MUNICIPAL BORROWING

EXTENSIONS TO THE NEW WATER TREATMENT
GEORGE 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/ infrastructure delivery.

CONTEXT

The MBB is issued by the National Treasury on a quarterly basis. This issue covers long-term borrowing information up to 31 December 2022, corresponding to the end of the second quarter of the 2022/23 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

- Only 97 out of the 257 municipalities are engaged in long-term borrowing.

- Lenders reported a total of R70.3 billion in outstanding long-term borrowing to municipalities while R70.2 billion was reported by municipalities.
- New borrowing incurred so far in the financial year was R2.5 billion, which is about 24 percent of the borrowing budgets for the 2022/23 financial year.
- Outstanding long-term debt aggregated for all municipalities has declined by just over R100 million during the 12 months between December 2021 and December 2022.
- This issue outlines the development of the Local Government Infrastructure Delivery Management System Toolkit to support infrastructure planning and budgeting.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030
NDP

DATA AND ANALYSIS

1. Municipal borrowing budgets

Only 97 out of the 257 municipalities are engaged in long-term borrowing. This comprises the 8 metros, 16 of the 19 secondary cities, about 59 local municipalities as well as 14 district municipalities. Western Cape has the highest proportion of local municipalities that are engaged in long-term borrowing with 21 out of 24 local municipalities taking part in the long-term debt market, including the 3 three secondary cities in the province. Just under R2 billion (66 percent) of the R3 billion long-term debt owed by local municipalities, excluding secondary cities, is held by municipalities in the Western Cape. Of the R6.3 billion long term debt held by secondary cities; Western Cape secondary cities are accountable for almost R2.4 billion (38 percent) of the debt.

There appears to be a common understanding of the potential role of long-term borrowing in supporting infrastructure development amongst municipalities in the Western Cape province. Most municipalities in the Western Cape continually demonstrate financial sustainability which is consistent with the Updated Policy Framework for Municipal Borrowing which calls for disciplined financial management to underpin long-term borrowing.

Table 1: Budget Borrowings

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
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	10 348 260
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	7 282 004	-
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	5 905 562	2 476 961
	78%	**78%**	**79%**	**70%**	**64%**	**65%**	**37%**	**80%**	**81%**	**24%**

Source: National Treasury Database

Just under a quarter of the aggregated borrowing budgets have been implemented by municipalities halfway into the financial year. By the end of December 2022, municipalities had borrowed only R2.5 billion, which equates to 24 percent of the R10.3 billion aggregated borrowing budget. This R10.3 billion borrowing budget is anticipated to contribute about 15 percent towards the aggregated capital expenditure program for all municipalities which was set at R69.8 billion for the 2022/23 financial year. However, as it has become common practice, the borrowing budgets will likely be significantly reduced during the budget adjustment process which will consequently lower the amount of capital investment that will be undertaken during the current financial year.

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

Table 2: Outstanding long term debt as at 31 December 2022

Municipal Category	Municipality	Total debt Q2 2022/23 R'000	Share of total debt	Budgeted Revenue 2022/23 R'000*	Debt to revenue ratio
A	BUF	164 046	0,2%	8 211 047	2%
	NMA	1 199 386	2%	9 014 227	13%
	MAN	541 027	1%	7 386 700	7%
	EKU	9 539 811	14%	44 009 248	22%
	JHB	23 104 697	33%	68 428 530	34%
	TSH	10 561 087	15%	40 928 641	26%
	ETH	8 875 322	13%	41 305 958	21%
	CPT	6 518 821	9%	49 111 841	13%
	Total Metros	**60 504 197**	**86%**	**268 396 192**	**23%**
B	**B1 (19)**	6 299 890	9%	60 486 937	10%
	Other Municipalities	2 968 241	4%	91 076 152	3%
C	**Districts**	454 085	1%	24 234 007	2%
	Total all municipalities	**70 226 413**		**444 193 288**	**16%**

excluding capital transfers
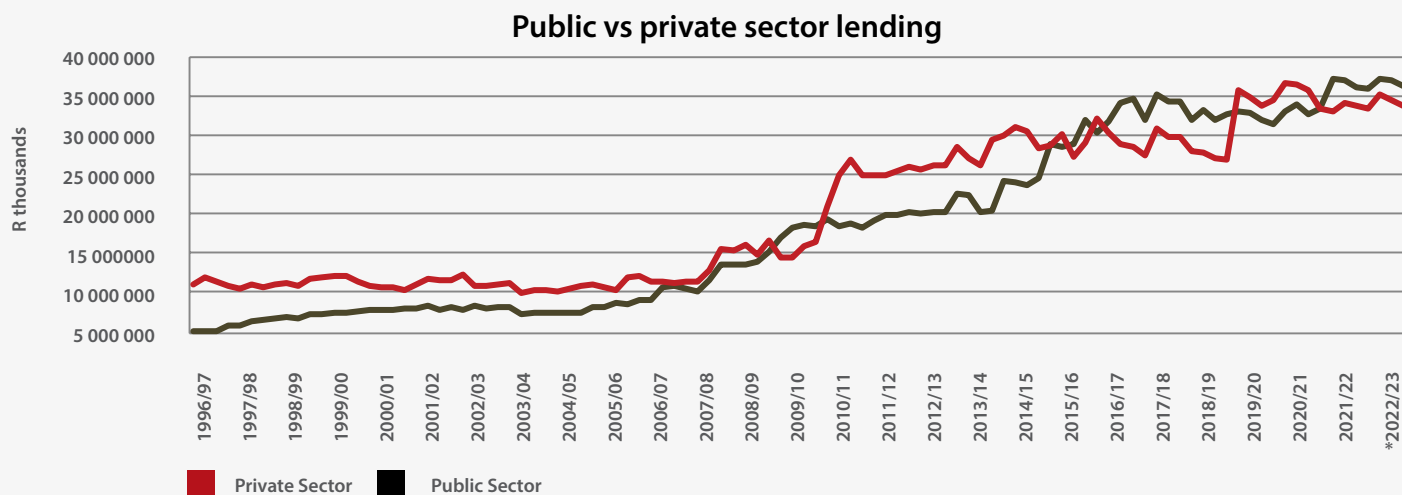*Source: National Treasury Database*

Outstanding long-term debt aggregated for all municipalities has slightly declined over the 12 months between December 2021 and December 2022. Municipalities owed R70.3 billion at the end of the second quarter of the previous financial year but as of the end of December 2022, that amount stood at R70.2 billion as reported by municipalities. The biggest decline has come from the metros with the City of Tshwane leading with a decline of R700 million, which is expected as the city has not been able to undertake long-term borrowing over the past couple of years. In contrast, outstanding debt held by the secondary cities has increased by over R300 million during the same period. Like the metros, outstanding debt held by the rest of the local municipalities as well as the districts has declined. Outstanding long-term debt measured against operating revenues for all municipalities has remained at 16 percent over the 12 months under review. In the aggregate, municipalities have maintained roughly the same level of long-term debt in proportion to operating revenues since March 2016. Hence, there have not been any significant changes in the overall debt to revenue ratio since then. Individual municipalities, however, do see fluctuating debt to revenue ratios.

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

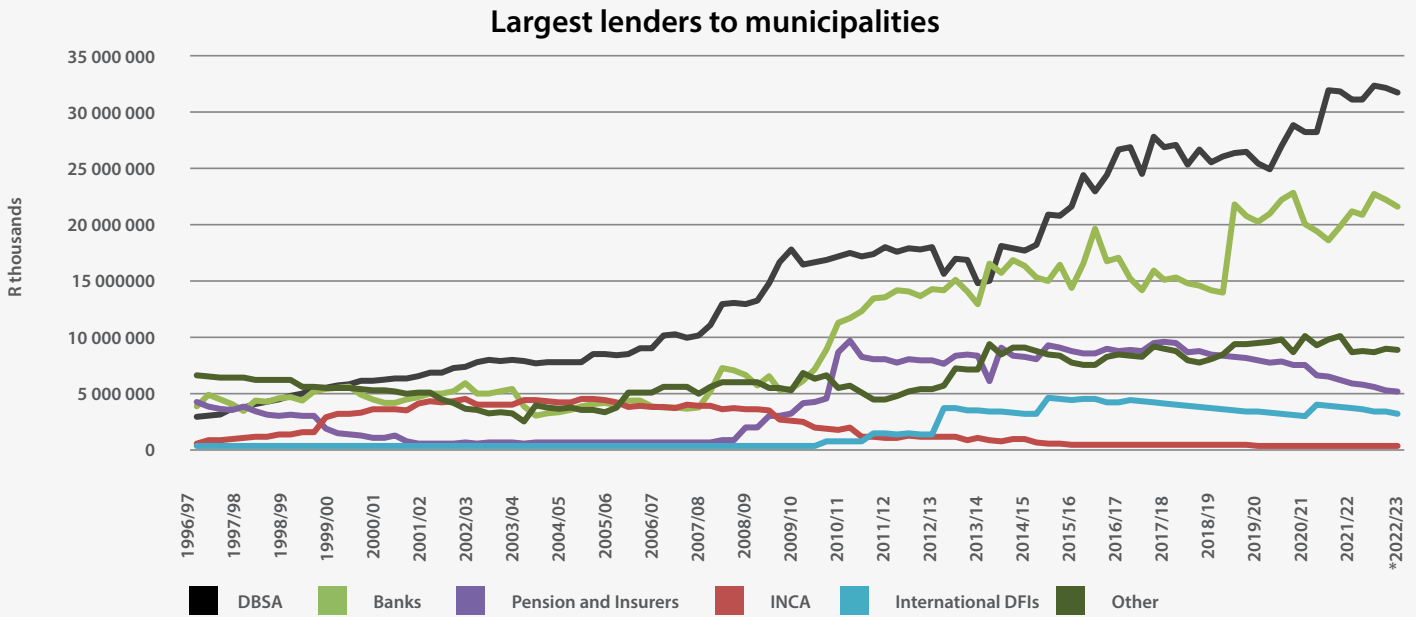**Figure 1: Public and private sector lending to municipalities**

Public vs private sector lending

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

MUNICIPAL
BORROWING

BULLETIN

April 2023

ISSUE
28

4 of 5

Long term debt owed to public sector lenders increased while debt owed to private sector lenders declined in the aggregate. Public sector investment in municipal debt obligation grew by R220 million while investment by the private sector dropped by R122 million during the period between December 2021 and December 2022. Public sector lenders and investors were owed R36.2 billion at the end of December 2021 and are now (December 2022) owed R36.4 billion compared to private sector lenders which are now owed R33.8 billion from R33.9 billion this time last year.

Figure 2: Largest lenders to municipalities

Largest lenders to municipalities

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

The profile of investors in municipal debt obligations has remained the same throughout the years. Institutional investors such as pension funds and insurers generally have longer term mandates which make them ideal investors for municipal securities with longer tenors. Although these institutions' investment in municipal debt rose sharply between the 2008/09 and 2011/12 financial years; it has since been on the decline owing to the limited number of municipal bonds in the market. Their investment in municipal debt has solely been in municipal bonds and as at the end of the second quarter of the 2022/23 financial year, their share of municipal bonds was valued at R4.9 billion, making them the second largest holders of municipal debt securities worth R16.6 billion. Ongoing National Treasury engagements with the municipal investor community reveal that there is an appetite in the market for high quality municipal bonds however, the reluctance of municipalities to issue municipal bonds continues to limit the participation of these investors.

MUNICIPAL
BORROWING
BULLETIN

April 2023

ISSUE
28

5 of 5

TOPICAL ISSUES

LOCAL GOVERNMENT INFRASTRUCTURE DELIVERY MANAGEMENT SYSTEM TOOLKIT

Infrastructure delivery at local government and the resulting service delivery is the primary function of the local sphere of government through which local authorities may promote inclusiveness, and integrated spatial and socio-economic development. Whilst all municipalities in the country have a hierarchy of strategic plans that articulate the municipal developmental objectives, the projects that would contribute to the attainment of the desired spatial form are often not implemented due to poor infrastructure planning and budgeting. Most municipalities in the country do not have a pipeline of investment ready projects that are well scoped, costed, packaged and sequenced with clear funding or financing options in accordance with the useful life of that asset.

Infrastructure development is often characterised by poorly planned, poorly constructed, fragmented or uncoordinated infrastructure delivery and poorly managed assets due to government sectoral initiatives that are not aligned. It is also characterised by dysfunctional infrastructure assets that are not fit for purpose. In addition, infrastructure projects are often not constructed within the planned time, cost, and quality.

To resolve the planning and budgeting challenges encountered by municipalities, National Treasury in collaboration with other stakeholders has developed a draft Local Government Infrastructure Delivery Management System Toolkit. In the Toolkit, planning and budgeting form part of the three core systems within the Infrastructure Delivery Management System (IDMS) which also includes asset management and supply chain management.

The toolkit contains five modules in which the planning and budgeting component is contained in module three. Module three provides steps and key deliverables to be attained within infrastructure planning and budgeting processes. It provides linkages and interdependencies with other IDMS core systems namely supply chain management and asset management. It also demonstrates the roles of built environment practitioners and relevant stakeholders in the service life planning and costing of infrastructure assets. The planning and budgeting component of the toolkit seeks to empower officials to link long term planning, budget cycle and life cycle costing of infrastructure in order to derive value for money on all government infrastructure investments.

The Toolkit advocates that planning and budgeting in the municipal environment is not only the responsibility of planning, finance, and infrastructure units but a transversal function that needs the involvement of transversal units such as risk management, internal audit, asset management, supply chain management and even human resources. The toolkit advocates that the municipalities should institutionally be structured and staffed with human resources with appropriate technical and behavioural competencies that would enable the institution to plan and budget for infrastructure assets throughout its life cycle. Further, the toolkit articulates the need for municipalities to have internal controls to monitor, report and mitigate risks that would impede on an asset not attaining its planned useful life. Most importantly, the Toolkit promotes intergovernmental coordination and reflects the legislative environment in which spatial development initiatives can be aligned. It is therefore important that municipalities adopt and institutionalise this Toolkit once it is published to prevent, minimise, or even eliminate fruitless, unauthorised, irregular, and wasteful expenditure on infrastructure budgets. The Toolkit has been inducted with various institutions ever since it was first introduced as a draft. The initial inductions were conducted in the 2020/21 financial year with only two institutions supporting the development, testing and piloting of the Toolkit namely: the Municipal Infrastructure Support Agent and the Development Bank of Southern Africa.

In the 2022/23 financial year, inductions have been conducted with municipal officials in the eight pilot municipalities situated in the Mpumalanga and Free State provinces. The municipal inductions were held from June 2022 to September 2022 and were well attended by respective municipal officials from the Mpumalanga and Free State Treasuries, and MISA officials from national and regional offices. The successful conclusion of the inductions has enabled the Treasury Sector to support the testing of the Toolkit focusing mainly on the areas of municipal needs in the infrastructure delivery and management process. The toolkit will be developed and further strengthened through the initial testing and later full implementation.

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