MUNICIPAL BORROWING BULLETIN

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ISSUE 23

Road and Bridge Construction in Cornubia

ETHEKWINI METROPOLITAN MUNICIPALITY

PURPOSE

The purpose of the Municipal Borrowing Bulletin (MBB) is to advance transparency, prudence and responsible utilisation of municipal borrowing for infrastructure delivery. The MBB informs interested parties on developments in the municipal borrowing market. The MBB aims to add to a better understanding of developments and patterns in municipal borrowing through information sharing, analysis and exchange of topical content relating to municipal borrowing.

CONTEXT

The MBB is issued by the National Treasury on a quarterly basis. This issue covers long term borrowing information up to 30 September 2021, corresponding to the end of the first quarter of the 2021/22 municipal financial year.

This MBB includes data submitted by municipalities to National Treasury as required in terms of Sections 71 and 72 of the Municipal Finance Management Act of 2003; data acquired from lenders; information published by the South African Reserve Bank (SARB) and data from the Johannesburg Stock Exchange (JSE) sourced from STRATE.

HIGHLIGHTS

- Long-term borrowing outlook has remained below pre-COVID levels coming into the 2021/22 municipal financial year.
- Most intermediate city municipalities are extremely conservative with long-term borrowing.
- Lenders reported a total of R71.4 billion in outstanding long-term borrowing to municipalities while R71.5 billion was reported by municipalities.
- New borrowing incurred in the first quarter of the financial year was reported at R782 million which is about 7 percent of the budgeted borrowing for the financial year.
- In this issue, we take a look at the climate finance support provided by the Cities Support Programme to metropolitan municipalities.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

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DATA AND ANALYSIS

1. Municipal borrowing budgets

For some time, the National Treasury has been curious about the underwhelming use of long-term borrowing by intermediate city municipalities, which arguably have significant unused borrowing capacity to support needed investment in infrastructure. To further investigate this phenomenon, National Treasury is pursuing dialogues with chief financial officers of several intermediate city municipalities to understand their approach to long-term borrowing and share ideas on the strategic use of long-term borrowing to accelerate needed capital investment. National Treasury has engaged with two intermediate city municipalities thus far; the takeaway is that these municipalities are conservative in their long-term borrowing and borrowing is not necessarily regarded as a key feature of the long-term infrastructure funding mix. Instead, long-term borrowing is seen a necessary evil only undertaken in financial years where internal reserves are insufficient to fund capital expenditure. Even then, it is usually structured in a way that it is repaid quickly, which limits the generation of surpluses and the replenishing of reserves. This pattern limits infrastructure investment and thus economic development in these communities.

More can be accomplished, and faster, in terms of infrastructure development with a programmatic approach to long-term borrowing and appropriate structuring of debt service. Municipalities can expand and renew infrastructure today, if they are willing to leverage surpluses through long-term borrowing without waiting until reserves are replenished. This is more necessary than ever given the prevailing economic climate with the national fiscus under pressure and per capita GDP falling. The infrastructure needs and challenges of municipalities are urgent and immediate and so, municipalities have to respond practically and immediately. The prudent use of long-term borrowing offers municipalities the opportunity to do so.

Table 1: Budget Borrowings

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Original Budget	9 728 855	12 038 295	12 155 568	12 015 730	13 327 264	16 195 667	17 620 931	11 395 889	11 927 324
Adjusted Budget	9 747 836	12 033 281	11 674 332	11 602 644	13 572 036	12 241 682	16 017 275	7 280 462	-
Actuals	7 583 000	9 357 000	9 222 000	8 099 900	8 749 729	8 004 007	5 897 860	5 818 870	782 373
	78%	**78%**	**79%**	**70%**	**64%**	**65%**	**37%**	**80%**	**7%**

Source: National Treasury Database

Long-term borrowing outlook has remained below pre-COVID levels coming into the 2021/22 municipal financial year. Before the COVID-19 pandemic, many municipalities set their borrowing budgets significantly above realistic levels. As a result of the COVID-19 pandemic, borrowing budgets declined to more realistic levels. We see this in the borrowing budgets for the 2020/21 financial year which aggregated to R11.4 billion. This trend continues during the 2021/22 financial year, with aggregate borrowing budgets at R11.9 billion. The actual amount that had been borrowed at the end of the first quarter of the 2021/22 financial year was R782 million, compared to just over R1 billion that had been borrowed for the same period last year.

2. Analysis of long-term debt as reported by municipalities

Table 2: Outstanding long term debt as at 30 September 2021

Municipal Category	Municipality	"Total Debt Q1 2021/22 R'000"	Share of Total Debt	"Budgeted Revenue 2021/22 R'000"	Debt to Revenue Ratio
A	BUF	221 851	0,3%	8 234 112	3%
	NMA	1 144 306	2%	12 835 948	9%
	MAN	739 626	1%	8 073 601	9%
	EKU	9 522 065	13%	42 935 624	22%
	JHB	23 490 688	33%	65 846 786	36%
	TSH	11 289 129	16%	38 994 328	29%
	ETH	8 996 557	13%	43 656 807	21%
	CPT	6 946 582	10%	47 512 224	15%
	Total Metros	**62 350 804**	**87%**	**268 089 430**	**23%**
B	**B1 (19)**	5 861 108	8%	64 475 253	9%
	Other Municipalities	2 859 204	4%	91 076 152	3%
C	**Districts**	484 238	1%	24 234 007	2%
	Total all municipalities	**71 555 354**		**447 874 842**	**16%**

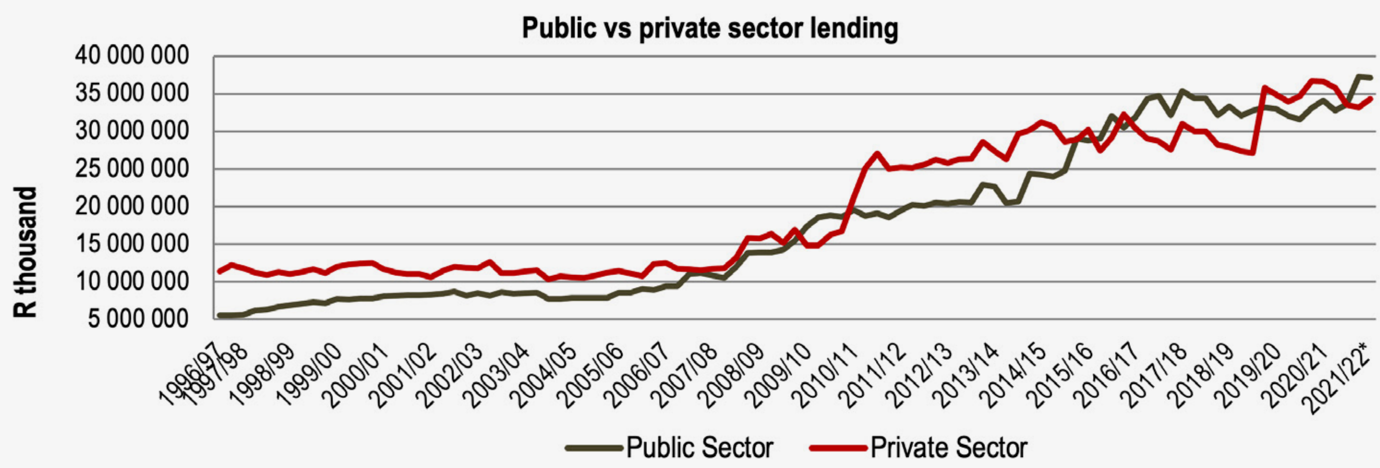
**excluding capital transfers*
Source: National Treasury Database

Outstanding long-term debt aggregated for all municipalities grew by almost R1 billion between September 2020 and September 2021. Municipalities owed R70.6 billion at the end of the first quarter of the previous financial year but as of the end of September 2021, that amount stood at R71.5 billion as reported by municipalities. The increase in outstanding long-term debt over the period is mainly attributed to three metros; Ekurhuleni, eThekwini and the City of Tshwane, which reported increases of R639 million, R759 million and R697 million respectively. Outstanding long-term debt for Nelson Mandela Bay also slightly increased while decreases were reported by the rest of the metros. Secondary cities, districts and the rest of the local municipalities also saw their outstanding long-term debt decrease in the aggregate.

Johannesburg, Ekurhuleni, eThekwini and Tshwane are the only metros that actively participate in the long-term debt market on almost an annual basis. Interestingly, the amounts borrowed by these metros annually are more or less equal to their annual capital repayments, except in those years when their bullet structured obligations are due for redemption. In other words, the outstanding borrowings for these metros have only increased marginally over recent years despite undertaking long-term borrowing almost annually. Mangaung and Buffalo City have been inactive in the long-term borrowing market for some time. Mangaung last participated in the long-term borrowing market in the 2016/17 financial year while Buffalo City has not participated in the long-term borrowing market for over 13 years.

3. Analysis of long-term debt as reported by lenders

Figure 1: Public and private sector lending to municipalities

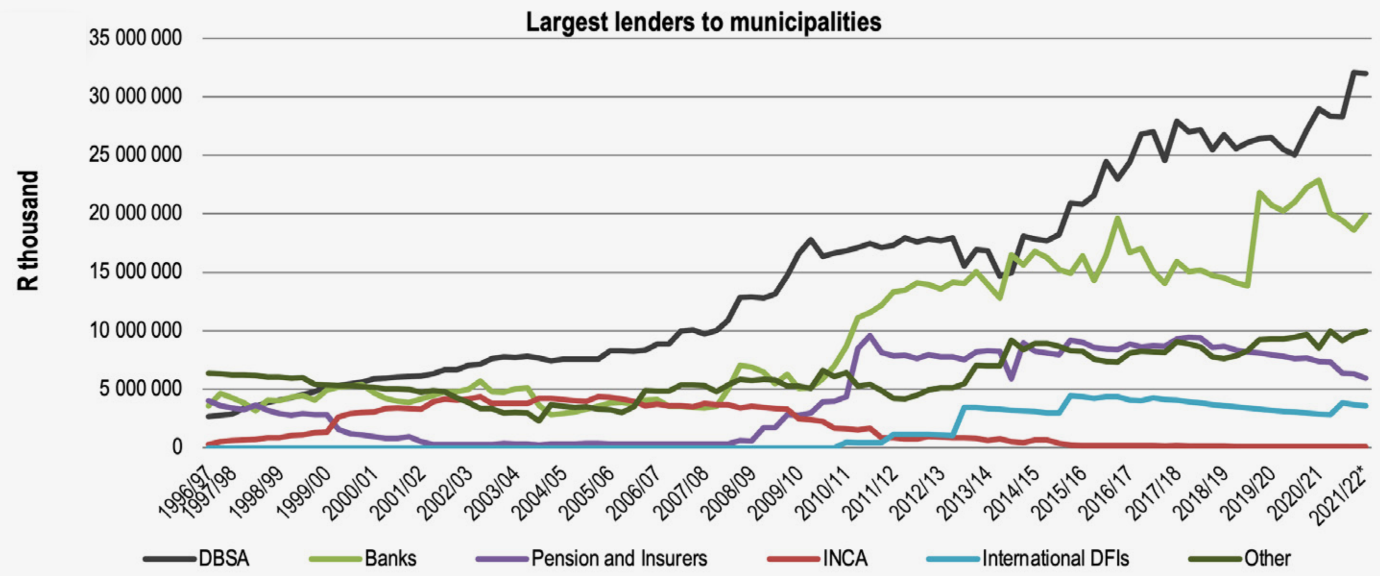


*Incl QI
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

Public sector investment in municipal debt obligations remains above investment by the private sector. Public sector financiers continue to dominate lending to municipalities. They are owed R37.1 billion compared to R34.3 billion owed to the private sector.

Municipal long-term debt owed to public sector lenders grew by almost R3 billion while municipal long-term debt held by private sector lenders declined by R2.3 billion over the past twelve months.

Figure 2: Largest lenders to municipalities



*Incl. QI
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

The growth in municipal debt obligations held by public sector lenders during the past twelve months is attributable to the DBSA. The DBSA added a total of R3 billion to its existing investment in municipal long-term debt obligations and is now owed R32 billion, up from R28.99 billion this time last year. In contrast, the stake of commercial banks in municipal debt obligations fell by about R3 billion over the past twelve months. Municipal debt held by pension funds and insurers fell by R1.4 billion since the end of September 2020 as a portion of their stock of municipal bonds is periodically redeemed. International DFIs are now owed R3.6 billion, up from R2.8 billion at the end of September 2020.

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TOPICAL ISSUES

Municipal Climate Finance

It is widely acknowledged that cities are at the forefront of the global climate crisis. According to the 2021 global Climate Policy Initiative's ***State of Cities Climate Finance Report***, cities account for 70 percent of global carbon emissions from energy use with 70 percent experiencing harmful climate change impacts. Climate finance remains elusive for South Africa's municipalities. Challenges include capacity and skills to access climate finance, resources for mobilising investments, partnerships and developing bankable projects and budgetary and regulatory constraints. Local government is pivotal to ensuring that South Africa meets its targets for achieving the Paris Agreement climate change goals, while adapting to the impacts of global warming. These objectives are central to the Presidential Climate Commission's focus on achieving a just transition to a low-carbon, climate-resilient society that 'leaves no one behind'.

National Treasury's Cities Support Programme (CSP) assists cities wishing to access climate finance by providing support to strengthen project bankability. This is imperative to accessing climate finance. The CSP's ongoing climate finance diagnostic highlights that our cities, which finance basic services and infrastructure, face escalating costs, partly from increasing climate-induced disasters (e.g., floods, droughts) and exacerbated by COVID-19. While cities bear the socio-economic, environmental and financial costs, their ability to respond and overcome climate finance access challenges, relies on working closely with national government, public finance institutions, civil society and the private sector. Effective responses also require a meaningful increase in adaptation finance to build climate resilience. (Currently, only 18% of climate finance spend in seven South African metropolitan municipalities is on adaptation.)

Leveraging available revenues through climate finance can help support systemic responses to climate change. Domestically, local and national government coordination that enables leveraging of intergovernmental transfers could incentivise municipal-level climate action, with private-sector investment adding climate finance toward a shared objective (e.g. water security, flood prevention).

Municipalities that can demonstrate domestic financial commitments are better placed to access international climate finance, such as the Green Climate Fund (GCF). Access to the GCF is eased by demonstrating country ownership (e.g. through robust policy and aligned fiscal allocations), upstream project ideation and preparation, and demonstrated scale and impact.

However, achieving optimal scale and impact relies on programmatic or joined-up approaches and collaborative inter-city partnerships. Cities' escalating climate-related energy and water security challenges, position cities to develop joint projects, that yield scale and impact, for GCF access. Given the associated challenges (e.g. capacities for effective intergovernmental coordination), initiatives like the CSP are needed to support joint project development. Currently, municipal climate finance opportunities include a flood prevention programme across several cities, and energy systems for climate resilience.

Globally, 2021 climate change negotiations cemented the focus on optimising scale and impact. Against this backdrop, South Africa secured pledges in a USD 8,5m package to accelerate coal plant retirement and renewable energy deployment. CSP, with partners such as the DBSA, the Department of Forestry, Fisheries and the Environment and the World Bank, seeks to leverage such sources by working with metros to establish climate-resilient project pipelines with suitable climate finance channels. Pre-feasibility support is being provided to metropolitan municipalities to strengthen climate resilience in the design, preparation, packaging and financing of the following projects over the next six months:

- Buffalo City – Energy Storage Facilities
- City of Cape Town – Adderley Street Fountain, Liveable Urban Waterways, and Urban Flood Risk and Resilience
- City of Ekurhuleni – Kaalspruit Catchment Rehabilitation
- City of Tshwane – Hennops River Rehabilitation
- Mangaung – Bloemspruit Airport Development Node
- City of Johannesburg – Land Remediation and Renewable Energy
- eThekwini – Shongweni Integrated Waste Management Beneficiation Facility