

Municipal Financial Planning

Western Cape Municipal Infrastructure Indaba

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Finance for Municipal Infrastructure

- MIG & PIG
- Own Sources
- Private sector bank loans
- Capital market bonds
- DBSA loans, soft loans and guarantees
- Credit enhancement.

Finance for Municipal Infrastructure (2)

- Grants require comprehensive plans (IDP, IIP) & business plans & project mgt skills
- Bonds – only for very large amounts; possible bond pooling (incl re-financing)
- Pr. sect Banks, DBSA loans, soft loans and guarantees:- no short cuts
- Credit enhancement: Revenue intercepts, pledge Eq. Share; MIG/PIG sinking fund?.

Finance for Municipal Infrastructure

DBSA products [the advert]

- Technical assistance grants
- Bridging loans
- Commercial loans
- Guarantees
- Equity in private sector service providers (Esp BEE)
- Soft loans – Targeted Infrastructure Programme
- Capacity building.

Financial Planning for Municipal Infrastructure

Two Biggest Challenges:

**Rolling Out New Quality Services
to Reduce the Backlog**

AND

**Keeping Them Running –
Delivering Sustainable
Services**

Financial Planning for Municipal Infrastructure

OR, Put Another Way:

**Meeting Social and Political
Objectives**

While

**Protecting and Growing
the Local economy**

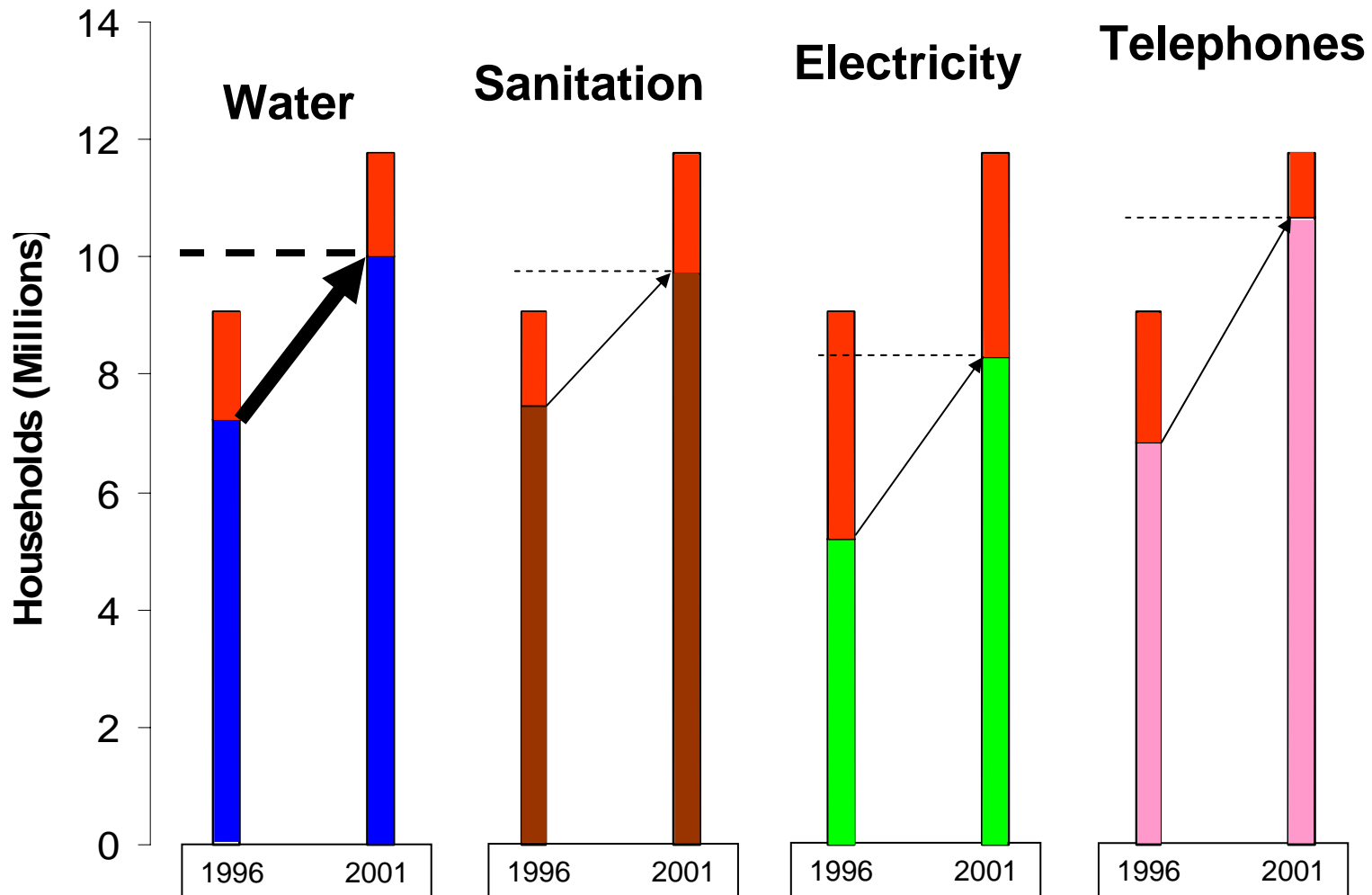
Municipal Infrastructure Indaba: Targets

- An evolving challenge
- Chasing a moving target ...

Chasing Moving Targets

DBSA Infrastructure Barometer 2006

Infrastructure service backlogs (Ch 4, Box 11)



Municipal Infrastructure Indaba: Targets

- An evolving challenge
- Chasing a moving target
- Educate politicians on when to use and not to use “backlogs”
- Aim for continuous improvement of levels of service
- Never neglect what you have.

Municipal Infrastructure Indaba: Planning & Budgetting

- DBSA promotes:
 - Project Prioritisation Model
 - Combined Services Model (et seq)
 - Infrastructure Investment Planning as part of IDP (+ IIP Guidelines)
- DBSA will support:
 - Linking IDP, IIP and systematic asset management
 - Increased budgets for O&M etc.

Municipal Infrastructure Indaba: Funding

- DBSA supports:
 - Revenue improvements among municipal clients (Development Fund & Workout Unit)
 - Clients helped to access grants to which they are entitled
 - Matching MIG grants with loans for bulk etc
- DBSA determined to move “down market, creating capacity to borrow.

Rolling Out Municipal Services

- Clearly it is **High Priority**
- Political promises, national goals, good for quality of life, health, productivity etc

BUT

- Funds are limited & skills are scarce

DIFFICULT CHOICES:

- What Level of Service?
- “All for some or some for all?”
- Now or later? (Moving Targets).

Municipal Infrastructure Investment planning

- Immense political pressure
- Constant battle for resources
- Trade offs between political promises and available finance
- Extra loan funds will be needed
- Need for careful planning.

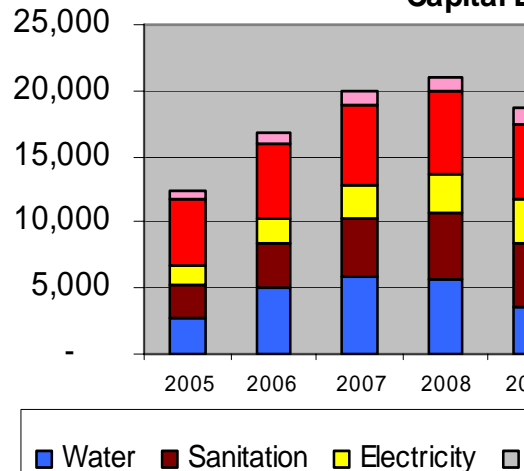
Municipal infrastructure: (DBSA Barometer 2006)

Meeting the service delivery targets

- Financial requirements to meet national targets:

- Capital approx. R15 b p.a. for ten years.
- Recurrent should rise from R80 b to R120 b p.a.

Capital Expenditure



Sources of finance

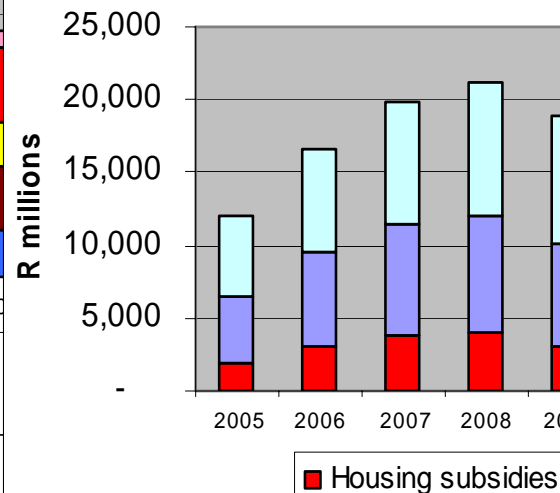
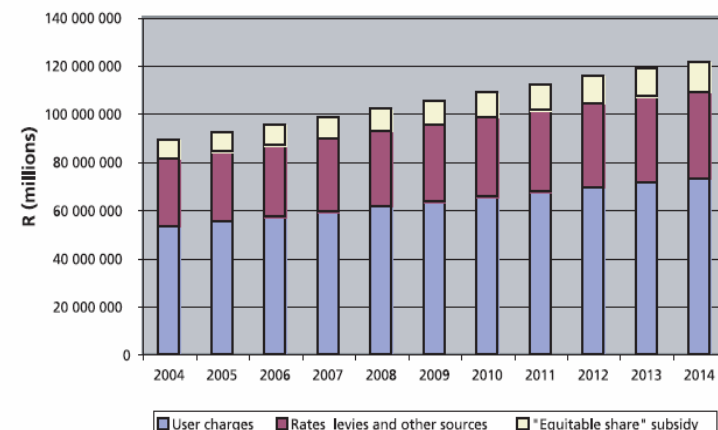


Figure 61: Predicted sources of revenue for chosen scenario (constant 2004/05 prices)

Income



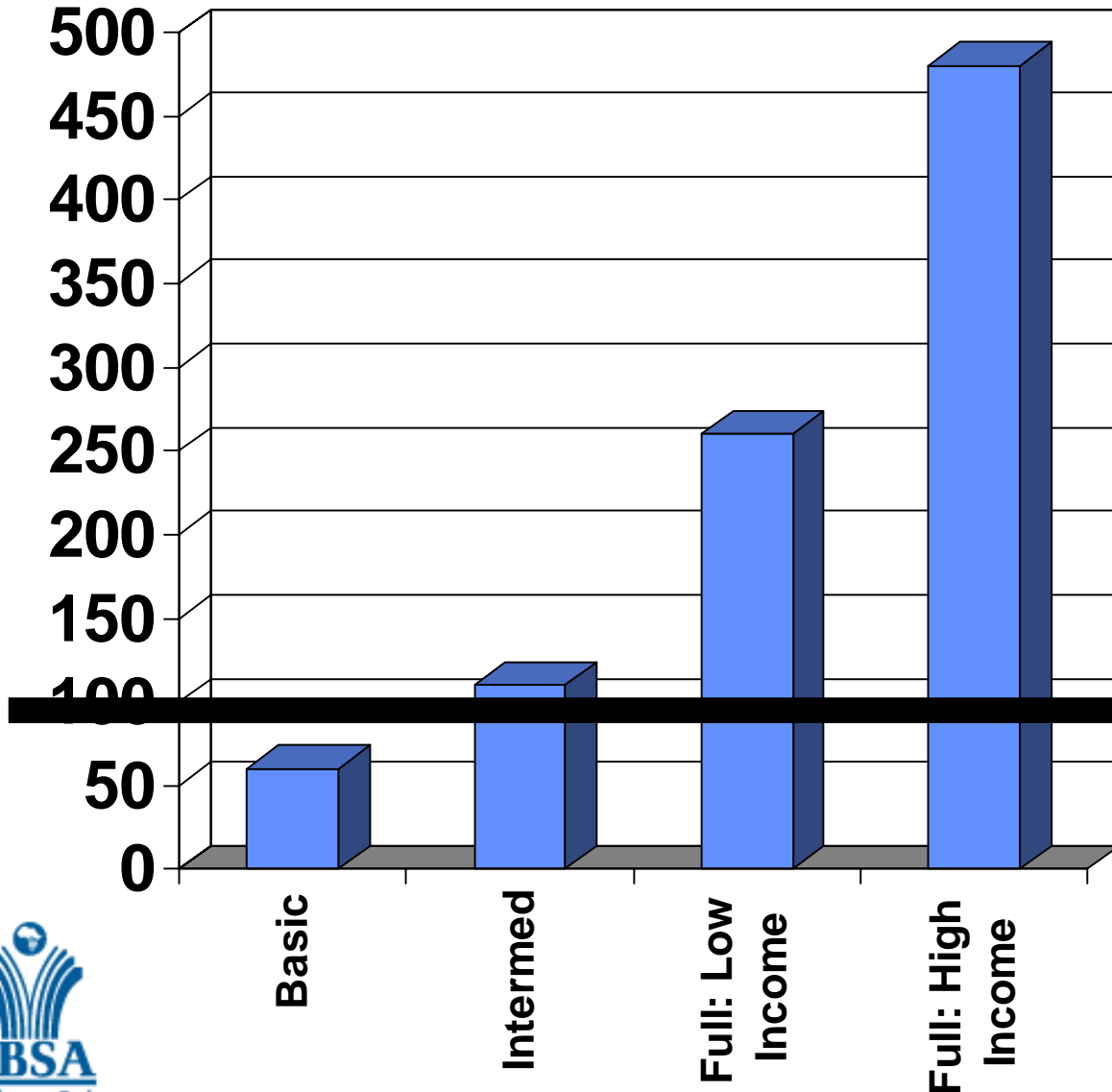
Municipal infrastructure: (DBSA Barometer 2006)

Meeting the service delivery targets

- Limited capacity to plan, budget and implement the roll-out in many municipalities
- Attaining targets relies partly on accelerated housing delivery

- **Biggest problem:** many municipalities will struggle to cover the costs of operations and maintenance of the assets being created;
- Municipalities **must count the cost** of high levels of service prior to installation;
- **Consider alternatives** with lower costs.

Sample service “packages”



- Typical Monthly Bill (2002 prices)
- Eq Share average currently about R85 pm

Issues on Rollout

- **Do we have achievable plans?**
 - Clear affordable LOS roll-out plan for all
 - A plan for the very poor (integrity, stability, votes)
 - Are we communicating our reasoning? (WSS is a “soft target” for critics)
- **Have we counted the cost with a financial model?**
 - Investment needs: grant availability, need for loans
 - Cash flow projection, projected income, debt servicing (WSS as a business – balance the books)
 - Provision for operations & maintenance.

Borrowing: lenders' concerns

Will this borrower give sound returns?

- **Sound borrower:**
 - Balance sheet, municipal accounts
 - Human & institutional capacity
- **Sound project fundamentals**
 - Certainty of throughput & income
- **Predictable regulatory framework**
 - Sanctity of contract
 - Empowered clients, but limited discretion
 - Non-interference from central govt or council
 - Clear remedies for default by any party.

Borrowing: lenders' concerns (2)

Will proposed investment be affordable and bring required returns?

- **Achievable plans:**

- Clear affordable LOS roll-out plan for all
- A plan for the very poor (integrity, stability, votes)
- Appropriate quality specification

- **Financial modelling:**

- Investment needs, Projected income,
- Cash flow projection, Debt servicing (& dividends)

- **Test Sensitivity:**

- Be clear on assumptions, What if too optimistic?
- Build in security for when things go wrong.

Affordability and service levels

- Investment plans must be achievable & affordable
- Affordability at several levels
 - Household (low & high)
 - Municipal / Community as a whole
 - Central govt / budget / subsidies
- What do politicians want?
 - Keep them involved
 - Present the facts.

Infrastructure Planning in South Africa

- **Systems Act:**
 - IDP – adopt a ...plan ... which ...aligns the resources and capacity of the muni... basis for annual budgets
 - IDP must reflect...dev needs...financial plan
- **Constitutional Court (Grootboom):**
 - §27(2) “requires the state to devise a comprehensive and workable plan to meet its obligations in terms of this subsection” plus the meaning of “reasonable”, “progressive” and “within available resources”.

Infrastructure Planning in South Africa (2)

- **MFMA 19(2)**

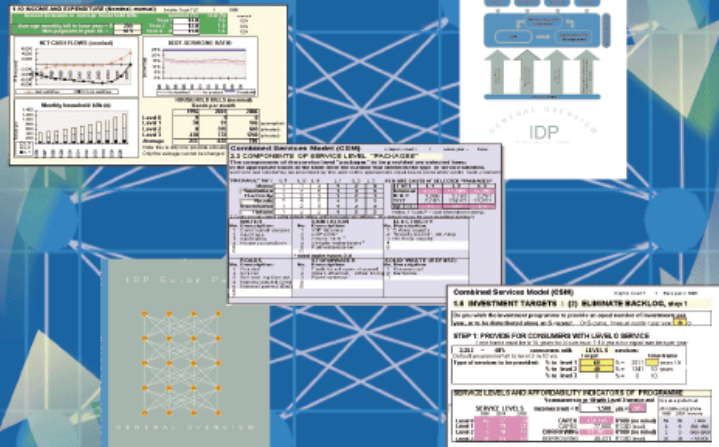
Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider—

(a) the projected cost covering all financial years until the project is operational;

and

(b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

Guidelines for services infrastructure investment planning



Department
Of Provincial and
Local Government



CD-ROM

Order from Barry Jackson

The Combined Services Model (CSM)

- Assesses the financial viability of alternative infrastructure investment programmes to municipalities.
- Deals with infrastructure services: water, sanitation, electricity, roads, stormwater drainage and refuse removal.
- It does this by:
 - *calculating the capital and operating costs and borrowing requirements*
 - *assesses the affordability to households and municipality.*

LOS decisions

- Needs cooperation of engineers, treasury and councillors
- Count the cost
- Have an achievable plan
- Manage expectations
- Approach funders with confidence.

Improving Revenues

- **The key to financial viability**
- **Common problems:**
 - Offering free services
 - Keeping prices down
 - Low incomes
 - Inadequate billing & collection
 - Lack of political will
- **Common responses**
 - Cross-subsidies
 - Cut backs.

Improving Revenues (2)

- High priority for ALL
- Cooperation between departments
 - Typically the engineer spends, the treasurer collects
 - Few incentives to fix problems, eg -
 - Meter damage goes unreported or not fixed
 - No links between service given and payment
- Link extra revenue and savings to increased budget
- Target investments with highest returns
- Examine consumer data & target big debtors
- Outsource, with incentives & random checks.

Conclusions

- **Several options for finance**
- **No magic formula**
- **Get the basics right**
- **Plan properly**
- **Balance the books**
- **Do not be over ambitious and manage expectations.**

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