URBAN INVESTMENT PARTNERSHIP CONFERENCE

27 & 28 AUGUST 2015 • JOHANNESBURG

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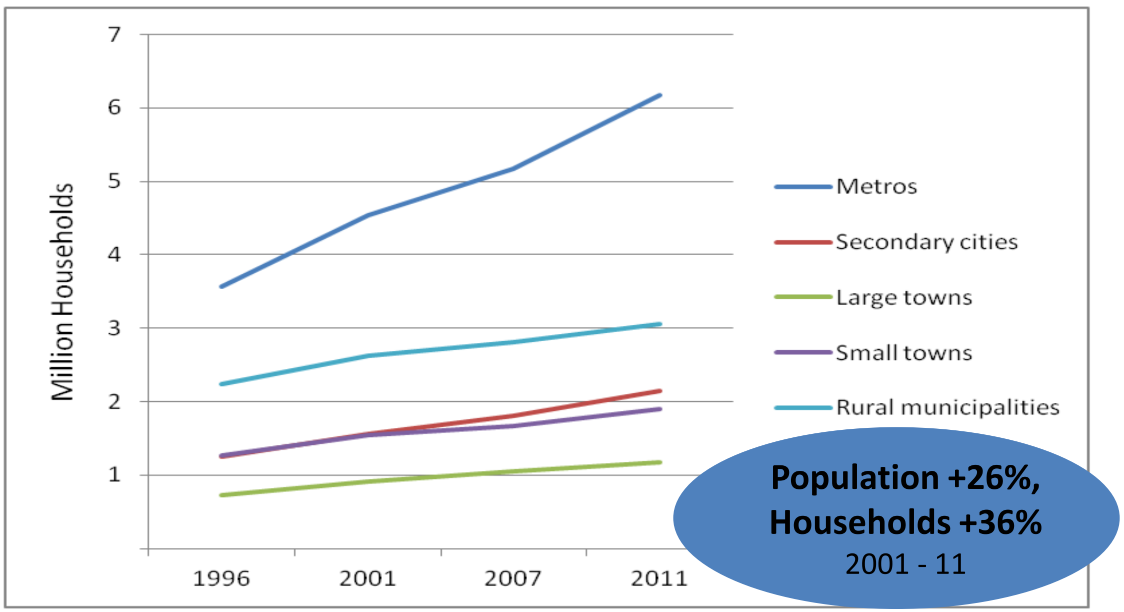
Needs and opportunities for urban investment

Lungisa Fuzile, Director-General National Treasury

SA cities are increasingly important to national economic growth and development

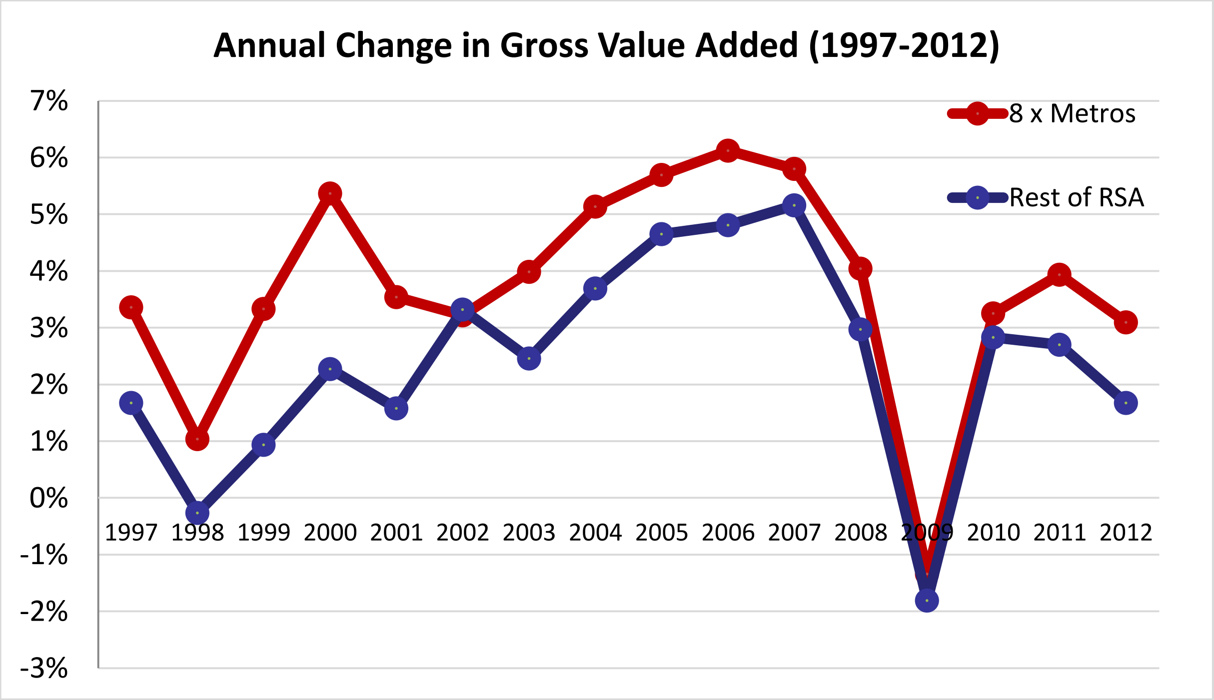
- An opportunity to capture an "urbanisation dividend" from an increasingly young, economically active population clustered in cities



- **Urban growth requires substantial investments** in
  - Social and community assets
  - Economic infrastructure
  - Land and housing
  - Transport services

Our metro economies must grow significantly faster than the national average

- Metro economies accounted for 44.8% of GVA in 2012, from 39.9% in 1996
- Metro CAGR of 3.7% between 1996 & 2012 (SA = 3%)



- Metros have not yet recovered to their pre-recession levels of economic
- Need to move onto **a growth path that is both faster and more inclusive**

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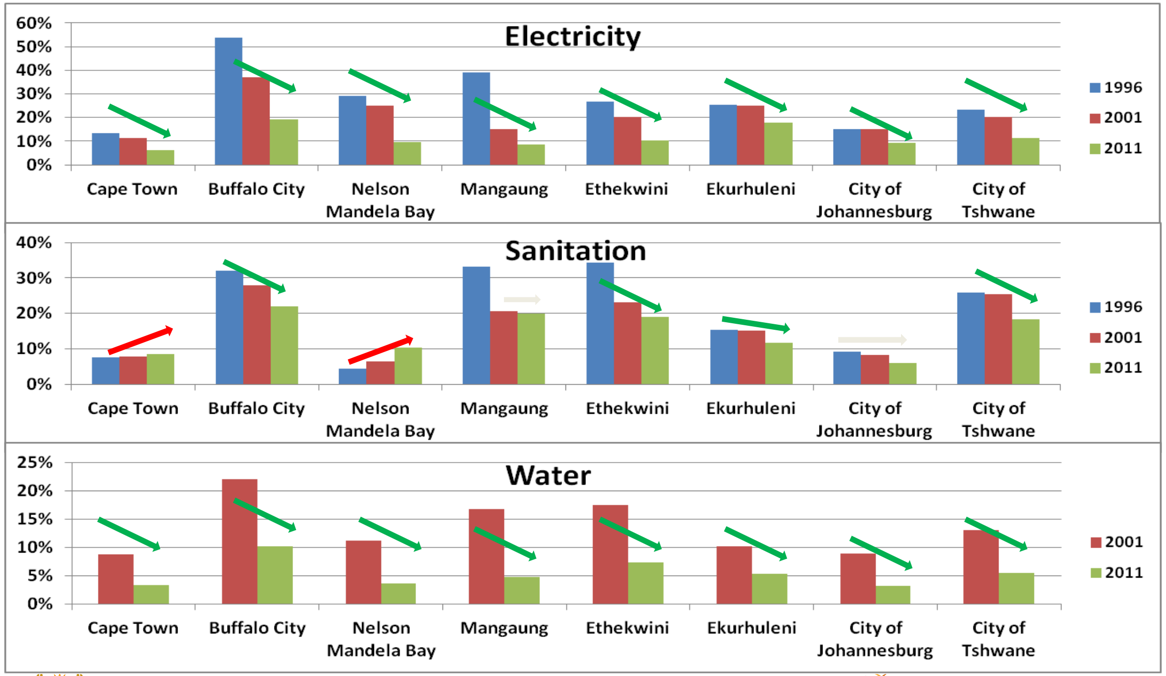
Enabling faster, more inclusive growth requires a complementary focus on both universal access to basic services and investment in economic infrastructure

Significant **progress** by metros **in addressing basic service backlogs**, even with on-going population growth



- Electricity and water backlogs are decreasing throughout all 8 metros
- Sanitation backlogs have declined in 6 out of 8 metros
- Success achieved despite influx of population in cities

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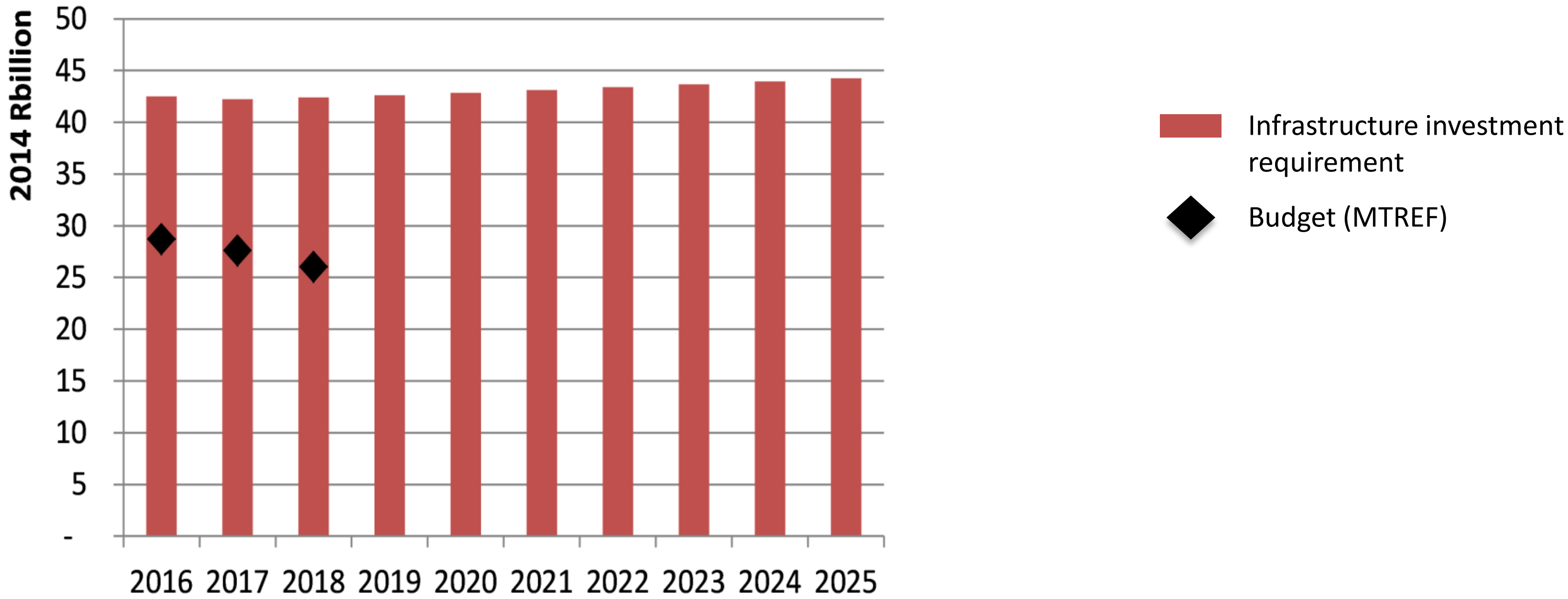
Large investments in urban infrastructure are needed to unlock growth potential of cities

Around **R43 billion** per annum is required for infrastructure development in metros until 2025 – compared to current metro budgets of around **R28 billion** on average over the MTREF (adjusted to 2014 Rands).



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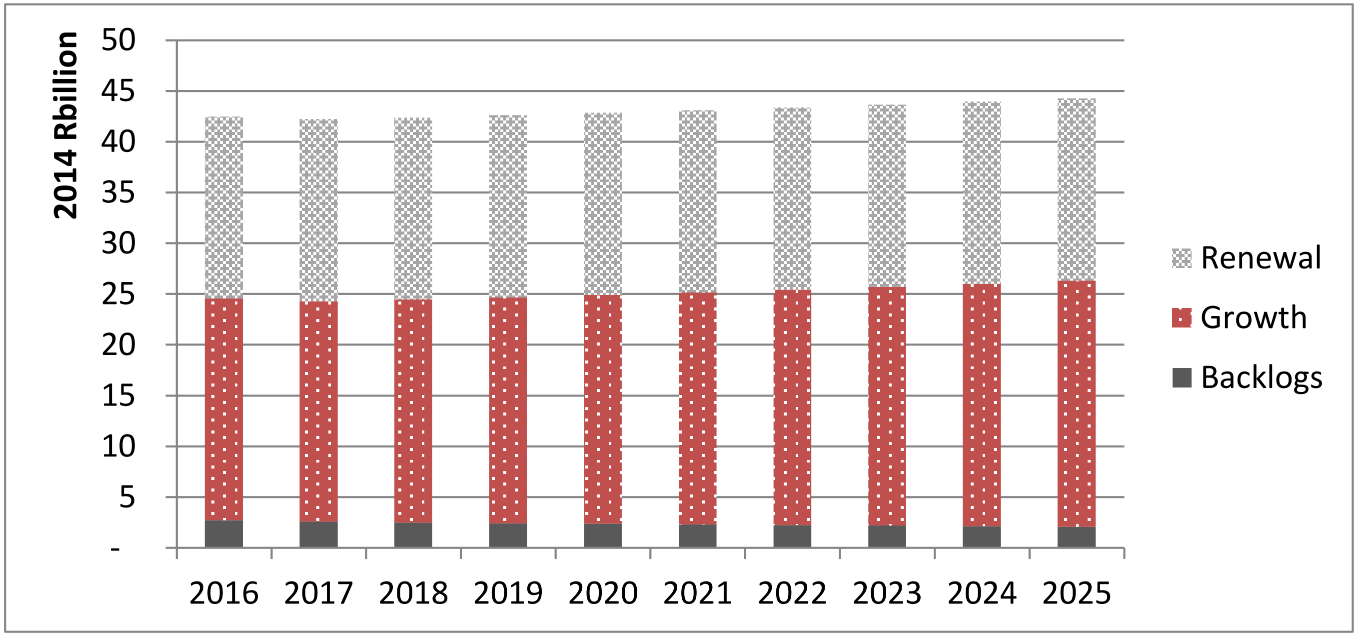
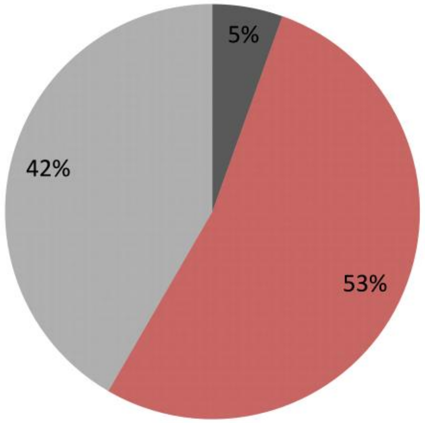
Investment is needed for expansion and renewal of infrastructure

Metros need infrastructure mostly for **growth** and to **renew existing assets**, a smaller share is required to eradicate historical backlogs.

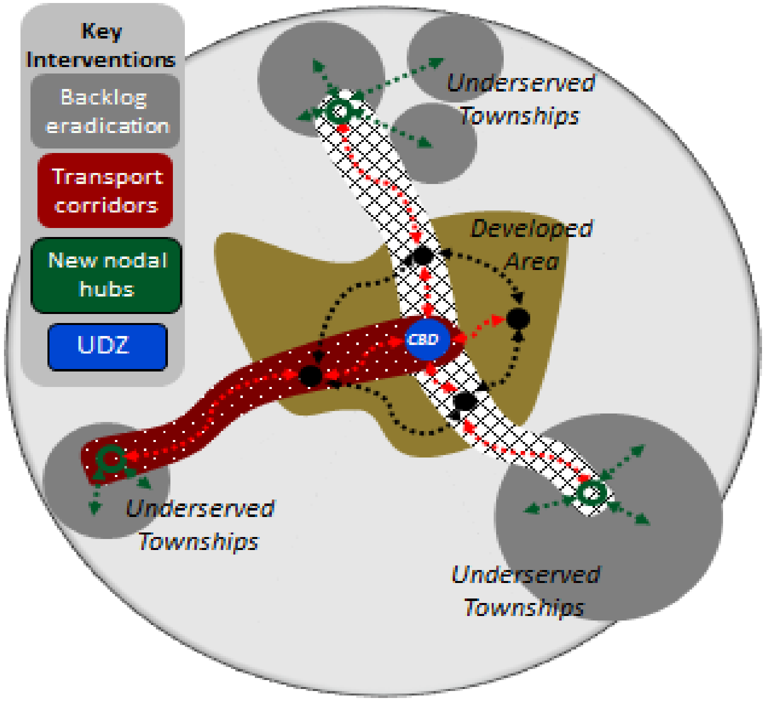
Expected infrastructure needs by category for metros:





… and the location of this investment matters as much as its scale

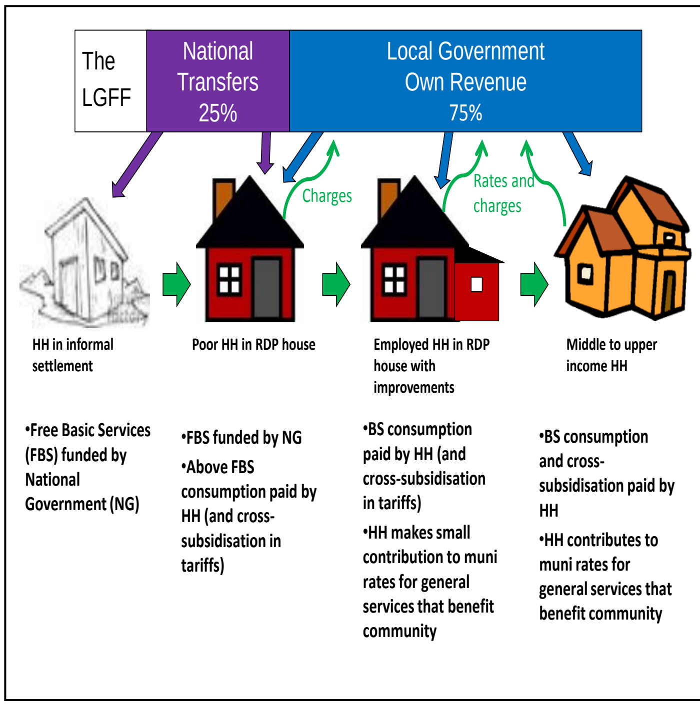
The "urbanisation dividend" arises from economies of agglomeration ("the triumph of the city")

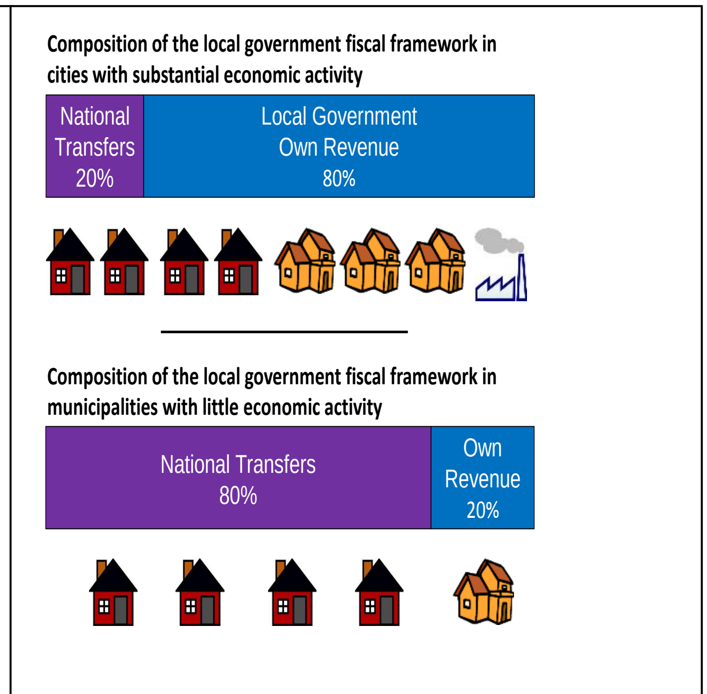


- Low density, segregated cities are a reflection of the infrastructure investment and land use development choices we make
- This spatial form is a structural constraint to economic growth: it transfers costs to poor households, the state and ultimately back to the real economy
- We need to build cities that are inclusive and productive

Metro municipalities now provide a strong institutional platform to support faster, more inclusive growth

South Africa has an established, globally recognised model of "strong" city governments, within a clear policy and regulatory framework





- Single tier authorities, with wide boundaries
- Broad built environment functions (urban infrastructure, planning & land use management, housing and transport)
- A clearly defined, well regulated fiscal framework

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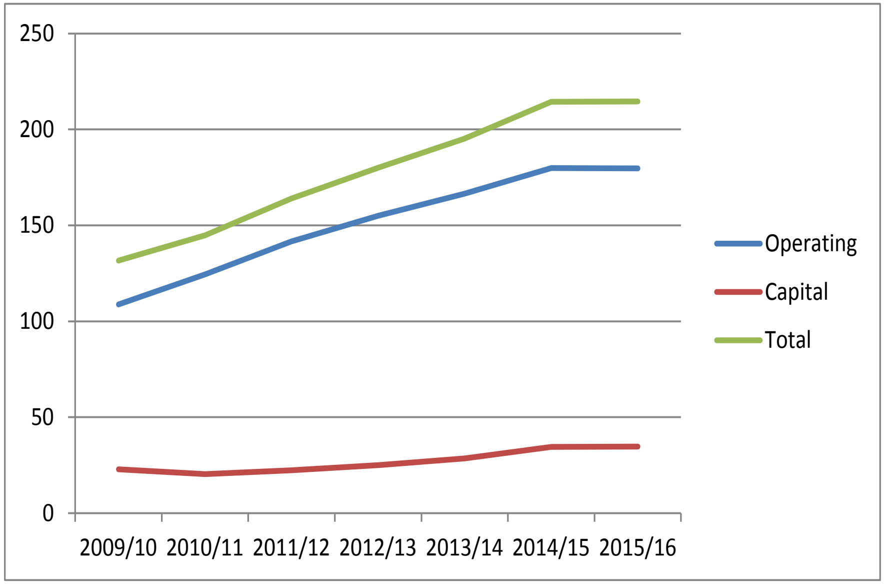
Metro performance has been consistently improving

Metros have **large and growing budgets, totaling R214.5 bn in 2015/16**

- Johannesburg has largest budget, **R52.6 bn**

Total budgeted expenditures for all metro's: 2009/10 to 2014/15 (R'bn)



- **8.6% average annual growth from** 2009/10 to 2015/16
  - Total capital expenditure of R34.7 bn in 15/16 (7.7% avg annual growth)
  - Operational spending pressures from bulk services costs and wage bill leading to faster growth in operating expenditures

Governance is improving

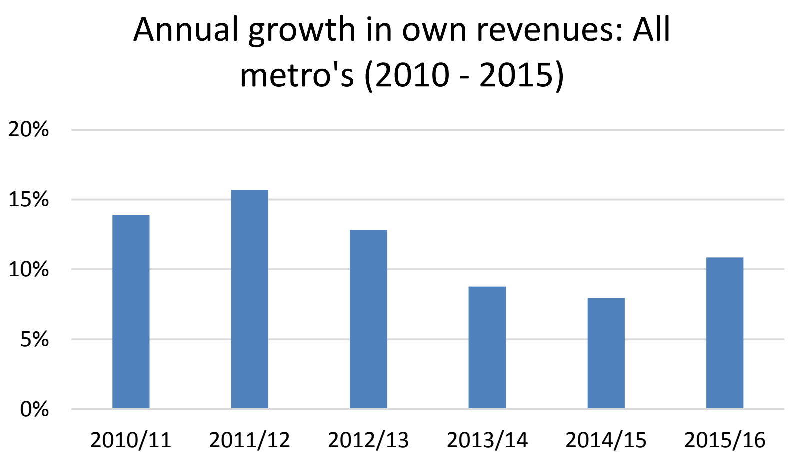
Metro audit outcomes show steady progress from 2011

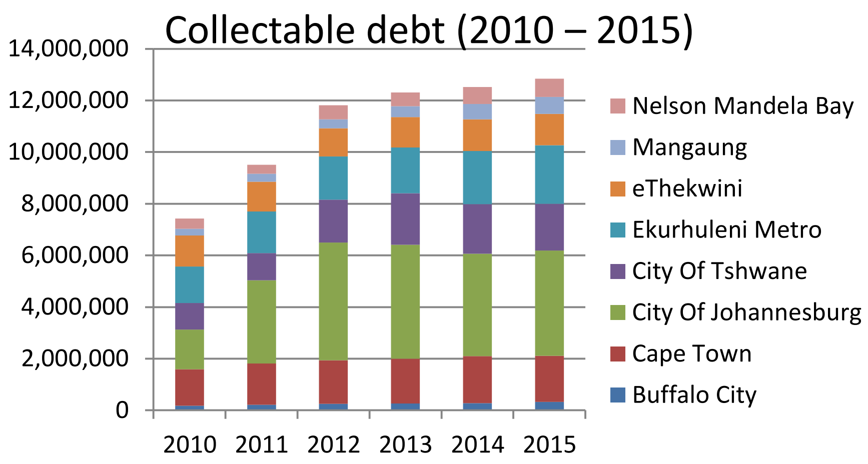
	2011	2012	2013	2014
Johannesburg	Qualified	Qualified	Unqualified	Unqualified
Tshwane	Unqualified	Unqualified	Unqualified	Unqualified
Ekurhuleni	Unqualified	Unqualified	Unqualified	Unqualified
Cape Town	Unqualified	Unqualified	Unqualified	Unqualified
eThekwini	Unqualified	Unqualified	Unqualified	Unqualified
Mangaung	Disclaimer	Qualified	Qualified	Unqualified
Nelson Mandela Bay	Unqualified	Qualified	Qualified	Qualified
Buffalo City	Adverse	Qualified	Qualified	Qualified

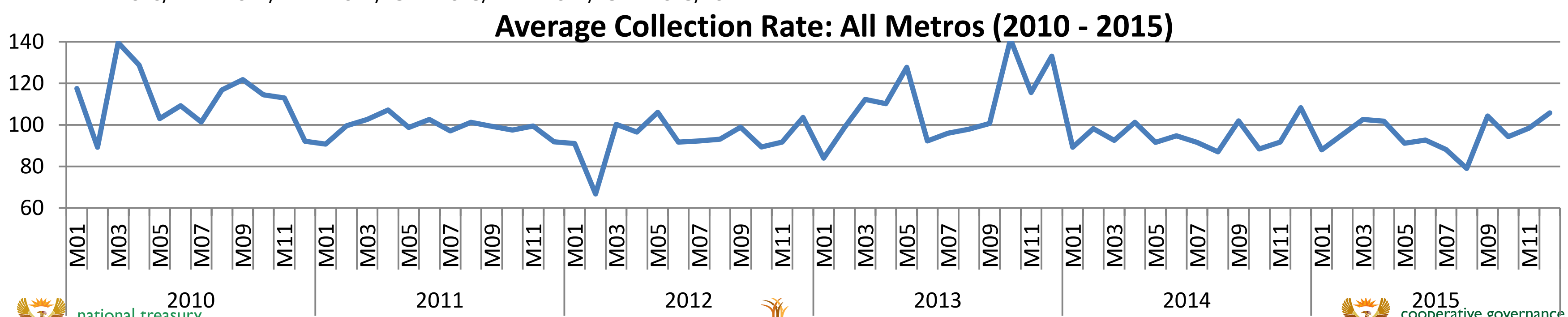
- Room for further progress, where EOMs remain
- Active national government engagement where qualifications persist

Adequate revenue performance

Growing total revenues and improved collection rates, but debtors challenges remain

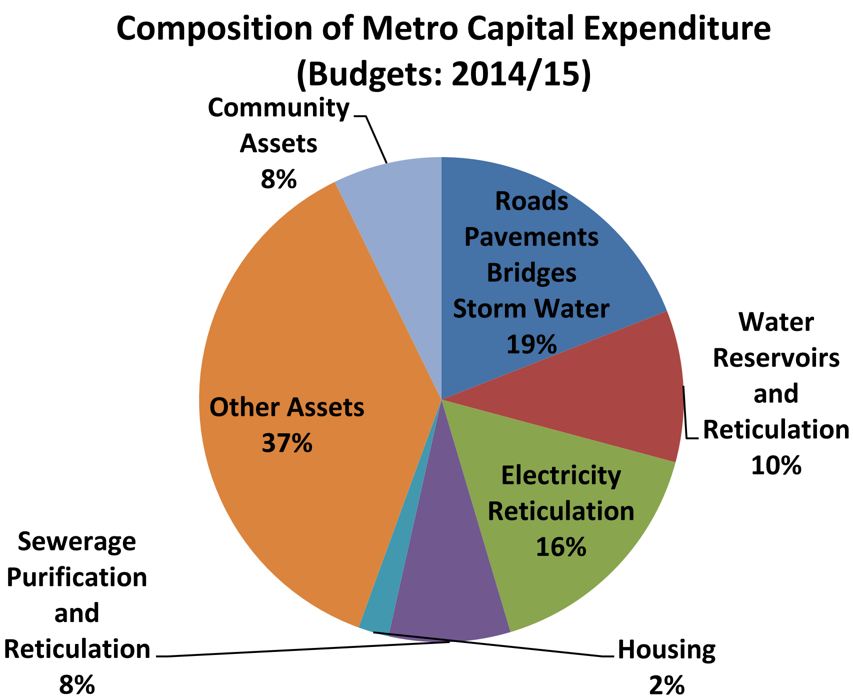


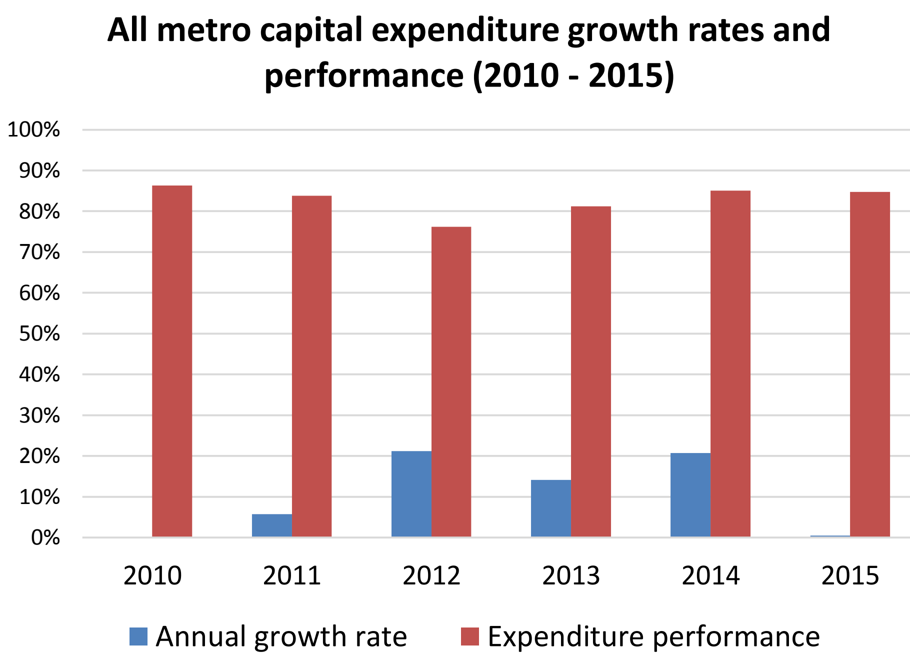




Metros' capital spending capacity is improving

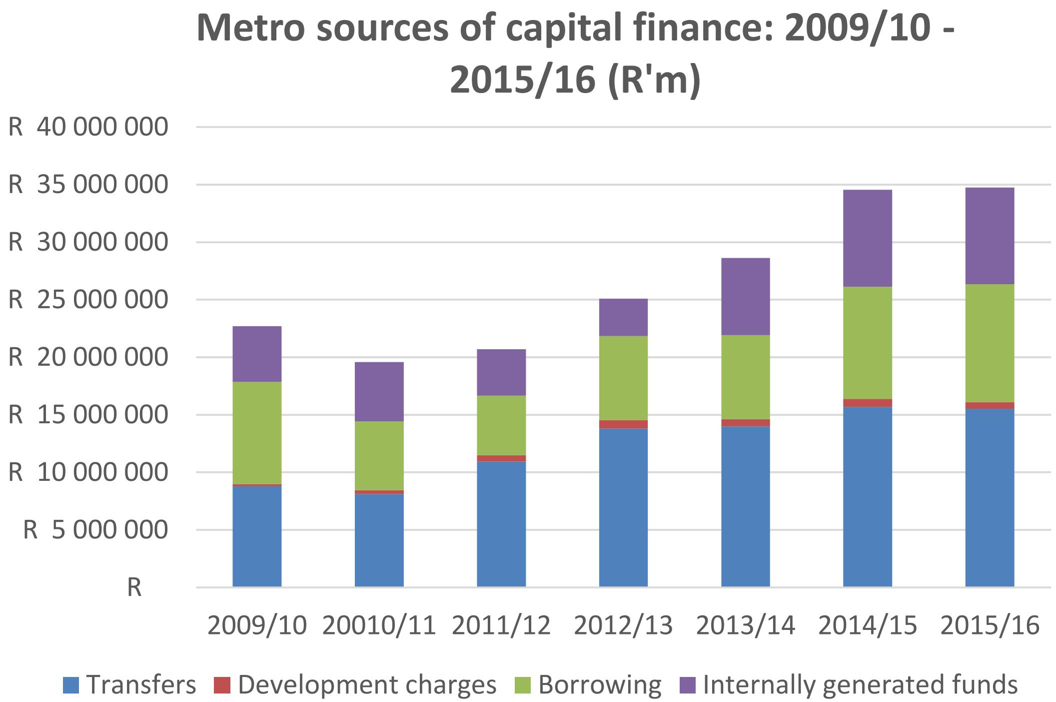
- Variations remain across metro's
- Performance weakens when budgets grow more rapidly





Capital investment is financed from transfers, internal income, external loans and development charges

Reliance on grants has been steadily reduced from 2012/13



- Grant reliance declined to under 45% of total funding in 15/16
- Capital spending from internally generated revenues has consequences for **intergenerational equity and efficiency**
- Growing borrowing requirement
- Scope for more effective use of development charges

Municipal infrastructure is an opportunity for long-term investment

Brings long-term returns and can reasonably be financed over a 20-30 year horizon.

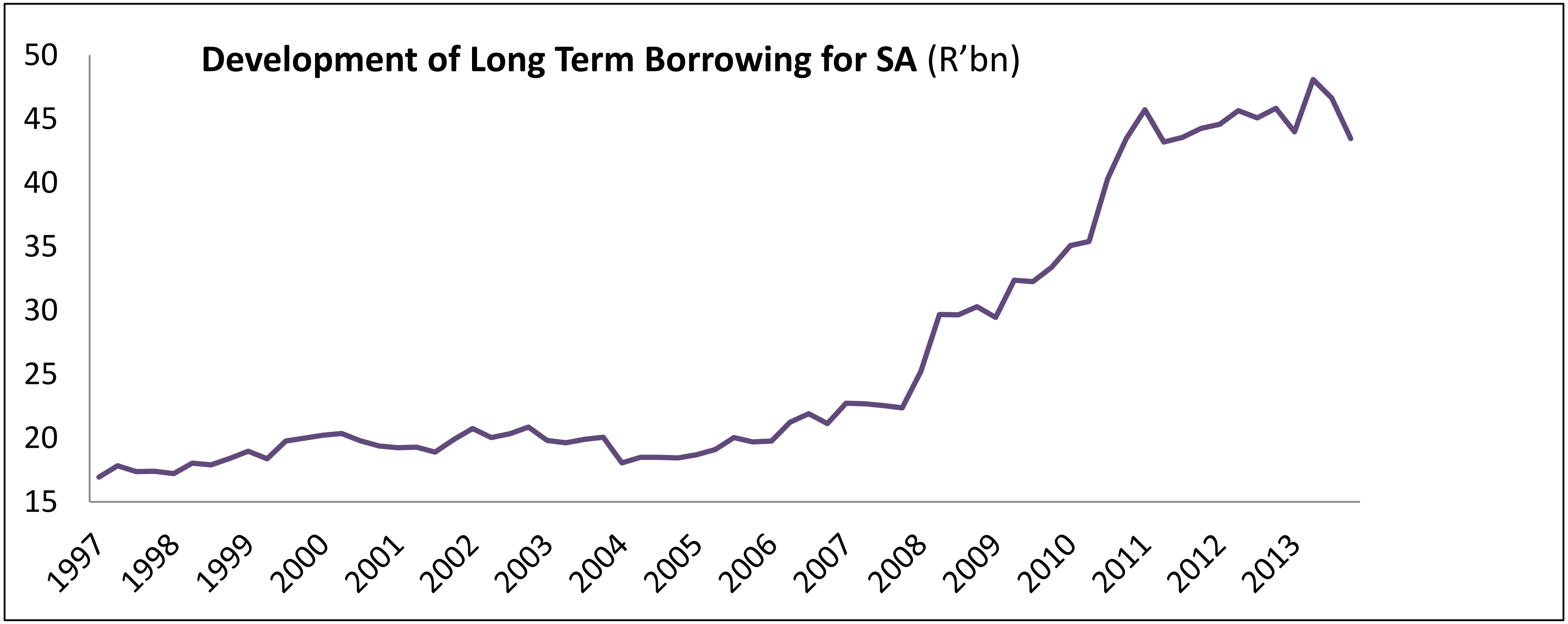
Key players in the private sector:

- **Banks** have experience in lending to cities.
- **Long-term investors** can offer longer term investment.
- **Developers** invest in large-scale construction and can guide spatial transformation.

➢ Jointly the private sector, cities and national government can explore profitable urban investment options.

Municipal borrowing has taken off significantly since 2007

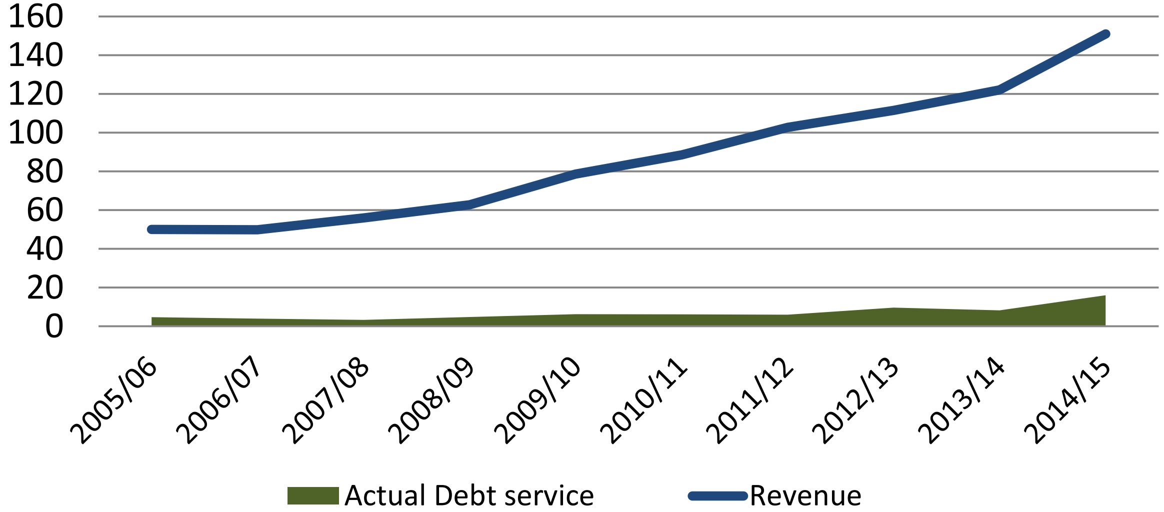
- Municipal bonds now account for 45% of metro borrowing
- Average interest rates have begun to decline



Remaining challenges are opportunities for new partnerships

Challenges from municipal financial and capacity pressures, and from market developments (BASEL III)

Debt service and revenue of cities* in million Rand

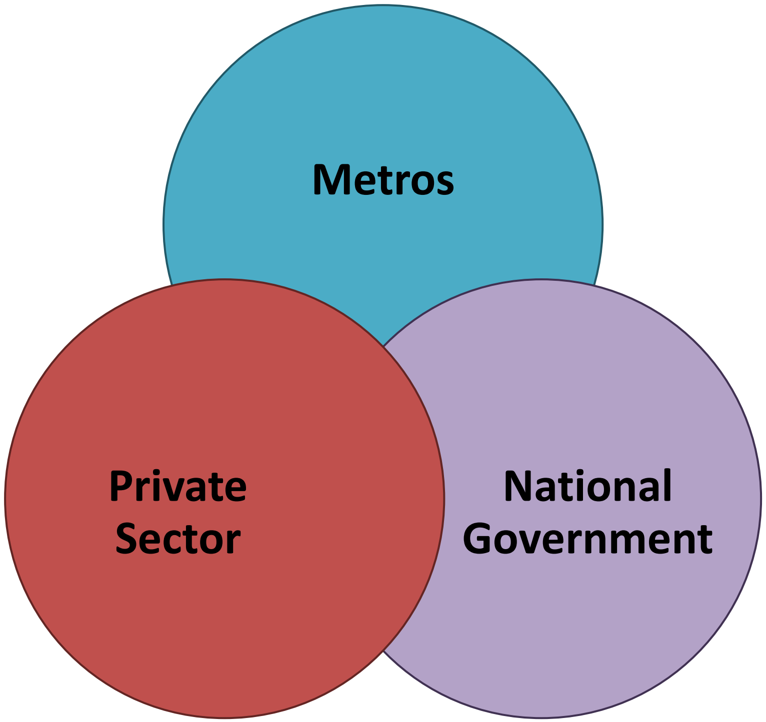


Opportunities:

- Improving effective demand through robust financial preparation
- Intermediation to extend debt maturities, enhance liquidity and expand participation by institutional investors
- Tools to match infrastructure costs to beneficiaries (land value capture, development charges)

** JHB - TSH - EKU - ETH - CPT - NMA*

We need a partnership with shared responsibilities



Metros:
- Building local infrastructure and delivering services
- Raising funds, planning and implementation
- Meeting the needs of people and firms

Private sector:
- Providing investment
- Selling goods and services and earning fair returns on investments

National Government:
- Providing a stable and predictable intergovernmental fiscal regime
- Enabling cities to achieve national targets of productive employment, low rates of inequality and shared prosperity

Government is committed to continue support to metros

An enabling policy and legal framework to support urban development

- **National Development Plan and Integrated Urban Development Framework** provides direction on devolution of functions and clarifies leadership role of metros in managing urban growth and development

- A **credible and effective municipal framework** has been established to provide clarity and certainty:
  - Municipal Borrowing Policy Framework
  - Constitutional Amendments
  - MFMA (2003)
  - Division of Revenue Acts

The Cities Support Programme provides:

- **Fiscal and financial frameworks** for urban development
  - **Review of the grant system** and the **equitable share** aim to better complement private sector and own-revenue investments of cities
  - **Financial management reforms through the MFMA,** to improve transparency and credibility of information, (including MSCoA)
  - Support to **revenue value chains**, from revenue administration to clarification of regulatory framework for development charges
- **Policy and regulatory reforms** to improve the efficiency of infrastructure delivery
  - Strengthen the role of the **DBSA as an intermediary that assists in the growth of the municipal market**
- **Support to cities to plan and execute investment programmes**
  - Built Environmental Performance Plans that create a *line of sight* between plans, investment programmes, budgets and projects
  - The **Cities Project Preparation Facility** supports cities in developing a pipeline of catalytic, spatially integrated infrastructure projects

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This fits with our broader discussions

Task Team on private sector financing of infrastructure formed in 2013 to work through general issues affecting increased private involvement in the financing of infrastructure projects; identify blockages; and better understand investors concerns

Key issues identified include

- Availability of projects to invest in
- Need for efficient, effective (procurement) processes that allow investors to access investment opportunities
- Need for financial intermediation to allow access of new players, new finance instruments or new approaches for a wider pool of finances

Two sectors adopted to track and assist with specific problem-solving

- IPPs – economic infrastructure case
- Student accommodation – social infrastructure

Next steps for the partnership

1. Set up a **working group on urban financing** with members from the private sector, cities and national government to focus on
   - Policy and regulatory environment for public-private collaboration on urban investment
   - Deepening a suite of municipal infrastructure finding
   - Expanding opportunities for private finance in urban development programmes
2. Increase **project preparation support** through
   - Showcasing good practices
   - Joint governance of available project preparation facilities
3. **City-level engagements**