MUNICIPAL BORROWING BULLETIN

ISSUE 17
June 2020

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Phumlani Bulk Water Scheme
MBOMBELA LOCAL MUNICIPALITY

PURPOSE

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

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 March 2020, corresponding to the third 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 R66.2 billion in outstanding long-term borrowing of municipalities, while R66.9 was reported by municipalities. The disjuncture on the reported figures is largely attributable to the ongoing transitioning from previous reporting systems to the current municipal Standard Chart of Accounts (mSCOA).
- New borrowing incurred so far in the current year was reported at R4 billion.
- Approximately 70 percent of the new borrowing is attributable to the cities of Ekurhuleni and Johannesburg.
- Western Cape has the highest proportion of local municipalities that are engaged in long-term borrowing
- Municipal revenues have more than doubled over the 10-year period between financial years 2008/09 and 2017/18.

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2030 NDP

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DATA AND ANALYSIS

1. Municipal borrowing budgets

Of the 257 municipalities, about 97 are engaged in long-term borrowing. This comprises the 8 metros, 16 of the 19 secondary cities and 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. About R1.6 billion (61 percent) of the R2.6 billion long-term debt owed by local municipalities excluding secondary cities; belongs to municipalities in the Western Cape. Of the R5.8 billion long term debt belonging to secondary cities; about R2.3 billion (40 percent) is attributable to Western Cape secondary cities.

There appears to be a common understanding of the strategic role of long-term borrowing amongst municipalities in the Western Cape province. This is consistent with National Treasury's policy that long-term borrowing should be premised upon good financial management.

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	16 017 275
Actuals	6 490 000	7 583 000	9 357 000	9 222 000	8 099 900	8 749 729	8 004 007	4 028 645
	70%	78%	78%	79%	70%	64%	65%	25%

Source: National Treasury Database

Aggregate municipal borrowing budgets were revised from R17.6 billion to R16 billion during the third quarter of the 2019/20 financial year. However, actual new borrowing at the end of the third quarter was estimated to be R4 billion, which equates to only 25 percent of the adjusted budgets. Actual new borrowing for the third quarter of the previous financial year was recorded at 29 percent of the adjusted budgets. Approximately 70 percent of the new borrowing in the first three quarters of FY 2019/20 is attributable to the cities of Ekurhuleni and Johannesburg which have each incurred new borrowing of R1.4 billion.

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

Table 2: Outstanding long-term debt as at 31 March 2020

Municipal Category	Municipality	Total debt Q3 2019/20 R'000	Share of total debt	Budgeted Revenue 2019/20* R'000	Debt to revenue ratio
A	BUF	307 278	0,5%	7 143 008	4%
	NMA	1 071 587	2%	20 662 256	5%
	MAN	913 083	1%	6 949 638	13%
	EKU	8 237 181	12%	38 807 515	21%
	JHB	21 516 425	32%	57 485 417	37%
	TSH	10 907 477	16%	41 055 011	27%
	ETH	8 657 310	13%	39 277 508	22%
	CPT	6 308 357	9%	41 208 458	15%
	Total Metros	**57 918 698**	**87%**	**252 588 811**	**23%**
B	**B1 (19)**	5 796 840	9%	55 811 212	10%
	Other Municipalities	2 641 383	4%	78 091 912	3%
C	**Districts**	583 854	1%	23 187 721	3%
	Total all municipalities	**66 940 775**		**409 679 656**	**16%**

**excluding capital transfers*

Source: National Treasury Database

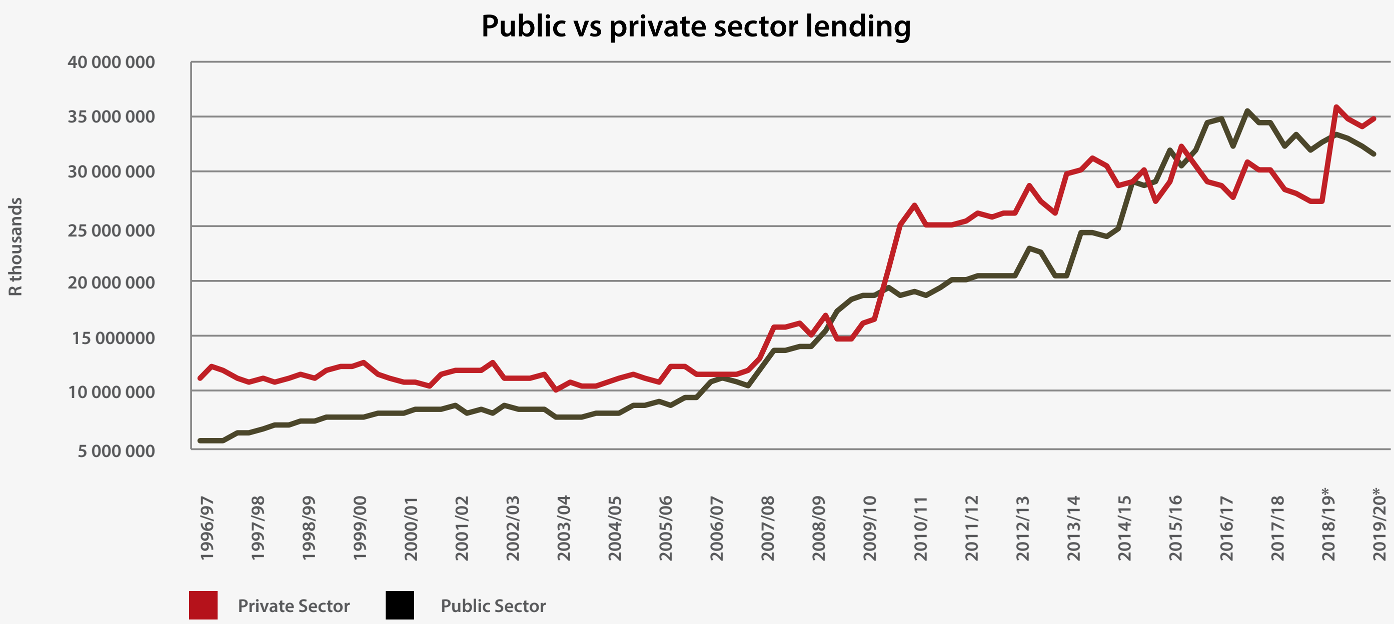
As at 31 March 2020, outstanding long-term municipal debt as reported by municipalities was R66.9 billon compared to R62 billion this time last year. The overall year on year increase is about 8 percent compared to an annual average increase of 5 percent over the past ten years. The biggest movement for the 12-month period is for the city of Ekurhuleni which saw its long-term debt increase from R5.6 billion to R8.2 billion. The city of Johannesburg increased its outstanding borrowing by about R2 billion over the same period.

There have not been significant changes in the total amounts owed by the other 6 metros. In total, the metros now owe R57.9 billion compared to R53.1 billion at the end of March 2019. The secondary cities and the rest of the local municipalities increased their debt books by R300 million and R200 million respectively.

The aggregate revenue for all municipalities was forecasted at R409.7 billion for the 2019/20 financial year. Aggregate actual revenue performance of all municipalities for the previous financial year was at 95.5 percent of the budgets and has averaged about 98 percent for past 10 years. Overall, municipal revenues have more than doubled over the 10-year period between financial years 2008/09 and 2017/18, averaging about 15 percent annual growth. This is a strong performance. The financial sustainability of any municipality and its ability to repay borrowings depends on the strength and reliability of its revenue streams.

3. Analysis of long term debt as reported by municipalities

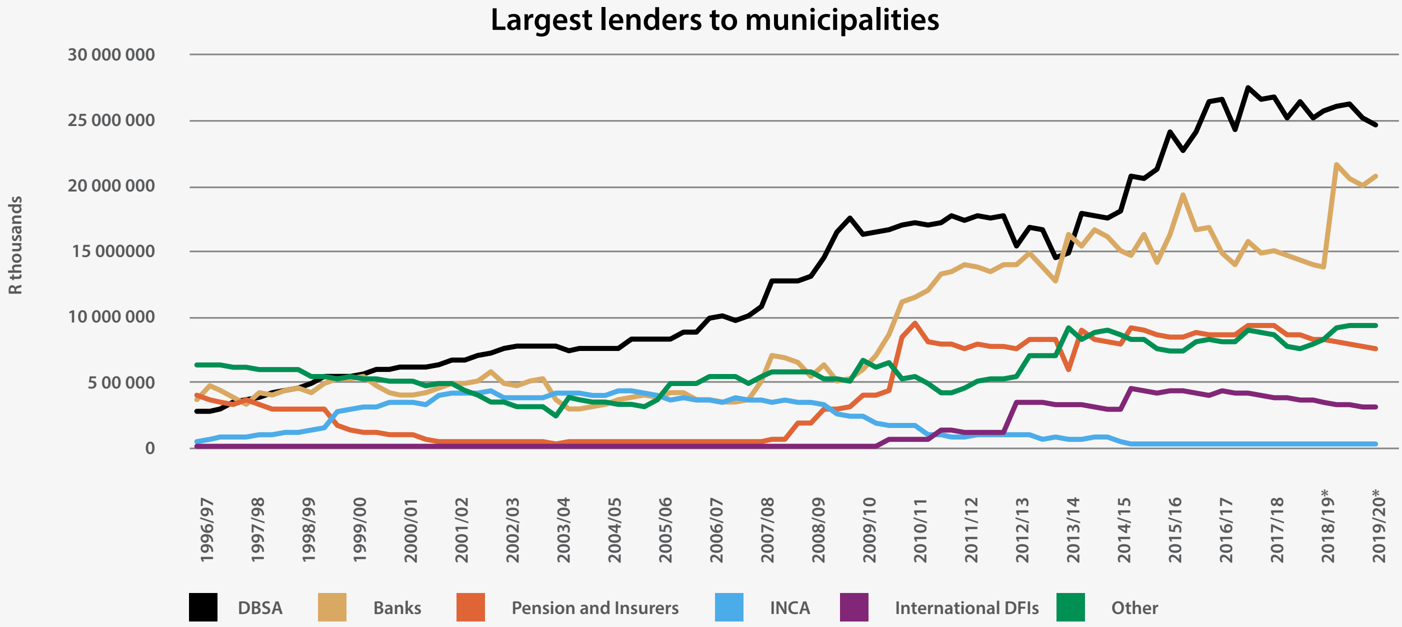
Figure 1: Public and private sector lending to municipalities



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

The increase in outstanding long term borrowing of municipalities reflects new private sector investment in municipal debt obligations. Private sector lenders and investors were owed R27.2 billion at the end of March 2019 and are now (March 2020) owed R34.7 billion compared to public sector lenders which are now owed R31.6 billion from R32.8 billion this time last year. Effectively, the private sector's investment in municipal long-term debt has risen by R7.5 billion while that of the public sector declined by R1.2 billion.

Figure 2: Largest lenders to municipalities



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

The end of the third quarter of the 2019/20 financial year saw the DBSA's investment in municipal debt decline by R1 billion from R26 billion at the end of March 2019. Over the twelve-month period from 31 March 2019 to 31 March 2020, commercial banks showed a significant increase of over R7.1 billion. The commercial banks have almost exclusively been responsible for the increase in private sector lending that was seen in figure 1 while the DBSA is also almost exclusively responsible for the decline in public sector lending. Municipal debt held by pension funds and insurers is down by R754 million since the end of March 2019. On the other hand, international DFIs are now owed R3 billion, down from R3.4 billion at the beginning of the 12-month period.

TOPICAL ISSUES

MUNICIPAL SUPPORT PROGRAMME AND PROJECT PREPARATION

Large urban municipalities face extensive demands for investment in urban infrastructure including water and sanitation networks, electrical infrastructure, roads, public transport systems and community facilities. These demands arise from historical backlogs in the provision of infrastructure, the need to maintain or replace ageing infrastructure and new requirements associated with urban growth. The failure to make these investments poses severe threats to existing infrastructure networks which are placed under increasing operational strain as well as to broader national objectives of economic growth and poverty reduction.

The primary constraint is the availability of well-prepared, shovel-ready investment programmes and projects. There are severe weaknesses in the programme and project preparation practices employed by many municipalities. Despite extensive public and private sector funding that is available to support municipal investment programmes; municipalities continue to record relatively high levels of underspending and limited growth in real levels of long-term borrowing. Although municipalities do face constraints in the affordability of and willingness to pay for infrastructure by consumers, the challenge remains primarily on the demand side rather than with respect to funding available for municipal investment programmes.

Numerous efforts are being made to improve effective municipal demand for investment. These include reform and alignment of planning systems that lead to project identification, the development of long-term financial management strategies, reforms and reviews of policy frameworks that guide grant allocations and access to capital markets, and the introduction of more effective forms of infrastructure delivery management through the Cities Infrastructure Delivery Management System (CIDMS). All of these are intended to support better programme and project preparation activities.

Over the past year National Treasury has engaged cities on the conceptualisation of the Cities Investment Programme and Project Preparation Facility (CIPPPF) as a grant to establish effective and efficient programme management and project preparation practices for capital investment programmes. The CIPPPF is conceptualised as a complementary programme to the Cities Support Programme (CSP) and the Neighbourhood Development Partnership Programme (NDPP).

In the 2020/21 financial year the Integrated City Development Grant (ICDG) is being used as the mechanism for providing grant funding to support programme and project preparation in qualifying metropolitan municipalities.

Metropolitan municipalities are eligible for the ICDG funding if they have not had an adverse or disclaimed audit opinion in the last two financial years; have formally adopted the Cities' Infrastructure Delivery and Management System guidelines; have established a programme and project approval committee to authorise work; and commit to co-financing contributions and budget management arrangements.

Also, through the NDPP, cities can access a panel of professional service providers to undertake programme and project preparation activities. This should assist in expediting the procurement of professional services.

The CIPPPF initiative is also complemented by the CSP's project on Climate Resilient Capital Investment in cities. This project supports the strengthening of metro capability to develop a bankable climate responsive project pipeline. This will be achieved through phased technical assistance that strengthens climate resilience in both design and preparation of capital projects and supports access to finance.

Preparation is a critical phase in the programme and project cycle. This phase has significant impact on how a project will come out. Errors in preparation can have massive impacts in the cost, quality, or duration of a project. Preparation is generally a relatively low cost (approx. 3% to end of feasibility), compared to the total project value. Although programme and project preparation take longer than project implementation, if properly done, it can lead to optimal project quality, cost savings and prompt implementation.