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Privatizing Cape Town

**Service Delivery and
Policy Reforms Since 1996**

Municipal Services Project

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Privatizing Cape Town: Service Delivery and Policy Reforms Since 1996

by
David A McDonald
and Laïla Smith

Series Editors

David A McDonald
and Patrick Bond

ABOUT THE PROJECT

The Municipal Services Project is a multi-year research, policy and educational initiative examining the restructuring of municipal services in South(ern) Africa. The project's central research interests are the impacts of decentralization, privatization, cost recovery and community participation on the delivery of basic municipal services like water, sanitation and electricity to the rural and urban poor. The research has a participatory and capacity building focus in that it involves graduate students, labour groups, NGOs and community organizations in data gathering and analysis. The research also introduces critical methodologies such as 'public goods' assessments into more conventional cost-benefit analyses.

Research results are disseminated in the form of these Occasional Papers publications, a project newsletter, academic articles and books, popular media, television documentaries and the internet. The project website is located at www.queensu.ca/msp.

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Introduction

This booklet is about the privatization of municipal services such as water, waste and electricity in the city of Cape Town. The term ‘privatization’ is used to cover a range of private sector activities, including outsourcing and the introduction of private sector principles such as performance-based management and full-cost recovery into service delivery reforms. We also include the corporatization of services in this broad definition.

Chapter One argues that there has been a fundamental shift away from the ‘statist’ service delivery models of the past where the state subsidized and delivered municipal services (albeit in a racially-biased manner), towards a more ‘neoliberal’ service delivery model where the private sector (and private sector principles) dominate. In the latter model, the state acts as a service ‘ensurer’ rather than a service ‘provider’ – in the now-fashionable language of the World Bank – and municipal services are ‘run more like a business’, with financial cost recovery becoming the most important measure of performance. The chapter is based on extensive interviews with senior city managers and politicians, as well as a review of relevant policy documents, political party position papers and an evaluation of council activities since the first democratic elections in 1996.

Chapter Two provides a detailed account of the increasing commercialization of water in Cape Town, with a focus on current efforts to corporatize the service into a ringfenced business unit. Although different from the outright divestiture of state assets in that the city retains control and ownership of water facilities, corporatization nevertheless raises many of the same concerns about access and affordability as privatization and introduces many of the same profit-oriented motives and operating principles. It is also often the first step towards outright privatization. This chapter provides an overview of the city’s water corporatization plans followed by a list of concerns as to their

appropriateness for Cape Town, the most important of which relate to issues of accountability and regulation, the continued fragmentation of service delivery decision making, heightened pressures for cost recovery, and the process by which the corporatization proposals have been developed.

Underlying much of this discussion is the argument that neither the promise nor the potential of public sector reform have been achieved in Cape Town. Contrary to written guarantees on the part of the African National Congress (ANC) that the public sector would be the 'preferred service provider', local ANC councils have failed to adequately explore the public sector option and have actively promoted privatization and corporatization.

The other major political parties in Cape Town – the Democratic Party (DP) and the New National Party (NNP) – have been equally unwilling to explore and promote public sector reform but have been open about their private sector preferences. So too have senior municipal managers, many of whom are responsible for the daily operation and decision making of service delivery in the city. It is at this level of the civil service that the most concrete (albeit unofficial and ad hoc) expression of privatization and corporatization is to be found.

Our objective with this report is to document – for the first time since the end of apartheid – both the scale and character of privatization initiatives in Cape Town and to situate these policy changes within the broader national and international policy-making environment on service delivery. There are different opinions on privatization in Cape Town, and we attempt to capture these nuances in our analysis, but there is an overwhelmingly pro-privatization philosophy, representing a shift in policy orientation as profound as any that Cape Town has experienced in its long and tumultuous history. That this ideological shift should be discussed, and its relevance to service delivery in Cape Town debated, is the motivation for this report.

Chapter One

Privatization and the New Ideologies of Service Delivery

By David A McDonald

The city of Cape Town has undergone dramatic changes in the past twenty years. From the repressive and racist apartheid planning of the early 1980s, to a gradual loosening of apartheid laws in the late 1980s, to a massive restructuring of local government into non-racial structures in the 1990s, Cape Town has experienced changes on a scale and at a pace that few cities in the world can imagine.

Demographically, the city has witnessed a significant influx of South Africans from other parts of the country (most notably from the former African 'bantustans' of the Ciskei and Transkei) and is now also experiencing migration from other parts of the continent. Urban sprawl – both formal and informal – has changed the landscape of the metropolitan area dramatically, and the city has moved from 25 racially-divided municipalities to a single metropolitan council.

This latter restructuring has taken place in two stages and has involved a massive reorganization of some 30,000 employees, the creation of new political units, new electoral processes and the introduction of new political objectives geared to poverty relief, democratic representation and participatory decision making. Untold numbers of person-hours have gone into the planning and implementation of this political and organizational restructuring of the city.

These organizational changes have been the subject of considerable political and public debate in Cape Town and many of these changes –

particularly new boundaries and the formation of a single metropolitan ‘unicity’ – have been hotly contested. Although still confusing to many in terms of the practical implications of these organizational changes, the fact that a single, non-racial metropolitan government now exists in Cape Town is common knowledge in the city and is well documented in the press and in government archives.

Much less well documented are the changes that have taken place in policy orientation in the newly restructured city – particularly with respect to the delivery of basic municipal services such as water, electricity, sewerage and sanitation. Gone are the days of race-based planning and discrimination where the needs of white Capetonians were given clear and explicit preference over the needs of black South Africans, but what are the new models of service delivery? How does Cape Town fulfill its promise to be a city that “works for all”?

The purpose of this chapter is to document – for the first time since the end of apartheid – the ideological orientation of service delivery policies in metropolitan Cape Town. Based on interviews with senior municipal bureaucrats and politicians from a range of municipal areas and service departments, as well as a close reading of policy documents, planning papers and election manifestos of the key parties contesting the recent local government elections, this chapter offers a comprehensive overview of both the scale and character of policy shifts in the city since the first post-apartheid local government elections in 1996.

There has been a significant paradigmatic shift in policy orientation over the past five years, from that of a state-funded and state-run service delivery model to one that can be best described as ‘neoliberal’ – defined here by policies that are market-oriented in nature, such as full-cost recovery, corporatization and privatization. Rather than being seen as a service ‘provider’, local government in Cape Town is increasingly being seen as a service ‘ensurer’, overseeing and regulating service delivery by the private sector or by creating stand-alone ‘corporate units’. In short, running the city more like a business.

Interestingly, this is true of both old-guard apartheid bureaucrats and politicians who were once steeped in the statist model of service delivery (albeit biased towards whites) as well as new African National Congress (ANC) – allied councillors and bureaucrats for whom a statist/socialist model of poverty reduction and service delivery were long-time party positions.

The chapter begins with a summary of interviews with senior decision

makers in the Cape metro area, followed by an examination of policy documents and election platforms of the key parties contesting local government seats. It then looks at the track record of local government in Cape Town since 1996 and highlights what has been an ad hoc, but nevertheless very real and widespread, privatization of municipal services over the past five years.

The chapter concludes with a discussion of the broader political and economic forces shaping local government decision making in Cape Town with respect to service delivery and asks whether alternative policy choices are available. It is argued that policy alternatives do exist and that the space for choice is considerable.

Talking Privatization: Interviews with Senior Decision Makers

Our analysis of decision makers in the Cape Metropolitan Area (CMA) is based on interviews with 61 municipal managers and politicians over a three-month period from June to August 2000. Three groups of interviews were completed: senior-level management (30 interviews); mid-level management (18 interviews); and elected councillors (13 interviews). Managers were drawn randomly from a list of what were considered to be 120 of the most important service delivery decision-making positions. Many of these managers were from engineering departments but interviews were also conducted with managers from planning, finance, housing and other relevant sectors.

Efforts were made to interview all executive-level managers in the six municipal substructures and the one metropolitan authority that made up the interim local government from 1996 – 2000 (e.g., CEOs and Executive Directors). The substructures of Cape Town and Tygerberg were the largest municipal authorities in this interim government structure and therefore provided the largest number of interviewees, with a total of 21 out of 61 interviews.

Councillors were selected on a similar basis, with interviews being sought with the most senior and influential politicians from each of the parties in power in the metropolitan area (the African National Congress (ANC), the New National Party (NNP) and the Democratic Party (DP)). For purposes of confidentiality, the names and positions of interviewees are not mentioned in this report.

The interviews were semi-structured questionnaires which focused on four themes of municipal restructuring in Cape Town: 1) the redistribution of public services since 1996; 2) preferences for private versus public sector service delivery options; 3) the degree to which public participation has occurred in decision making; and 4) perceptions of what it means to be a 'world class' city. The second of these themes is the primary focus here.

It should be noted that some important political changes have taken place since these interviews – most notably the firing of ANC-allied members of the Executive Management team of the former Cape Town City Council by the NNP-DP coalition that won the local government elections in December 2000, as well as the splits within the NNP-DP coalition itself in late 2001. However, the majority of those interviewed for this research remain in office. More importantly, there has been no discernable shift in policy orientation by any of the major political parties or within the civil service. Indeed, neoliberal ideology with respect to service delivery would appear to be so hegemonic in the city that no amount of political gerrymandering at the municipal level would alter the underlying pro-privatization philosophy described here.

Attitudes Towards Privatization

When asked a series of questions about whether municipal services in the new unicity should be delivered by the public sector or by the private sector (and why), there were two broad categories of responses. One group of managers/councillors took a very pro-privatization approach – what will be referred to here as the 'bullish' approach to privatization. This group felt that the public sector is simply incapable of providing services on a sustainable basis and made calls for rapid and widespread private sector involvement. The second group took a more careful – or, more accurately, 'cautious' – approach to privatization.

Nevertheless, both groups were strong proponents of increased private sector participation in service delivery, with only four of the 61 managers and councillors interviewed being opposed to increased private sector participation. Twenty-five interviewees (41%) fell into the 'cautious' category, while 32 (53%) fell into the 'bullish' category. Interestingly, only one of the councillors interviewed could be classified as 'cautious', while nine were 'bullish' and three were opposed to privatization. Middle and senior managers were more or less split between cautious and bullish positions (with only one manager opposed to privatization). Table 1 provides a breakdown of these responses.¹

Table 1: Attitudes of Managers and Councillors Towards Increased Privatization of Municipal Services in Cape Town

	` Cautious`	` Bullish`	Opposed
Senior managers	16	13	1
Middle managers	8	10	0
Councillors	1	9	3
TOTALS	25	32	4

The 'Cautious' Respondents

One area that differentiated the cautious group from their more bullish counterparts was a concern about 'core' services such as water, sanitation, electricity and waste. The cautious respondents saw these as intrinsically public in nature and needing to be provided by local government. One manager, for example, argued that "government is better at providing emergency services and sewerage, which is a highly integrated service and where the risk for a contractor is too high". He added that the public sector has better knowledge of these key services due to its long history of running them. Another manager commented that, "The result of privatizing an area like sewerage to the private sector is that if payment isn't received, you will end up seeing sewerage running down the street".

There was also a general sense amongst the cautious group of respondents that government should remain in charge of services that are highly subsidized, such as libraries, clinics, community halls and swimming pools, where "customers are unable to pay the full economic value of running services". This concern reflected a broader apprehension about how privatizing highly subsidized services might affect the capacity to cross-subsidize services in low-income communities. One manager highlighted these equity considerations by saying: "If poor people can't pay for a service...local government can arrange for flexible forms of payment. The private sector isn't flexible when it comes to payment".

Tradeable services such as electricity, water, wastewater and solid waste are other areas for which the cautious interviewees noted some concerns. These services form a significant portion of local government revenue in the CMA (combined tariffs and charges making up more than 12% of revenues) while some services contribute to the general rates accounts and are used to cross-subsidize other municipal activities (most notably electricity which contributes 13% of total sales to general revenues) (PWC 2001, 7, 17). Noting the importance of these services, one 'cautious' senior manager noted that:

We need to qualify outsourcing. In some services such as water and electricity, significant sources of income come back to the coffers of local government and help to cross-subsidize these services. If there were no income stream coming in, government would have to raise rates. An important judgement call has to be made when deciding to privatize.

Revenue generating services were therefore identified as areas of service delivery that local government should remain involved in, the underlying motivation being to ensure that those who cannot afford to pay the full cost of collectively consumed goods could still gain access to them through local government cross-subsidization.

Another area that differentiated the 'cautious' group from the 'bullish' group was the issue of context. Cautious respondents said that there should be no generic privatization blueprint for the city of Cape Town, arguing instead for public-private partnership (PPP) packages that met the existing capacities, backlogs and resources of a given community. Others went as far as to argue for the need to better evaluate public sector capacity before considering public-private ventures. According to one manager:

We need to reassess the private-public partnership and tailor public services with particular needs at particular localities. We need to ask if public resources match a given package for an area and what other resources are available in this area to help boost the funding for this defined package. We need to look at other public resources for redistribution within districts. Getting district information on needs and resources in a given area can help with this process. When this approach is institutionalized local government can have a greater assessment of localized investment.

A final area of concern was the issue of integrating what remains a highly fragmented and inequitable system of service delivery in the metropolitan area. According to one senior manager:

Privatization must mean taking responsibility for providing value for money for people who elect them. The danger is having independent service providers for those who can afford to pay for a service, as this will thwart the critical element of integration. [Some parts of the city] don't have the in-house capacity that [the former substructure of] Cape Town has, the work is contracted out and becomes a piecemeal effort where integrated planning is lacking.

The general response to these kinds of concerns, however, was not one of less private sector participation but rather one of better regulation. As one senior manager noted: “The key issue is government ensuring that the service gets provided. This doesn’t necessarily [mean that government] has to be the deliverer of services. We need to hold the public authority accountable for this in terms of how the private sector engages poor people and builds on their skills”.

The ‘Bullish’ Respondents

In contrast to the ‘cautious’ approach to public-private partnerships, the ‘bullish’ group of respondents held a one-dimensional view of privatization. This group clearly saw the private sector as being able to deliver services more effectively and less expensively than the public sector. Efficiency was the most frequently cited issue in deciding whether core or non-core services should be turned over to the private sector, regardless of equity concerns. As one senior level manager noted:

Local government has increasingly outsourced engineering services and gotten more involved in the responsibility of community services.... The role of local government's core function is to be the ensurer with services as stand-alone business units moving to public utilities then to the private sector.... Electricity and water are well suited for this line of thinking as they have a tariff base.

Other respondents were even fatalistic in their belief that the private sector was the only option for service delivery, with one manager stating that “there is no way to restructure the public sector without moving into the

private sector and the formation of utilities". Another manager suggested that the "public sector should only be considered once proven that it can beat the private sector with cost-effectiveness".

When asked what municipal services would be better provided by the private sector, one manager responded: "All of them. Services like cleansing, water and electricity could be enhanced if there were greater competition". A senior councillor pushed this idea of competition further, stating that "everything within the public domain should be opened up for competition with the private sector". Another councillor confirmed his preference for market-run services by adding: "The national framework agreement [signed between government and Cosatu which makes the public sector the 'preferred service provider'] has to be discarded. The private sector service delivery will be more efficient than government when it can achieve the proper market situation".

This group of respondents were unanimous in their belief that the private sector could provide better services than the public sector, and there was widespread agreement amongst this group that privatization is an inevitable outcome of post-apartheid restructuring. As one respondent articulated it: "The disparities in local government create a climate that makes it more difficult to save on costs. This makes it difficult to compete with the private sector". In other words, privatization is seen by this group as a rational and unavoidable response to the inefficiencies of state-led planning and service delivery in the past. There was little reflection in this group as to how the move to a market-based approach to service delivery might consolidate the structural inequalities left by decades of apartheid planning.

It should also be noted that many of the managers and councillors interviewed made reference to "labour problems" as one of the key reasons for privatization. There was a widespread perception amongst these interviewees that workers are "lazy and paid too much" and that job security for municipal workers is responsible for low labour productivity. As one manager argued: "Municipal workers are so secure in their jobs that those who want to work hard don't have the opportunity". According to another, "the biggest barrier to equity [in service delivery] is the inflexibility of labour relations".

Significantly, the strongest voices within this 'bullish' group were managers with an engineering background who were responsible for day-to-day decisions regarding service delivery. That these managers are, by and large, also products of the statist apartheid system, underscores the dramatic changes that have taken place in terms of policy orientation.

Corporatization: Internalizing the Ideology of Privatization

Differences of opinion on the extent and scale of privatization aside, the local government decision makers interviewed for this research are more or less united in the acceptance of corporatization as a method of institutional change. Chapter Two takes this theme up in detail but it is worth noting here that corporatization involves many of the same operating principles as privatization, such as performance-based management and full-cost recovery, without the political debates that accompany outright privatization (Moran 2000, 57).

Corporatization also has the teleological effect of reforming services with the intent of outsourcing them; or as one manager confirmed: “Once a service is benchmarked or quantifiable it is ready to be privatized”. If the problem is that the “public sector isn’t geared to compete with the private sector” (as one manager stated), then local government in Cape Town has embarked on an intensive process of corporatization in order to ensure that it can compete with the private sector, and perhaps eventually be sold to the private sector.

Writing Privatization: The Evolution of Policy

Further evidence of the shift to private sector principles in the area of service delivery in Cape Town comes from policy documents and discussion papers – the most important of which have been put forward by the Unicity Commission (or “Unicom”)² as part of its role in the reorganization of Cape Town municipalities in 2000. The Unicom was composed of an equal number of ANC and NNP councillors (five from each party) and one DP councillor, as per party political representation in the municipal structures at the time. This group reviewed and voted on recommendations made by a team of technical advisors composed of senior bureaucrats from municipalities in the CMA and private sector consultants, such as PricewaterhouseCoopers which did much of the consulting work for the Unicom, and which continue to be active in developing policy papers in the new unicity. The Unicom policy recommendations are critical for at least two reasons. First, they represent the first-ever policy recommendations to deal with the Cape Metropolitan Area in its entirety. During the first phase of post-apartheid local government in Cape Town from 1996-2000 there were

seven municipal bodies, none of which had the political legitimacy or the constitutional authority to implement urban policies on a metropolitan scale. As a result, none of these bodies dealt with the range of governance issues with which the Unicom was mandated. Moreover, none of the interim local government bodies had the requisite metropolitan-wide information needed for metropolitan decision making, due to the fragmentation of data and a lack of cooperation in sharing information between the different local agencies. It was only with the power vested in the Unicom by the Municipal Structures Act (RSA 1998) that this information could be obtained, collated and acted upon in a centralized manner.

Second, the two major sets of policy recommendations put forward by the Unicom – the August 2000 “Discussion Document” and the November 2000 “Strategic Recommendations” – were unanimously (and uncontroversially) approved by the political representatives on the Commission. The multi-party nature of the Commission, in turn, meant that these recommendations were broadly supported across political lines and went forward to the new unicity councillors with a stamp of approval from the major political parties.

Two Unicom documents are examined here in some detail to reveal their explicit and implicit privatization objectives, starting with the Discussion Document.

Discussion Document

Although the term “privatization” is not used in the Discussion Document, the report makes repeated references to private sector participation in a future unicity, and the Unicom clearly sees private sector involvement as the path to a “successful” and “competitive” Cape Town. This avoidance of the term privatization, and the concomitant use of ‘soft’ language to refer to private sector involvement, is highly problematic because it tends to conceal, rather than reveal, the real policy thrusts in the document and makes it difficult for a lay person (or councillor for that matter) unfamiliar with the privatization terrain to know what the implications of ringfencing, partnerships and other service delivery initiatives might be.

The most explicit reference to increased private sector involvement in service delivery is the call to “move boldly beyond the current emphasis on service provision issues” to a position where the new unicity Council “understands its role as a service insurer and as a guarantor of municipal services rather than as a primary service provider” (section 3.1).³ In other words, local government should act primarily as a regulator of services

while the private sector or some sort of public-private entity actually provides the services. Although subtle, the shift in emphasis from “service provider” to “service ensurer” is a critical one, and adopts the language used by the World Bank (1994) in its policy positions on the matter.

Other euphemistic references to increased private sector participation and corporatization include: the need to “modernize” the way local government operates (section 3.3); the call for “greater competition” in service delivery (section 6.1); the call for a “strong emphasis” on a “partnership approach” in service delivery (section 6.2); the suggested “dismantling of current local government administrations and the establishment of a range of highly focused business units” (section 8.1); the recommended creation of a “small and focused corporate center” to manage the activities of service delivery (section 8.2); and the call for “ringfenced business units” (section 8.3). Terms such as “performance management” and “flexibility” also pepper the Discussion Document.

Most importantly, there is a marked shortage of references in the Discussion Document to building public sector capacity and/or redistributing existing municipal resources in a more equitable manner. There is fleeting reference to the need to improve the “skills base” of city employees (section 9.1) but there are no details as to what this “large investment” might entail financially or how these skills development funds would be broken down between managers, politicians and labourers. Nor is there any reference to the issue of resource distribution in the Cape Metropolitan Area (CMA) – despite the fact that comprehensive audits of existing municipal resources have never been conducted and municipal resources remain highly skewed on a racial and geographical basis (on which more will be said later in the paper). In short, the unicity’s Discussion Document fails to explore the public sector option in any meaningful way and places the private sector in the driver’s seat of service transformation in Cape Town.

It is also worth noting that there was very little input from the public in the development of this Discussion Document. There were a handful of public hearings with various ‘stakeholders’, but the inputs were largely post facto with virtually no opportunity for the public to participate during the course of developing the Document. The process was effectively a closed shop for a small group of bureaucrats, politicians, and private sector consultants.

This extremely limited participatory model brings into question the use of the term “consensus” in section 4.1 of the Discussion Document and highlights a profound tension between the stated aims of developing

a broadly participatory and democratic decision making model for the new unicity, and the thrust towards creating a “small and focused corporate center” (section 8.2). While the need for some centralized bureaucratic decision-making by a relatively small group of people to run the daily operations of services is acknowledged, it is important to flag the democratic tensions inherent in this commercialized model of reform.

Strategic Recommendations

The Discussion Document was eventually re-released in November of 2000 as the Unicom’s “Strategic Recommendations” to the new unicity Council, but these recommendations did not fundamentally alter the pro-privatization approach outlined above. The term “privatization” is still not used, but the document is more explicit about its pro-privatization agenda, as demonstrated in the following “recommendation”:

That all stakeholders acknowledge the reality that a significant proportion of local government service delivery responsibilities are already outsourced, and that this proportion is likely to increase in future, particularly in the case of new services.⁴

The document goes on to make the following recommendations about the ringfencing of tradeable services like water, electricity, sanitation and sewerage:

- That service ringfencing initiatives should seek to foster competitive incentives in service delivery where these are sensible and appropriate.
- That service ringfencing should always assist in revealing true service delivery costs, and that all services should therefore be ringfenced from a financial accounting point of view.
- That the service ringfencing should [be] undertaken on an incremental basis, with increasing levels of decentralisation being balanced by increasing levels of corporate capacity to manage ringfenced services. Lessons from the experiences of Johannesburg and other local governments should be gathered and applied.
- That particular attention be given to addressing those aspects of industrial relations which inhibit ringfencing initiatives and lead to inflexible and inefficient human resource utilisation.

This last recommendation is noteworthy in that it is the only reference to labour relations in the entire Strategic Recommendations document (despite the fact that there are over 20,000 labourers in the metropolitan area, and relations between the Unicom and the union which represents the overwhelming majority of labourers – the South African Municipal Workers Union (Samwu) – were extremely tense at the time that the recommendations were written.⁵ The reference to labour is also a negative one, suggesting that labour will only “inhibit ringfencing initiatives” due to their “inefficiency” and “inflexibility”.

Although this quote in and of itself does not ‘prove’ an anti-labour bias in the Strategic Recommendations document, or within the unicity for that matter, it is nevertheless indicative of a prevailing negative attitude towards organized labour amongst senior civil servants and councillors in the CMA (for a more detailed discussion see MSP 2000). At the very least, the Unicity Commission’s documentation illustrates a marginalization of labour, with only one reference in the entire Strategic Recommendations document to the single most important resource in the CMA: workers (as compared to 23 references to “business”).

Moreover, there is no reference to the training or upgrading of skills of workers in the unicity, despite the fact that research conducted in early 2000 revealed a widespread lack of training for workers and poor health and safety records (MSP 2000). By contrast, the Strategic Recommendations report singles out councillors for “strong training programmes... to facilitate [their] effectiveness”, and highlights the need for extensive IT training in order to create a new “smart city”. The fact that thousands of municipal workers are still conducting dangerous and unhealthy tasks without proper health and safety training and equipment receives no mention in the Unicom’s recommendations.

Most surprising of all, perhaps, is the lack of detail in both the Discussion Document and the Strategic Recommendations document – with the latter being no more than a table of point form notes with columns representing issues/options/recommendations. This lack of detail is all the more surprising given that the Strategic Recommendations paper represents the final recommendations of the Unicity Commission to the new unicity council, and was the culmination of twelve months of research and several million rands of public funds.

There is additional detail contained in technical memoranda and confidential annexures but no references are made to this additional technical data in the report and no efforts were made to distribute this

information to the general public. Even the 27-page summary of the Strategic Recommendations document proved difficult to obtain, raising further questions about the process of reforms in the city.⁶

Campaigning for Privatization: The 2000 Local Government Elections

The local government elections held in Cape Town on December 6, 2000 also provide interesting insights into the shift towards neoliberalism in the decision-making halls of Cape Town.

The election was won by the Democratic Alliance (DA) – a coalition of the New National Party (NNP) and the Democratic Party (DP) – who won 108 of the 200 seats available. The ANC won 76 seats (and 42% of the popular vote) with the remainder going to various smaller parties and independents. Significantly, the ANC refused to take up the four seats it was entitled to on the new ten-seat mayoral “executive committee”, arguing that it would compromise their ability to act as an effective opposition to the DA, stating that “the ANC’s policies and approach to address poverty are fundamentally different than the DA’s”.⁷ Election posters and speeches also suggested significant differences between the two main parties, and much was made of the different styles and approaches of the two opposing mayoral candidates.

But just how different were the election platforms of the two main parties and what do they reveal about their ideological orientation, particularly on issues of privatization and corporatization? We start with the Democratic Alliance’s election positions and then compare these to the ANC’s. The sources for these comparisons are political speeches made during the election campaign, press coverage, and, most importantly, the “election manifestos” issued by the national offices of the two parties. The rupture of the DA alliance in late 2001 and its implications for privatization policy in Cape Town are also addressed.

The Democratic Alliance

On the issue of privatizing municipal services (as well as corporatizing and outsourcing), the DA takes an explicit and very ‘bullish’ neoliberal position (DA 2000, section 6):

In DA-controlled municipalities, cost savings through competitive outsourcing and privatisation will be instituted in an ongoing drive to

provide better value for money. Local and international experience has shown that the introduction of a businesslike approach, competition, and private sector involvement in the delivery of municipal services, in other words commercialisation leading to appropriate out-sourcing and privatisation, leads to significant savings and improvement in the quality of services delivered. Privatisation and outsourcing also creates new opportunities for employment in the private sector and increases job creation in new projects financed with the resultant cost savings. The eventual effect is more overall employment in the city or town, and more wealth for all the people.

In terms of which services “lend themselves to variants of commercialisation, competitive outsourcing and privatisation”, the DA argues for virtually every service that municipalities have responsibility for: “garbage and solid waste disposal, fire protection, emergency ambulance services, maintenance of parks and recreational amenities, public transport systems, certain social services and primary health care, certain planning and zoning functions, water and sanitation, and certain municipal management functions” (DA 2000, section 6). The manifesto goes on to say that “savings of between 20% and 60% for particular outsourced or privatised services are generally possible” and cites “successful” examples of such savings from around the country and around the world.

This is a clear and strong endorsement for a significantly increased role for private sector service delivery at the level of local government on the part of the DA. Democratic Alliance councillor Ian Neilson articulated this position succinctly during the Cape Town election campaign, arguing that “only competitive service delivery, through outsourcing and privatisation, will achieve [cost savings in municipal services]” (Cape Argus, August 19, 2000). The fact that there is no mention in the DA’s manifesto about building public sector capacity or looking for public sector efficiency gains through a more equitable distribution of municipal resources (the term “public sector” is not even used in the manifesto), also speaks to the DA’s pro-privatization position on service delivery.

Other DA policy positions that underscore their neoliberal focus are:

- Competitive cities: “Local government must create enabling environments to develop world-class cities and towns and locally competitive and viable municipalities”. To do so, the DA proposes “local enterprise zones offering rates holidays and subsidised infrastructure development aimed at targeted investment” (DA 2000, 11).

- Cost recovery: the DA promises to “create a culture of payment for all services consumed above the lifeline level, *inter alia* by strictly collecting all arrears and debt. DA municipalities will also clamp down on people stealing municipal services like water and electricity. Towards this aim we will institute improved controls and monitoring, including more effective metering systems” (DA 2000, 25).
- City improvement districts (CIDs): the DA promotes geographical segregation of service delivery and promise that “levies raised from property owners will be spent only in the CID and only on the priorities identified by the local residents and businesses”. The CID’s will furthermore be “developed, managed and promoted by [private] Regeneration Companies” (DA 2000, 27-8).
- Municipal workers and organized labour: the DA promises to “continue to drive the process of amending rigid labour laws in order to make it easier for business to create jobs.... DA controlled local governments will work towards increased labour flexibility and a new co-operative relationship with organised labour” (DA 2000, 33).
- Property rates: the DA promises to “levy the minimum necessary, rather than the maximum possible, levels of rates”, arguing that “any form of taxation on wealth, such as property rates... is ultimately a tax on initiative, savings and investment (DA 2000, 34).

Some observers have argued that the Democratic Party was behind the “ideological content of the DA election manifesto”. Members of the NNP, by contrast, “favour policies that are more obviously social in nature, aimed at reducing relative disadvantage... [due to] its racist past and significant constituency among the coloured population of the Western Cape” (Idasa 2001, 5). To some extent this may be true, with anti-privatization comments having been made by senior NNP politicians in the past.⁸ For the most part, however, NNP councilors have expressed strong support for service privatization, both in their interviews for this research as well as their public statements on the matter. And with the ascendancy of DP-affiliated councilors and bureaucrats since the break-up of the DA it is all the more likely that the strident neoliberal views of the Democratic Party will dominate the transformation agenda of the city should the DA manage to retain control of the council.

The African National Congress

The ANC's official position on the privatization of municipal services is more ambiguous than that of the DP and the NNP. At times the party suggests that the public sector should be the "preferred" service provider while at other times (often in the same document) it opens the door to increased private sector participation.

One illustration of this ambiguity is found in the party's local government election manifesto from 2000. The manifesto initially makes a commitment to the public sector as the "preferred option to provide services", but then goes on to say that "where a local government lacks the necessary capacity, it may engage in partnerships with other government institutions, such as state-owned enterprise or other local governments, as well as community organisations and/or the private sector" (ANC 2000, 4).

The ANC mayoral candidate for Cape Town, Lynn Brown, was equally ambiguous on the matter, stating at a community forum on privatization held in November of 2000 that she is "opposed to privatization without proper evaluation and public consultation", but then held out public-private partnerships and other forms of commercialization as "possible alternatives" for service delivery in the new unicity.⁹

This is not the first time that the ANC has promised to make the public sector the "preferred service provider". Having made a commitment in 1998 in a "National Framework Agreement", signed with the Congress of South African Trade Unions (Cosatu), that the public sector would be the "preferred service provider" for municipal services, the ANC-run national government then went on to write the Municipal Systems Act (RSA 2000a) which abandoned the language of "preferred provider" altogether and promoted other commercialization criteria such as "public-private partnerships".

On issues of cost recovery, competitive cities, CIDs, municipal workers and property rates (issues on which the DA had much to say in their election manifesto), the ANC was remarkably silent during the election campaign. Nor was anything said on these critical and controversial issues in the ANC's official election material.

One is left wondering, therefore, what makes the ANC's policies in Cape Town so "fundamentally different" from those of the DA, at least when it comes to policy choices on privatization, corporatization and cost recovery of services. To better answer this question it is necessary to look at the ANC in practice – *i.e.*, its policy actions while it was in power in two municipal authorities in Cape Town during the interim governments

of 1996-2000. 'The proof of the pudding', as the saying goes, 'is in the eating', and in this case the record of the ANC in Cape Town is one of increasing privatization and outsourcing, aggressive cost recovery, and the introduction and promotion of CIDs.

Doing Privatization: The Track Record of Local Government in Cape Town from 1996-2000

At the local government election forum on privatization referred to earlier, Peter Marais, the DA mayoral candidate (and subsequent mayor of the new unicity until the split in the DA), began his speech with a lengthy list of municipalities in South Africa where services had been privatized: Johannesburg, Stutterheim, Nelspruit, Cape Town, Tygerberg, Dophin Coast, and Durban (to name but a few on his list). "All of these municipalities", he went on to say, "are ANC controlled". His point was that the ANC may talk about the public sector being the "preferred option" for service delivery, but when it comes to practice they are no different than the DA.

His point seemed to be lost on the overwhelmingly partisan ANC crowd, which seemed more intent on provoking Marais' famous temper (which they eventually managed to do), than on listening to what differences may exist between the two political parties when it comes to privatization policies. Marais was right, however. It is the ANC, not the DA, that has been behind the most ambitious municipal privatization programmes in the country – with Johannesburg's iGoli 2002 being but the largest and most controversial example. The DP and the NNP have been supportive of all of these initiatives (and have even rebuked the ANC for not going far enough or fast enough with its privatization agenda), but it is ANC-led councils which have been the primary driving force behind the commercialization of municipal services in the country.

The same is true in Cape Town. In the two municipal substructures that were controlled by the ANC from 1996 to 2000 (Tygerberg and the City of Cape Town), the outsourcing of municipal services was widespread and included library services, industrial refuse collection, street cleaning, child care, parking, water reticulation services, and a myriad of other core and non-core services.

The City of Cape Town also introduced the first city improvement districts (CIDs) in the metropolitan area. The first of these came on stream

in November 2000 in the central business district of Cape Town with much fanfare from city council and local business associations. The council released a multi-paged, colour broadsheet announcing the benefits of the CID with two of the ANC's top councillors and a senior administrator pictured on the front page striding confidently across an intersection in the centre of the city. A second CID was operationalized in December 2000 in Claremont (a secondary but growing business node in a predominantly white suburb), with promises of many more CIDs to come (up to 60 of them over the next few years according to the director of the private firm responsible for developing these initiatives).

The two CIDs in operation include private sector policing, video monitoring, increased private sector cleansing (with disinfectants for the sidewalks and streets), and policies of removing vagrants and informal parking attendants from the CID areas. Promotional material for the Claremont CID included a full front-page advertisement in a local community newspaper with the CID's puppet mascot, *Clarie*, carrying a large police club in its hand.¹⁰

These two ANC-controlled councils were also responsible for massive cutoffs for non-payment of services. In the former substructures of Cape Town and Tygerberg, for example, there were a total of 75,400 cutoffs in 1999 and 2000 alone (see Table 2).¹¹ Assuming an average household demographic in low-income areas of five people, this represents a total of 377,000 people in these two suburbs who experienced water cutoffs for at least some period of time (with some of these people/households no doubt representing repeat cutoffs).

This history of ANC-sanctioned cutoffs in Cape Town contrasts starkly with the party's call for free lifeline supplies of water and electricity as part of their election platform.¹² Moreover, it brings into question the legitimacy of the ANC's insistence at the first unicity council meeting on December 15, 2000, that there be a moratorium on all future water and electricity cutoffs until a lifeline policy has been put in place (a proposal which was unanimously accepted by a DA-dominated council with its own track record of water cutoffs but which was subsequently ignored when water cutoffs continued in 2001).

Both the ANC and the DA have therefore been 'doing privatization' in the Cape Metropolitan Area for many years now. To the extent that the ANC is different from the DA in this regard, it would appear to be a matter of degrees, and the extent to which the DA is willing to be explicit and consistent in its policy choices.

Table 2: Water Cutoffs in Cape Town and Tygerberg substructures: 1999-2000

	1999	2000	Total
Cape Town	1,289	4,078	5,367
Tygerberg	9,598	60,435	70,033
Totals	10,887	64,513	75,400

The National and International Picture

No analysis of change in Cape Town would be complete without an evaluation of the larger national and international picture – politically, ideologically and economically. Although increasingly autonomous from other tiers of government, Cape Town operates within fiscal and political constraints as a municipality and it is essential to understand the effect that these constraints have had on local policy choices, particularly with respect to the privatization of municipal services.

We look here briefly at three national initiatives that have encouraged the privatization of municipal services – the Growth, Employment and Redistribution (GEAR) framework, the Municipal Infrastructure Investment Unit (MIIU), and the Municipal Systems Act – as well as some international pressures. These are not the only factors bearing on local government decision making but they do provide an indication of the pro-privatization climate within which local governments in South Africa are operating.

Growth, Employment and Redistribution (GEAR)

The Growth, Employment and Redistribution (GEAR) macro-economic framework was introduced by the ANC national government in 1996. Compiled and released to the public without consultation with labour, GEAR represents a significant swing to the right for the ANC in fiscal and monetary policy terms and downplays much of the interventionist and redistributive Keynesianism that was to be found in GEAR's predecessor, the Reconstruction and Development Programme (RDP).

GEAR's effect on municipal infrastructure and service delivery has

been profound. First, it has resulted in significant decreases in intergovernmental transfers from national to local governments in the name of fiscal restraint. Although these cuts began as far back as the early 1990s under the then-ruling National Party, transfer squeezes continued and escalated after the ANC came to power at the national level, resulting in an 85% decrease (in real terms) in intergovernmental transfers to local government between 1991 and 1997 according to the Finance and Fiscal Commission (1997) and a further 55% in Cape Town between 1997 and 2000 (Unicity Commission 2000).

In fiscal 2000, intergovernmental transfers to local governments across South Africa were in the order of R3 billion per year, with a possible increase of only 15% over the next few years. Projections of the capital costs of addressing service backlogs, meanwhile, are in the order of R45 to R89 billion (depending on the level of services provided) with government-sponsored operating costs (e.g., free lifeline services) adding many billions more per year (RSA 1995, 2000d). National government's contribution to infrastructure development is therefore woefully inadequate.

National government has also put caps on rates increases that local governments are able to levy on (wealthy) property owners. The Draft Local Government Property Rates Bill of 2000, for example, states that local governments cannot apply taxes at the local level which threaten its own tax-reducing, fiscally conservative strategy, as evidenced by the following quotations (RSA 2000b, Chapter 2, Sections 4-5):

A municipality may not...exercise its power to levy rates on property in a way that would materially and unreasonably prejudice national economic policies, economic activities across its boundaries, or the national mobility of goods, services, capital or labour.

The Minister, with the concurrence of the Minister of Finance, may by notice in the Gazette set a limit on the amount of the rate that municipalities may levy on property; or the percentage by which a rate on property may be increased annually.

With approximately 90% of all local government revenues being generated locally (of which approximately 25% come from property rates), these caps mean that local governments are unable to significantly increase their own revenue pools through progressive taxation – and this at a time when municipalities have been asked to do more, not less, with the resources that

they have. National government has, in effect, created ‘unfunded mandates’ which municipalities cannot possibly hope to fulfill within the current revenue structures. It is little wonder, then, that local authorities have begun to look to the private sector as a way to finance and expand service delivery.

Less concrete, but arguably just as significant, is the ideological climate that GEAR has spawned in the country. With the Finance Ministry enjoying unchallenged supremacy in Cabinet at a national level, and with fiscal conservancy being the order of the day in international bodies to which the country belongs (or would like to join), the Thatcherite adage of “There Is No Alternative” has never been stronger in South Africa. To challenge the orthodoxy of fiscal restraint and cost recovery, even if you are an ANC local government councillor outside the purview of national government, can either mean political alienation or outright disbarment (as was the case with one Soweto-based ANC Councillor – Trevor Ngwane – who was forced out of the party due to his public criticisms of the Johannesburg city council’s privatisation plans called iGoli 2002).

Even the Congress of South African Trade Unions (Cosatu) and the South African Communist Party have muted their criticisms of GEAR and national government’s own privatization initiatives of late. One notable exception was a two-day Cosatu-led strike protesting privatization held in August of 2001 with some four million workers taking part, but Cosatu has since re-affirmed its commitment to the ANC alliance and its broad development plans.

Municipal Infrastructure Investment Unit (MIIU)

The formation of the Municipal Infrastructure Investment Unit (MIIU) in 1997 is an important development here as well. Established as a five-year programme with funding from foreign donors, the MIIU’s stated Mission is “to encourage and optimise private sector investment in local authority services” (MIIU 2000). Activities to be undertaken involve “assistance to local authorities in the process of hiring private sector consultants and the management of contracts with the private sector” and “developing project proposals involving private sector investment”.

These investments can take a broad range of forms, including:

- Private sector financing of municipal debt;
- Contracting out of the management of ongoing services;
- Concessions to operate the local authority’s assets over a defined period;

- Contracts requiring the private sector to Design, Build, Finance and Operate assets to deliver services for the local authority;
- Privatization of assets and services.

The MIIU has been active in promoting and financing the privatization and corporatization of municipal services and has provided advice and funding to dozens of municipalities in the country along these lines, including the controversial 30-year contracting of water in Nelspruit. The fact that there is no parallel organization set up at a national level to promote and conduct research on how best to improve and extend public sector service delivery is perhaps the most telling indication of the ideological impulses driving urban policy in central government.

Municipal Systems Act

The Municipal Systems Act (RSA 2000a) is also worth mentioning insofar as it provides the legislative framework for municipal service delivery and determines the scope for private sector involvement. In contrast to the ANC's local government election manifesto of 2000 which stated that "national and provincial governments will keep the public sector as the preferred provider of municipal services", and contrary to the "preferred option" language of the National Framework Agreement signed with Cosatu in 1998,¹³ the Municipal Systems Act fails to use the word "preferred" altogether. In fact, the most relevant section of the Act (Chapter 8, Part 2) places the public sector on equal footing with alternative service delivery options, including private-public partnerships and outright privatization: although a municipality must "first assess...internal mechanisms" when evaluating service delivery options, it may, at the same time, "explore the possibility of providing the service through an external mechanism" (RSA 2000a, 72-74). In other words, the promises made by the ANC in their election manifesto and National Framework Agreement are effectively nullified by the binding legislation of the Municipal Systems Act.

Further evidence of this erosion of the public sector as the "preferred option" is found in the Department of Local and Provincial Government's *White Paper on Municipal Service Partnerships* (the ANC's euphemism for 'public-private partnerships'). Released in early 2000, the paper attempts to clarify the government's position on "preferred options" but succeeds merely in establishing the downgrading of the public option to one that is no more important than private sector initiatives:

While the Government is committed to facilitating the use of MSP [municipal service partnerships] arrangements, this does not mean that MSPs are the preferred option for improving service delivery. It is rather that MSPs should enjoy equal status among a range of possible service delivery options available to municipal councils (RSA 2000c, 14).

The Role of International Organizations

We look finally at the role of international organizations in the promotion of privatization in South Africa. The fact that the MIIU is funded by an outside donor agency has already been alluded to, and there are many other instances of direct funding of privatization initiatives in South Africa by donor groups, but it is the role of multilateral organizations like the World Bank and the United Nations that are most critical.

Bond (1999, 2000) has documented the role that the World Bank in particular has played in shaping local government policy in South Africa and argues that their ideological influence in terms of promoting privatization, cost recovery and other forms of commercialization has been profound. The same applies to Cape Town where several large World Bank missions were sent in the early 1990s and where there remains ongoing collaboration and contact with senior city officials (the Bank's annual "Competitive Cities" conference being one example).

The World Bank has also teamed up with the United National Development Programme (UNDP) in the form of the Urban Management Programme which promotes private sector involvement in services in the region. The UNDP has also recently helped to establish the "Public-Private Partnerships for the Urban Environment" initiative based in Pretoria. There is pressure from the World Trade Organization as well in terms of having South Africa ratify the General Agreement on Trades and Services (GATS) framework which, critics have argued, paves the way for multinational corporations to take over public services (Pollock and Price, 2000; Sexton 2001).

And finally, there are the large multinational corporations themselves, eager to win service contracts in South Africa. The French water company, Suez Lyonnaise Des Eaux, for example, which won the contract to manage Johannesburg's water for five years, is the second largest water company in the world with a corporate group turnover of approximately US\$30 billion a year (as compared to Anglo American Corporation at US\$21 billion per year) and is ranked 69th on Fortune's 1999 Global 500 List. With enormous resources at hand, and with a track record of bribery and corruption in an attempt to win contracts

in other parts of the world (Hawley 2000; Loftus and McDonald 2001), large private service providers like Suez have altered the terrain of political decision making in national and local government. Witness the following quote from an interview with a senior water manager in Cape Town: “Lyonnais des Eaux has come knocking on my door on two occasions. These French water companies have become too powerful to resist. The takeover is inevitable.”

These international pressures are perhaps no different or intense in South Africa than they are in other cities in the South. My point here is simply to illustrate that municipalities in South Africa – and municipal decision makers – operate in both a national *and* international environment which makes it easy to promote privatization and corporatization and difficult to explore public sector reform options.

Room for Manoeuvre

Does this mean that local government decision makers in Cape Town are impotent in the face of a pro-privatization climate at the national and international level? Far from it. In this final section of the chapter it is argued that there is considerable room for policy manoeuvre at the local level and that decision makers in Cape Town have the political and economic space to retain and improve public services.

A few examples of the options available to council are offered here – not as a blueprint for reform, but rather as an indication of the possibilities that exist to improve public sector service delivery and which have been under-explored.

Increased Intergovernmental Transfers

One way in which the city of Cape Town could pursue alternatives to privatization and full-cost recovery is to challenge the national government’s miserly intergovernmental transfers. With a 55% decrease in intergovernmental transfers from the national level between 1997 and 2000 the city of Cape Town has a right to be pushing national government in this regard.

Ironically, it may be the pro-privatization Democratic Alliance in Cape Town that will make this fiscal push in an effort to win favour amongst Cape Town’s urban poor while at the same time trying to embarrass the ANC at a national level. Indeed, the DA suggested as much during the

2000 election campaign in Cape Town and it was flagged as an issue in the party's election manifesto – something that the ANC election manifesto failed to mention. The party has yet to follow through with this threat, but the political option remains.

A Fairer Distribution of Public Resources

Another area where local councillors and bureaucrats could improve public sector service delivery without resorting to the private sector is with a better distribution of public resources. It was, in fact, this kind of redistribution of human, financial and capital resources that was behind the push to reorganize municipalities in the early 1990s. White municipalities have long had significantly higher levels of resources on a per capita basis and it was hoped that there would be a major redistribution of these resources after 1994 (Swilling, Humphries and Shubane 1991, Smith 1992, Ahmad 1995).

Unfortunately, the distribution of municipal resources in the metropolitan area appears to have remained fairly static. Research conducted by the Municipal Services Project in mid-2000, for example, found that per capita distribution of public resources for water delivery and waste management are highly skewed along race and class lines – with as many as 100 times the resources being available in historically white suburbs as are available in black townships on a per capita basis.¹⁴

To illustrate, Table 3 provides a breakdown of the personnel and equipment available for residential waste management in the CMA.¹⁵ The figures refer to the number of people per piece of equipment and per municipal employee, with lower numbers indicating higher levels of resources per person. The 33 waste depots have been divided into those that predominantly service suburban areas (e.g., the Claremont depot) and those that service predominantly African and coloured township areas (e.g., the Langa and Bontheheuwel depots) and been aggregated for the metropolitan area as a whole. The former represent approximately 800,000 residents and the latter some 1.7 million residents. It should be noted, however, that there is overlap in some of the areas serviced by the depots. As a result, the figures provided here should be seen only as general indicators of resource distribution. Nevertheless, they do illustrate dramatic resource differentials along race/class lines.

Table 3: Distribution of Waste Management Resources in the CMA by Depot

Equipment (number of residents per piece of equipment)	Depots servicing suburbs	Depots servicing townships
Containerized vehicles	12,315	27,445
Bakkies	30,684	47,906
Tractors	N/a	101,600
Compactor trucks	13,408	43,160
Front-end loaders	35,500	70,763
Grab trains	30,150	95,000
Long-wallers	30,750	N/a
LDV' s	45,690	62,350
Mechanized sweepers	51,428	25,000
Water trucks	40,125	54,966
Refuse trucks	19,650	52,112
Trailers	37,500	140,000
Green machines	45,750	55,944
Push-carts	11,850	78,000
Wheelbarrows	10,312	43,562
Human resources (number of residents per employee)		
Managers/super-visors	6,833	24,847
Labourers	1,027	1,659
Administrators	22,014	67,820
Shift workers on-site	9,012	13,888

Even more dramatic are the direct comparisons of particular depots. Table 4 provides a comparison of the waste depot in Durbanville (an upper-income and predominantly white suburb) with that of Khayelitsha (an extremely poor and predominantly African township). These two depots

have been chosen for comparison in part because of their race/class divide but also because they were part of the same municipal substructure (Tygerberg) from 1996-2000 and demonstrate the lack of transformation that took place during that period.

In every category the Khayelitsha depot has significantly lower levels of resources than that of Durbanville. Even in the area of capital expenditures – public funds used to upgrade and or expand service facilities – the Durbanville depot received 10 times as much money in the last fiscal year (1999-2000).

Table 4: A Comparison of Resources in Waste Depots in Khayalitsha and Durbanville

	Khayelitsha depot	Durbanville depot
Population serviced	450,000 people	36,000 people
Operating expenses in last fiscal year (Rand per resident)	R57	R194
Capital expenses in last fiscal year (Rand per resident)	R0.56	R5.55
Value of office supplies and equipment in stock (Rand per resident)	R0.01	R0.97
Value of materials and tools in stock (Rand per resident)	R0.16	R0.55
Number of residents per piece of heavy equipment	18,750	2,403
Number of residents per manager/supervisor	45,000	5,150
Number of residents per labourer	3,261	1,288

The same is true of water services. Table 5 provides a comparison of the human, capital and financial resources available to the Durbanville and Khayelitsha water depots. In this case, data on cumulative operating and capital expenditures from 1996-2000 were also available and illustrate a strong bias in favour of Durbanville during that four-year period, with more than five times more being spent in Durbanville than Khayelitsha on capital investments on a per capita basis.

Table 5: A Comparison of Resources in Water Depots in Khayalitsha and Durbanville

	Khayelitsha depot	Durbanville depot
Population serviced	450,000 people	45,000 people
Operating expenses in last fiscal year (Rand per resident)	R11.56	R86.67
Cumulative operating expenses since 1996 (Rand per resident)	R28.89	R177.78
Capital expenses in last fiscal year (Rand per resident)	R0.67	R100.00
Cumulative capital expenses since 1996 (Rand per resident)	R22.22	R122.22
Value of office supplies and equipment in stock (Rand per resident)	R0.44	R1.78
Value of materials and tools in stock (Rand per resident)	R0.17	R0.67
Number of residents per piece of heavy equipment	28,125	4,500
Number of residents per manager/supervisor	56,250	9,000
Number of residents per labourer	90,000	2,368
Average monthly water consumption per person per month	4.0 Kl	13.8 Kl

It is worth noting here that these data represent the first attempt to collect metropolitan-wide statistics on municipal resources in the CMA, despite legislation requiring that such audits be done and despite repeated requests from organized labour for information on resource distribution. That such data collection had not been done almost five years into the post-

apartheid transition raises, yet again, questions about the commitment of city politicians and bureaucrats to the transformation of public resources in the city. Most importantly, the figures highlight the potential for creating a more equitable and efficient public sector with *existing* public resources.

Exploring Public Sector Options

Additional room for manoeuvre could also be found in the running of 'pilot tests' to examine public sector alternatives more concretely. Unfortunately, this potential has been largely ignored and even actively resisted by municipal managers in Cape Town. One case that has been documented is the privatization of waste removal in Khayelitsha (Qotloe and Xali 2001). In the late 1990s, managers from the (then) Tygerberg municipality rejected offers from the local branch of the South African Municipal Workers Union to pilot test public sector solutions to waste management in the township. According to shop stewards in Samwu at the time, there were enormous potentials for redistributing vehicles and personnel from the formerly whites-only part of the municipality to Khayelitsha for a large once-off clean-up, followed by a longer-term waste management strategy that would utilize existing public resources more equitably and efficiently. Their requests for a pilot test were rejected out-of-hand by Tygerberg managers, and waste collection in Khayelitsha was outsourced to a private, micro-enterprise consortium. Given the figures provided above on waste management resource disparities in Tygerberg this is one example of a service that could possibly have been significantly improved using public resources rather than the private sector.

A Moratorium on Privatization

Given the potential scope for public sector reform it is also arguable that there should be a moratorium on the privatization of municipal services – at least until the most difficult stages of amalgamating the various municipalities in the Cape Metropolitan Area have been completed and better information on public resources has been gathered. A moratorium would prevent the premature sale or ringfencing of services that have the potential to become more efficient and equitable public sector entities. In other words, it would be wise to hold off on what could be irreversible decisions about privatization and corporatization until such time as there is a better understanding of the service potentials and resources in the metropolitan area as a whole.

Interestingly, the ANC called for exactly this kind of a moratorium on privatization in the first meeting of the new unicity on December 15, 2000, a proposal that the ruling Democratic Alliance voted down. Why the ANC did not impose such a moratorium while they themselves were in office, and why they introduced some of the farthest reaching privatization initiatives yet undertaken in Cape Town in the form of city improvement districts just weeks before making this demand in city council, is difficult to say. What it does illustrate is that the potential for stopping the privatization/corporatization of municipal services in Cape Town does exist and that it is largely a matter of political will.

Conclusions

The irony of this shift to neoliberalism in Cape Town is that during the 1970s and 1980s white Capetonians received heavily subsidized municipal services. Per capita municipal expenditures in white suburbs in that period were on par with, and in many cases higher than, municipal expenditures and subsidies in European and North American cities (Ahmad 1995) – partly at the expense of black South Africans whose rates and taxes went largely to white municipal councils (Swilling, Cobbett and Hunter 1991). After years of subsidizing municipal service delivery in white areas under apartheid, poor (black) Capetonians now find themselves largely denied the same cross-subsidizing benefits as their fellow white residents in the name of efficiency and transparency.

This is not to suggest that the state should always, and uncritically, subsidize service delivery. There are very good reasons to introduce more accountable and transparent systems of finance and local governance in Cape Town (and South Africa in general).

The point being made here is that privatization is taking place in the city in an unplanned and ad hoc fashion without any real public debate or intensive research into alternatives. The room for manoeuvre on service delivery policy, as has been noted, is considerable, and the potential for improved public sector service provision largely unexplored.

In the end it may be poor communities themselves who will force a rethinking of cost recovery and privatization policies. The aggressive forced removals and cutting off of water supplies to poor families in areas like Tafelsig in Mitchell's Plain have created a considerable groundswell of support for oppositional politics. Rumbblings of resistance to the neoliberal transformation can be found in organizations such as the Local

Government Transformation Forum and in various affected communities. How these dissatisfactions play themselves out and whether there will be an opportunity to engage local government decision makers in a process of dialogue remains to be seen.

Chapter Two

The Corporatization of Water

By Laïla Smith

Lyonnais des Eaux has come knocking on my door on two occasions. These French water companies have become too powerful to resist. The takeover is inevitable. I want to run our services like solid business units to make sure that we negotiate from a position of strength when it does happen.

Senior Water Manager, City of Cape Town, July 2000¹⁶

As part of its broader shift towards the commercialization of municipal services the city of Cape Town is proposing to corporatize its water and sanitation services (along with those of solid waste and electricity). Although different in some respects from privatization and outsourcing, corporatization shares many of the same operating principles and is often the first step towards the outright privatization of a service, as the above quote attests to.

But what is corporatization exactly and what are its implications for service delivery in Cape Town? This chapter looks specifically at the corporatization of water. The first part of the chapter traces the commercialization of water in Cape Town since 1996 and sets the stage for an understanding of why corporatization is being proposed as a model for institutional change. The financial situation in the water sector is reviewed, as well as water demand management approaches, billing practices, debt management policies and the growing trend of outsourcing. The second part of the chapter outlines the concept of corporatization and how it is

being implemented with respect to water and sanitation in Cape Town.

The final section of the chapter discusses some of the potential problems associated with the corporatization of water in Cape Town, specifically as they relate to question of accountability, integrated decision making, cost recovery, and the impact of making the financial bottom line the most important single decision-making factor. There are also concerns with the process by which these corporatization plans have unfolded in Cape Town. Having been postponed in early 2001 for violating the Municipal Systems Act procedurally, the planning and negotiating of water corporatization has resumed but remains largely behind closed doors with private sector consultants and no effective labour or community participation or consultation. As a case in point, when the South African Municipal Workers Union (Samwu) was notified about the plans to corporatize services in Cape Town in early 2001 they were informed in writing that “This is a lawful decision of Council and we do not have to justify the decisions to the unions.... There is no need to respond to every question in detail”.¹⁷ The chapter then concludes with a brief discussion of the possible alternatives to corporatization.

Data for the chapter derives from archival material, key-informant interviews with local government officials and consultants,¹⁸ and random and representative interviews with household decision makers in low-income townships.¹⁹ Data was drawn largely from the former municipal substructures of Cape Town and Tygerberg, the two most densely populated municipalities in what is now the Cape Town unicity, constituting 66% of the total population of the metropolitan area.

The Commercialization of Water in Cape Town Since 1996

One of the key motives for commercializing water services in Cape Town (i.e. running the service more like a business than a government department) has been to improve cost recovery. The water sector has been unable to recover its costs for several years. Unaccounted For Water (UAFW), poor billing practices in low-income areas, and non-payment for services rendered have contributed to the progressive operational under-recovery of R100 million per annum in the water sector alone, with accumulated outstanding debts in the water and sewerage sector as a whole standing at R516.7 million in late 2001 – constituting close to one quarter (23.5%) of

the city's total outstanding service debts (PWC 2001, 14).

In response to this growing debt local authorities in the Cape Metropolitan Area (CMA) have instituted a series of policies since 1996 to try and improve the financial situation of the water sector. These policies are: water demand management; streamlining billing practices; developing more rigid debt management strategies; and outsourcing. Each of these policies is reviewed below, with specific reference to the former substructures of Cape Town and Tygerberg, with the latter two illustrating the growing trend towards the commercialization of water services in the city.

Water Demand Management

While local authorities in Cape Town have been conscious of the need for water conservation strategies for decades, water demand management was only developed as a coherent policy by the mid-1990s. The development of a National Water Act in 1995 provided some impetus in this regard but it was the rejection of an application by the Cape Metropolitan Council (CMC) to build a new dam (Skiifraam) that pushed municipal authorities to take water demand management seriously. In rejecting the CMC application the Department of Water Affairs and Forestry argued that no new dams could be built without an effective water demand strategy in place.

In response, Cape Town introduced a three-pronged water demand management programme. The first aspect of the programme is the reduction of unaccounted for water, which generally involves the repairing/replacing of leaky pipes as well as the extension of metered services. For instance, in the municipality of Cape Town, approximately 43,000 new water connections were put into the former Black Local Authority areas through the three-year Ikapa Water Leaks Project. This initiative restored degraded infrastructure, repaired burst mains, installed meters in unbilled areas and trained local plumbers on how to repair household water leaks. The project saved the water department R10 million per annum by virtue of reducing water leakages. Nevertheless, water losses remain high due to leakages of aging pipes and it is estimated that it will take 300 years to replace all the water mains in the city at the current rate of capital expenditures (CMC 2001, 15).

A second aspect of the programme is public education, which involves billboard and media advertising to try and reduce household water consumption through water reduction technology (e.g., low-flow shower heads) and changed consumption patterns. The introduction of water

restrictions (e.g., watering of gardens banned from 10 am to 4 pm during the summer) and the promotion of the use of indigenous plants are examples of the latter.

Finally, increased prices for water at higher levels of consumption have been used to try and reduce the overuse of water (*i.e.*, block tariffs – the principle of ‘the more you use the more you pay’). A decades-old three-step block tariff was replaced by a five-step block tariff in 1998 and implemented across the six local authorities, albeit with differential rates for each block, and finally rationalized across the metropolitan area in 2001 (see Table 6). The top domestic tariff is based at the marginal cost of future infrastructure, such as the building of the Skiifraam dam, and is currently set at R7.00 per kilolitre (kl).

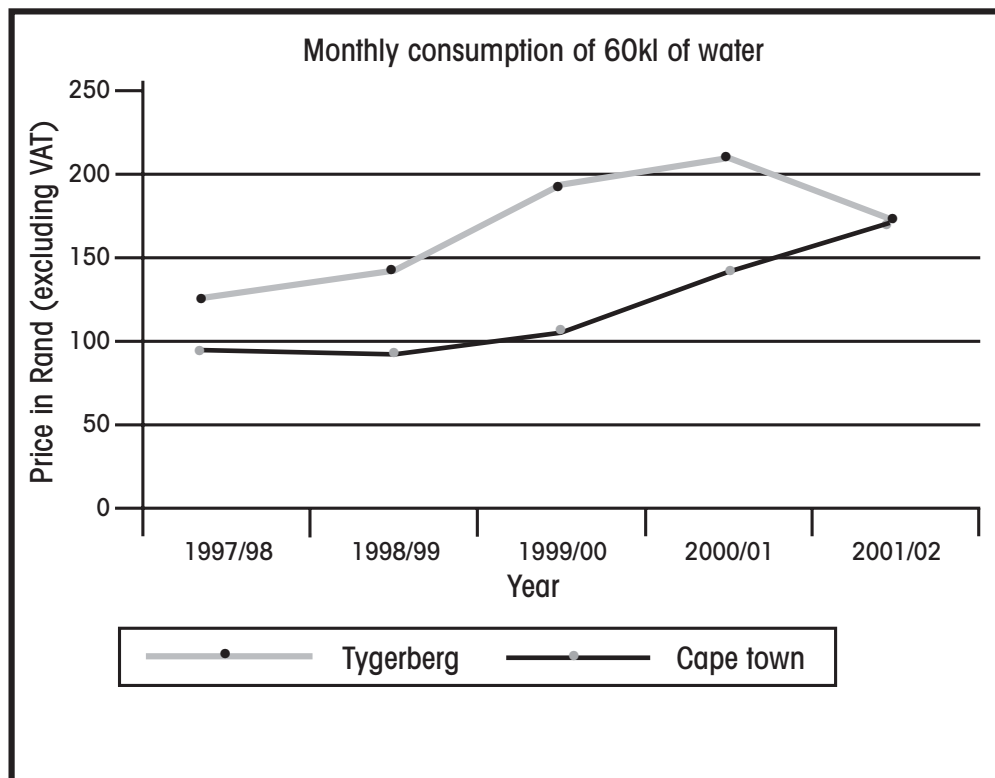
Table 6: Water Tariff Schedule for Cape Town Unicity as at July 1, 2001

Consumer category descriptions		Steps (kl)	Tariff per kl (exclusive of VAT)
Domestic full	Water which is used for domestic purposes and supplied through a fully metered connection	Step 1 (0-6)	R0. 00
		Step 2 (7-20)	R2. 60
		Step 3 (21-40)	R4.10
		Step 4 (41-60)	R5. 20
		Step 5 (61+)	R7. 00
Commercial	Tariff includes a 7% cross subsidy towards “Free Water” .		R3.16
Industrial			R3.16

Source: Proposed Tariff Reports for the 2001/02 Financial Year: City of Cape Town, May 2001: Addendum W-D.

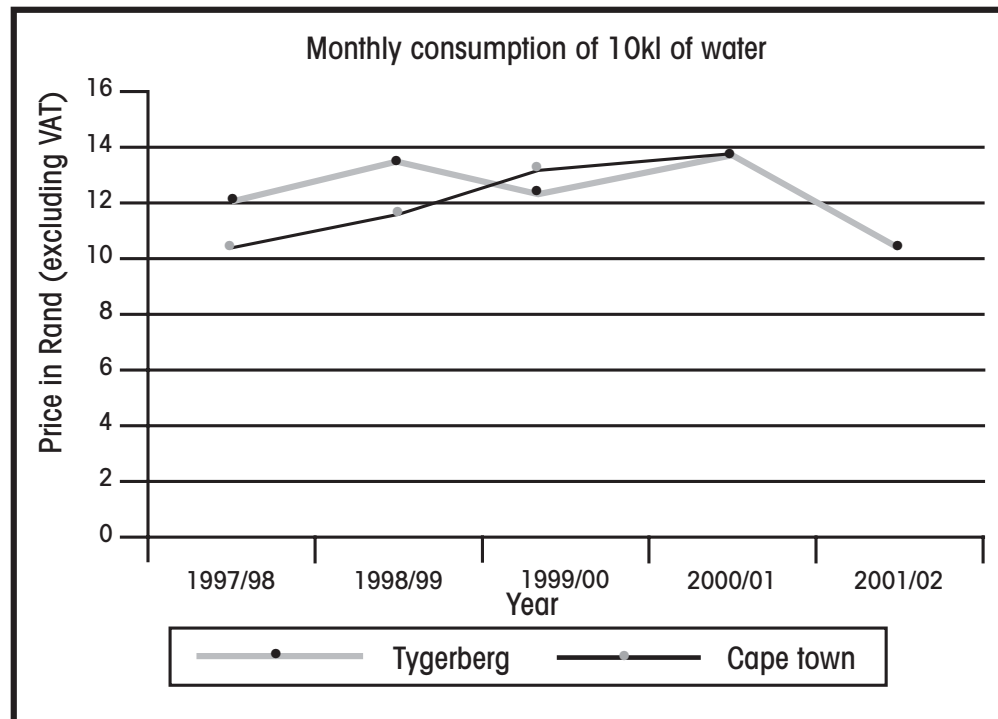
Figure 1 illustrates price increases in the former substructures of Cape Town and Tygerberg from 1997 to 2000, for households consuming 60 kl of water per month (i.e., high consumption). The price drop in Cape Town in 2001 is a result of the tariff convergence with the unicity in July of that year.

Figure 1



For households consuming less water (e.g., 10 kl per household per month) there were also price increases from 1997-2000 but the tariff convergence and the implementation of the 'free water' policy for the first six kilolitres as of July 1, 2001, has resulted in a slight decrease in costs for these households (see Figure 2). The effectiveness of the free water policy in actually targeting the poor is still in question, however, as it assumes that low-income households consume little. The reality in low-income areas is that households often require significantly more than the six kiloliters per month offered for free due to significantly higher numbers of residents per household than middle-class suburbs and find themselves paying the higher tariff rates, a problem made worse by faulty meters, incorrect meter readings and leaky infrastructure in township homes.

Figure 2



Billing

Cape Town has three main problems with its billing system for water: arrears; incorrect metering; and discrepancies in bills sent to households. The situation of arrears began in the 1980s when rent boycotts in townships were used to undermine the political legitimacy and economic viability of Black Local Authorities. This situation was compounded by inefficient data bases and billing systems which resulted from the rapid transition of state-owned properties being sold to private owners. Following the 1996 amalgamation process, the six newly integrated municipal administrations began incorporating these areas into a payment system that included an interim service community charge.

The problems with incorporating the BLA areas began with numerous bills being sent out to households in these areas reflecting years of water consumption that were previously not billed. Local authorities sent out bills covering consumption between 1993-1997 based on estimations from the early 1990s household consumption habits. These earlier records were then used to assess the total amount of arrears owed. Furthermore, many bills were sent to incorrect addresses. Households in these areas were therefore accumulating arrears for non-payment without being aware of it, a significant factor in household reluctance to pay these arrears.

In the process of centralizing billing systems and installing meters in BLA areas, discrepancies in billing practices within a single township have also created resentment and confusion. For instance, in the township of Langa, certain properties are being billed for both interim community service charges and metered water consumption while other properties are not being billed at all (Parker 2001, 4). Importantly, it is only in the township areas where these bill discrepancies and mistakes have been a major problem.

Debt Management and Water Cutoffs

By 1998, a metropolitan-wide practice was in place for cutting off water supplies for non-payment of bills and arrears as a debt management mechanism. At the same time, municipal administrations across the CMA developed credit control policies whereby service users in arrears were invited to make an arrangement with their service provider to begin paying off a portion of their debts. The rigidity of these credit control policies varied across the metropole. The former Cape Town substructure introduced a rigid approach to debt management, but this proved to be largely ineffective. For instance, out of 7,323 payment plan arrangements made in 2000, 5,201 were not kept after the first installment. The Tygerberg administration, by contrast, developed a more flexible policy, asking residents to pay their current accounts and to contribute what the service user deemed affordable towards their arrears.

But it is water cutoffs that have been the most conspicuous – and the most controversial – aspect of debt management strategies in the city. Since the first post-apartheid elections in 1996, an estimated 92,772 households have had their water cut off for non-payment. 75,400 of these cutoffs occurred in the Cape Town and Tygerberg administrations alone during 1999 and 2000.²⁰ Of the 5,367 cutoffs occurring in Cape Town during these two years the coloured townships were the hardest hit with the highest number of cutoffs taking place in Tafelsig, Mitchell's Plain.²¹ During the same period, Tygerberg cut off a total of 70,036 households. The apex of these cutoffs occurred in 2000 when the moratorium on African households was lifted. In a six-month period in 2000, 14,355 cutoffs occurred in Khayelitsha.²²

Whether this cutoff strategy has had an effect on cost recovery rates is doubtful given that “inability” to pay appears to be more of a factor than “unwillingness” to pay. Contrary to media reports in Cape Town and other parts of the country which tend to portray the arrears issue as a

“culture of non-payment”, interviews conducted for this research with 60 households in Bonteheuwel and Mitchell’s Plain found that an inability to pay was the main reason for non-payment in the overwhelming majority of households.²³ In these cases water cutoffs do little to improve rates of cost recovery; they merely serve to aggravate the non-payment situation and increase costs to the city in terms of policing and maintenance, as the violent demonstrations against water cutoffs in Tafelsig in September of 2001 illustrate.²⁴

Illegal reconnections also serve to negate any potential cost recovery gains from cutoffs. Of the 87,736 cutoffs in Tygerberg between 1996 and 2001, for example, there were 52,670 illegal reconnections, representing a 60% illegal reconnection rate and the loss of associated revenue potentials (Department of Revenue Collection 2001).

In short, water cutoffs as a debt management strategy in Cape Town have had a controversial and questionable impact on cost recovery. It would appear to be an unsustainable strategy from an administrative perspective as it costs the city in both billing and staff time to carry out the cutoffs and reconnections and serves to aggravate relations with low-income households (witness the high rates of illegal reconnections in Tygerburg and the tensions over water cutoffs in Tafelsig). There is also the very real threat of a major health epidemic of the sort that KwaZulu-Natal has experienced with cholera. After municipal and provincial authorities in that province introduced new cost recovery measures for water in mid-2000, thousands of poor households that could not afford the service were either disconnected or unable to connect in the first place and were forced to use stagnant ponds and rivers for water and sanitation. Since that time over 100,000 people have been infected with cholera and there have been over 250 deaths. With Cape Town’s high rates of tuberculosis, it may be only a matter of time before water cutoffs lead to a similarly tragic health crisis.

Outsourcing

When the first democratically elected local administrations came to power in 1996 in Cape Town, discussions took place regarding the division between core and non-core services. Non-core services such as catering, cutting of verges, road markings and auditing were outsourced. At the same time, some core services, of which water was one, underwent a process of unbundling by contracting out aspects of the service to entrepreneurs. For instance, the Cape Town administration contracted out

mainlaying and water cutoffs while Tygerberg contracted out construction work, a portion of meter installation, meter reading, water cutoffs, design for reservoirs, water network analysis (master plans), and water infrastructure maintenance such as pipe cleaning. The bulk of water services are still provided by the city, but of the 13 water depots in the CMA in mid-2000, all but two reported having outsourced some activities and the trend is clearly in the direction of further outsourcing.²⁵

Corporatizing Water

These commercialization trends in the water sector in Cape Town have been largely ad hoc and uncoordinated, however. It was not until the proposal to corporatize water in early 2001 that a coherent commercialization strategy began to emerge. This next section defines corporatization in general terms, followed by a more detailed description of the specific water corporatization plans for Cape Town.

What is Corporatization?

Corporatization is a process of creating an arm's length service entity that is fully owned and operated by the state but which is ringfenced financially and managerially from other services (Shirley 1999, PWC 1999, PDG 2001).

As a form of internal reorganization, corporatization involves a two-pronged approach to the management of public services. The first aspect of reform entails financial ringfencing with the aim of making income and expenditures associated with running a service more transparent. Ringfencing separates all financial and human resources *directly* involved in the delivery of a particular service from all other service functions. Where services are shared by other departments (e.g., information technologies or scientific services) the ringfenced entity pays a full-cost fee for these services.

Financially, the purpose of ringfencing is to create a transparent form of accounting where all costs and revenues related to the service can be identified, along with any subsidies in and out of the ringfenced unit. This is intended to reveal the real costs/surpluses of running a service and to allow managers to identify areas of financial loss/gain that may have otherwise been hidden in the intricate accounting systems and cross-subsidization mechanisms of an integrated service delivery scheme with centralized accounting. Financial ringfencing also creates an opportunity

to introduce financially driven performance targets for managers (i.e., managers are rewarded for meeting loss/profit targets). This approach introduces “market-based” salaries for managers with the aim of attracting world class executives who will pay their way by ensuring that the bottom line is positive.

The second aspect of corporatization is ringfencing a service managerially – *i.e.*, creating separate business units that are managed by appointed officials who operate at arm’s length from the elected officials of the municipality. Elected officials still have the right to set standards and service delivery goals for a service unit, as well as monitor and evaluate the activities of the business unit, but the daily management and long-term planning of the unit are done by the ringfenced management team. In turn, this management team is responsible only for the unit they work in. Although there may be formal or informal links with other service sectors (e.g., waste management), and the use of certain centralized support centers within council (e.g., IT), managers of a particular business unit are expected to concern themselves only with the management of their sector.

The purpose of this financial and managerial ringfencing, in the words of the Steering Committee advising city council in Cape Town on the matter, is to create “maximum autonomy and minimum constraints” (CMC 2001, 2) – *i.e.*, to provide management independence from political interference as well as to grant them the authority to make and implement service delivery decisions.

It should also be noted that the process of corporatization does not preclude the outsourcing of functions within the newly defined business units. Indeed, corporatization promotes outsourcing due to the infusion of market principles and the need to improve the financial bottom line. A competitive environment, in turn, requires deregulating monopolistic control over a given public service and allowing multiple service providers to compete with the ringfenced business unit to provide a particular service at cost-effective prices²⁶. The removal of subsidies for instance, forces state-owned enterprises to compete for finance on an equal basis with private firms (Shirley 1999, 116).

Different models of corporatization in South Africa include setting up a Section 21 company,²⁷ the creation of a public utility, and a water board.

Cape Town’s Plans for Corporatization

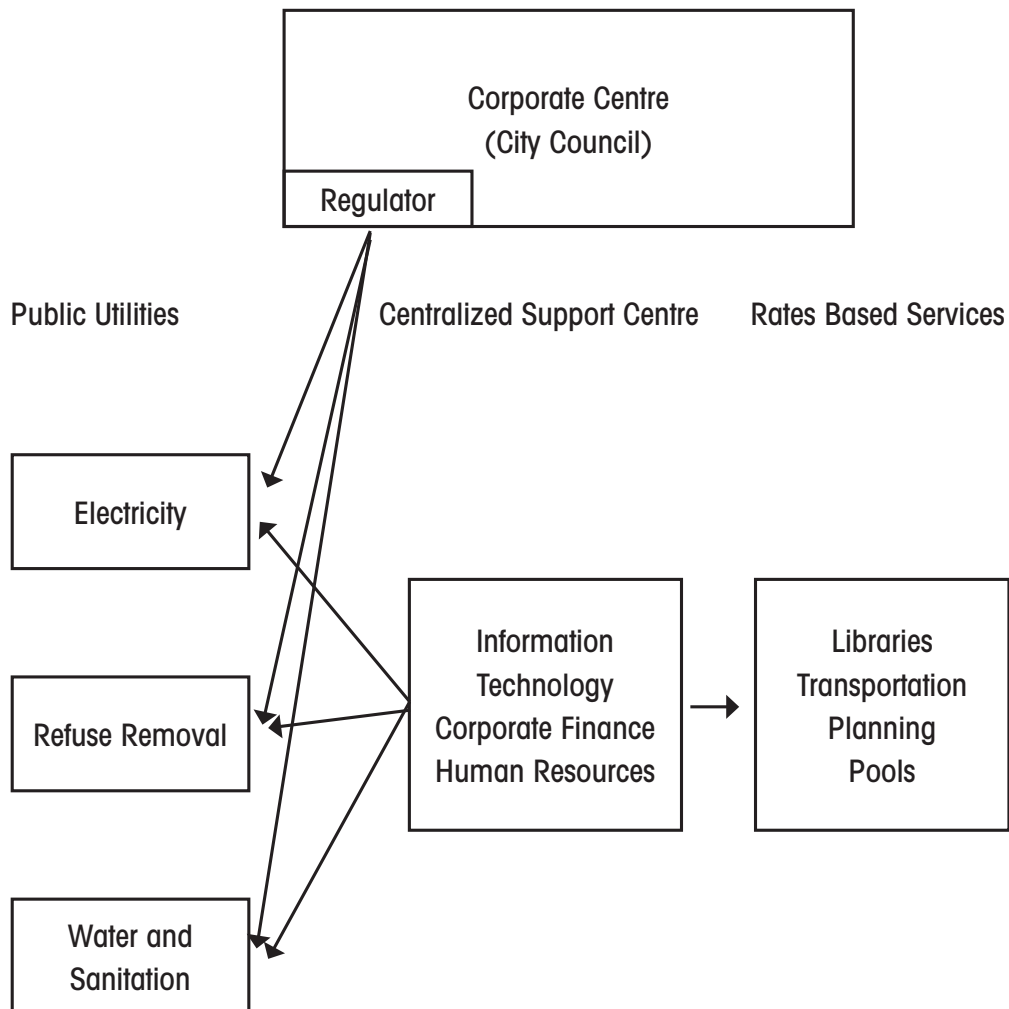
Water corporatization first emerged as a possible service delivery strategy in Cape Town in 2000 with proposals by the Unicity Commission to

horizontally integrate bulk water and wastewater treatment functions into a Section 21 company (Unicity Commission 2000). Shortly after coming to power in the local government elections of December 2000, the Democratic Alliance circulated a memo suggesting the corporatization of water and sanitation, electricity, and refuse removal by July 1, 2002 with a proposal to ringfence each of these services by July 1, 2001. The model put forward involved public utilities with a board of directors that would be accountable to council as the sole shareholders (PWC 2000, 6).²⁸

The aim of the corporatization plan as it currently stands (PWC 2001) is to first embark on an internal reorganization of services such as information technology, corporate finance and human resources in order to upgrade centralized support services. While this internal reorganization unfolds, the water and sanitation sectors would proceed with vertical and horizontal integration and anchor themselves within government as a business unit to facilitate financial and managerial ringfencing. The same sequence of events is being proposed for electricity and refuse collection services.

These utilities would then be able to subcontract support services from the newly corporatized support center (e.g., IT, Corporate Finance). If, after three years time, these centralized services are not deemed satisfactory, the new utilities would have the freedom to contract alternative service providers (i.e., from the private sector). Finally, it is proposed that a regulatory agency composed of elected municipal representatives would be established to monitor and evaluate the performance of the utilities through pre-defined performance criteria. Figure 3 illustrates the proposed framework for transforming these tariff-based services into business units (or public utilities as they are being called).

Figure 3: Corporatization Model for Cape Town



Concerns with Corporatizing Water in Cape Town

This final section of the chapter outlines our concerns with the proposed move to corporatize water and sanitation in Cape Town, with a focus here on water. Many of the same concerns apply to the proposed corporatization of electricity and solid waste. Underlying all of these concerns is the deepening commercialization of service provision in the city and the ramifications of making cost recovery the single most important feature of service delivery decision making.

Fragmented Decision Making

Prior to 1996, the Cape Town metropolitan area was divided into 25 different municipalities, each with its own water service departments. The first round of local government amalgamation in 1996 reduced this to six municipal substructures and a metropolitan council (plus several separate municipalities which were excluded from the metro area – e.g., Stellenbosch).

The creation of a single unicity in December of 2000 brought to an end this history of political fragmentation. However, service delivery remains effectively divided along the six substructure lines, with significant divisions still remaining even along apartheid-era municipal lines (see Chapter One of this publication for a discussion of the continued disparities in municipal resources in the water and waste management sectors).

In some respects this service fragmentation is understandable. With close to 30,000 employees in the metropolitan area, considerable bureaucratic resistance to change, and limited resources to effect amalgamation, it is not entirely surprising that concrete service delivery reorganizations have not kept pace with changes in political boundaries. But it is exactly this kind of continued fragmentation and inequitable distribution of resources that argues against corporatization. To carve out yet another decision-making unit without a rationalization and equalization of existing resources and decision-making functions of the various water depots and departments in the new unicity will likely exacerbate the fragmented decision-making structures in the water sector and make it even more difficult to communicate effectively with other sectors. The growing trend towards outsourcing will likely make the situation of fragmentation even worse, as a disjointed and uneven corporate unit attempts to hire, monitor and evaluate outsourced private companies with limited political oversight.

Price Increases and the Loss of Cross-subsidization

The creation of a ringfenced water and sanitation utility also poses the threat of significant increases in water tariffs while at the same time reducing the potential for cross-subsidies to poor households. Water prices are currently tariff-based (i.e., based on consumption) while sanitation prices are rates based (i.e., part of general property taxes based on the value of one's home). Plans to vertically and horizontally integrate these two functions into a single utility²⁹ would require removing sanitation from the general rates accounts and charging consumers a tariff based

on consumption. The outcome of this ringfencing exercise would be to increase the cost of water and sanitation services by 30-50% according to one senior manager,³⁰ thus making this essential service all the more unaffordable for low-income households in the city.

The creation of a business unit for water and sanitation would also reduce the potential for cross-subsidization from other service sectors, most notably electricity which contributes 13.5% of total sales to the Rates and General Account “which is then used to cross-subsidize other activities of the Council” (PWC 2001, 17). This is not to suggest that cross-subsidization is impossible under corporatized service arrangements. But given the stated desire of making business units more financially accountable and viable on their own, there is an intrinsic bias against cross-subsidization. The fact that the final consultancy report recommending the corporatization of services in Cape Town (PWC 2001) does not make any reference whatsoever to cross-subsidization mechanisms for water and sanitation underscores this point.

The central objective of corporatization, therefore, is to make service units financially independent. Where, then, will the shortfall of some R100 million per annum in the water sector in Cape Town come from? As we shall see below, it is most likely to come from increased pressures for cost recovery and anticipated savings in the form of outsourcing.

Where Will Cost Savings Come From?

According to the consultants report, cost savings arising from corporatization in Cape Town should be in the order of 20-35% per business unit based on “international benchmarks”, as follows: 30% from rationalizing procurement; 10-60% in personnel savings; and 25-35% from the simplification and standardization of financial and administrative services (PWC 2001, 9). Putting aside, for the moment, the question of why similar savings in procurement and finance/administration could not be realized within the existing departmental system, it is worth exploring the source of cost savings in personnel under the corporatization proposal.

Evidently, cost savings are not going to come from the salaries of upper management, whose “management skills and experience...appear to be very good” – one of the few “pockets of excellence” according to the consultant’s report (PWC 2001, 13, 15). Moreover, it is recommended that remuneration systems should “reward excellent performance” (PWC 2001, 11), suggesting the possibility of significant salary increases for senior managers, a common practice in the international experience of corporatization.

Middle managers and supervisors, meanwhile, are viewed less favourably. “Concerns about skill levels in the field” (PWC 2001, 13) raise the prospect of middle-management downsizing or the possible outsourcing of these functions. The human resources department, for example, “is a question mark concerning [its] possible business value” (PWC 2001, 10).

Labour also appears to be targeted for downsizing. With a “labour surplus in certain areas”, and “counterproductive” labour relations in the water sector (PWC 2001, 10, 25), there is the very real threat of job losses. Much of this downsizing would likely come from outsourcing given that it “appears unlikely that real benefits can be obtained from a conventional approach to reducing costs [i.e., wage reductions].” As a result, “alternative service provision mechanisms should be evaluated....different ways of procuring and contracting, which a Business Unit can provide [i.e., outsourcing]” (PWC 2001, 15). The corporatization of water in Cape Town is intended to set the stage for an accelerated programme of outsourcing and it is likely that job losses will occur in the public sector.

There is also the likelihood of increased water cutoffs for non-payment of services in a bid to reduce the operating deficit. With cost recovery paramount in a corporatized unit, pressures to remove defaulting customers from the system will be considerable, raising the spectre of increased violence, public health epidemics (e.g., cholera, tuberculosis), worsening race, class and gender divisions, and an increase in non-payment rates as a form of political protest, potentially undermining any cost saving that may have been generated. The possibility of tariff increases of 30-50% under a corporatized system only heightens these concerns.

Democratic accountability

As noted earlier, the stated rationale for the creation of a separate business unit for water services in Cape Town is to create “maximum autonomy and minimum constraints” for managers. The same theme emerged in interviews with senior water managers in the former substructures of Cape Town and Tygerberg who cited “political pressures and interference” as well as the “inefficiencies” and “drawn-out decision-making processes” of centralized support services as their primary motivation for a corporatized unit. These managers, as well as the unicity’s Service Delivery Steering Committee, believe that a separate business unit would provide them with the flexibility and the authority to pursue the most cost effective ways of providing and extending water services to the city.

This arm's length relationship begs the question, however, of how civil society will have control over water in the city. The consultant's report is remarkably silent on this point, noting only that a corporatized water unit should "become customer focused" (PWC 2001, 28). But how exactly will citizens engage in the policy-making priorities of the water sector? What will happen to the much-vaunted Integrated Development Processes (IDPs) that all municipalities are to have in place for citizen involvement in holistic decision making on poverty alleviation and other important service-dependent objectives?

How, for that matter, will elected officials engage with the "autonomous" managers of business units? It is proposed that a regulatory body of some kind would be established to monitor, evaluate and guide each of the service delivery business units, but the lack of any concrete proposals in the consultant's report is concerning. So too is the international experience with "independent" bodies that regulate private or corporatized service delivery units (see, for example, Mulgan 2000, Roberts 2000). As Cameron (1999, 25) observes, "special-purpose bodies" like corporate business units "have problems of accountability. They tend to be appointed and/or indirectly elected and are in most cases removed from the realm of political contestation". Corporatized business units do not want to "expose [themselves] to public embarrassment" or "open themselves to the same degree of media interrogation that politicians must accept, even on matters of clear public interest" (Mulgan 2000, 94).

Water, however, is a political issue. Rather than attempting to extricate itself from this political process, water managers should be looking for ways to more effectively engage in political decision making and public participation. Questions about block tariff rates, water demand management, investments in infrastructure and the distribution of public resources are issues that can and should be openly debated in public, not behind closed doors by a select group of technocrats.

Flawed Process

As noted earlier, the original proposal for corporatization was withdrawn due to noncompliance with the Municipal Systems Act. The process was put back on track in mid-2001 with the appointment of a consultant to make recommendations to council, but procedural concerns remain. Of greatest concern is the lack of consultation with labour and civil society. There have been no public consultations on the proposed corporatization of services, while interactions with organized labour have been tense at

best and confrontational at worst, as witnessed by the quote cited earlier that the plans to corporatize are “a lawful decision of Council and we do not have to justify the decisions to the unions”.

The two municipal unions in the CMA (Samwu and Imatu) also expressed their “unhappiness with the use of consultants to conduct the assessment [of service delivery reforms] and put the position that such assessments should be conducted within a holistic restructuring framework” (CMC 2001, 9). In response, the Steering Committee responsible for the restructuring process granted the unions “4 full-time shop stewards each, 1 day per month per ordinary shop steward and 1 day per month per member in order to facilitate their participation in the structuring process. It was the employer’s view that this time-off would be sufficient to allow the unions to respond as required” (CMC 2001, 12). Given that the union had to respond to the proposals in less than three weeks with little internal capacity and no additional resources, the time allocated was in fact insufficient for a proper response, particularly when compared to the time (three months) and money (R203,185) paid to the consultants who developed the proposals.

But even the time and money provided to the consultants could scarcely have been sufficient for such a major restructuring plan. To claim to have completed an analysis of all the “human resource, industrial relations, organization design, finance, service operational issues and other internal issues required to meet the Municipal Systems Act requirements” in just three months (with the first draft having been completed in only eight weeks) seems remarkable. While it is true that the consultancy firm PriceWaterhouseCoopers has been involved in the reorganization process in Cape Town for several years and had done previous work on the corporatization option, the dearth of reliable information on the metropolitan area – as demonstrated by the fact that no metropolitan-wide audits on municipal resources have ever been conducted in the city (see Chapter One) – brings into question the value of the conclusions.

One explanation for this extraordinary research speed is methodology. With the almost exclusive use of the “Excelsior Diagnostic Improvement Tool” – an evaluative mechanism “developed by PriceWaterhouseCoopers to assist their global initiative on supporting excellence in the public sector” (PWC 2001, 5) – a review of Cape Town’s water, sanitation, electricity and waste management services was completed and then evaluated against “international best practice” (primarily with cities in Europe and North America). In effect, Cape Town’s services were evaluated on the basis of a

quantitative research tool and then compared to corporatized service units in Britain, Canada and other highly industrialized nations. There was no analysis of reform options within the existing “departmental model” and no discussion of the experience with corporatization in other ‘third world’ cities. That Cape Town, with its highly unique post-apartheid service delivery features, should be compared to European and North American cities in such a blueprint fashion raises serious questions about the validity of the research and its conclusions that cost reductions and efficiency gains can only “become possible if the recommendation to implement Business Units is accepted” (CMC 2001, 13).

Why the research did not encompass a wider range of transformation options can only be speculated on, as can the eager support for the proposal on the part of the Council’s Steering Committee. But if the analysis in Chapter One of this collection on the shift to neoliberalism in service delivery policy-making circles in Cape Town is correct then it is arguable that the decision to corporatize was made on an ideological basis and perhaps even determined before the consultants began their research.

It could also be argued that corporatization is a second best option for the more strident neoliberal managers and councilors described in Chapter One who would prefer to see a more comprehensive privatization of water and other core services but who are perhaps unwilling to deal with the kind of political pressures that have accompanied privatizations elsewhere in the country. As one senior manager commented in an interview, “corporatization is an opportunity to run services leaner, meaner and without sweat”. There is, of course, also the possibility that the corporatization of water in Cape Town is merely the first step towards outright privatization, as the opening quote in this chapter implies.

Conclusions

Missing from the proposal for corporatization is an analysis of alternative public sector reforms. As noted above, the consultants simply compared the status quo to corporatized “best practice” elsewhere in the world with no acknowledgement or evaluation of the potential for reform within the existing “departmental” system.

In reality, there is enormous potential for reform of the current departmental system. Severe inequalities and inefficiencies still exist in the CMA, and there is much that could be done to improve cost

savings in procurement and other centralized functions (as per the consultant's report) while retaining the benefits of an integrated, holistic and politicized structure of decision making. That these (apparently obvious) efficiency gains have not been achieved after more than five years of post-apartheid amalgamation in Cape Town brings into question the performance of the upper levels of management that the PriceWaterhouseCoopers report praised.

Nor is there any mention in the corporatization proposals of plans to request an increase in intergovernmental transfers in an attempt to address the 'unfunded mandates' of local government or any discussion of more significantly increased water tariffs for wealthy households in an attempt to better cross-subsidize the poor and reduce wasteful consumption of water (up to 35% of which goes into watering suburban gardens (Davies and Day 1998, 9)). Decision makers appear to have accepted the status quo with respect to fiscal restraints and consumption patterns, with the consultant's report arguing that the city should "keep tariffs as low as possible" (PWC 2001, 15).

Finally, it is possible to improve financial transparency and create better accountability in the water and sanitation sector without introducing market incentives and ringfencing to do so. Understanding the "real" costs of service delivery and the source and value of deficits/surplus is in everybody's interest. It is only when these full financial costs are understood and accounted for that a transparent and sustainable cross-subsidization programme can be put in place and evaluated against the less tangible costs and benefits of service delivery such as improved public health, gender equity, improved productivity and racial desegregation. Corporatization forces this kind of financial transparency but also limits the options available to local government in terms of cross-subsidization within and across sectors, minimizes integrated and holistic decision making, and reduces the potential for the inclusion of non-financial criteria such as public health in more conventional cost-benefit analyses.

The challenge in Cape Town is to create a financially transparent water and sanitation department that remains politically accountable, engaged with civil society, and integrated with other service sectors to ensure a more holistic and equitable planning and delivery programme.

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Endnotes

1 It is difficult to identify any trends in attitudes in terms of race and gender, due in large part to the fact that the sample was overwhelmingly white (79%) and male (93%), itself a telling feature of the senior echelons of decision making in Cape Town.

2 The Unicom was established in November of 1999 as a temporary research and political body designed to oversee the transition from the seven local authorities to a single metropolitan government (the “unicity”) in the December 2000 elections.

3 All references in this section refer to the Unicity Commission (2000a). Section numbers are provided because the document does not have page numbers.

4 No page numbers provided in the document.

5 For example, over 300 Samwu officials “illegally” occupied the Unicom offices in November of 2000, *toyi-toying* in the offices and on the streets, demanding better representation in the Unicom deliberations. There were also tense stand-offs over strike action, with the Unicom interdicting the union’s attempts to be in a legal strike position. Although interdicted once, the union did manage a one-day strike in early December of that year over a unilateral decision taken by the Unicom on staff placements after amalgamation.

6 A copy was made available to the author of this report only after repeated requests.

7 Ebrahim Rasool, leader of the Western Cape provincial ANC, as quoted in *Cape Argus*, December 13, 2000.

8 For example, Peter Marais, former unicity mayor, was quoted in 1999 saying that the NNP “must provide services to the people who were destroyed through apartheid. We must move away from pure capitalism and endorse socialist principles and the state to help those who are destitute and poor whether they are blacks or coloureds” (*Mail & Guardian*, August 20, 1999). The majority of Marais’ public statements on service policy have been more neoliberal in their orientation, however, as witnessed by his remark that poor people could “work off their [service payment] arrears [by] cutting grass, removing refuse, painting or doing any other work to work off their debts. If I got R1-million worth of free labour, I could offset the arrears and possibly people could get credits if they continue to work once they have paid off their debts” (*Southern Suburbs Tatler*, November 23, 2000).

9 *Youth Summit on Privatization*, Gugulethu (Cape Town), November 12, 2000, organized by the Alternative Information and Development Centre (AIDC).

10 *Southern Suburbs Tatler*, December 6, 2000.

11 Data collected from the Departments of Billing and Accounts in Tygerberg (Belleville office) and the city of Cape Town and are based on the PROMIS software system used by these municipalities. Water cutoffs began in 1998, however, suggesting even higher total cutoffs. Research conducted by the authors in July 2000, based on detailed questionnaires sent to every water depot in the metropolitan area and representing cutoffs from the previous fiscal year (1998-99) are as follows: Cape Town – 9000; Khayelitsha – 5000; Durbanville – 100; Goodwood – 0; Delft – 1000; Belleville – 100; Parrow – 2000; Helderberg –

6000; Atlantis – 600; Killarney – 3872; Kleinvlei – (no response); Scottsdeme – 6000; Southern Peninsula Municipality (SPM) – 900. Note: It is not known what percentage of these figures represent repeat cases where households have had their water supply cut more than once.

12 The former City of Cape Town did have a lifeline water tariff in place by only charging 50 cents per kilolitre (kl) for the first six kl. This was augmented in early 2001 to R1.08 in order to develop a uniform tariff with other substructures that had much higher rates and reduced to zero in mid-2001 when the free lifeline tariff was introduced (under a DA government). The point still remains, however, that thousands of households had their water cut off for non-payment under ANC-controlled councils.

13 Similar wording is to be found in the Water Services Act (section 19 (2)) from 1997.

14 Surveys on capital, human and financial resources were sent to each of the 33 waste depots and 13 water depots in the CMA, with the approval and knowledge of the relevant municipal authorities. Depot managers completed the surveys and sent them back within one month. Some follow-up clarifications were conducted telephonically. All water and waste depots participated in the surveys, as follows. Water: Cape Town, Khayelitsha, Durbanville, Goodwood, Delft, Belleville, Parow, Helderberg, Atlantis, Killarney, Kleinvlei, Scottsdeme, South Peninsula Municipality; Waste: Sea Point, CBD, Woodstock, Nightwork, Bontheheuvel, Athlone, Guguletu North, Guguletu South, Nyanga, Claremont, Mowbray, Maitland, Langa, Eastridge, Westridge, Browns Farm, Strand, Atlantis, Killarney, Kraaifontein, Kuilsriver, Brackenfell, Meltonrose, Wynberg, Simonstown, Muizenberg, Schaapkraal, Khayelitsha, Delft, Parow, Durbanville, Bellville, Goodwood.

15 In some cases depot managers only provided figures for the number of households serviced. In order to obtain per capita figures we multiplied the number of households by three for suburban areas and by five for township areas, as per standard statistical practice in South Africa, order to give a truer indication of the distributional figures. The figures provided here are also adjusted for the percent of resources that are used for industrial waste management, as per the figures provided by the depot manager. It is worth noting that depots reporting significant proportions of their resources being used for commercial activity were also in suburban-oriented areas, indicating an even higher potential use of resources for domestic waste management activity in these areas.

16 Interview conducted with the author.

17 Interview with Roger Ronnie, General Secretary of Samwu, March 15, 2001.

18 Interviews were conducted with 25 government officials including Executive Directors of Water Services, water managers and civil engineers working in the water departments of Cape Town, Tygerberg and CMC administrations as well as consultants whose area of expertise were relevant to the research. These semi-structured interviews focused on: 1) challenges in expanding service delivery to the urban poor; 2) how notions of efficiency and equity have evolved in relation to service delivery since 1997; 3) the strengths and weakness of corporatization; and 4) perceptions of the value of public participation in decisions regarding water provision.

19 Four townships were selected from within the Tygerberg (Khayelitsha and Bonteheuwel) and Cape Town (Langa and Mitchell's Plain) municipal substructures representing both African and coloured communities. Neighbourhoods were then selected according to the level of water service (standpipe, yard tap and in-house connection). In Langa these were Settler's Way (in-house) and hostels (yard tap) and the informal settlement of Joe Slovo (standpipe). In Khayelitsha the township areas were Elitha Park (in-house access), Maccassar (yard tap areas) and the informal settlement of Monwabisi Park (standpipe access). In Bonteheuwel, the township areas were the center of Bonteheuwel (in-house connections), Vetreg (in-house connections) and Kalksteenfontein (yard taps). In Mitchell's Plain, the township areas were Tafelsig (in-house connections), Westridge (in-house connections) and Freedom Park (standpipes).

20 Figures represent a combination of data collected from the Departments of Billing and Accounts in Tygerberg (Belleville office) and the city of Cape Town, and research conducted by the authors in July 2000 based on detailed questionnaires sent to every water depot in the metropolitan area and representing cutoffs from the previous fiscal year (1998-99). Note: It is not known what percentage of these figures represent repeat cases where households have had their water supply cut more than once.

21 Most African households that fell within the IKAPA area were spared cutoffs during this period as the area was not yet fully metered.

22 In Khayelitsha, of 40,000 erven, 25,000 meters are billed according to volumetric consumption while the other 20,000 are charged a flat monthly rate of R28.16.

23 Similar reasons were found in a survey of 200 homes in Soweto which had had their electricity cut off for non-payment of service (Fiil 2001).

24 The city council was attempting to cut off the water supplies of 800 homes but were met with a large crowd from the community attempting to prevent the cutoffs from taking place. After physical interactions between the crowd and the private security firm hired to conduct the cutoffs the police opened fire with what they claim were rubber bullets but community representatives claim included live bullets. At least eight people were wounded in the scuffle and taken to hospital.

25 Data from a survey conducted by the authors in July-August of 2000.

26 Although water is a highly monopolistic service, it consists of numerous different components that can be transformed into business units to compete with the private sector or are directly outsourced.

27 A section 21 company is classified as a non-profit public company that submits financial statements to a Registrar of Companies on an annual basis (PWC 2000, 3).

28 As the company expanded it was envisioned that it would be able to involve equity partners to raise money on the open market.

29 Vertical integration would involve the merger of the bulk distribution and reticulated services while horizontal integration would merge water and wastewater activities.

30 Interview with Arthur Clayton, Executive Director of the Water and Sanitation Department for the Cape Metropolitan Council (April 2001).