**3. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE MUNICIPAL INNOVATIVE INFRASTRUCTURE FINANCING CONFERENCE HELD FROM 13 TO 15 JUNE 2018 IN JOHANNESBURG, DATED 16 OCTOBER 2018**

The Standing Committee on Appropriations, having attended the Municipal Innovative Infrastructure Financing Conference, reports as follows:

1. **Introduction**

The Standing Committee on Appropriations (the Committee) was established in terms of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Money Bills Act). In terms of section 4(3) of the Money Bills Act, each House must establish a Committee on Appropriations whose powers and functions include considering and reporting on the following matters:

* Spending issues;
* Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriation Bill and the Adjusted Appropriation Bill;
* Recommendations of the Financial and Fiscal Commission (FFC), including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
* Reports on actual expenditure published by the National Treasury (section 32 reports); and
* Any other related matters.

The Committee was invited by the South African Local Government Association (SALGA) to attend the Municipal Innovative Infrastructure Financing conference from 13 to 15 June 2018. The event was held at the Emperors Palace, Kempton Park, Johannesburg. The aim of the conference was to ‘facilitate shared learning between municipalities’ through creating a platform to explore, deliberate and share ideas on innovative funding mechanisms for South African municipalities.

Funding for local government capital in South Africa is limited, considering the constitutional mandate to provide basic infrastructure services to communities. To this end, municipalities have to find innovative streams of investing in infrastructure and augmenting capital budget deficits.

Having taken the afore-mentioned challenge into account, the objectives of the conference were to:

* Facilitate discussions between municipalities and financiers;
* Showcase best practices on municipal innovative infrastructure financing; and
* Provide a focus on the evolution of municipal trading services and how innovative infrastructure financing can help municipalities with this evolution.

1. **Delegation**

The conference was attended by the following Committee Members: Ms YN Phosa (Committee Chairperson, African National Congress [ANC]); Mr NE Gcwabaza (ANC); Ms DZ Senokoanyane (ANC); and Mr A Mcloughlin (Democratic Alliance). The Committee was supported by Mr D Arends (Committee Secretary).

1. **Outline of subject matters and stakeholder inputs**

The Conference was divided into various sessions and facilitated by different stakeholders as follows:

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| **Session 1:** Welcome and setting the scene for the conference  **Facilitator:** Councillor M Khunou, Chairperson of SALGA Municipal Finance Working group | |
| **Subject** | **Stakeholder Input** |
| General Role of municipalities in catalyzing the economy through infrastructure investments | SALGA  Deputy Minister of Cooperative Governance and Traditional Affairs |
| The Integrated Urban Development Framework (UIDF) and identifying intermediate cities as zones of growth. How to effectively enable capital funding of infrastructure projects in these municipalities |
| **Session 2:** Policy Environment and funding gap needs  **Facilitator:** Mr S Pillay, Gauteng Legislature | |
| **Subject** | **Stakeholder** |
| Legislation and Policy Environment for Municipal Infrastructure financing   * The municipal borrowing policy framework * The IUDF Grant * Development charges * An understanding of the new policy reforms in municipal infrastructure financing | National Treasury  Development bank of Southern Africa (DBSA) |
| Infrastructure investments needs. Just how much does local government need to invest in?   * Investment for economic growth, backlogs to be eradicated * How much local government must invest to drive sustainable development and economic growth |
| **Session 3:** Credit worthiness, what kind of municipality can borrow?  **Facilitator:** Ms S Makotoko, Inca Infrastructure Finance Corporation Limited | |
| **Subject** | **Stakeholder Input** |
| A broad overview of the macroeconomic climate and potential of borrowing in local government | Minister of Finance  Municipal Infrastructure Support  South Africa Moody’s Investors Service  City of Johannesburg  Matmap Investments  eThekwini Metropolitan Municipality |
| Business solutions: Infrastructure challenges for rural municipalities and delivery coordination at local government |
| Municipal Credit Rating and Institutional Arrangements   * Methodologies applied by the credit rating agencies * A dedicated rating tool for South African municipalities * Municipal credit worthiness for urban municipalities * How municipalities with declining industries and demarcated spaces are managing credit worthiness * Stable and predictable revenues * Operating surpluses * Financial planning * Financial health and good governance |
| **Session 4:** Infrastructure funding and changing climate  **Facilitator:** Ms T Chauke, SALGA | |
| **Subject** | **Stakeholder Inputs** |
| Exploring opportunities for domestic local investments | ICLEI  Department of Environmental Affairs and Development Planning  South African Cities Network  Water Research Commission |
| Innovation finance for sustainability |
| Bringing financiers and municipalities together to realise local climate action |
| Building for future SA Cities – City features: certainty and uncertainty |

The above-mentioned sessions were followed by three breakaway sessions, each comprising of different problem statements and expected outcomes. The section hereunder provides and overview of the breakaway sessions as well as the outcomes.

1. **Breakaway Session Outcomes**

This section will provide an overview of problem statements for the three breakaway sessions as well as the outcomes.

* 1. **Project Preparation**

The capacity of municipalities to access development projects feasible enough to attract private finance is limited. Global impediments to greater private infrastructure investment at municipal level include capacity constraints and lack of awareness.

* Is proper project preparation the key to unblocking infrastructure bottlenecks?
* What project preparation facilities are available to local government?
* Proposals on a dedicated project preparation facility: SALGA’s role?
* Is there alignment between political vision and management implementation?

The outcomes based on the above problem statement were as follows:

* + 1. Sufficient time should be allocated towards adequate planning. This includes allocating sufficient resources for feasibility studies in order to have full proof project plans before approaching private entities for funding. Sufficient capacity for the effective implementation was also emphasized. There was however consensus that budgeting for planning remains a challenge throughout South Africa.
    2. Involve all stakeholders, including project managers from concept phase to the funding request. Experienced municipal staff should be part of the project teams to provide the necessary with direction in terms of the goals to be achieved.
    3. Political as well as administrative commitments into identified projects are critical as an impasse could collapse the initiative. Ensure that there is agreement in terms of the type of infrastructure/technology to be developed to answer if it must be ‘state of the art’ or more conventional. Furthermore, there is a need to balance the needs of communities against the political demands.
    4. Establish Steering Committees which should include funders so as to ensure that all stakeholders are equally up to date around progress made. Avoid situations where one person, such as the project manager, dominates the proposals regarding the planning and implementation of projects. Furthermore, efforts should be made to avoid allocating duel responsibilities to project managers as this could compromise implementation of projects.
    5. The importance market testing, needs assessments, risk assessments as well as procurements plans were highlighted in the session.
    6. Identified projects must be processed through the Integrated Development Plans of municipalities.
    7. The challenges raised included limited funding for planning, land invasions and the point was made that these needed to be avoided in order ensure the successful and timeous completion of projects.
    8. There was general consensus that projects which were revenue driven were more likely to be implemented hence the importance of proper project planning was emphasized in order for financing institutions to be more eager to fund these.
  1. **Lenders and Investors**

South Africa has a fairly mature and well developed financial sector. Private infrastructure finance options are readily available depending on the municipality’s ability and capacity to leverage these financing tools. What innovative financing instruments can municipalities explore to fund their infrastructure projects?

The outcomes of the Lenders and Investors breakaway session were as follows:

* + 1. There was a need to need to look at innovative alternative models to funding as commercial banks cannot do long term lending. To this end, it was agreed that partnerships allowed for more comprehensive loans.
    2. The long dated tenure funding requirements for project financing vis-à-vis the changing in the political and administrative leaders in municipalities required continuous engagements in order to avoid delays in implementation.
    3. There was a need to assess why Public Private Partnerships (PPPs) have not taken off more substantially in South Africa when compared to other countries. These barriers needed to be identified and eliminated.
    4. There was a need to focus more on municipalities which had potential but lacked the requisite capacity to invest. It was suggested that national and provincial government needed to deviate away from intervening in collapsing municipalities only and should also focus on ensuring the sustainability and improvement of the others.
    5. A call was made for more sharing of information between municipalities, especially with regard to improving efficiencies, and potential funders.
    6. ABSA bank indicated that it had no restriction on what projects could be funded provided that the municipalities had positive cash flow regimes.
  1. **Fiscal Tools to infrastructure**

All municipalities in the country struggle to spend their infrastructure grants.

* How can municipalities improve on their capacity to interpret grant conditions as articulated in the Division of Revenue Bill (DoRB) grant frameworks?
* What key supply chain interventions may be initiated by municipalities to execute infrastructure projects linked to grants?
* Grant funding for repairs and maintenance of infrastructure, what is available?

The following outcomes were derived from the above-mentioned problem statement:

* + 1. Need to have paradigm shift from non-paying by ratepayers to ensure that were able to pay the creditors. This was important for the sustainability of municipalities.
    2. Each municipality needed to develop infrastructure asset assessments in order to determine the remaining lifespan of assets. Furthermore, Operation and Maintenance Plan needed to be developed. There was a consensus that requisite skills were needed to deal with maintenance within municipalities.
    3. The Local Government Equitable Share (LGES) formula needed to be revised in order for local government to receive more funding as especially rural municipalities had high poverty rates. Furthermore, training was needed so that all stakeholders could understand how the LGES allocations were made.
    4. There was a need for provincial and national government to support local government throughout the entire value chain and not only in areas which were lacking. Reference was made to section 154 which stipulates that national and provincial government must support the local government.
    5. Supply Chain Management (SCM) processes needed to be enhanced in order to avoid situations where municipalities were unfairly prejudiced in terms Grant spending. The Municipal Infrastructure Grant allocations were not sustainable at present.
    6. The full potential of PPPs and innovation was currently not being realized due to red tape, especially in struggling municipalities. The point was made that an enabling environment needed to be created in order for municipalities to leverage the potential benefits which could be derived from PPPs.
    7. The needs of rural and peri-urban were not the same in terms of planning and implementation of projects. An in-depth analysis needed to be conducted to ascertain why most municipalities fail to spend their Grant allocations. The incentive grants have to date not achieved desired results and a one-size fits all approach to the withholding of funds was not helping the situation.
    8. Infrastructure development must create an environment where economic development could be realized. Some communities, especially in rural municipalities were ahead of their municipalities in respect of servicing their needs such in water provision which could result in some municipalities becoming irrelevant in future. There was a need to explore how municipalities can engage of the grid sustainable solutions for service de livery needs. Municipalities must be positioned for innovative and emerging technologies in the infrastructure space.

The above-mentioned sessions were followed by a master class on PPPs after which the conference was closed.

Report for information.