MUNICIPAL BORROWING

BULLETIN

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ISSUE 27

CENTRAL INDUSTRIAL AREA LINK ROAD
UMHLATHUZE LOCAL 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 30 September 2022, corresponding to the end of the first 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

- Commercial banks accounted for most of the long-term borrowing undertaken by municipalities in the past 12 months.
- Lenders reported a total of R71.6 billion in outstanding long-term borrowing to municipalities while R71.8 billion was reported by municipalities.
- New borrowing incurred in the first quarter of the financial year was recorded at R1 billion, which is about 10 percent of the borrowing budgets for the 2022/23 financial year.
- Due to repayments over the past twelve months, outstanding long-term debt across all municipalities only grew by just under R300 million.
- This issue highlights how lack of adequate capital investment planning contributes to limited use of long-term borrowing by municipalities.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

DATA AND ANALYSIS

1. Municipal borrowing budgets

Lack of adequate capital investment planning contributes to limited use of long-term borrowing by municipalities. The central role of infrastructure development in supporting economic growth and enhancing the livelihood of residents has been stated multiple times in this publication and other government platforms. As commonly known, the capital investment needs of municipalities are manifold and while most municipalities know this, very few have shown real commitment towards addressing their respective capital needs. Ongoing National Treasury engagements with municipalities reveal that most municipalities have not done the need analysis exercise necessary to determine the extent of their capital investment need and as a result are not persuaded to investigate strategies that will help address the need. A need analysis will compel municipalities to actively interact with their capital investment need as well as the urgency thereof and cause them to explore strategies to tackle the need. The City of Cape town, for example, which is historically conservative where long-term borrowing is concerned, has started to consider exploring higher levels of long-term borrowing to give effect to its 10-year infrastructure investment plan emanating from the city's recently developed infrastructure report wherein a R120 billion infrastructure investment need was identified. From planned borrowings of just under R2 billion for the 2022/23 financial year, the city is planning to undertake long-term borrowings of R6.5 billion, R9 billion and R12.3 billion respectively over the three years of the 2023/24 MTREF. George and uMhlathuze local municipalities have also had to reconsider their conservative approach towards long-term borrowing after having undertaken conditional assessments of their water and sanitation infrastructure that revealed urgent sizeable investment needs.

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	1 041 104
	78%	**78%**	**79%**	**70%**	**64%**	**65%**	**37%**	**80%**	**81%**	**10%**

Source: National Treasury Database

With the borrowing outlook declining since the emergence of COVID-19, municipal budgeted borrowings for the 2022/23 financial year reveal a further decline in borrowing appetite. Pre Covid, municipal new borrowing plans reached an all-time high of R17.6 billion only to be immediately reduced to about R11.4 billion during the heights of the pandemic in the 2020/21 financial year and thereafter, slightly raised to almost R12 billion during the 2021/22 financial year. The aggregated municipal borrowing budget for the 2022/23 financial year has dropped to R10.3 billion. As shown in table 1, new borrowing of only R1 billion, which equates to 10 percent of the aggregated budget had been incurred by the end of the first quarter. While municipal borrowing budgets may reflect the borrowing ambitions of municipalities at the start of a financial year, they should not be viewed as a definite undertaking to engage in long-term borrowing as they are seldom implemented in full even amongst the bigger and creditworthy municipalities.

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

Table 2: Outstanding long term debt as at 30 September 2022

Municipal Category	Municipality	Total debt Q1 2022/23 R'000	Share of total debt	Budgeted Revenue 2022/23 R'000*	Debt to revenue ratio
A	BUF	176 018	0,2%	8 871 639	2%
	NMA	12 15 898	2%	14 846 441	8%
	MAN	607 653	1%	8 811 248	7%
	EKU	9 850 859	14%	48 266 991	20%
	JHB	23 681 962	33%	70 024 240	34%
	TSH	10 697 647	15%	42 151 840	25%
	ETH	9 186 186	13%	46 326 593	20%
	CPT	6 575 087	9%	53 434 043	12%
	Total Metros	**61 991 310**	**86%**	**292 733 035**	**21%**
B	**B1 (19)**	6 369 727	9%	71 389 067	9%
	Other Municipalities	3 007 343	4%	91 076 152	3%
C	**Districts**	454 085	1%	24 234 007	2%
	Total all municipalities	**71 822 465**		**479 432 261**	**15%**

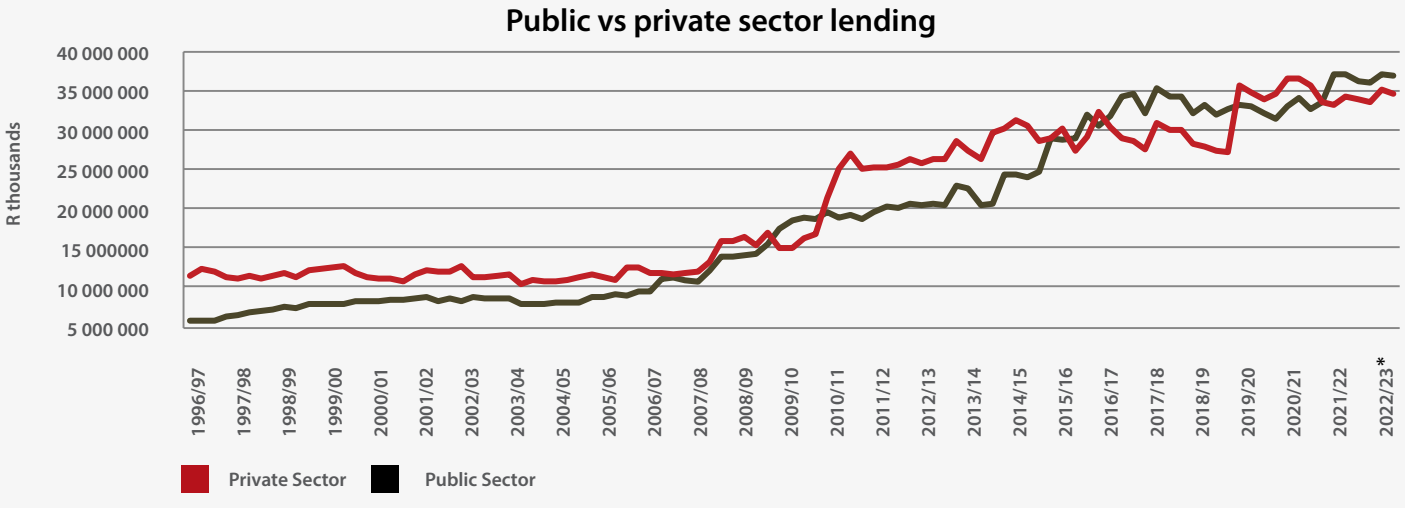
**excluding capital transfers*
Source: National Treasury Database

Outstanding long-term debt aggregated for all municipalities grew by just under R300 million over the 12 months between September 2021 and September 2022. Municipalities owed R71.5 billion at the end of the first quarter of the previous financial year but as of the end of September 2022, that amount stood at R71.8 billion as reported by municipalities. The increase in outstanding long-term debt over the period is mainly attributed to the secondary cities and the City of Ekurhuleni which reported increases of R508 million and R328 million respectively. The cities of Johannesburg and eThekwini also registered increases of R190 million each. These increases were offset by the decreases that were reported by the remaining metros hence the overall increase of just under R300 million.

In recent years, the cities of Johannesburg, Ekurhuleni, and eThekwini have been 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 almost match their annual capital repayments, except in years when their bullet structured obligations mature. 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

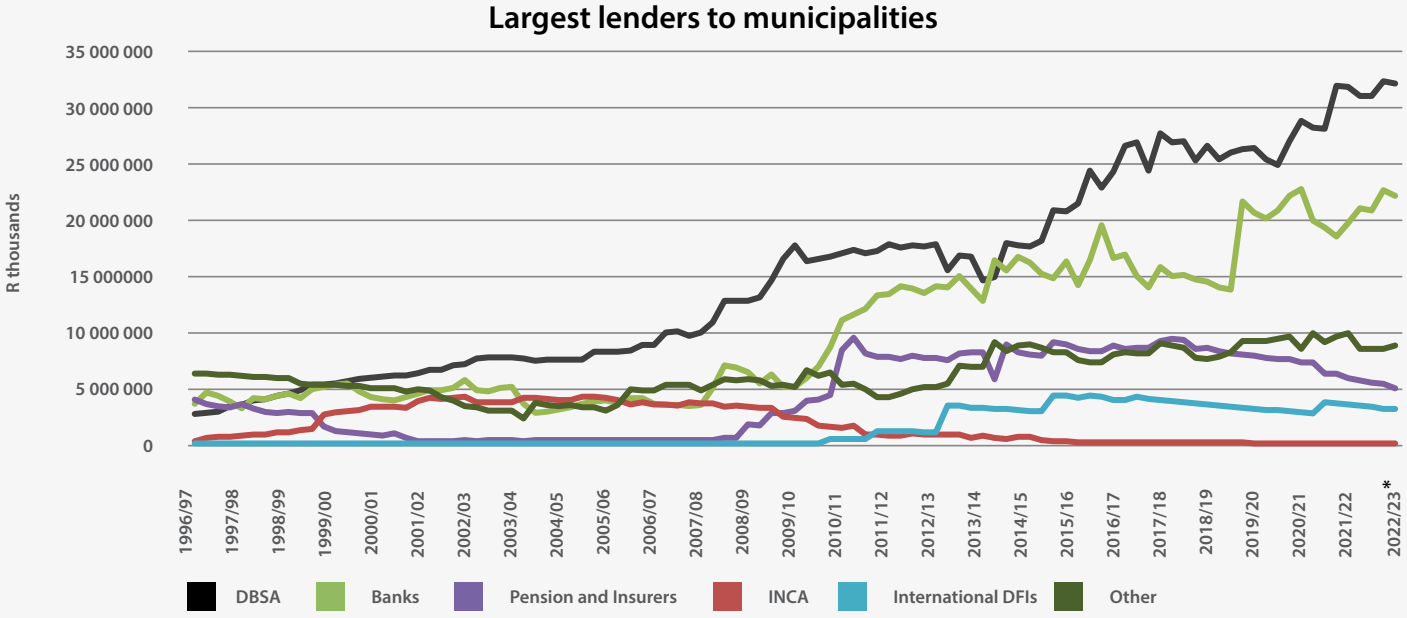


**Incl. QI*
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

Public sector investment in municipal debt obligations remains above investment by the private sector. This is despite public sector investment in municipal debt obligations having declined over the past 12 months while private sector investment increased.

Public sector investors are now owed R37 billion down from R37.1 billion at the end of the first quarter of the 2021/22 financial year. Investment by the private sector has increased from R34.3 billion to R34.6 billion over the same period.

Figure 2: Largest lenders to municipalities



**Incl. Q1*
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

The growth in municipal debt obligations held by private sector lenders during the past twelve months is attributable to the commercial banks. The commercial banks sector added a whooping R2.4 billion to its existing investment in municipal long-term debt obligations and is now owed R22.2 billion, up from R19.8 billion this time last year. Also, the DBSA's stake in municipal debt obligations rose by about R300 million over the past twelve months. Municipal debt held by pension funds and insurers fell by R900 million since the end of September 2021 as a portion of their stock of municipal bonds is periodically redeemed. International DFIs are now owed R3.1 billion, down from R3.6 billion at the end of September 2021.

TOPICAL ISSUES

SUPPORTING THE IMPLEMENTATION OF LAND VALUE CAPTURE IN CITIES

South African cities currently face fiscal pressures coupled with public sector investment and programmes that have rarely managed to address issues relating to spatial justice, inequality, and poverty. The current interest in Land Value Capture (LVC) in South Africa stems from the fundamental question of how municipalities can promote economically productive cities whilst advancing the spatial transformation agenda to build equitable and inclusive urban environments.

Land Value Capture is rooted in the notion that public action should generate public benefit. It operates from the premise that public and government actions drive up real estate values. For example, changes in land-use regulations or the installation of infrastructure increases the value of land through no action of the landowner. This increasing value in land (often called 'increments' or 'windfall') is a result of public investment and government action, but it is normally accrued by private landowners through no efforts of their own. This has enabled anti-social land practices such as land speculation. Land Value Capture offers an array of policy tools and instruments that recover the publicly generated value increases, through the conversion to public revenue or through the provision of infrastructure for public benefit. Some of the tools currently used in South Africa are Inclusionary Housing, Developer Contributions (DCs) and Special Rating Areas.

In 2020 the National Treasury's Cities Support Programme began a collaboration with the Development Action Group (DAG) and the Lincoln Institute of Land Policy (LiLP) to implement a multi-year National Land Value Capture Programme. This programme seeks to promote the use of the Land Value Capture concept as an integral component of ongoing developmental interventions and initiatives by local governments to drive spatial justice and more inclusive cities.

The overall programme strategy is to increase coordination between spatial planning and municipal finance. This is done through strengthening the capability of metropolitan governments to efficiently implement innovative LVC tools and strategies. The programme also seeks to build the capacity of other built environment practitioners and civic organisations to influence institutional, regulatory, and other procedural changes essential for the successful implementation of Land Value Capture tools and strategies.

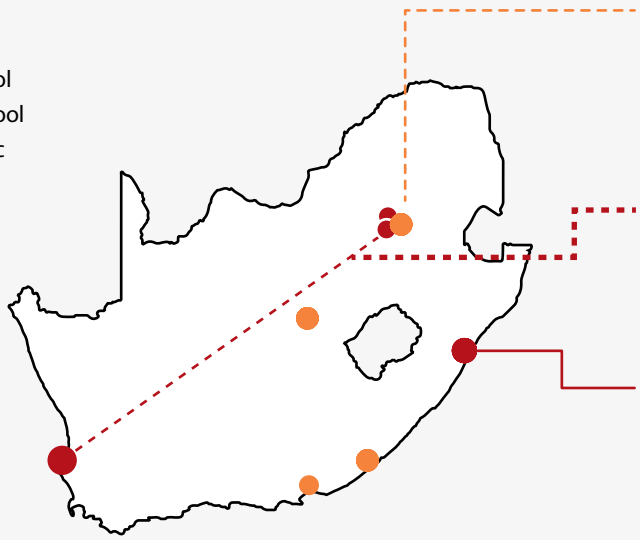
The National Programme on Land Value Capture has a four-year implementation timeframe and is based on the four key programmatic areas: (i)The provision of relevant specialised training and technical support to local government officials & built environment practitioners; (ii) initiating community of practice forums designed to share knowledge and promote learning on experiences from municipalities; (iii) documenting evidence-based research and case study analysis to promote knowledge and understanding of Land Value Capture in South Africa; (iv) initiating an internship programme designed to enhance the skills and expertise of young built environment graduates in the country.

Technical Support provided through the National LVC Programme

As depicted in the diagram below, technical support is tailored for national, inter metro & intra metro levels. Technical support at a national level is focussed on capacitating national government officials to enable national policy reform that can enable the implementation of Land Value Capture across all scales. Inter metro support focuses on

Themes :

- Public Land Leasing as an LVC tool
- Inclusionary Housing as an LVC tool
- LVC instruments to finance Public Infrastructure Project



National level support
- LVC Webinar Series
- Community of Practice
- Website & Resources

Inter Metro Support
- Peer to Peer learning session

Metro Level
- Tailored technical support

peer-to-peer learning sessions for metros that cannot be supported at an intra-metro level where capacity is insufficient. The intra-metro level support is specialised and context-specific to current and planned initiatives and institutional processes within the specific metro.

Research initiated through the programme

Small-scale rental housing: Moving from the low to the high road - Investigates reforms and incentives to scale up the delivery of affordable rental housing through the development of small-scale rental housing in township economies.

Inclusionary Housing Practice Note: Key Considerations for Initialising an Inclusionary Housing Policy and Feasibility Study - Documents the different objectives and assumptions underpinning Inclusionary Housing feasibility studies.

Land Leasing as a Land Value Capture tool is South Africa - Evaluates the nature and structure of the current public land leasing agreements and how they compare with LVC related land leasing practices applied elsewhere (i.e., Ethiopia, Netherlands and Hongkong and Waterfall estate Johannesburg).

Release of municipal land for social and affordable housing - To gain a deeper understanding of the complex process of releasing municipal land for social and affordable housing in Cape Town; eThekwini; Johannesburg and Tshwane to identify ways of streamlining the process and making it more effective at achieving the desired outcomes of spatial transformation and inclusivity.

Community of Practice: Metro Webinar Series

The National Land Value Capture webinar series is planned quarterly for officials from South African metros. The primary objective of the webinar series is to improve knowledge and understanding of the different contexts under which the Land Value Capture concept is applicable in South Africa. As officials from all eight metros across South Africa are invited, the space also offers a unique opportunity for community building and peer-to-peer learning.

The programme website at **www.landvaluecapture.org.za** has been regularly updated to reflect public events and outputs completed.

Topical issue provided by: *Samantha Naidoo*