MUNICIPAL BORROWING BULLETIN

ISSUE 19

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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 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 2020, corresponding to the end of first quarter of the 2020/21 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

- Lenders reported a total of R70.7 billion in outstanding long-term borrowing by municipalities, while R70.6 was reported by municipalities. The difference in the reported figures has been narrowing over recent quarters and is now at an acceptable level.
- New borrowing incurred so far in the current year was reported at R1 billion which is about 9 percent of the budgeted amounts.
- National government has allocated R20 billion to municipalities towards COVID-19 related expenditure for the 2020/21 financial year.
- In aggregate, municipalities have maintained more or less the same level of long-term debt in proportion to revenue since March 2016.

national treasury
Department:
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2030 NDP

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DATA AND ANALYSIS

1. Municipal borrowing budgets

As of December 2020, it has been nine months since a national state of disaster was declared in response to the COVID-19 pandemic. It appears that the impacts of COVID will continue to impact the economy for at least the current financial year. However, the functioning of local government does not stop. Municipalities must continue to provide basic services, improve access to water and sanitation in informal settlements and rural areas, provide temporary shelter for homeless people, and sanitise public transport facilities. So, in preparation for the implementation of the 2020/2021 municipal financial year, municipalities had to reprioritize expenditure plans. National government has allocated R20 billion to municipalities for COVID-19 related expenditure; however, about R9 billion of this represents reprioritisation within conditional grants already allocated to municipalities. These funds will fund additional water and sanitation provision and sanitisation of public transport.In this report, we look at how municipal borrowing to support infrastructure investment has progressed during the first quarter of the 2020/21 municipal financial year.

Table 1: Budgeted borrowings

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
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	11 395 889
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	5 897 860	1 063 131
	70%	78%	78%	79%	70%	64%	65%	37%	9%

Source: National Treasury Database

Municipalities have planned very modest new borrowing for the 2020/21 financial year. Compared to the R17.6 billion that was planned for the previous financial year, municipalities have set their new borrowing plans at an aggregated total of only R11.4 billion for the 2020/21 financial year. Actual new borrowing at the end of the first quarter of the 2020/21 financial year was just over R1 billion, compared to R1.3 billion in new borrowing for the same period last year. Some municipalities, especially metros and some secondary cities, view long-term borrowing as a permanent component of their capital financing strategy while for most municipalities long-term borrowing is undertaken as and when there is a perceived need. The reduction in conditional capital grants to municipalities that we have started to see in the 2020/21 financial year demands that municipalities should increase self-financing of their capital needs through maintaining and leveraging consistent operating surpluses.

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

Table 2: Outstanding long term debt as at 30 September 2020

Municipal Category	Municipality	"Total debt Q1 2020/21 R'000"	Share of total debt	"Budgeted Revenue 2020/21* R'000"	Debt to revenue ratio
A	BUF	277 123	0,4%	7 507 552	4%
	NMA	1 023 565	1%	9 909 273	10%
	MAN	858 409	1%	7 412 427	12%
	EKU	8 883 229	13%	41 629 459	21%
	JHB	24 023 046	34%	69 142 819	35%
	TSH	10 592 562	15%	37 560 714	28%
	ETH	8 237 220	12%	40 534 246	20%
	CPT	7 318 077	10%	42 443 103	17%
	Total Metros	**61 213 231**	**87%**	**256 139 593**	**24%**
B	**B1 (19)**	5 914 447	8%	59 819 336	10%
	Other Municipalities	2 964 326	4%	76 737 217	4%
C	**Districts**	540 223	1%	22 087 274	2%
	Total all municipalities	**70 632 227**		**414 783 420**	**17%**

**excluding capital transfers*

Source: National Treasury Database

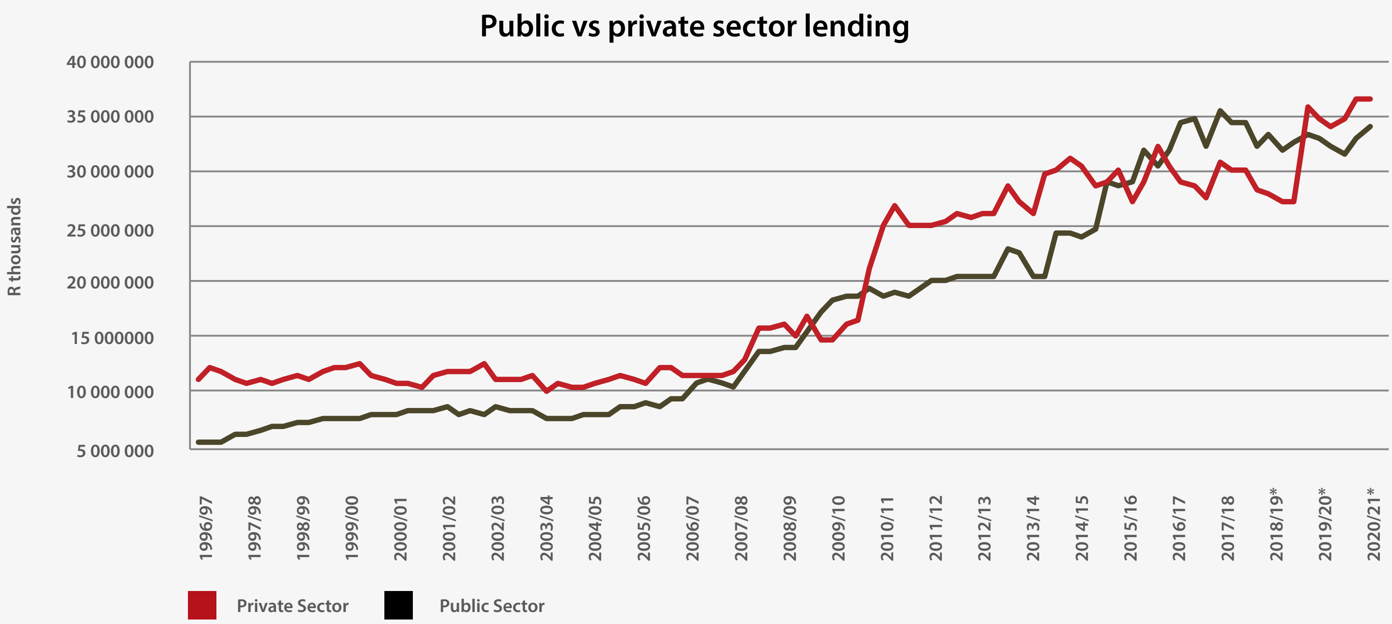
As at the end of the first quarter of FY 2020/21, outstanding long-term municipal debt as reported by municipalities was R70.63 billon compared to R70.64 billion this time last year. Overall, long-term debt has slightly decreased by about R12 million from this time last year; however, total long-term debt attributable to the metros has increased from R59.9 billion at the end of the first quarter of the 2019/20 financial year to R61.2 billion at the end of the first quarter of the current financial year. The biggest year on year movement was reported by the city of Johannesburg which showed a total increase of over R2 billion from this time last year to date. The city of Johannesburg's debt appears sustainable, and most other municipalities seem rather under-leveraged in view of the investment needs across our municipalities.

The metros' share of total long-term municipal debt has increased from 85 percent at the end of September 2019 to 87 percent by end of September 2020. Others have mostly reported minor declines in their outstanding long-term debt.

The debt to revenue ratio aggregated for all municipalities has remained at 17 percent for the past twelve months. In the aggregate, municipalities have maintained more or less the same level of long-term debt in proportion to revenue since March 2016. So, there hasn't 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 municipalities

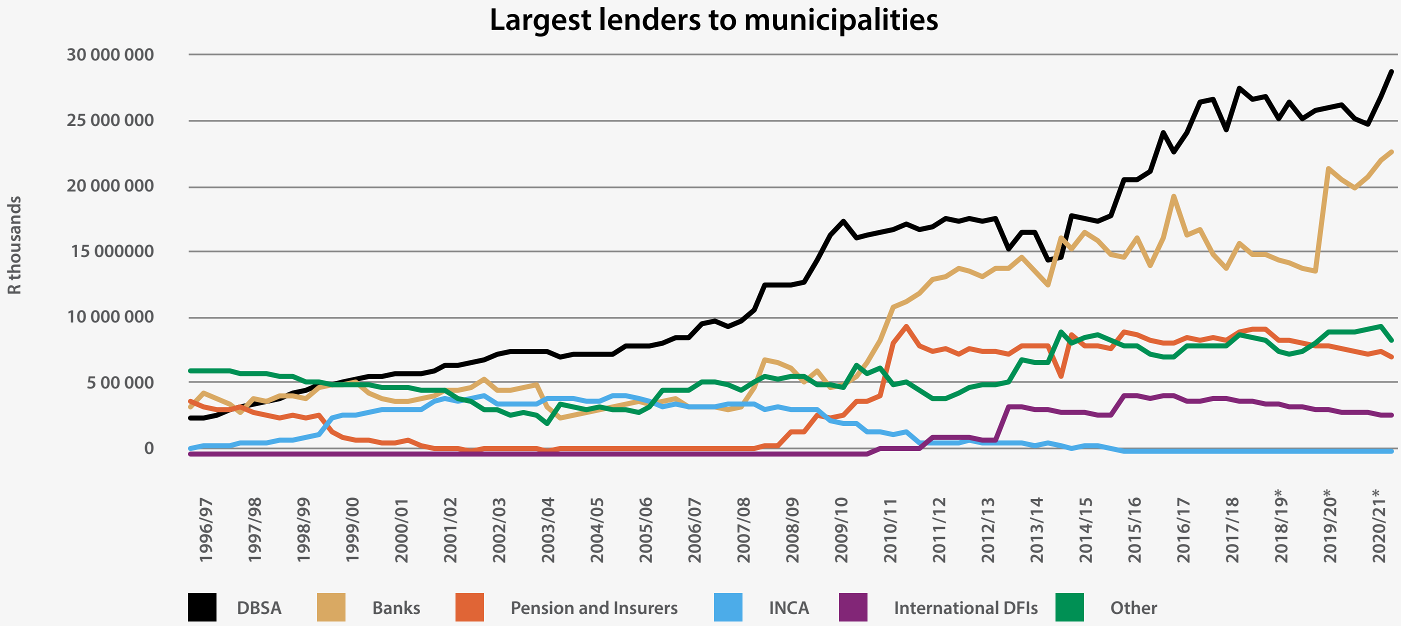
Figure 1: Public and private sector lending to municipalities



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

Private sector investment in municipal debt obligations grew by R1.7 billion while investment by the public sector grew by only R1.1 billion over the past twelve months. Private sector lenders and investors were owed R34.8 billion at the end of September 2019 and as of September 2020 were owed R36.6 billion. This compares to public sector lenders, who are now owed R34. Billion, up from R33 billion this time last year.

Figure 2: Largest lenders to municipalities



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

The DBSA significantly raised its investment in municipal debt from to R26.5 billion in September 2019 to R28.9 billion at the end of September 2020. Over the twelve-month period, commercial banks also raised their stake in municipal debt obligations by about R1.1 billion. Banks are responsible for about 61 percent of private sector lending to municipalities. Municipal debt held by pension funds and insurers is down by R582 million since the end of September 2019. This group of investors now accounts for about 21 percent of private sector lending to municipalities. International DFIs are now owed R2.8 billion, down from R3.2 billion at the end of September 2019.

TOPICAL ISSUES

Local Government Framework for Infrastructure Delivery and Procurement Management

BACKGROUND:

In October of 2020, the National Treasury promulgated a new Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM)[1]. The LGFIDPM will become effective on July 1, 2021. Because different municipalities have different capacities and needs, the LGFIDPM is to be reviewed, adapted as necessary, and adopted by municipalities as part of their Supply Chain Management policies.

The LGFIDPM is intended to promote the basic values and principles governing public administration, as laid out in Section 195 of the Constitution. It is designed specifically for municipalities and municipal entities, and will support their asset management, infrastructure planning, delivery management and decision-making systems. The infrastructure procurement processes included in the LGFIDPM are intended to promote better quality service delivery, support economic growth, improve procurement efficiency, and reduce the cost of doing business with organs of state.

The LGFIDPM divides infrastructure projects into seven stages, with a report to be submitted at the end of each stage: Initiation, Concept, Design Development, Design Documentation, Works, Handover, and Close-out. A municipality may add additional stages, if deemed necessary. In addition, the LGFIDPM establishes eight "procurement gates" which specify processes that are to be completed as the project go through the stages from concept to completion. The decision-making processes at each stage are meant to ensure that there is enough information for the project to move to the next stage. LGFIDPM will help municipalities protect against fruitless expenditure and manage the risks involved in their infrastructure projects.

1 *See MFMA Circular no. 106, replacing MFMA Circular 77*