

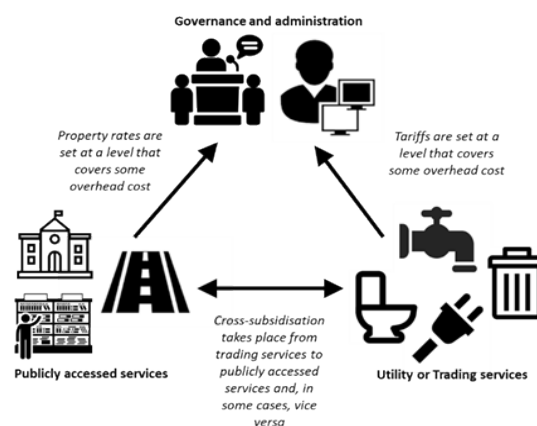
# Assessment of the sustainability of utility services in Cape Town



Tariff increases requested by the Utility Services directorate in the City of Cape Town (which at the time was responsible for water, sanitation, electricity and solid waste management) over the years had not been granted as they had been deemed to be unaffordable. This placed these services under increasing financial pressure and the Utility Services directorate thus appointed PDG to conduct an external verification of the sustainability of the Utility Services; their affordability to households; and the potential for efficiencies. The study recognised a context of rapid urbanisation and stagnant economic growth, as well as concerns about security of supply, optimisation of resources and ageing infrastructure.

The study investigated the sustainability of the Utility Services primarily through the development of a bespoke model that projected revenues and expenditures over 20 years. Expenditures were projected based on underlying cost drivers and revenues based on the tariff increases required to balance the Utility Services budgets. The model allowed for lower tariff increases to be entered and looked at the impact that these would have on expenditures and thus financial sustainability. Asset condition was used as an indicator of the long-term sustainability of the provision of the utility services. Affordability was tested by calculating monthly household municipal bills for each of 3 800 'Small Area Layers' in the City of Cape Town and determining whether these bills were more than 15% of income. Monthly bills were also compared with those in the other four large metros.

The modelling and analysis highlighted the extent to which the City of Cape Town, like most South African municipalities, is an inter-connected entity with a large degree of



*Municipalities are inter-connected entities with a large degree of cross-subsidisation and financial interdependence between functions*

cross-subsidisation and financial interdependency between functions. Ensuring the financial sustainability of the Utility Services requires ensuring the financial sustainability of the City as a whole. This is likely to require support from the national fiscus or new sources of revenue.

Feedback indicated that despite the drought, the study was particularly useful in allowing technical officials from the Utility Services department to engage more usefully with financial officials in budget or other engagements.

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## CSUS PROJECT:

**Project Profile:** Assessment of the sustainability of utility services in Cape Town

**Client:** City of Cape Town

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