INVESTING IN THE CITY OF CAPE TOWN

28 August 2015

Making progress possible. Together.
Vision, Delivery & Investment strategies
The Vision

The City of Cape Town’s aim is to create a more inclusive society by working towards greater economic freedom for all the people of the city. This requires us to increase opportunities by creating an economically enabling environment in which investment can grow and jobs can be created.

Cape Town's planning is built on 5 pillars:
### Priority Delivery Strategies

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>FOCUS</th>
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<tbody>
<tr>
<td>1   Leveraging City assets</td>
<td>Investigate leverage of City’s existing and potential strategic assets to encourage economic activity and generate revenue.</td>
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<tr>
<td>2   Integrated Public transport</td>
<td>Implement phase 2 BRT to metro south-east area &amp; N2 express and deliver on vision of “one” public transport network / single ticketing system.</td>
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<tr>
<td>3   Broadband</td>
<td>Partner with WCG to implement fibre-optic communication network (R1.3 billion project; 7-10 years to complete; will provide; initial focus on Khayelitsha, Mitchells Plain, Ndabeni, and the southern suburbs). Enter into agreements with private service providers to make spare data capacity available to disadvantaged areas at a reduced fee.</td>
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<tr>
<td>4   Basic service infrastructure</td>
<td>Develop public infrastructure plan to coordinate future infrastructure development with broader long-term socio-economic planning priorities. Develop strategic asset register that informs infrastructure asset management programme (IAMP) and reduces long-term costs. Investigate innovative financing models.</td>
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</table>

### Economic Growth Strategy
- **Global Competitiveness**
- **Infrastructure for Growth**
- **Inclusive growth via Jobs and skills**
- **Trade Promotion and Sector Development**
- **Sustainable Growth Strategies**
Current Investment Strategy

✓ The City’s budget supports focus on existing built footprint of the city and laying foundation for promoting private sector investment in priority corridors

1. Infrastructure led growth – maintaining consistent prioritisation of **Public Transport** and **Broadband** Investments
2. Basic services – informal settlements & backyarders
3. New human settlement programme & land acquisition
4. Maintaining balance between growth and **renewal** – addressing infrastructure risks
5. Emphasis on sustained **stabilisation**: Increased allocations to Safety & Security
6. Investment into systemic enhancements to improve City’s ability to spend growing capital budget
Investment Strategy looking forward: Transit Oriented Development

1. Progressive investment alignment across government and in space

2. Public Transport & Human Settlement development alignment

3. Integrated Human Settlement re-think

4. A pipeline of Catalytic Investment Opportunities
Investment Strategy in space

Priority Investment Zones:

- Integration Zones
- Mayoral Urban Regeneration Programme Areas
- Integrated Public Transport Network
- Existing Built Footprint

Spatial Development Framework

Mayoral Urban Regeneration Programme Areas
Investment Priorities
Priority Investments Underway: Infrastructure: Public Transport

With over 5 years since IRT bus operations were introduced in the City of Cape Town what is it that we need to keep the same, improve on and do fundamentally differently.

Passengers are tired of inferior services and deserve better public transport

Our focus in Cape Town is to achieve public transport that is safe, reliable, rapid, comfortable and affordable by using the challenges faced as learning experiences and finding opportunities for improving service delivery.
Priority Investments Underway: Infrastructure: Cape Town’s Fibre Optic Broadband Network

Building the biggest open access fibre optic network in Africa:

- Municipally-owned infrastructure which is scalable to match current and future needs of the city
- The City of Cape Town has constructed and now owns 789 km of optic fibre cable
- Excess capacity is available to 3rd party ISPs to bring down the costs of communications
- 8 licensed 3rd party service providers already utilising the network
- Plan to connect to West African Cable System

Source: CoCT IS&T Directorate (2013)
Priority Investments Underway: Infrastructure: Progressive removal of infrastructure risks
Priority Investment Corridor: Voortrekker Road

1. **Greatest Accessibility**
   - Central location in metropole
   - Public transport access and connectivity

2. **Greatest Number of Job Opportunities**
   - ± 183 000 work spaces
   - Retention of jobs (blue-collar)
   - Some underperforming areas

3. **Greatest economic opportunities**
   - Proximity:
     - economic infrastructure
     - regional markets
     - household consumers
     - skills catchments
   - Industrial agglomeration

4. **Greatest opportunity for residential intensification**
   - Relatively low densities
   - Spare capacity:
     - Infrastructure;
     - Social facilities
     - Unused development rights
     - Undeveloped land (state owned & para-statal)
   - Social Housing Restructuring Zone
Flagship Investment Opportunities under development: Property

Bulked up, mixed use transit oriented development:

570,000 m²
Residential: 20%
Public Institution: 20%
Commercial: 35%
Retail: 12%
Light Industry: 7%
ARTS 6%
Cape Town’s Investment Readiness
Client Satisfaction: 
Dedicated to creating an enabling environment for business

Results from Customer Satisfaction Survey 2013/14:

• 88% of businesses said overall the City’s performance was good, very good or excellent

• 91% of businesses said City service provision was good, very good or excellent

• 87% of businesses said their trust in the City was fairly strong, very strong or extremely strong

• 83% of businesses rated Cape Town as “very good” or “excellent” in terms of the city as a business tourist destination. Confirmation of confidence that businesses have in the City as a favourable place to do business.

Source: TNS, CCT (2014)
2015 Financial Overview

- The City has once again achieved an annual result consistent with its long term goals of financial and economic sustainability, and this considering changes in consumer behaviour due to the drive for reduced water and electricity consumption levels.

- This is the City’s 4th completed year of its current 5 year IDP plan in which it has exceeded its projected internal financial performance indicators.

- The City has sustained positive liquidity and cash flows, which is indicative of public confidence and consumer resilience, and effective cash flow management.

- The City’s balance sheet remains strong with evident credibility as reflected in its credit rating and appeal to the investor market.

- The City’s strategy in containing consumer debt has remained positive.
# Financial Highlights at a Glance
(figures in R millions)

## Financial performance

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>% achieved</th>
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<tbody>
<tr>
<td>Operating revenue</td>
<td>29 250</td>
<td>29 026</td>
<td>100.77</td>
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<tr>
<td>Year on year growth %</td>
<td>12.50</td>
<td>12.91</td>
<td></td>
</tr>
<tr>
<td>Operating expenditure</td>
<td>27 393</td>
<td>29 281</td>
<td>93.55</td>
</tr>
<tr>
<td>Year on year growth %</td>
<td>7.47</td>
<td>12.74</td>
<td></td>
</tr>
<tr>
<td>Growth differential</td>
<td>5.19</td>
<td>.14</td>
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## Capital expenditure

<table>
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<tr>
<th></th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Capital expenditure</td>
<td>5 252</td>
<td>6 128</td>
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</table>

## Financial position

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Debtors (net)</td>
<td>5 313</td>
<td>4 718</td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>8 341</td>
<td>7 874</td>
</tr>
<tr>
<td>Borrowings</td>
<td>6 761</td>
<td>7 034</td>
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Financial Highlights at a Glance – Capital expenditure
(figures in R millions)

- City’s capital spend was 85.70% (2014: 80.23%)
- The underspend was mainly in the areas of Transport which remains challenging due to an ever changing business environment, and also Human settlements because of community dynamics
- In excess of R22 billion has been spent over the 5 year period and funded as follows
  - Grant funding R11 261 m
  - Own funding R11 453 m
- External loans of R2.4 billion were taken up over the period

- Over R2.165b (2014: R2.153b) spent on cash generating infrastructure assets
  - Electricity R952m (2014: R1.193b)
  - Water and sanitation R985m (2014: R823m)
  - Waste management R228m (2014: R137m)
- Transport and roads R1.218b (2014: R1.113b) including the rollout of the IRT
- Human settlement R962m (2014: R564m)
- Information systems and technology R301m (2014: R197m)
- Funding for selected underspent projects amounting to R678m has been rolled over. The January 2016 adjustments budget will consider further roll overs to be approved by NT/PT from conditional grants
Financial Highlights at a Glance – Loan debt

- Total debt: total realistic revenue ratio is 31.48% (2014: 35.54%) and above the internal benchmark of 35%. Should the sinking fund be taken into account the ratio would be 23.16% (2014: 27.27%)

- The repayment of the City’s three bonds, amounting to R4.2b, has been guaranteed by once-off monetary deposits, totalling R1.5b

- No loans were taken up during the 14/15 fin year resulting in savings of more than R130m

- Overall debt profile well within lenders’ financial covenants
## Financial Highlights at a Glance

<table>
<thead>
<tr>
<th>Selected key ratios</th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Adjusted liquidity ratio (1)</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Cost coverage ratio (1)</td>
<td>1.89</td>
<td>1.84</td>
</tr>
<tr>
<td>Debt coverage by own revenue (1)</td>
<td>4.89</td>
<td>4.13</td>
</tr>
<tr>
<td>Cash interest coverage (1)</td>
<td>7.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Cash generated from operations / revenue</td>
<td>20.76%</td>
<td>17.77%</td>
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<table>
<thead>
<tr>
<th>Credit rating</th>
<th>2015</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Credit rating</td>
<td>A1</td>
<td>Aa3</td>
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<table>
<thead>
<tr>
<th>Debtors payment ratio</th>
<th>2015</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>As per AFS</td>
<td>95.64%</td>
<td>96.35%</td>
</tr>
<tr>
<td>As per National Treasury</td>
<td>96.68%</td>
<td>97.22%</td>
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Funding Strategy: Borrowing

• The City prefers balance sheet as opposed to project funding for the following reasons
  – Projects can be prioritised in terms of the City’s needs & plans and not ad hoc funding availability
  – Costs can potentially be negotiated in terms of better cost structures
  – Potentially less onerous covenants and other terms and conditions

• Better and more flexible cash flow management

• Internal key indicators are set in place to maintain strong balance sheet position and credit rating

• Annuity as opposed to bullet structured instruments to minimise idle cash in the creation of sinking funds and to ensure a more incremental budgeted tariff growth

• Loan tenors aligned to the useful lives of the assets as far as possible to maximise equitable cost allocation
Conclusion
On 29 July 2015 the City of Cape Town’s Full Council resolved that:

C 11/07/15 FUNDING TO SUPPORT THE CAPITAL PROGRAMME

RESOLVED that:

(a) authority be granted to commence a process, as set out in Section 46 of the Local Government: Municipal Finance Management Act (MFMA), Act 56 of 2003, for taking up external loan funding of up to R2 billion to finance the capital programme:

(i) subject to a competitive process being concluded;

(i) a report be submitted on the preferred bidder for Council approval in terms of Section 46 of the MFMA.

(a) authority be granted to commence a process, as set out in Section 45 of the MFMA, to obtain a short-term credit facility of up to R1 billion in the 2015/16 financial year and a report be submitted for Council approval.
Procedure and timelines

• Short-term Debt

Call for short-term debt submissions

Evaluation of Submissions

Council Approval

The short-term debt will be used as bridging finance whilst negotiating the taking up of long-term loans.

• Long-term Debt

Call for Loan Submissions

Tenor: 15 – 20 Years

Evaluation of Submissions

First Quarter - 2016

Public Information Statement inviting comment

Council Approval

Second Quarter - 2016
In Conclusion

The opportunity and safe city
The City continues to secure through careful planning and governance an environment attractive to investors and which provides for the wellbeing and security of its citizens.

The inclusive and caring city
The City’s social programmes and investments continue to enhance social cohesion and community life.

The well–run city
The City has maintained its vested public image of sound financial management and governance.
Thank You

Making progress possible. Together.