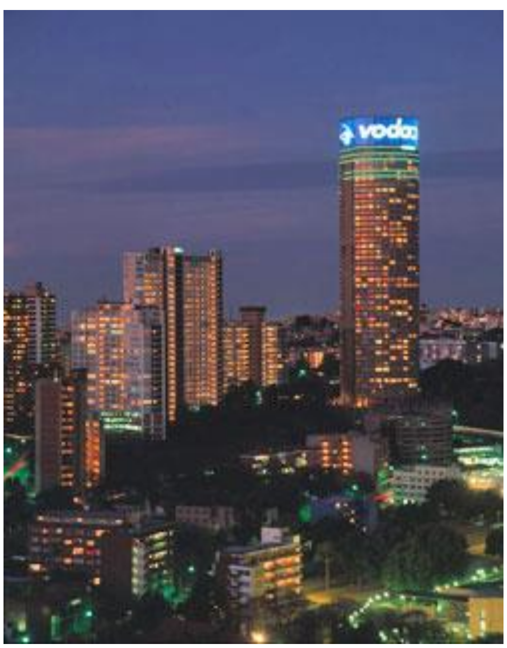
City continues to improve rating

26 August 2008

A number of factors have contributed to Joburg's improved rating; the "biggest by far is revenue collection", followed by solid management, its turnaround strategy, and credit control.



Joburg's skyscrapers attest to its continued growth (Photo: Walter Knirr)

THE City has shown steady improvement in its Fitch credit rating over the past six years, moving from a long-term national credit rating of A-(zaf) in 2003 to AA-(zaf) in 2008.

Its short-term national credit rating moved from F2(zaf) in 2003 to F1+(zaf) in 2008, demonstrating that Johannesburg has improved its performance considerably.

The rating is an opinion of the relative ability of an entity to meet its financial commitments, explains Tertius Smith, managing director of Fitch Southern Africa. Examples of these commitments may be a loan and the interest on that loan. The "(zaf)" indicates a national rating scale.

The best long-term rating for a city is AAA(zaf), while the best short-term rating is F1+(zaf). The F1(zaf) rating refers specifically to the city's ability to pay its short-term debt.

Joburg has steadily moved up the ratings over the past six years - recording BBB+(zaf) in 2004, A-(zaf) in 2005, A(zaf) in 2006, and A+(zaf) in 2007. It has three more notches to upgrade before it reaches the optimum AAA(zaf) rating.

Its short-term rating has moved from F2(zaf) in 2003, 2004 and 2005, to F1(zaf) in 2006 and 2007.

City treasurer William Mathamela says there are a number of factors contributing to this improved rating. "The biggest factor by far is revenue collection. Secondly, solid management of the City, its turnaround strategy, and lastly, credit control policies."

South Africa's rating

By comparison, South Africa's long-term national credit rating stands at AAA(zaf). The South African long-term international foreign currency rating - the country's ability to repay foreign currency debt - for 2008 is BBB+. South Africa's rating for 2002 was BBB-, improving to BBB in 2003 and BBB+ in 2005, where it has remained.

Smith says that South Africa's rating has improved because economic growth has improved, inflation came down over the period, and government debt as a percentage of GDP has improved. And, for the first time in a long time, it has a budget surplus.

Whereas in July 2007 the country's outlook was described as "positive", in June this year that was adjusted to "stable". This implies that Fitch does not foresee an improvement nor a decline. "Growth has slowed, inflation has ticked up quite a bit, and we have a high current account deficit," says Smith, explaining the change in outlook.

He predicts that Joburg's credit rating will remain stable but South Africa's sovereign rating outlook will depend on how the economy, inflation and the current account develop. Political factors such as the economic policies of the incoming government after the elections in 2009, and other political issues like respect for the rule of law and property rights will also have a significant effect on South Africa's creditworthiness.

Record budget

Executive Mayor Amos Masondo said in his budget speech in May: "In a city such as Johannesburg, with its huge developmental needs and continued disparities between affluent communities and those that are needy, we see the budget as a policy instrument through which we seek to transform our society."

He tabled a budget for 2008 of R26-billion, a record for the city and for the country.

Investment programme

The City has a major investment programme in place. "The investment programmes are cross cutting to all the sector plans and integrate and align the capital implications from each of the sector plan programmes," records the City's Capital Investment Framework.

The capex amounts Joburg plans to spend in this year are impressive: from R853-million on its regeneration programme; to R462-million on the upgrading of marginalised areas programme; and R1,2-billion on the strategic infrastructure investment programme.

In addition, some R1,4-billion will be spent on corridor development; R1,8-billion on its density programme; and R26-million on its sustainable environment programme, according to the framework.

The upgrading of marginalised areas programme includes Soweto (R410-million), Diepsloot (R30,5-million), Orange Farm (R10,5-million) and Greater Ivory Park (R10,6-million).

The regeneration programme focuses on Region E, which encompasses Alexandra, and Region B, the central city area. The focus will be on upgrading infrastructure as well as social, health and recreation facilities.

Spending in preparation for the 2010 extravaganza is huge: R2,46-billion on stadiums; R230-million on the stadium precincts; R480-million on training venues and precincts; and R250-million on supporting infrastructure. Transportation is getting a major boost with R2,7-billion, and ICT will get R1,3-billion.

The total contribution by the City is R2,4-billion over three financial years, from 2007 to 2010. The national department of transport, Telkom and the department of communications will all make contributions to the monies spent.

Mathamela says the City still faces challenges - the major one is probably infrastructure backlogs, like old water piping and ageing City Power plants. But these challenges are being systematically tackled.

Neil Fraser, city champion and urban consultant, says that private sector investment in the city between 2001 and 2007 stands at R6,5-billion to R7,5-billion, and R12-billion to R15-billion from 2007 to 2010. "Of that, two-thirds would be private sector; however, private sector spending may be reduced through [the] current economic downturn."