



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

URBAN DEVELOPMENT FINANCING GRANT (UDFG) FRAMEWORK 2025/26

Urban Development Financing Grant	
Transferring department	National Treasury (Vote 08)
Grant schedule	Schedule 4, Part B
Strategic goal	- To increase investment in resilient infrastructure and spatially targeted urban development in metropolitan municipalities - To eradicate spatial inequalities for sustainable and efficient urban services and spaces that grows the economy and contributes towards financially sustainable metropolitan municipalities
Grant purpose	- To promote spatially transformed cities with financially sustainable trading services that are able to meet their service delivery mandates - To support metropolitan municipalities with resilient infrastructure investment, including programme and project preparation to enable them to leverage additional concessionary and commercial loan finance to enhance sustainable infrastructure investment
Outcome statements	- To operate as a performance-based finance incentive grant for metros to achieve the following outcomes: - improved financial sustainability, investment in new and existing infrastructure, efficiencies, and service delivery from trading services - strengthened and effective system of programme and project preparation in the metropolitan municipalities - improved municipal capacity to support infrastructure investment planning and prioritisation that supports long-term spatially transformed and integrated cities - improved social cohesion and strengthened social safety net - increased leveraging of private sector investment in municipal infrastructure and urban development (specifically in strategic targeted nodes), as well as increased diversity of public and private capital investments leveraged into targeted locations
Outputs	- Increased annual investment by the Metro in renewal (rehabilitation and/or replacement) and expansion in municipal bulk, and distribution infrastructure for the three trading services - Timebound operating investments to improve performance and management capacity of the three trading services - Increased number of credible catalytic programmes and projects that have successfully undergone the project preparation process. The prioritised projects in spatially targeted nodes should be prepared with the objective of implementation through a funding mix that includes alternative funding streams - Number of work opportunities and full-time equivalents created through the city-led public employment programme (PEP)
Priority of government that this grant primarily contributes to	- Priority 2: Economic transformation and job creation - Priority 5: Spatial integration, human settlements, and local government
Details contained in the business plans	The following will be contained in the grant guideline documents: - Outcome indicators - Output indicators - Inputs - Key activities
Conditions	- Access to the programme and eligibility for the grant is based on compliance with the submission requirements for Metro trading service turnaround strategies, Institutional reform roadmap, Business and Investment Plans and Performance Improvement Action Plans of acceptable quality - The grant is disbursed based on metro achievement of KPIs and targets in Performance Improvement Action Plans for each trading service - subsequent annual allocations will be adjusted subject to progress against the KPIs/targets set in the Performance Improvement Action Plans - a maximum of 10 per cent of the funds allocated for trading service investment can be spent on direct operating costs as per the programmes in the Performance Improvement Action Plans - Transfers for project preparation support will be based on performance in line with the work plans and approved projects submitted to National Treasury - Metropolitan municipalities must commit to forging partnerships with businesses, investors, communities, national and provincial government and state-owned entities in order to leverage the third-party capital investments required to ensure long-term and sustainable outcomes and investing their own revenues - An amount of R56 million in 2025/26 is ring-fenced for the implementation of the Non-Revenue Water project in eThekweni Metropolitan Municipality through the Budget Facility for Infrastructure (BFI), and may only be used for the respective purposes of the project approved - Should there be cost variations of more than 10 per cent on a Budget Facility for Infrastructure funded project, the relevant municipality is required to inform the National Treasury and the transferring officer within 30 days of confirming the cost variations - Metropolitan municipalities must submit a business plan for approval by National Treasury on the date stipulated, outlining the key PEP initiatives, activities, inputs, output indicators and outcome indicators and delivery and reporting mechanisms - A maximum of 10 per cent of the PEP allocation can be used for the purchasing of capital equipment

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	• Cities can shift funds between city-led PEP projects, but National Treasury must be notified of the shift in the monthly reports • 90 per cent of the funds may be used for the operating costs of running a public employment programme: ◦ the basic minimum wage should be used as a guideline for costing the PEP employment opportunities • Supervisory, project management and operational-related materials costs should be budgeted for
Allocation criteria	• This grant will be disbursed based on the progressive achievement of clearly defined milestones linked to: ◦ improvements in governance and accountability; ◦ financial performance, and ◦ service delivery performance • For Metro Trading Services Financing, allocations will comprise of: ◦ incentive allocations for eligible metros for each trading service from 2025/26 taking into account population and poverty as variable weights in the allocation formula ◦ allocation may be adjusted according to periodic evaluation of Performance Improvement Action Plans • For Neighbourhood Development, allocations will comprise of the capital grant project support allocations determined via a pipeline of prioritised projects that have been identified through the planning process, in targeted locations. Funding allocation will be subject to submissions of business plans for approval by the NDPP • For Programme and Project Preparation Support, allocations will comprise of the current project preparation allocations for the completion of approved projects and programmes. The rest of MTEF allocations after 2025/26 should be allocated towards the Metro trading services infrastructure investments • For the Public Employment programme, allocations will comprise of Employment projects and programmes subject to the submission of comprehensive business plans for approval by NDPP • The BFI allocations ring-fenced in this grant are application-based
Reasons not incorporated in equitable share	• The grant provides funding to the metropolitan municipalities to enhance the performance of their urban built environment programmes by supporting programme and project preparation and it has a strong focus on catalytic nodal and linkage investment in targeted township locations that is not the focus of the equitable share • This is a supplementary capital infrastructure grant to incentivise financially sustainable metropolitan trading services that can sustain their long-term capital investment requirements, hence conditions, objectives and distribution criteria (including financial sustainability) are different to those of the equitable share
Past performance	• Not applicable, new grant
Projected life	• This grant continues until 2030/31, subject to review
MTEF allocations	• 2025/26: R1 billion; 2026/27: R1.4 billion; and 2027/28: R1.3 billion
Payment schedule	• Transfers will be made in accordance with a payment schedule approved by National Treasury based on cash flow submissions
Responsibilities of the transferring officer and receiving officer	Responsibilities of the National Treasury • Fund plans and catalytic projects in targeted locations that are defined either as urban hubs or integration zones in metropolitan municipalities, and develop Performance Improvement Action Plans and progress reporting templates for metros • Fund eligible business plans for each sector as per metro achievement of KPIs and targets in Performance Improvement Action Plans for each trading service • Review, approve and fund Public Employment Programme business plans in metropolitan municipalities • Notifying all municipalities of their allocation status, both directly and via the Division of Revenue Act (DoRA) • Provide operational guidelines, facilitate peer learning and provide capacity support through the Cities Support Programme and the Neighbourhood Development Partnership Programme Responsibilities of municipalities • Prepare credible business plans/priority programmes and projects to the NDPP for funding through the UDFG • Compile and submit monthly and quarterly expenditure and progress reports in line with the requirements and as stipulated in the 2025 DoRA • Submit a cash flow schedule with budgets and timeframes for technical assistance and/or capital grant implementation as requested by the transferring officer • Municipalities must confirm within the work plan that a financing plan with associated co-funding agreements will be in place prior to implementation of the capital project, unless an exemption to co-funding requirements has been approved by National Treasury • Must prepare and submit Council approved Performance Improvement Action Plans documents that are both aspirational and realistic, with clear targets as well as a budget and funding (incl. the grant and other sources) for the proposed activities

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	• Submit financial and non-financial reports half yearly within one month of the end of each half year the reporting format (to be provided) will be linked directly to the Performance Improvement Action Plans with one report required for each trading service in Performance Improvement Action Plans • Submit a signed letter by a municipal manager or a delegated authorised person as an attachment progress report
Process for approval of 2026/27 business plans	Municipalities • Submission of NDP related municipal plans and/or deliverables within the timeframes defined in each municipality's own work plans in relation to priority catalytic projects /programmes funded under the NDP window • Plans and/or deliverables must include an indication of: ○ the ability to attract and report on third-party funding leveraged; ○ the quality of performance and progress reporting; and ○ the level of NDP alignment across all municipal development strategies and plans including coordination, targeting, and prioritisation with other related capital projects as reflected through municipal spatial development frameworks and capital investment frameworks • Submit municipal plans timeously with projects and including deliverables with costs and timeframes on an annual basis. The plan must contain the detail of identified annual and/or multi-year project preparation and/or PEP projects • Submit Council-approved Performance Improvement Action Plans timeously • Submit progress reports timeously • Submission of Metro trading service turnaround strategies, Institutional reform roadmap, Business and Investment Plans and Performance Improvement Action Plans to be assessed by National Treasury and relevant national departments to provide feedback to metros and inform the grant allocation Transferring Officer • Issue approval letters for which transfers/disbursements for each trade service will/are made against • Guidelines with allocation splits to be sent in advance before the commencement of each municipal financial year • Compile and submit monthly and quarterly expenditure and progress reports in line with the requirements and as stipulated in the 2025 DoRA