MUNICIPAL BORROWING BULLETIN

ISSUE 20
March 2021
INSIDE
KEY HIGHLIGHTS
DATA ANALYSIS

Bulk Water Augmentation

SOL PLAATJIE LOCAL MUNICIPALITY

PURPOSE

The purpose of the Municipal Borrowing Bulletin (MBB) is to advance transparency and the prudent 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 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 information up to 31 December 2020, corresponding to the end of second 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.

COMMEMORATING THE 20TH ISSUE OF THE MUNICIPAL BORROWING BULLETIN

This marks the twentieth issue of the Municipal Borrowing Bulletin, which began publication in 2015. The Bulletin has helped interested parties to engage with municipal borrowing topics and has improved the general understanding of municipal borrowing statistics and dynamics. Over the last six years, there has been an improvement in data collection, cross-checking and analysis. Contact with potential investors has also improved, thereby broadening and stimulating the municipal debt market. Concurrently, the Urban Finance Working Group has been established as a forum where municipal borrowers, investors and other stakeholders engage with the information.

HIGHLIGHTS

- On 31 March 2021, municipalities completed a full calendar year of COVID-impacted budget implementation.
- Lenders report a total of R68.5 billion in outstanding long-term borrowing by municipalities, while R68.4 billion 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 R2.9 billion which is about 26 percent of the budgeted amounts for the fiscal year.
- Private sector investment in municipal debt obligations grew faster than investment by the public sector over the past twelve months.

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DATA AND ANALYSIS

1. Municipal borrowing budgets

On 31 March 2021, municipalities completed a full calendar year of COVID-impacted budget implementation. While this period has brought about some opportunities such as digitisation and the increased use of information technology, the pandemic has also exposed and exacerbated many of the challenges that municipalities face with service delivery, infrastructure, housing, transport, health, safety and revenue collection. Extension of basic services to under-served communities has become more necessary than ever, and some municipalities have been found wanting as they lacked the capacity do deal with the increased demands on service delivery. Infrastructure backlogs as well as the poor condition of much municipal infrastructure has meant that some municipalities had to look to water tankers and mobile toilets, which are financially straining, to respond to increased service delivery demands.

Moreover, many municipalities have reported challenges with the collection of revenue from customers who are financially strained as a result of job losses, business closures and salary cuts. This has aggravated the already fragile financial condition of many municipalities. Partnership with the private sector is needed now more than ever for municipalities to successfully navigate through this difficult period. One of the vehicles through which this can be achieved is through the use of appropriately structured long-term financing of municipal infrastructure for municipalities that are credit worthy. Below, we look at how municipal borrowing to support infrastructure investment has progressed during the second quarter of the 2021 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	2 933 654
	70%	78%	78%	79%	70%	64%	65%	37%	26%

Source: National Treasury Database

As is usually the case at this point of the financial year, municipalities have utilised very little of their borrowings budgets. Mid-way into the 2020/21 financial year, municipalities have borrowed only R2.9 billion of their originally planned borrowings of R11.4 billion. This means that municipalities have so far implemented about 26 percent of their borrowing budgets compared to 13 percent this time last year. Although, the previous year's budgeted borrowings aggregated for all municipalities was R6.2 billion more than the current financial year, municipalities have borrowed more in absolute terms at this point of the current financial year, compared to this time last year, when only R2.4 billion had been borrowed. R2.5 billion of the R2.9 billion borrowed so far, is attributable to the metros. Secondary cities are responsible for only 9 percent of the total, and 5 percent of the total was borrowed by districts and smaller local municipalities.

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

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

Municipal Category	Municipality	"Total debt Q2 2020/21 R'000"	Share of total debt	"Forecast Revenue 2020/21* R'000"	Debt to revenue ratio
A	BUF	256 355	0,4%	7 507 552	3%
	NMA	1 014 542	1%	9 909 273	10%
	MAN	804 314	1%	7 412 427	11%
	EKU	8 693 375	13%	41 629 459	21%
	JHB	23 565 474	35%	69 142 819	34%
	TSH	10 406 847	15%	37 560 714	28%
	ETH	7 919 613	12%	40 534 246	20%
	CPT	6 145 543	9%	42 443 103	14%
	Total Metros	**58 806 063**	**87%**	**256 139 593**	**23%**
B	**B1 (19)**	5 830 259	9%	59 819 336	10%
	Other Municipalities	2 803 029	4%	76 737 217	4%
C	**Districts**	500 470	1%	22 087 274	2%
	Total all municipalities	**67 939 821**		**414 783 420**	**16%**

**excluding capital transfers*

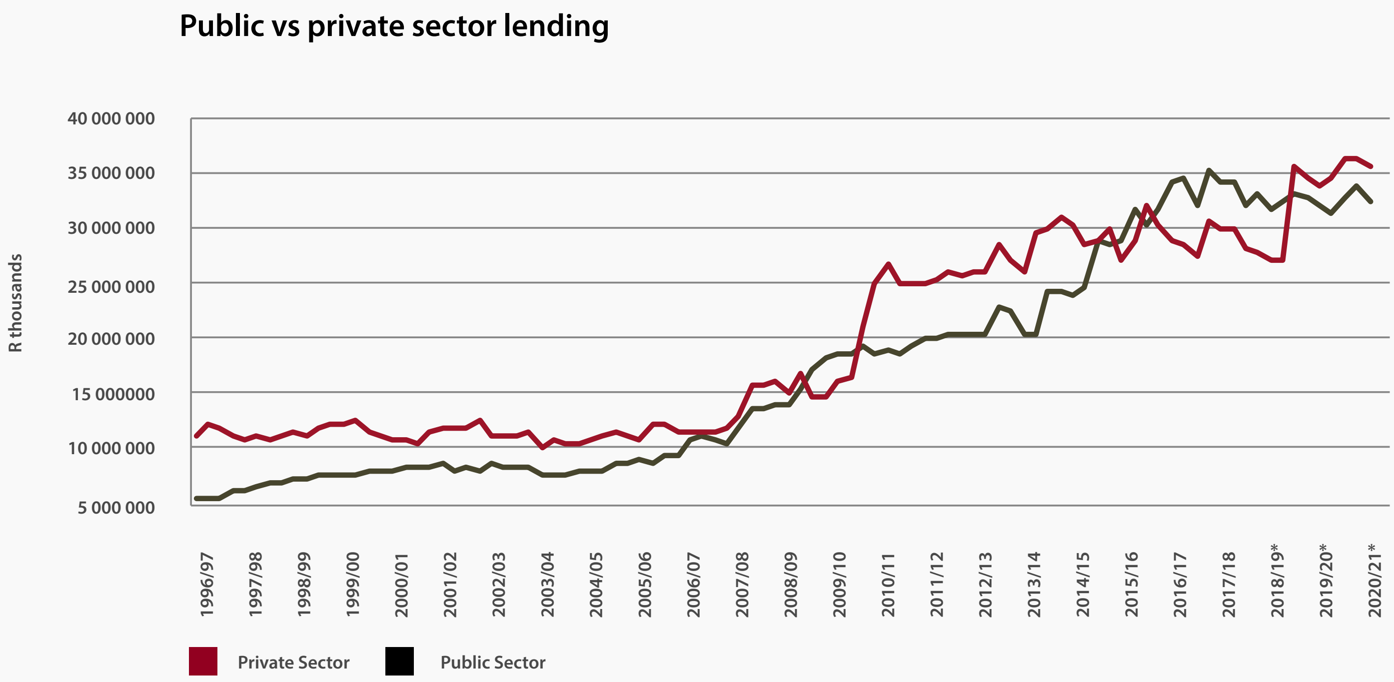
Source: National Treasury Database

As at the end of the second quarter of FY 2020/21, outstanding long-term municipal debt as reported by municipalities was R68.4 billon compared to R66.3 billion this time last year. Despite municipalities having taken up a total of R6.4 billion in new long-term borrowings between December 2019 and December 2020, overall outstanding long-term municipal debt has only gone up by about R2.1 billion over the same period. This means that about R4.3 billion of total outstanding long-term municipal debt was repaid over the last twelve months. Long-term debt owed by the metros has increased from R56.4 billion to R59.3 billion and amongst the metros, the biggest movement was reported by the city of Johannesburg which saw its outstanding long-term debt increase from R19.5 billion to R23.5 billion. Ekurhuleni is the only other metro that reported an upward movement with an increase of about R382 million. All the other six metros have reported downward movements. Long-term debt owed by secondary cities slightly increased by R12 million while other local municipalities recorded the biggest drop, reported at R1 billion.

The debt to revenue ratio aggregated for all municipalities has increased from 16 percent to 17 percent over the past twelve months between the end of December 2019 and the end of December 2020. This increase was driven by the metros which saw their overall debt to revenue ratio increase from 22 percent to 23 percent.

3. Analysis of long term debt as reported by municipalities

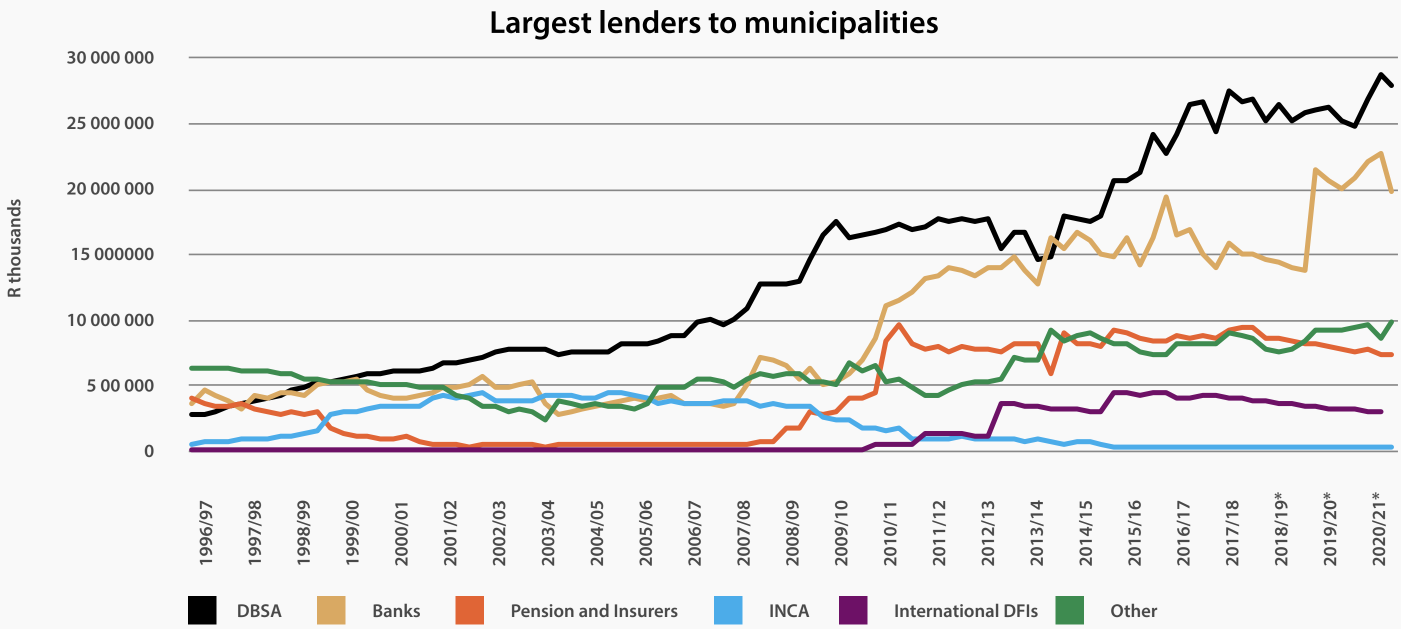
Figure 1: Public and private sector lending to municipalities



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

Private sector investment in municipal debt obligations rose by R1.8 billion while investment by the public sector grew by just R650 million over the past twelve months. Private sector lenders and investors were owed R34 billion at the end of December 2019 and as of December 2020 were owed R35.8 billion. This compares to public sector lenders, who are now owed R32.7 billion, up from R32.1 billion this time last year.

Figure 2: Largest lenders to municipalities



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

The DBSA significantly raised its investment in municipal debt from to R25.5 billion in December 2019 to R28.3 billion at the end of December 2020. Over the twelve-month period, commercial banks saw their stake in municipal debt obligations decline by about R200 million. Banks are responsible for about 61 percent of private sector lending to municipalities. Municipal debt held by pension funds and insurers is down by R470 million since the end of December 2019. This group of investors now account for about 24 percent of private sector lending to municipalities. International DFIs are now owed R2.8 billion, down from R3.1 billion at the end of December 2019.

TOPICAL ISSUES

Municipal PPP Framework and Guideline Review

To revitalise the economy and meet the National Development Plan (NDP) goals of halving unemployment and poverty by 2030, the establishment of a competitive infrastructure base is vital. However, government infrastructure budgets have come under significant pressure over the past few years due to lower economic growth and competing priorities such as funding for higher education and compensation of employees. Municipalities have also experienced difficulties in raising the revenue required to finance infrastructure projects given the prevailing economic circumstances caused by COVID-19. The private sector can play an important role in partnering with government to implement infrastructure projects.

The National Development Plan recognises the importance of partnerships between the public and private sectors in accelerating infrastructure investment to the required levels. It also recognises that greater use of public-private financing will likely result in better planning and improved feasibility studies, resulting in more rigorous assessment and accountability of infrastructure projects. Public-private partnerships (PPPs) can therefore play an even bigger role in the development of infrastructure projects in the country.

The SA PPP framework is considered one of the best in the world. The framework has had its successes as well as challenges. The PPP framework has been in existence since mid-2000s and over the years the operational environment has significantly changed; impacting significantly on the PPP deal flow. To date, 37 PPP projects valued at over R90 billion have been completed. Of these projects only 7 projects are in the municipal sphere of government. These projects include the:

- Tshwane transport fleet (reached financial closure in 2015)
- Tshwane head office accommodations (reached financial closure in 2015)
- Mbombela water and sanitation concession (reached financial closure in 1999)
- Dolphin Coast water and sanitation concession (reached financial closure in 1999)
- Elundini Municipality landfill management
- eThekwini waste water treatment (reached financial closure in 1999)
- Overstrand Municipality landfill management (reached financial closure in 2010)

Over the past few years, PPP deal flow in SA has been declining, from an estimated R10.7 billion in 2011/12 to R5.6 billion in 2019/20. No municipal PPP project has reached financial close in 6 years. The decline in PPPs can be attributable to some of the perceptions and criticisms of PPPs in SA, i.e. that PPPs are cumbersome and that it takes a long time to conclude the PPP cycle and implement projects.

Why was the review necessary?

- SA had its first PPP over 20 years ago and since then, the PPP framework has not been reviewed. This review offers an opportunity to draw lessons to improve the planning and implementation of PPPs going forward.
- The objective of the review is to address the concerns, perceptions and criticism raised about PPPs with the hope of increasing municipal PPPs and crowd in private sector funding.
- Most municipalities rely on grant funding for infrastructure, PPPs therefore offer an opportunity to reduce the reliance on grant funding and borrow funds for infrastructure while also tapping into private sector skills and expertise.
- COVID-19 has worsened our economic trajectory. The economic recovery plan announced in Budget 2021 prioritises infrastructure spending to support the economy. Part of the recovery plan involves crowding-in private sector and Development Finance Institution funding into infrastructure investments.
- The Infrastructure Fund announced by the President offers an opportunity for increased partnership between government and private sector. The fund provides government support for co-financing of projects that blend public and private resources. Most of the blended financed projects coming from the Infrastructure Fund as expected to be one form of PPP or another.

Progress to date…

The National Treasury initiated the review of the PPP framework in 2019, when municipalities and institutions such as SALGA and MISA were invited to share their experiences and lessons learnt on PPPs. A number of these have since been incorporated into the draft final recommendations report. The recommendations have been clustered into three categories: those that can be implemented in the short term (< 6 months), those that can implemented in the medium term (between 6 and 12 months) and those that can be implemented between 12 and 24 months.

What are the recommendations?

The recommendations made are meant to achieve the following:

- Simplify and rationalize the municipal legal and regulatory framework;
- Strengthen institutional arrangements and accountability;
- Streamline the processes in the municipal PPP manual and provide more guidance;
- Rationalize the public consultations process and;
- Simplify the unsolicited proposal framework in line with municipal regulations.

As part of finalising the municipal PPP review process, a validation workshop was held on the 11th March 2021 to present the findings and recommendations to key stakeholders in the municipal space. Comments received will be further taken on board in the final recommendations report that will be presented for approval. The approved recommendations will be published on the National Treasury website. These recommendations will be implemented in 2021/22.

Should you wish to provide us with comments, please email National Treasury on infrastructure@treasury.gov.za