



Sewer Network Installation **UMHLATHUZE LOCAL MUNICIPALITY**

PURPOSE

The purpose of the Municipal Borrowing Bulletin (MBB) is to advance transparency, and the prudent and responsible utilization of municipal borrowing to finance infrastructure.

The MBB achieves this purpose by informing 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 31 December 2019, corresponding to the second quarter of the 2019/20 municipal financial year.

Data used for this MBB include 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

- Lenders reported a total of R66 billion in outstanding long-term borrowing of municipalities, while R66.3 was reported by municipalities. The disjuncture on the reported figures is attributed to amongst other things; the ongoing transitioning from current reporting systems to the current municipal Standard Chart of Accounts (mSCOA).
- New borrowing incurred during the period is estimated at R2.3 billion.
- Aggregate outstanding long-term municipal debt declined by R4.1 billion by December 2019.
- Municipalities' long-term borrowing has consistently remained below budgets for the past ten years.



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



DATA AND ANALYSIS

1. Municipal borrowing budgets

Borrowing less than long-term borrowing budgets has become common practice for municipalities. Municipal budgets and implementation started being reliably monitored 10 years ago during the 2009/10 financial year, with the introduction of the municipal budgets and reporting regulations. National Treasury records over this period show that municipalities' implementation of long-term

borrowing plans has consistently remained below targets. Actual borrowing over the decade has averaged only around 74 percent of budgeted amounts. Table 1 below shows that out of a total of R85 billion in planned long-term borrowings from FY 2012/13 through 2018/19, only R57.5 billion was borrowed.

Table 1: Budgeted borrowings

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Original Budget	9 631 795	9 728 855	12 038 295	12 155 568	12 015 730	13 327 264	16 195 667	17 620 931
Adjusted Budget	9 273 438	9 747 836	12 033 281	11 674 332	11 602 644	13 572 036	12 241 682	-
Actuals	6 490 000	7 583 000	9 357 000	9 222 000	8 099 900	8 749 729	8 004 007	2 372 567
	70%	78%	78%	79%	70%	64%	65%	7%

Source: National Treasury Database

Municipal borrowing plans were budgeted at an aggregate of R17.6 billion for the 2019/20 financial year, with R15.5 billion planned by the eight metros. The city of Cape Town had planned to borrow the most, about R4.9 billion, followed by Ekurhuleni with R4 billion. As

of 31 December, new borrowings incurred by all municipalities aggregates to only about R2.4 billion. This is 13.5 percent of total long-term borrowing budgeted by municipalities for the financial year. The aggregate total borrowed by the metros at the end of December 2019 is R2 billion.

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

Table 2: Capital expenditure, new borrowing and outstanding debt

R million	Full Year												
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2019/20
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	2nd Quarter
Capital expenditure	39 577	39 625	30 945	33 239	41 679	47 932	53 241	54 682	54 411	58 756	55 417	70 126	42 898
New Borrowing	9 463	8 226	6 401	6 211	6 490	7 583	9 357	9 222	8 099	8 750	8 004	17 621	2 373
New borrowing as a % of CAPEX	24%	21%	21%	19%	16%	16%	18%	17%	15%	15%	14%	25%	6%
Outstanding debt	32 366	35 388	43 190	45 640	48 078	51 431	53 493	60 903	62 043	62 512	70 627	67 286	63 549

Source: National Treasury Database

Capital expenditure for all municipalities is budgeted at R70.1 billion for the 2019/20 financial year. This is despite the fact that actual expenditure for the previous financial year was only R55 billion, against adjusted budgets aggregating to R73.5 billion. Aggregating all municipalities, budgeted capital expenditure equates to only 14.5 percent of budgeted municipal expenditure for the 2019/20 financial year compared to 16.6 percent last year. Circular 71 recommends a norm of between 10 and 20 percent. The biggest allocation of planned

capital expenditure for all municipalities goes to water at R18 billion followed by roads with R16.4 billion. The capital programs for all the metros add up to R40.5 billion, which is 57.7 percent of the total capital budget aggregated for all municipalities. Reliable data about actual expenditure so far in the financial year could not be established because of issues with the transition on reporting from the previous system to the mSCOA.

Table 3: Outstanding long term debt as at 31 December 2019

Municipal Category	Municipality	Total debt Q2 2019/20 R'000	Share of total debt	Budgeted Revenue 2019/20* R'000	Debt to revenue ratio
A	BUF	317 327	0,5%	7 143 008	4%
	NMA	1 108 327	2%	20 662 256	5%
	MAN	916 285	1%	6 949 638	13%
	EKU	8 311 879	12%	38 807 515	21%
	JHB	19 525 639	29%	57 485 417	34%
	TSH	11 056 697	17%	41 055 011	27%
	ETH	8 736 808	13%	39 277 508	22%
	CPT	6 437 838	10%	41 208 458	16%
Total Metros		56 410 800	84%	252 588 811	22%
B	B1 (19)	6 267 498	9%	55 811 212	11%
	Other Municipalities	3 807 190	6%	78 091 912	5%
C	Districts	299 862	0%	23 187 721	1%
Total all municipalities		66 785 350		409 679 656	16%

*excluding capital transfers

Source: National Treasury Database

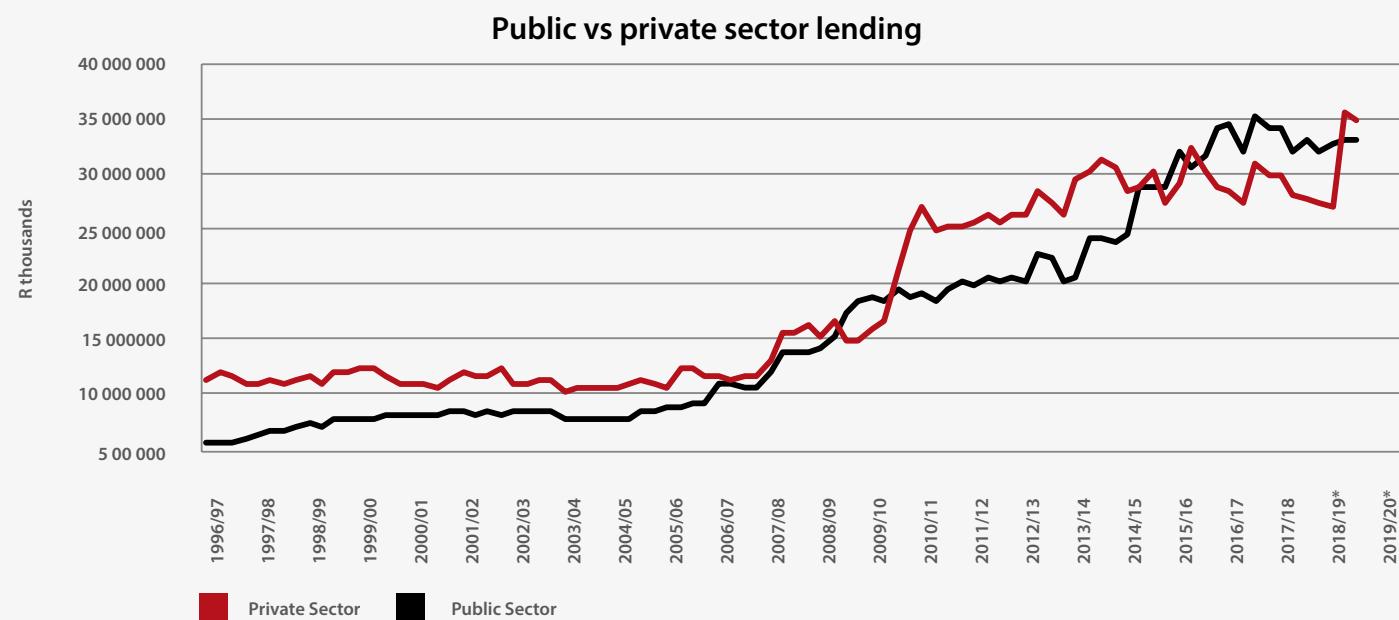
Table 3 above shows that the metros' share of outstanding long-term municipal debt has fallen by R4.1 billion since the end of the 2018/19 financial year while the share for secondary cities has is down by R449 million over the same period. The biggest movement for the six months period was in the City of Johannesburg which recorded an overall decline of R2.4 billion in its outstanding long-term debt. The aggregate revenue forecast for the "other municipalities" category makes up about 19 percent of total municipal revenues while they account for only 6 percent of long-term municipal debt.

The overall debt to revenue ratio for all municipalities has moved from 20 to 16 percent since the start of the 2019/20 financial year. Notably; the ratio for the City of Johannesburg fell from 38 to 29 percent between FY2018/19 quarter 2 and the second quarters of the year under review. The city of Johannesburg has had the highest debt to

revenue ratio amongst the metros for the longest time. It is imperative that not at any point during the course of borrowing a municipality should be over leveraged. A municipality with a very high debt to revenue ratio will likely spend a significant portion of its revenue towards servicing debt and stands on a high risk of defaulting on the debt should it experience a significant decline in revenues.

3. Analysis of long term debt as reported by municipalities

Figure 1: Public and private sector lending to municipalities

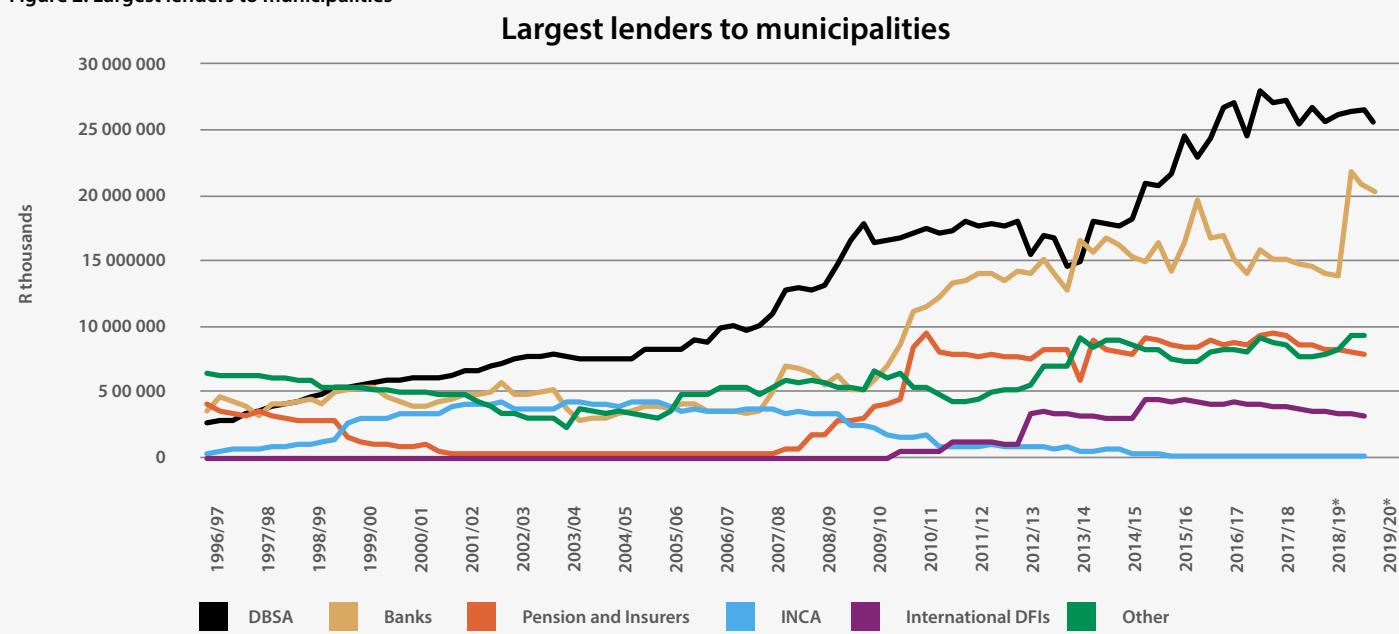


Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

Long term debt owed to the private sector declined faster than that owed to the public sector. However, the private sector still holds a slim lead, at R33.9 billion against R32 billion for public sector lenders. The private sector's investment is down by R1.9 billion from the start of the current financial year while a R1 billion decline was recorded

for the public sector. The majority of long-term debt owed by the city of Cape Town is in bonds, R5 billion out of R6.4 billion to be exact, followed by Ekurhuleni with 58 percent of their R8.3 billion long-term debt in bonds. The cities of Johannesburg and Tshwane's bonds make up 30 and 19 percent of their long-term debt respectively

Figure 2: Largest lenders to municipalities



Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

The end of the second of the 2019/20 financial year saw the DBSA investment in municipal debt decline by R926 million from R26.4 billion at the beginning of the year. Compared to last year this time, the difference is only a few million Rands. Over the twelve-month period from 30 December 2018 to 30 December 2019, lending by commercial banks showed an increase of over R6 billion. Municipal debt held by pension funds and insurers is down by R520 million since the start of the 2019/20 fiscal year. On the other hand; international Development Finance Institutions are now owed R3.1 billion, down from R3.3 billion at the beginning of the 12-month period.

TOPICAL ISSUES

Municipal Money

In October 2016 the National Treasury launched "*Municipal Money*", an open local government data portal which provides citizens and other stakeholders with access to comparable, verified information on the financial performance of each municipality.

Municipal Money aims to promote transparency and citizen engagement through the visualization and 'demystification' of information about municipal spending. The public is able to access free, reliable, user-friendly financial information for every single municipality in South Africa - in one place, at the touch of their fingertips!

Based on the feedback and requests received from people who have interacted with this portal, the National Treasury has embarked on a second phase of this project. The portal is in the process of being augmented to include more than just financial information. Two elements that have already been added are:

1. The presentation of a list of capital projects per municipality as found in their adopted budgets. These projects are detailed and can be searched using geographical location and/or function as focus area e.g. water. The service delivery information includes the progress of planned infrastructure projects in communities and will track the implementation of these projects through in-year reporting;

2. Education and analysis per municipality on revenue management and the breakdown of components on the household bills presented to citizens. This is done over a 5 year period and showcases the composition and growth of household bills.

Two successful webinars have been held in the past months on the newly launched features on Municipal Money: the first was Municipal Money 101, guiding users through the different features available on the open portal with special focus on the capital projects municipalities have budgeted for and is busy implementing in the current municipal financial year. Users can now track the progress of infrastructure developments in their municipal area. The intention is to involve the citizens in the oversight and execution of these projects,

The second webinar focused on revenue management in municipalities, what feeds into a household bills and what the consequences are for not paying for services.

The presentation, recording and Q&A of the sessions are available at:

• <i>Presentation</i>	• <i>Webinar Presentations</i>
• <i>Tools for heavy lifting</i>	• <i>Webinar recording</i>
• <i>Municipal Finance Datastore</i>	• <i>The Q&A of the webinar</i>
• <i>Provincial & National Budget datastore</i>	Household bills
• <i>Webinar recording</i>	
Municipal Money 101	

The next webinar will be on 5 August 2020 and will focus on how a budget should be assessed. Look out for the invitations! In the meantime remember to go and check out the new features in <https://municipalmoney.gov.za/>

Get regular updates on Municipal Money on *Facebook* and *Twitter*.