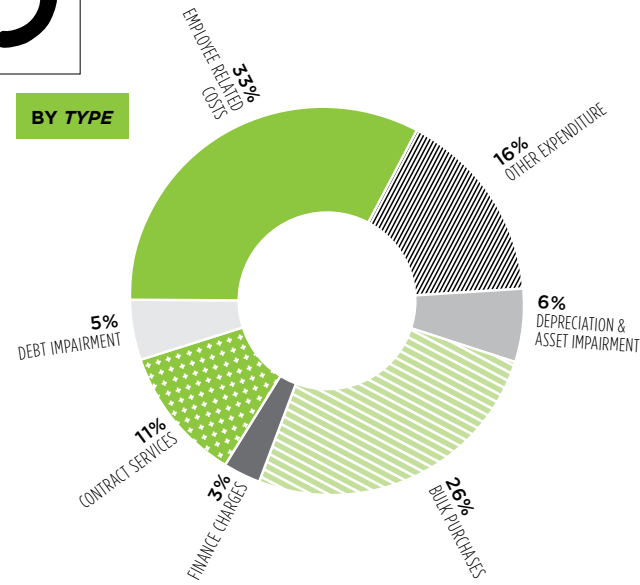


OPERATING EXPENDITURE: WHAT IS THE OPERATING BUDGET SPENT ON?

The **total operating** expenditure for the City for 2011/12 was originally R22.1 billion. However in the Adjustments Budget, total operating expenditure was reduced by R454 million to **R21.7 billion**, which makes the operating budget more than four times the size of the capital budget.¹

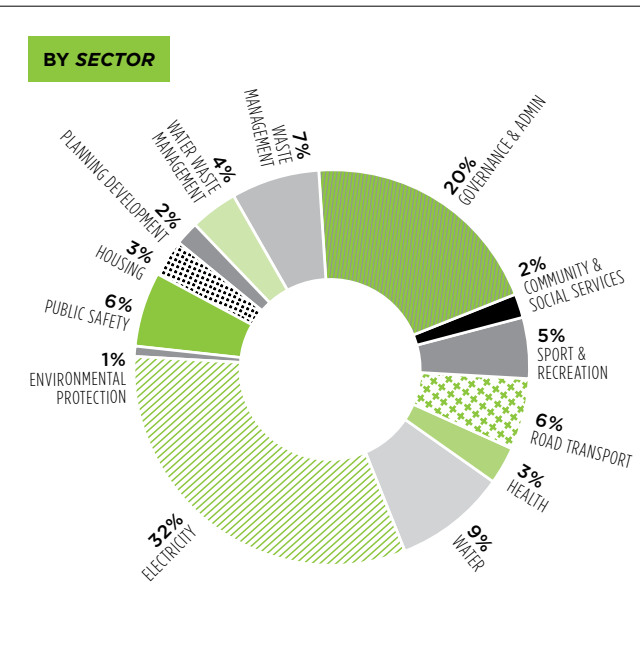
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**OPERATING EXPENDITURE - TOTAL R21.7 BILLION
CAPE TOWN 2011/12 ADJUSTED BUDGET**



The first pie chart shows what the City spends its operating budget on. The biggest portion of the operating budget (33% or R7.1 billion) goes to employee-related costs, which includes municipal workers' salaries, insurance, and so forth.

26% of the total operating budget (or R5.7 billion) is spent on bulk purchases which is the money spent by the municipality to purchase bulk electricity from Eskom and bulk water from the Department of Water Affairs.



The second pie chart is also showing how the total operating budget of R21.7 billion is broken down into spending categories. The difference between the two charts is that the one above breaks down the total budget by *type of cost* (such as employee costs), while the one below breaks down the spending into *different sectors or departments* (such as water, housing or transport).

FROM THE CHART, WE SEE THAT THE CITY IS SPENDING 51% OF ITS TOTAL OPERATING BUDGET (R11.0 BILLION) FOR 2011/12 ON UTILITY SERVICES - WHICH INCLUDES WATER (9%), ELECTRICITY (32%), AND REFUSE REMOVAL (7%).

6 HOW MUCH DOES THE CITY OF CAPE TOWN SPEND PER CAPITA COMPARED TO OTHER LARGE CITIES IN SOUTH AFRICA?

According to the statement of capital and operating expenditure for the fourth quarter that ended 30 June 2011, Cape Town spent R1.6 billion for sanitation and R3.2 billion for water in its operating budget for 2010/11. But how does the amount which Cape Town spends compare to other metros in South Africa? By using the population sizes in five other large cities in the country, we can determine the amount spent per capita (or per person) by each municipality in 2010/11.

The bar graph to the right shows the amount of money spent per capita (one person in the population) on **waste water management** and on **water** by each city.¹

The graph clearly shows that how much the municipality spends per person for operating expenditure for water and sanitation depends very much on which city you live in. Per capita operating expenditure for water varied widely in 2010/11, from R370 in Nelson Mandela Bay, to R938 in Ekurhuleni. Cape Town had the second highest per capita operating **water** expenditure (R918) for 2010/11.

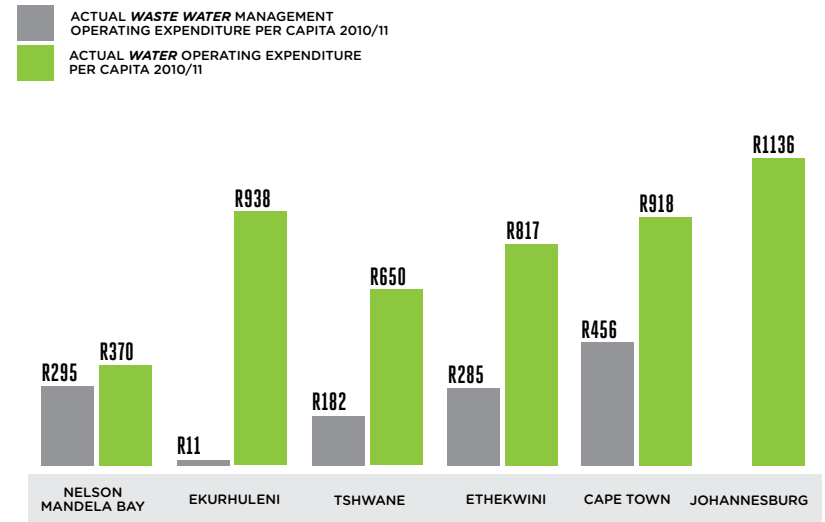
In terms of operating expenditure for **waste water management**, Cape Town had the highest per capita spending of R456, followed by Nelson Mandela Bay at R295 and eThekweni at R285.

Tshwane, Johannesburg and Cape Town managed to avoid under spending on their operating budget for water in 2010/11. However all the metros, except Cape Town, failed to spend all of their operating budget for waste water management.

“THE GRAPH CLEARLY SHOWS THAT HOW MUCH THE MUNICIPALITY SPENDS PER PERSON FOR OPERATING EXPENDITURE FOR WATER AND SANITATION DEPENDS VERY MUCH ON WHICH CITY YOU LIVE IN.”

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ACTUAL WATER AND WASTE WATER MANAGEMENT OPERATING EXPENDITURE PER CAPITA IN SELECTED METROS 2010/11



NB: In the National Treasury report, Johannesburg does not provide disaggregated data for waste water management expenditure, presumably because the amounts are included in the amount spent for water.

WHAT ABOUT SPENDING IN INFORMAL COMMUNITIES OR ‘POOR AREAS’?

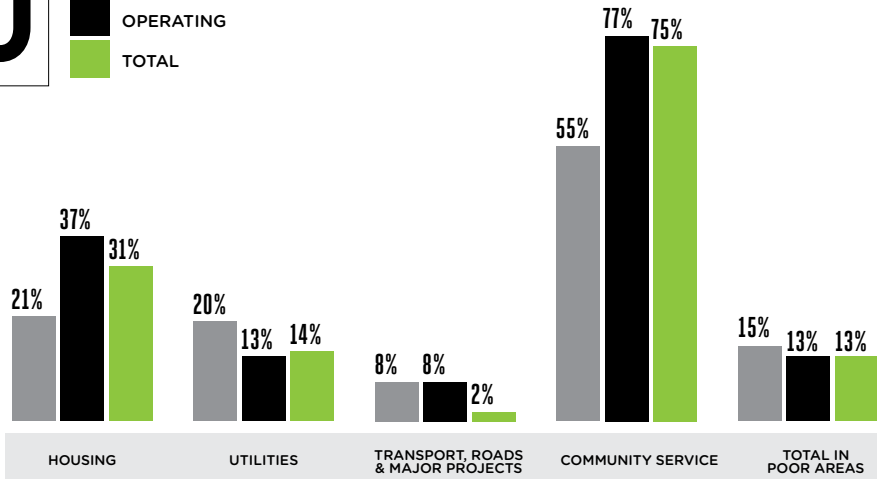
The budget documents which are published by the City of Cape Town tell us how much will be spent on different service areas (such as sanitation) and on different types of expenditure items (such as salaries for municipal officials); however they do not provide detail on how much will be spent in different areas of the City (for example, Hout Bay or Langa).

Many people are interested in knowing how the budget is divided between the different geographic areas of the City and, specifically, how much the municipality is prioritizing informal settlements in the budget. For this reason, City of Cape Town Mayor Patricia de Lille released a press statement on 25 August 2011 titled, “*The truth about the City’s spending in poor areas*”², which provided information on the City’s spending in “poor areas” and informal settlements. According to the information by the Mayor, a total of R3.159 billion (capital and operating) was spent in informal settlements and poor areas of Cape Town in 2010/11.

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SPENDING IN 'POOR AREAS' AS A SHARE OF TOTAL BUDGET 2010/11

CAPITAL
 OPERATING
 TOTAL



How did R3.159 billion for these poorer areas compare to the total budget for the City of Cape Town in 2010/11? According to the figures provided by the City, approximately 15% of the total capital budget and 13% of the total operating budget was spent in 'poor areas'. Combined, this was about 13% (or R3.1 billion) of the total 2010/11 budget.

But how does this 13% figure compare to the portion of Cape Town residents who live in poor areas and informal settlements?

It is unclear from the Mayor's Press Statement how 'poor areas', informal settlements, and 'historically disadvantaged areas' were defined (i.e. which neighbourhoods and areas were included).¹ It is also difficult to find out exactly how many people in Cape Town live in informal settlements. However, the 2007 Community Survey indicates that Cape Town has 902 278 households and a housing backlog of approximately 260 000, including backyard dwellings, overcrowded areas and informal settlements. It is now estimated that the housing backlog in Cape Town is closer to 400 000. This would suggest that approximately 29% of Cape Town's population could be considered to live in poor areas or informal settlements. This figure is noticeably **less** than the 13% of the total budget which is reportedly spent in these areas by the municipality.

ACCORDING TO THE FIGURES PROVIDED BY THE MAYOR, **13%**
of the of the total 2010/11 budget was spent in Cape Town's poor areas and informal settlements.

9 HOW MUCH IS THE CITY SPENDING ON NEW ASSETS AND HOW MUCH ON REPAIRING EXISTING ASSETS?

Municipalities can spend their capital budget on new projects, or on upgrading or repairing existing assets. The City must invest in repairs and maintenance to ensure that existing facilities are kept in good working order to prevent or delay having to build new facilities which would be more expensive. Expenditure on repairs and upgrades is therefore an important part of the budget because it ensures that services can be delivered uninterrupted (without breakdowns) and at good quality.

EXPENDITURE ON REPAIRS AND UPGRADES IS AN IMPORTANT PART OF THE BUDGET BECAUSE IT ENSURES THAT SERVICES CAN BE DELIVERED AT GOOD QUALITY AND WITHOUT INTERRUPTION.

For example, one of the capital projects in the 2011/12 CCT budget is the upgrading of Athlone waste water works, which will cost a total of R103 million. In comparison, the City is planning on spending a total of R290 million to build a brand new waste water treatment works facility in Bellville.

The Cape Town Budget provides some critical information on how much of the capital budget is spent on the renewal (repairing and upgrading) of existing assets, compared to how much is spent on building new assets. The national benchmark for what percentage of the total capital budget should go towards the renewal of assets is 40%.

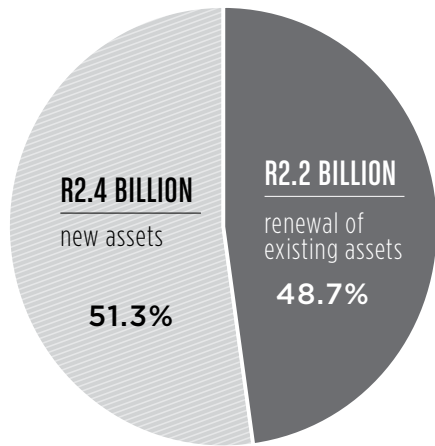
For 2011/12, Cape Town has allocated approximately 48.7% of its capital budget to renewal - more than the national benchmark. The difference of 8.7% may seem small but actually translates into Cape Town spending R124 million more on the renewal of assets than the benchmark. Unfortunately the budget does not specify how much of the allocations towards repairs and maintenance are used in informal settlements compared to other areas.

To the right are two pie charts that show what percentage the City is spending on repairs and maintenance versus new assets in 2011/12. The first chart shows the **total capital expenditure**, whereas the second looks specifically at the amounts budgeted for **sanitation**.¹

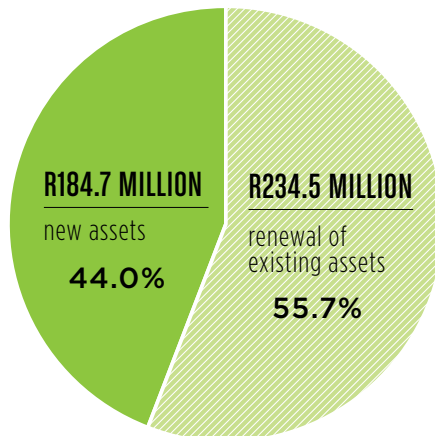
In 2011/12, the City plans to spend a total of R419.3 million on sanitation infrastructure. 56% of that amount (or R234.5 million) will be spent on the renewal of existing sanitation infrastructure (repairs and upgrades) while the remaining amount will be spent to build new sanitation infrastructure for the City. Overall, only 9% of capital expenditure is spent on sanitation.

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**SPENDING ON REPAIRS & MAINTENANCE VS. NEW ASSETS
CAPE TOWN 2011/12 ADJUSTED BUDGET**
TOTAL R4.6 BILLION



**SPENDING ON REPAIRS & MAINTENANCE VS. NEW ASSETS
FOR SANITATION INFRASTRUCTURE ONLY
CAPE TOWN 2011/12 ADJUSTED BUDGET**
TOTAL R419 MILLION



11 WHY IS THIS BUDGET INFORMATION IMPORTANT?

All residents, rich or poor, must be given an opportunity to have a say in the City's budget process – this right is enforced by legislation that governs the management and financial affairs of municipalities. Municipalities must make public a draft budget every year and must then consider the views of the local community before the final budget is approved.

By engaging with budgets, we can develop an understanding of what money is being spent on, and where it is being spent. In other words, by exploring the Cape Town

budget we can discover where the City's priorities lie and we can evaluate if they adequately address the needs of residents. When members of the public learn about the budget, they are in a better position to engage with local government and to voice their concerns and needs.

For more information on the budget process and guidelines for public engagement in the process, see *Budget Fact Sheet 1: The Local Government Budget Process and the City of Cape Town*.

REFERENCES:

1. City of Cape Town 2011/12 Adjustments Budget, pg. 28.
2. City of Cape Town 2011/12 Adjustments Budget, pg. 17.
3. Note that the category 'other revenue' in the pie chart includes: miscellaneous service charges, licenses, permits, and agency services.
4. City of Cape Town Adjustments Budget 2011/12, pgs. 22 and 26.
5. Actual expenditure data is taken from National Treasury report "Statement of capital and operating expenditure for the fourth quarter ended 30 June 2011 (preliminary results)" which is available at www.treasury.gov Population data is from the 2007 Community Survey from StatsSA.
6. Media release, No. 568/2011 from Mayor of Cape Town, "The truth about the City's spending in poor areas." (25 August 2011).
7. The Mayor's Press Statement also does not indicate whether it is fair to conclude that the remaining amounts are spent in wealthy or advantaged areas of the City.
8. City of Cape Town Adjustments Budget 2011/12, pg. 34.

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NDIFUNA UKWAZI
DARE TO KNOW

NDIFUNA UKWAZI
www.nu.org.za
Office 203,
47 on Strand
Strand Street,
Cape Town 8001
021 423 3089



Social Justice Coalition
www.sjc.org.za
SHAWCO Centre K2,
G323 Mongezi Road,
Khayelitsha,
Cape Town, 8000
021 361 8160 | 0744178306