



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

URBAN DEVELOPMENT FINANCING GRANT (UDFG) FRAMEWORK 2026/27

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 - The production and dissemination of toolkits, guidance and/or good practice notes and supporting knowledge sharing events - Enhanced municipal strategic competencies in investment targeting, implementation, and urban management - Urban networks anchored by spatially targeted nodes, supported by robust investment plans and well-coordinated intergovernmental project pipelines. - 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
Outcome(s) of government that this grant primarily contributes to	- Outcome 4: Increased infrastructure investment and job creation - Outcome 16: Improved service delivery at 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 metro trading services programme and eligibility for the grant is based on achieving the required audit outcomes and compliance with the submission requirements for Metro trading service turnaround strategies, Institutional reform roadmap, relevant versions of the business and investment plans and Performance Improvement Action Plans including the commitment to or achievement of the 8 minimum commitments where relevant - The grant is disbursed based on metro achievement of KPIs and targets in Performance Improvement Action Plans for each trading service verified by an Independent Verification Agent (IVA) as per the process set out in the Programme Operations Manual - 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 - Compliance with the aims and objectives outlined in the investment plans between the municipality and the transferring officer - The grant funds the following activities in targeted locations: - planning and the development of catalytic programmes and projects - the development of built environment upgrade projects in townships and key nodes - 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 R54 million and R575 mil in 2026/27 is ring-fenced for the implementation of the Non-Revenue Water project in eThekweni Metropolitan and the alternative Waste Treatment Technology City of Johannesburg Municipalities through the Budget Facility for Infrastructure (BFI), and may only be used for the respective purposes of the project approved

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	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
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 2026/27 taking into account population and poverty as variable weights in the allocation formula - allocation may be adjusted according to annual verification of metro performance against targets in the 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 2026/27 should be allocated towards the Metro trading services infrastructure investments - 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	2024/25 audited financial outcomes - Not applicable 2024/25 service delivery performance - Not applicable
Projected life	This grant continues until 2031/32, subject to review
MTEF allocations	2026/27: R9 billion; 2027/28: R10 billion; and 2028/29: R12.6 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 - 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 National treasury - Compile and submit monthly and quarterly expenditure and progress reports in line with the requirements and as stipulated in the 2026 DoRA and as may be specified by the National Treasury - Submit a cash flow schedule with budgets and timeframes for technical assistance and/or capital grant implementation as may be 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 - Submit a signed letter by a municipal manager or a delegated authorised person as an attachment progress report - Mainstream and reflect the spatial targeting and urban network strategies across the municipality, i.e. through the municipal: - Spatial Development Frameworks and capital investment frameworks (as a chapter in the municipal Spatial Development Framework) - Integrated Development Plans
Process for approval of 2027/28 business plans	Municipalities - Submission of NDPP 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 NDPP window - Plans and/or deliverables must include an indication of: - the ability to attract and report on third-party funding leveraged

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	○ the quality of performance and progress reporting; and ○ the level of NDPP 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 Council-approved Performance Improvement Action Plans timeously ● Submit progress reports timeously ● Uploading of the relevant evidence of performance against minimum commitments and performance indicators by 15th August 2026 and 30 September 2026 for verification by the IVA 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 2026 DoRA