MUNICIPAL BORROWING BULLETIN

JULY 2022

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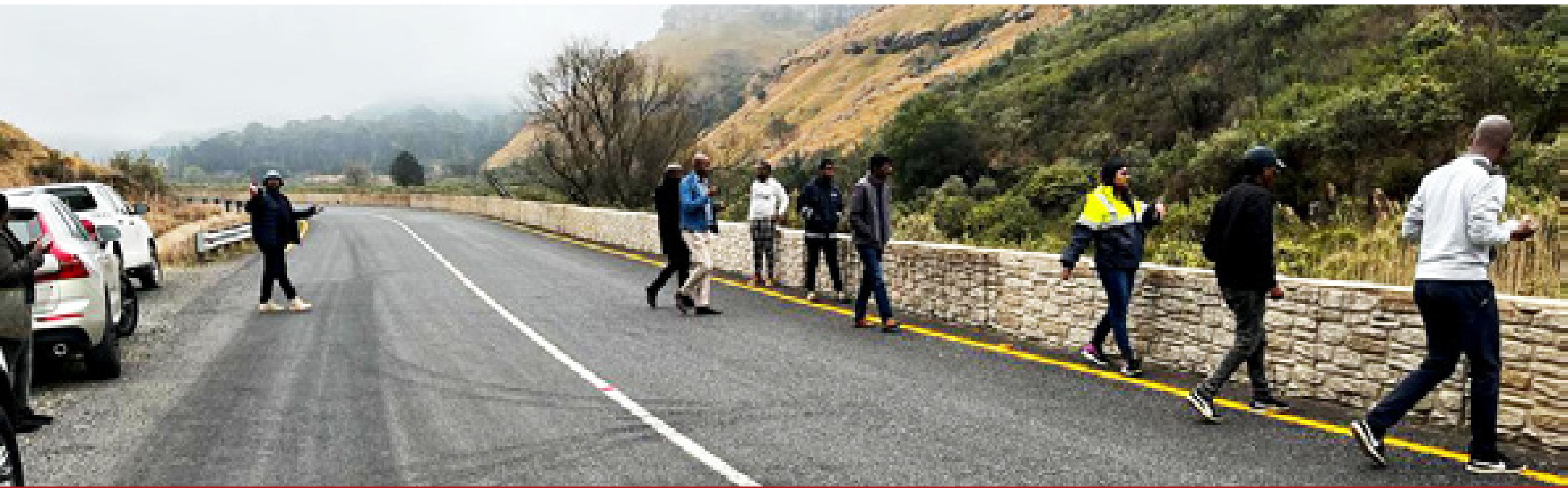
ISSUE 25



UPGRADING OF P318 ROAD
DR NKOSAZANA DLAMINI-ZUMA 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 31 March 2022 which corresponds to the end of the third quarter of the 2021/22 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

- Municipal borrowing budgets were significantly reduced during the third quarter of the 2021/22 financial year.
- Lenders reported a total of R69.7 billion in outstanding long-term borrowing to municipalities while R69.9 billion was reported by municipalities.
- New borrowing incurred so far in the financial year was R3.6 billion which is about 49 percent of the adjusted borrowing budgets for the financial year.
- Due to repayments between March 2021 and March 2022; outstanding long-term debt across all municipalities grew by almost R2.5 billion.
- This issue will provide a high-level overview of the Procurement, Infrastructure and Knowledge Management Capacity Development Programme (PINK) implemented by National Treasury in collaboration with the State Secretary of Economic Affairs (SECO) of Switzerland.

DATA AND ANALYSIS

1. Municipal borrowing budgets

Does the prevailing narrative about rampant mismanagement in municipalities unfairly paint the whole sector with the same brush? It is true that ongoing financial and administrative instability in many municipalities has significantly impaired their ability to deliver services. The recent State of Local Government Finances Report has highlighted that many municipalities have consistently failed to manage their affairs effectively for several years and consequently, compromised their ability to provide reliable services. Residents endure the deterioration and collapse of service delivery in these municipalities while previously un/underserved communities wait. Hence, any criticism and outcry over the dysfunctionality of those specific municipalities is warranted and public engagement is encouraged to hold these municipalities accountable. The leadership, political and administrative, bears the responsibility to steer financially troubled municipalities out of the administrative, financial, and service delivery crises they are trapped in. National government is also providing support to the troubled municipalities through section 139 interventions, annual municipal budget assessments and various capacity building initiatives but even that support has been in short supply owing to capacity issues in national government and limited fiscal resources.

Another truth, however, is that there are many municipalities that are well managed and committed to doing things the right way. These municipalities have consistently performed competently on administrative, financial and service delivery imperatives, demonstrating a track record of effective governance, management, and control. These are good examples of well-run municipalities, and their leadership should be praised much as dysfunctional leaders should be chastised. It is important that reports on municipal affairs are balanced so that the good work of well-run municipalities is not overshadowed by the serious problems of those that are poorly managed. This is important to ensure that citizens, investors and businesses are afforded the ability to make informed decisions about where to live, invest or set up business.

In recent engagements with the investor community, National Treasury has heard several potential investors express scepticism over lending to municipalities. It is up to well-run municipalities to differentiate themselves from their problem-ridden peers and show that there are places where investors can have confidence, either in direct lending or in setting up of business operations.

Municipal borrowing budgets were significantly reduced during the third quarter of the 2021/22 financial year. During the third quarter, municipalities reduced their borrowing plans for the 2021/22 financial year from an aggregated total of R11.9 billion to just over R7 billion which is a reduction of almost 40 percent. At the start of the 2021/22 financial year; borrowing was planned to contribute about 17 percent towards aggregated municipal capital budgets. However, because of the adjustments, only 11 percent of the capital budgets is now expected to be financed through borrowings. The actual amount that was borrowed so far in the financial year was R3.6 billion, translating to only 49 percent of the adjusted budgets. Either municipalities are finding it difficult to raise finance in the current economic climate or they are adopting a conservative approach to long-term borrowing as Table 1 below shows much lower new borrowing uptake since the 2019/2020 financial year.

Table 1: Budget Borrowings

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
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
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	3 585 970
	78%	**78%**	**79%**	**70%**	**64%**	**65%**	**37%**	**80%**	**49%**

Source: National Treasury Database

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

Table 2: Outstanding long term debt as at 31 March 2022

Municipal Category	Municipality	"Total debt Q3 2021/22 R'000"	Share of total debt	"Budgeted Revenue 2021/22 R'000"	Debt to revenue ratio
A	BUF	199 336	0,3%	8 234 112	2%
	NMA	1 046 583	1%	12 835 948	8%
	MAN	675 432	1%	8 073 601	8%
	EKU	9 189 549	13%	42 935 624	21%
	JHB	23 133 031	33%	65 846 786	35%
	TSH	11 255 490	16%	38 994 328	29%
	ETH	8 603 076	12%	43 656 807	20%
	CPT	6 760 835	10%	47 512 224	14%
	Total Metros	**60 863 332**	**87%**	**268 089 430**	**23%**
B	**B1 (19)**	5 928 080	8%	64 475 253	9%
	Other Municipalities	2 734 222	4%	91 076 152	3%
C	**Districts**	465 403	1%	24 234 007	2%
	Total all municipalities	**69 991 037**		**447 874 842**	**16%**

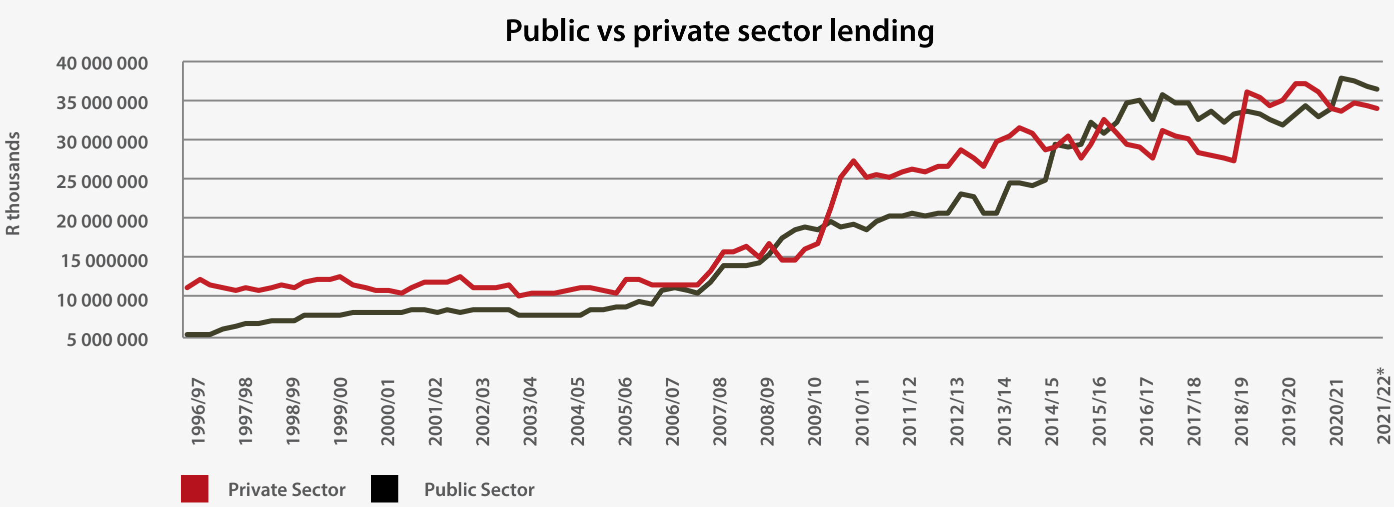
**excluding capital transfers*
Source: National Treasury Database

Outstanding long-term debt aggregated for all municipalities grew by almost R2.5 billion between March 2021 and March 2022. Despite municipalities having taken up a total of R6.2 billion in new long-term borrowings between March 2021 and March 2022, overall outstanding long-term municipal debt has only gone up by about R2.5 billion over the same period. Municipalities owed R67.4 billion at the end of the second quarter of the previous financial year and at the end of the second quarter of the current financial year, that amount stood at R69.9 billion as reported by municipalities. The increase in outstanding long-term debt over the period is mainly attributed to three metros; Ekurhuleni, eThekwini and the City of Tshwane which reported increases of R1.3 billion, R753 million and R436 million respectively. Overall, long-term debt owed by the metros has increased from R58.4 billion to R60.8 billion. Also, long-term debt owed by secondary cities and the rest of the local municipalities slightly increased over the past twelve months while district municipalities saw their outstanding long-term debt decrease on aggregate.

The long-term debt to revenue ratio aggregated for all municipalities (total outstanding long-term debt against operating revenue) is one percentage point down to 16 percent over the past twelve months.

3. Analysis of long-term debt as reported by lenders

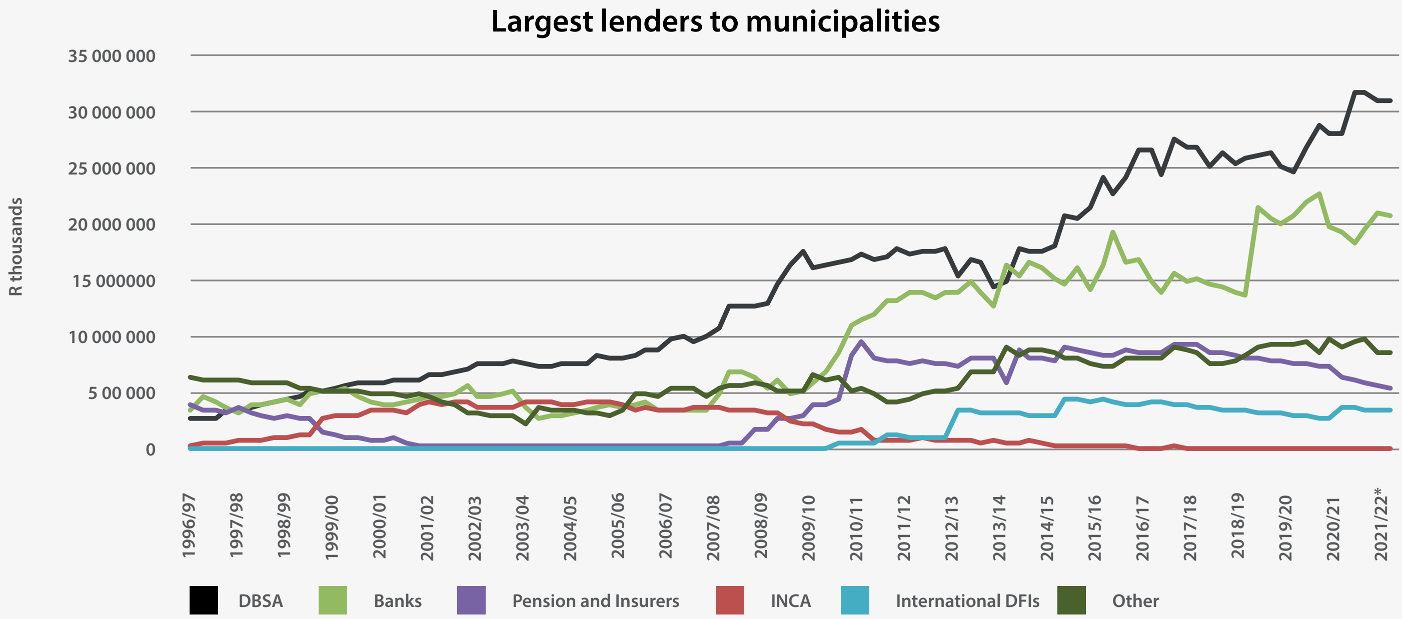
Figure 1: Public and private sector lending to municipalities



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

Public sector investment in municipal debt obligations is more than investment by the private sector. Public sector financiers continue to dominate lending to municipalities. They are owed R36.1 billion compared to R33.6 billion owed to the private sector. Municipal long-term debt owed to public sector lenders grew by almost R2.5 billion while municipal long-term debt held by private sector lenders remained the same over the past twelve months.

Figure 2: Largest lenders to municipalities



*Incl QIII

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

The profile of investors in municipal debt obligation has remained similar throughout the years. Municipalities obtain most of their long-term financing from DBSA (the largest lender), commercial banks, institutional investors such as insurers and pension funds and international DFIs. The DBSA added a total of R2.9 billion to its existing investment in municipal long-term debt obligations and is now owed R31.2 billion, up from R28.3 billion this time last year. Also, the stake of commercial banks in municipal debt obligations increased by about R1.5 billion over the past twelve months. Municipal debt held by pension funds and insurers fell by R853 million since the end of March 2021 as a portion of their stock of municipal bonds was redeemed. International DFIs are now owed R3.3 billion, down from R3.8 billion at the end of March 2021.

TOPICAL ISSUES

SUPPORTING INFRASTRUCTURE DELIVERY IN LOCAL GOVERNMENT: THE CASE FOR PINK

In pursuit of Section 154 of the Constitution of the Republic of South Africa, the National Treasury secured technical support funding from the Federal Republic of Switzerland to support capacity building in municipalities. The Federal Republic of Switzerland through its State Secretariat for Economic Affairs (SECO) is funding this capacity development programme named: Procurement, Infrastructure and Innovative Knowledge Management (PINK). The PINK program is focusing on strengthening Procurement, Infrastructure and Knowledge Management in municipalities. PINK's primary objective is to increase cost effectiveness, social inclusivity and sustainability in service delivery in the provincial and local spheres of government.

The PINK program is aligned with the capacity development priorities of government and aims to address weak procurement practices and poor infrastructure management which are two of the main causes of irregular, fruitless and wasteful expenditure within municipalities which impact significantly on the municipality's ability to provide basic services. The program is designed around three distinct but interrelated work packages namely: effective supply chain management (procurement), enhanced infrastructure management (planning, budgeting and asset management) and lastly; knowledge management and peer learning.

The National Treasury in collaboration with SECO identified two provinces and eight municipalities to be used as piloting sites for the support. These provinces are Free State and Mpumalanga together with their respective local municipalities namely: Tswelopele, Setsoto, Moqhaka and Metsimaholo local municipalities in Free State Province and Nkomazi, Chief Albert Luthuli, Dr Pixley Ka Seme and Mkhondo local municipalities in Mpumalanga.

As a way of practicalising the support, eight projects were agreed upon as key projects and were packaged for implementation in the eight pilot municipalities. These projects, upon successful implementation by respective local municipalities, should result in a positive step change in the way that the pilot municipalities are organised and ultimately in improved service delivery.

These projects are outlined below and are at different stages of implementation in each of the identified pilot municipalities.

Project 1: enhance specific Supply Chain Management (SCM) regulations and toolkits customised to municipal needs.

Project 2: Develop municipal SCM training & Continuing Professional Development programmes and a SCM practitioners' qualification framework and register.

Project 3: Establish an SCM implementation support mechanism and provide support to pilot municipalities.

Project 4: Create an Infrastructure Delivery Management System knowledge base for local government to improve service delivery.

Project 5: Establish Provincial Treasury-based facilities for Infrastructure Management implementation support to municipalities.

Project 6: Create knowledge sharing platform/portal/repository customised to the needs of municipalities and ensure accessibility to the platform.

Project 7: Establish Communities of Practice and other peer learning instruments for municipal SCM and Infrastructure Management practitioners.

Project 8: Strengthen the capacity of municipal councillors in SCM and Infrastructure Management oversight.

The PINK program is now in its third year of implementation and various products have been developed and early results are beginning to show in some of the eight pilot municipalities, especially around supply chain management. To this end, specific toolkits, procedure manuals, templates, and implementation guidance are being developed within the pilot municipalities through handholding.