



KZN Provincial Treasury Infrastructure Unit

ALTERNATE FUNDING MODEL FOR MUNICIPAL INFRASTRUCTURE

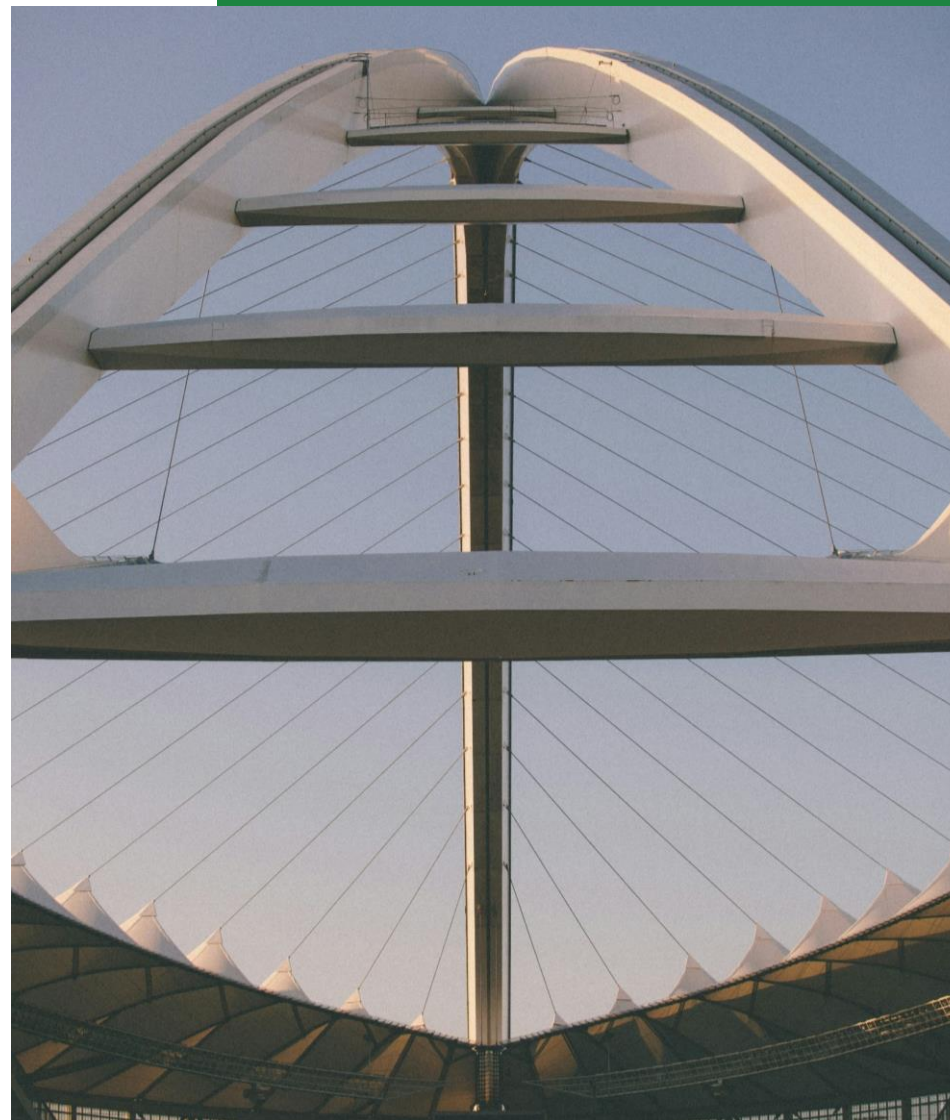
23 May 2025

Making the Rand go an extra mile



Contents

- **01** • Background
- **02** • Purpose
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ALTERNATE FUNDING MODEL GUIDELINE FOR MUNICIPAL INFRASTRUCTURE

Municipal Investment utilising Rates Incentives

March 2024



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ANNEXURES

Background

- A municipality is a key **local government structure** that provides a **range of services** within a demarcated local area, primarily for the **benefit of local communities**. Municipal **rates** are a primary **source of funding** for municipalities. Municipalities are bound by the **Constitution** and **Municipal Systems Act**, to prioritise the **delivery** of basic municipal **services**.
- Due to increasing pressure on the funding of services historically provided by municipalities, increasing the need to find alternative funding and financing mechanisms.



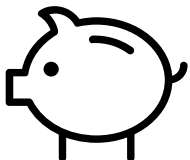
Funding Mechanism

- Focus on **Rates Rebate Model** to secure investment funding for Infrastructure
- Guideline has been developed for municipalities

Municipal Infrastructure Funding Challenges

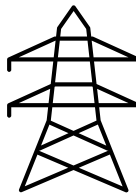
Recent challenges to municipalities have put increasing pressure on traditional sources of funding

1



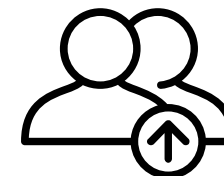
**Increasing
Operational Budgets**

2



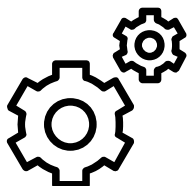
**Increasing maintenance
requirements of old
infrastructure**

3



**Increasing urbanisation &
accelerated demand for
service infrastructure**

4



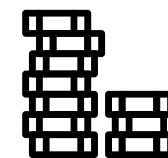
**Decreasing technical
skills**

5



**Ineffective
management of
expenditure**

6

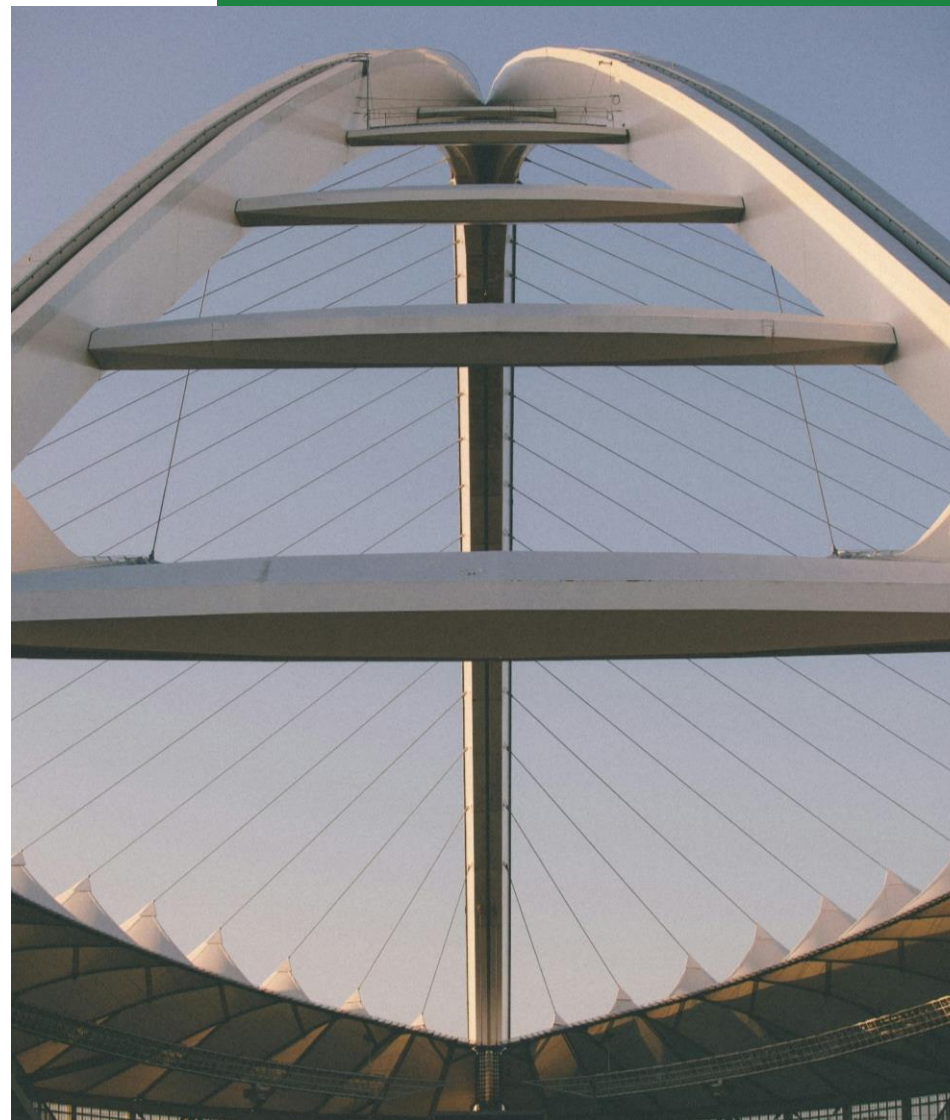


**Increasing trends in
fruitless & wasteful
expenditure**



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Purpose of Guideline

- The guideline aims to assist interested parties in the design of transaction structures that are both legally compliant and add value to contracting municipalities and private sector stakeholders alike



Addresses topics relevant to the current infrastructure funding challenges



Provides background to the legislative framework within which municipalities and private sector players can act



References various techniques, methodologies and processes that have been successfully used in the analysis of funding for infrastructure projects

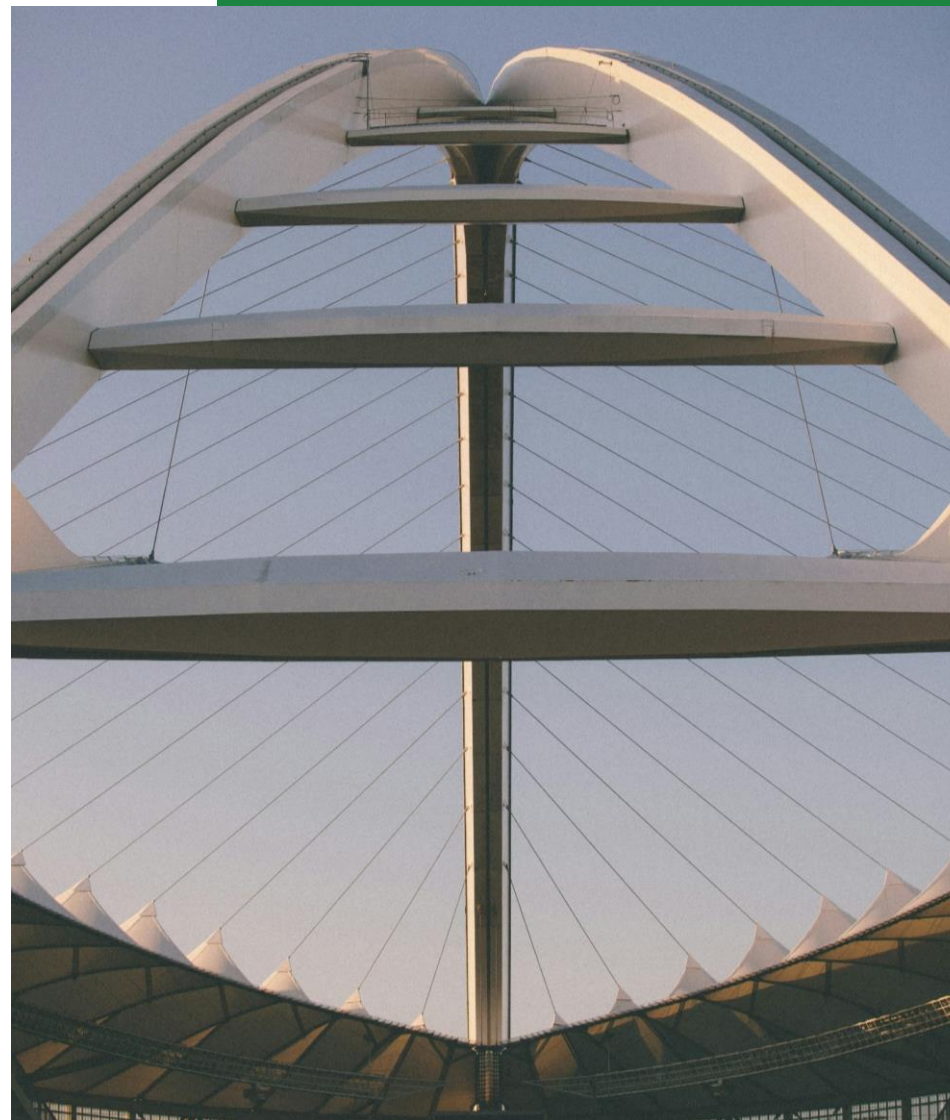


Look at various funding options



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Relevant Legislation

- Below points numbered outlines the key legislation relevant to the funding and/or rebate mechanisms for local municipalities

1



**The
Constitution**

2



**Municipal
Systems Act
(MSA)**

3



**Municipal
Supply Chain
Management
(SCM)**

4



**Municipal
Financial
Management
Act (MFMA)**

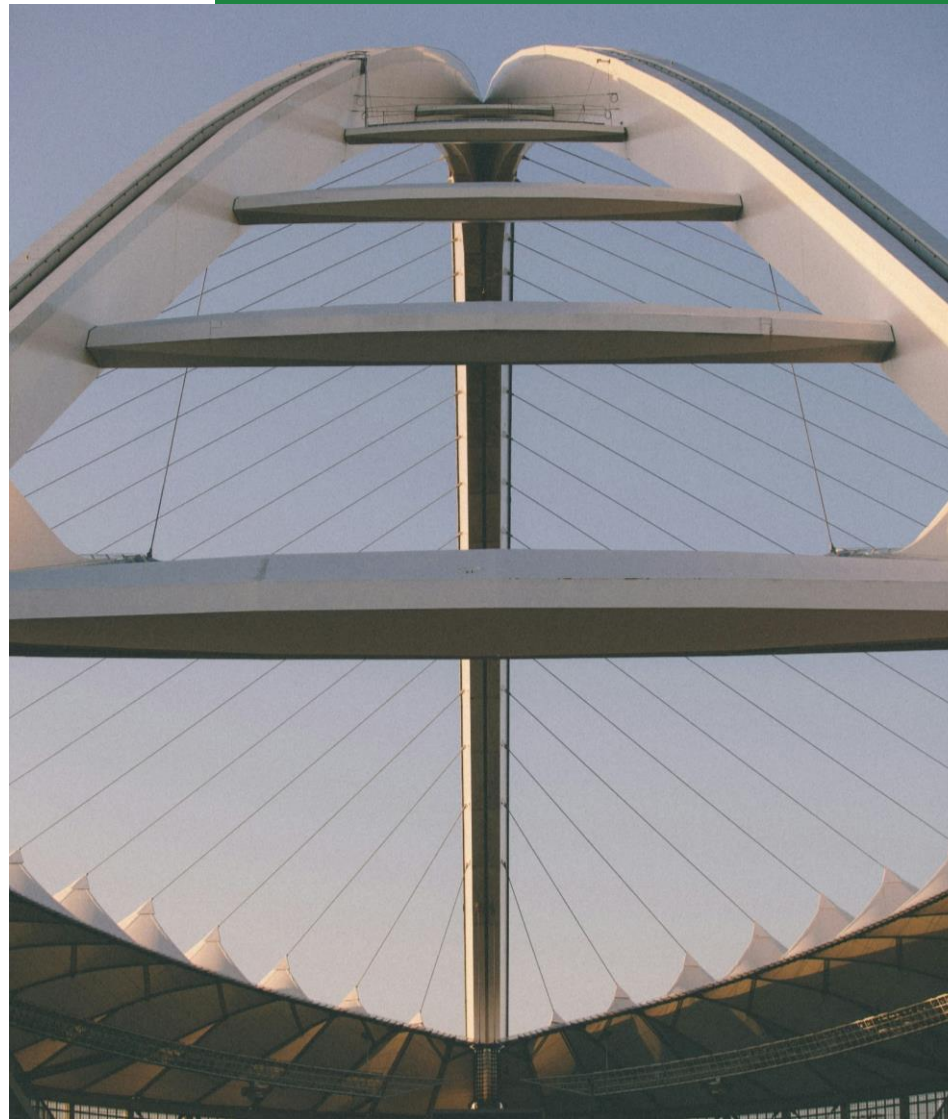


KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

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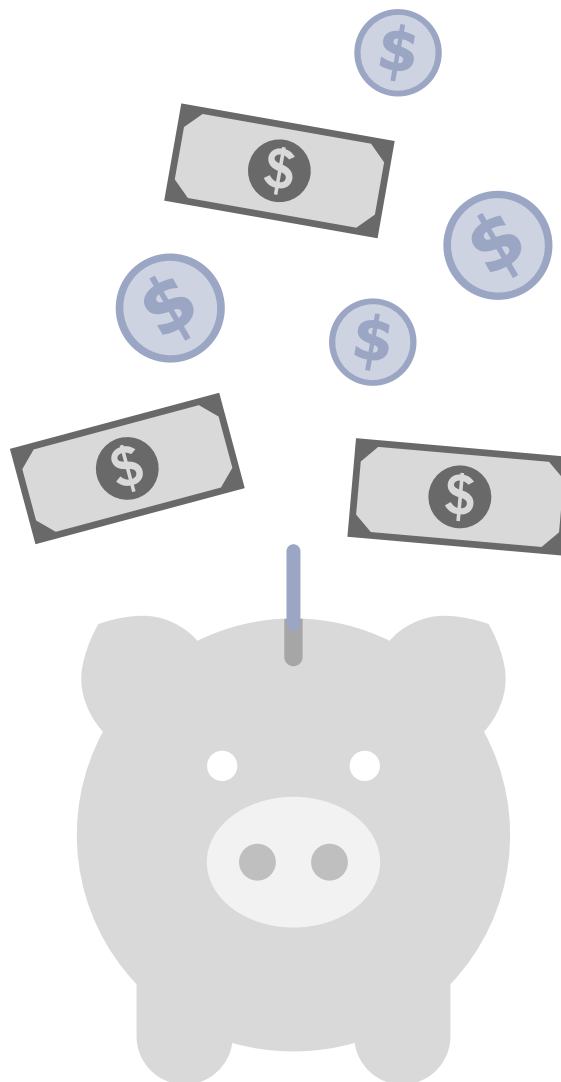


Funding Options- Rates Rebates

1. Municipalities challenges can be addressed and resolved by Private Sector Rates Rebates Policy
2. The proposed solution herein focusses on utilising rates to fund provision of infrastructure
3. Solutions are Project Specific and need to be dealt with separately on case-by-case basis
4. Other Funding Options – *Ongoing*

OVERVIEW OF THE PROPOSED FUNDING MODEL

- Examines non-traditional methods of sourcing funding
- The method is rooted in establishing partnerships with Private Sector in an effort to fund bulk infrastructure shortfalls
- The method looks at the possibility of private funded and financed infrastructure delivery



- The developer therefore funds and finances the project based on some estimated future rate of return percentage.
- The return on the infrastructure delivery is derived from a discount agreement with the municipality, where the funder enjoys a discount until the investment amount has been paid back through the rebated amount.
- Effectively the municipality is funding the infrastructure over a longer period and partnering with the Private Sector for the immediate capital injection.



CALCULATIONS OF THE PROPOSED FUNDING

FUNDING

Private sector raises the Capital to fund the bulk infrastructure shortfalls

EXPENDITURE

Private sector builds or upgrades the bulk infrastructure and hands the assets to the municipality for maintenance

RETURN ON INVESTMENT

The funder is offered a discount by the municipality on rates due. The discount period ends once the capital spend has been paid back

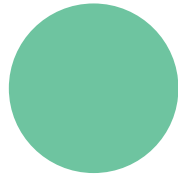
Cost of bulk infrastructure	R	1 000,00
Private Sector funds full infrastructure cost	R	1 000,00
Once Development is operational, Discount given on the service provided by the municipality		30% Discount
Development service charges (per year)	R	150,00
Discount amount on the service charge (per year)	R	45,00
Discount payback term (years)		22 Years (R45 X 22 = R1000)



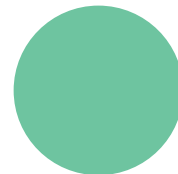
RETURN ON INVESTMENT DEFINED

Municipality

Indirect social and economic benefit as the Infrastructure could be used to serve other communities

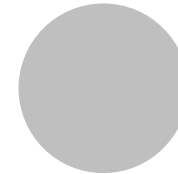


Allows municipalities to develop infrastructure without a significant Capital investment

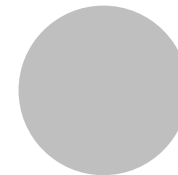


Private Sector

Realization of their proposed business expansion or intended development



No financial loss for the private party - reimbursed

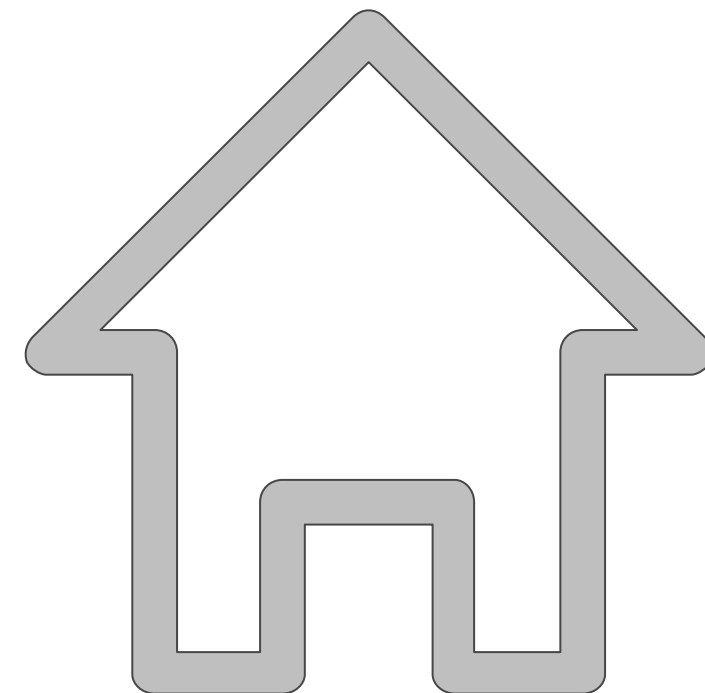


Important to conduct a cost- benefit analysis for each case

CRITICAL ELEMENTS FOR MUNICIPALITIES TO CONSIDER

Ownership of the infrastructure during construction and once it has been built

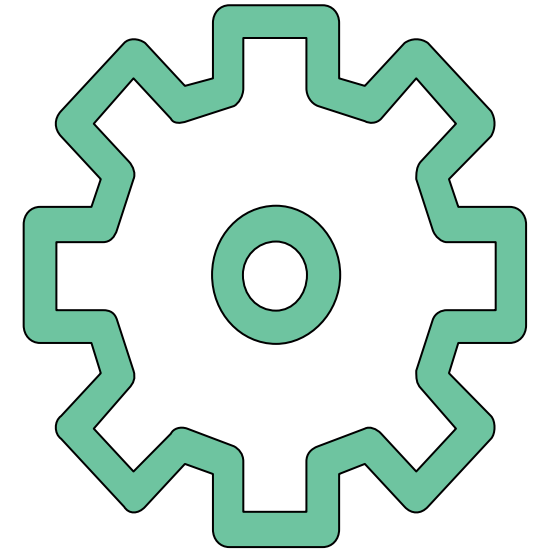
- The ownership of the assets is the Local Government
- Infrastructure is registered on the municipal fixed asset register from the beginning
- Insurance
 - During construction - Private Company
 - Once completed – Municipality .
 - There must be reference made in the SLA/contract who is responsible at what stage and what the insurance covers.



CRITICAL ELEMENTS FOR MUNICIPALITIES TO CONSIDER

Maintenance of the infrastructure

- The maintenance of the infrastructure post construction will be the responsibility of the municipality and not the private sector
- Municipality to budget accordingly
- Could be a significant risk to a potential funder due to the track record of maintenance at a Local Government Level.
 - Will the infrastructure be maintained and operated effectively?



OTHER FUNDING MODELS

- Municipality Offers Land Exchange
 - Municipality Disposes Land for New Build
 - Long term lease or concession
 - Development levies
 - Private sector grants
-
- **How can the private sector contribute to municipal infrastructure**

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THANK YOU

**GROWING
KWAZULU-NATAL
TOGETHER**