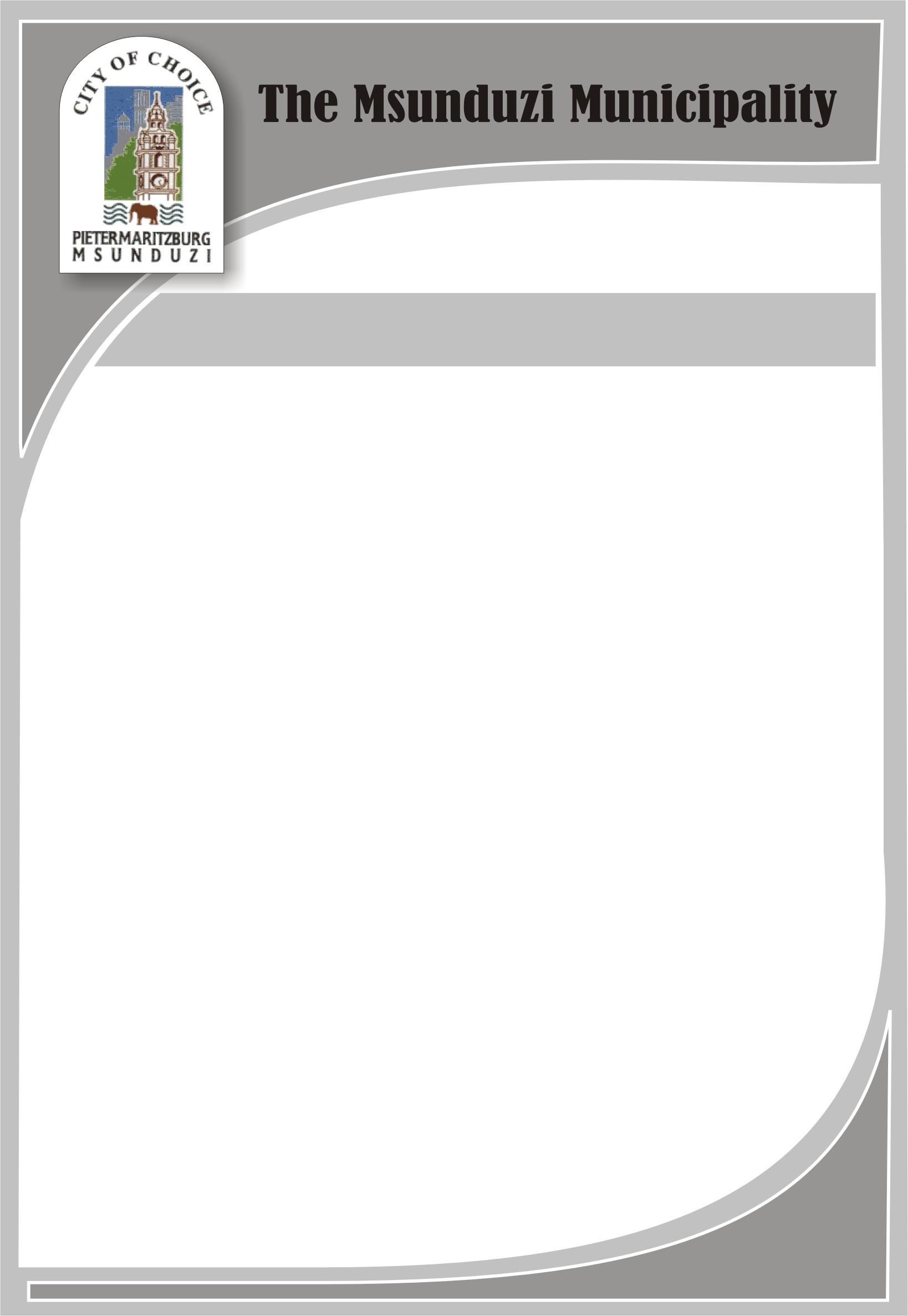
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| **MSUNDUZI MUNICIPALITY** | |
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BORROWINGPOLICY

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# DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and / or other related legislation / regulations, has the same meaning as in that Act.

- **“Accounting Officer”** – means the Municipal Manager and *vice versa*;

* **“Act”** – means the Local Government: Municipal Finance ManagementAct, 2003 (Act No. 56 of 2003);
* **“Chief Financial Officer”** – means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of themunicipality;
* **“Council” or “Municipality”** – means the Municipal Council **ofMsunduzi**

Municipality as referred to in Section 18 of the Municipal Structures Act;

* **“Creditor”** – in relation to a municipality, means any person or service provider to whom money is owing by theMunicipality;
* **“Debt”** – means–

1. a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or
2. a contingent liability such as that created by guaranteeing amonetary liability or obligation ofanother.

* **“Delegatee”** – means an official / person delegated to perform taskson behalf of anotherperson;
* **“Financial Statement”** – means statements consisting of at least –
  1. a balance sheet (statement of financialposition);
  2. an income statement (statement of financialperformance);
  3. a cash-flowstatement;
  4. any other statements that may be prescribed;and
  5. any notes to thesestatements.
* **“Financial year”** – means a year ending 30June;
* **“Financing Agreement”** means any long-term agreement, lease, instalment purchase contract or hire purchase agreement under whichthe Municipality undertakes to pay the capital cost of property, plant or equipment over a period oftime;
* **“Lender”** – in relation to a municipality means a person or serviceprovider who provides debt finance to amunicipality;
* **“Long Term Debt”** – means debt which is repayable over aperiod exceeding 12months;
* **“Municipal debt instrument”** – means any note, bond, debenture orother evidence of indebtedness issued by a municipality, including virtual or electronic evidence of indebtedness intended to be used in raisingdebt;
* **“Security”** – means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of acreditor;
* **“Short Term Debt”** – means a debt which is repayable over a periodnot exceeding 12months;

# INTRODUCTION ANDBACKGROUND

Considering the large demand for municipal infrastructure, borrowing is an important element to obtain additional funding sources to fund the municipal capital programme over the medium term**.**

The legislative framework governing borrowing is informed by the following legislation:

a) Local Government Municipal Finance Management Act, (Act 56 of 2003); and

b) Municipal Regulations on Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007

The Municipality may only incur debt in terms of the Municipal Finance Management Act, Act No. 56 of 2003. The Municipality may incur two types of debt, namely short-term and long-term debt.

## Short TermDebt

The Municipality may incur short-term debt only when necessary to bridge:

1. Shortfalls within a financial year during which the debt is incurred, in expectationof specific and realistically anticipated income to be received within that financial year;or
2. Capital needs within a financial year, to be repaid from specific funds to bereceived from enforceable allocations or long- term debtcommitments.

The Municipality:

1. Must pay off short-term debt within a financial year;and
2. May not renew or refinance its short-termdebt.

## Long TermDebt

The Municipality may incur long-term debt for purposes of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government, to:

1. Provide democratic and accountable government for localcommunities;
2. Ensure the provision of services to communities in a sustainablemanner;
3. Promote social and economicdevelopment;
4. Promote a safe and healthy environment;and
5. Encourage the involvement of communities and community organizations inthe matters of localgovernment.

# SCOPE ANDAPPLICATION

This policy governs the taking up of new loans, as well as the maintenance and redemption of existing loans. It specifically applies to:

1. Conditions under which municipal debt may beincurred;
2. Security;
3. Approvals;
4. InternalControls,
5. Reporting & Monitoring Procedures;andFinancialviability.

# OBJECTIVES

This Policy, in line with sections 19, 46 and 47 of the Municipal Finance Management Act, 56 of 2003(MFMA), sets out the procedures to be followed in sourcing funding from external financial service providers

The objectives of this policy are to:

1. ensure compliance with the relevant legal and statutoryrequirements relating to municipalborrowing;
2. record the circumstances under which the Municipality may incurdebt;
3. describe the conditions that must be adhered to by the Accounting Officer or his / her delegatee when a loan application is submitted to Council for approval;
4. set out the internal control measures applicable to the maintenanceand redemption ofloans;
5. ensure timeous reporting on the loans register as required by the Actand in accordance with Generally Recognised Accounting Practice;and
6. record the key performance indicators to ensure access to themoney markets.
7. Manage interest and credit risk exposure.
8. To maintain financial sustainability.

# CONDITIONS UNDER WHICH MUNICIPAL DEBT MAY BE INCURRED

The process for obtaining external loan funding for the Municipality falls exclusively within the functional area of the Chief Financial Officer.

All borrowings made by the City must be in accordance with this policy and with any regulations promulgated by National Treasury.

## StatutoryConditions

The Municipality may incur debt, provided that:

1. The debt is denominated in Rand and is not indexed to, or affected by fluctuations in the value of the Rand to other currencies [Sect 47(a) of the Act];
2. The debt is approved by resolution of Council, signed by the Mayor, and the Accounting Officer has signed the agreement or other document which createsor acknowledges the debt [Sect 46(2) of theAct];
3. The Accounting Officer has, at least 21 days prior to the meeting of the Councilat which the resolution is to be considered, publishedanotice in a newspaper of general circulation:
4. Stating particulars of the draft resolution, including theamountof the loan, the purpose of the loan to be incurred and the particulars of any security to be provided [Sect 46(3)(a)(i) of theAct]; and
5. Inviting the public to submit written representations to the Council in respect ofthe draft resolution [Sect 46(3)(a)(ii) of theAct].
6. The Accounting Officer has, prior to the adoption of the resolution, submitted an information statement to the Council setting out the purpose for which the debt is tobe incurred, the anticipated total cost of credit over the repayment period, the essential repayment terms and particulars of any security to be provided [Sect 46(3)(b) of the Act];

The relevant resolution was adopted at a meeting of theCouncil which was open to the public; and

1. Where security is to be provided, the provisions of section 6 below have been complied with [Sect 47)(b) of theAct].

## AdministrativeConditions

The CFO must, in consultation with the Budget and Treasury Directorates, assess the Municipality’s financial requirements and determine the amount of funds that need to be raised from external service providers, particularly to fund the capital programme. The assessment must be made in conjunction with the Medium Term Revenue and Expenditure Framework (MTREF) and the capital budget which is approved by Council.

The possible methods of raising external debt identified are:

1. Raising of project specific loans through financial institutions.
2. Raising non project specific loan for a particular financial year
3. Issuing bonds on the market
4. Appointment of a financial institution as debt provider for a period not exceeding three(3) financial years.

A combination of these methods of debt raising could be utilised over a period of time.

A funding requirement assessment is required to ascertain the need to borrow. The funding requirements for capital projects/assets together with the funding sources, must-

1. be determined annually
2. take into account a multi-year period and
3. be done in order to determine the adequacy of available funding sources.

Consideration must be taken into account of how funding decisions affect the operating budget for the multi-year period, which will include the long term impact on tariffs.

A full analysis of all cash reserves is required prior to borrowing to ensure the most cost effective method of financing

1. To obtain Council’s approval for a bank overdraft, call bond or short-term loan the Accounting Officer or his / her delegatee mustsubmit:
2. A cash-flow statement indicating the anticipated shortfalls and anticipatedfurther income streams that will repay the short-termdebt;
3. Monthly cash-flow reports indicating progress towards the repayment of thebank overdraft, call bond or short-termloan.
4. To obtain Council’s approval for a long-term loan the Accounting Officer or his /her delegatee mustsubmit:
5. The Bid Committee’s recommendation after having obtained and evaluatedquotations from at least three financial institutions stating the loan period (repayment period), comparable interest rates and administrativecosts;
6. An operating budget reflecting the effect of the anticipated depreciation ofthe envisaged asset to be financed and / or capital costs on service charges;and
7. Statements from the financial institutions that the proposed instruments are inline with nationallegislation.When entering into discussions with a prospective lender with a view to incur municipal debt, the City must indicate in writing to the prospective lender whether it intends to incur short-term or long-term debt.

Interest rates are to be fixed at an optimal rate unless it can be shown that a variable rate can provide better cost efficiency

# SECURITY

1. The Municipality may, by a resolution of the Council, authorise securityto be provided for any of its debtobligations;
2. Without contravening the above point, the Municipality whenincurring debt,may:
3. Undertake to maintain revenues or specific charges, fees, tariffs or funds at a particular level or at a level sufficient to meet its obligations arising from thatdebt;
4. Undertake to effect payment directly from monies or sources that may become available and authorise direct access to such sources to ensure payment of thoseobligations;
5. Undertake to make provision in its budget for the payment ofthose obligations, including capital andinterest;
6. Undertake to deposit funds with the lender or a third party assecurity for thedebt;
7. Agree to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders, including paymentsinto special purpose funds / accounts or other payment mechanisms / procedures;
8. Cede as security any category of revenue or rights to future revenue specified in the financing agreement or information statement contemplated in 5.1(d)above;
9. Undertake to have disputes resolved through mediation, arbitrationor other dispute resolutionmechanisms;
10. Agree to restrictions on debt which the Municipality may want to incur in future;and
11. Agree to such other arrangements as the Municipality may consider necessary andprudent.
12. A Council resolution authorizing the giving of security as referred toin 6.(a):
13. Must determine whether the asset or right with respect to whichthe security is given, is necessary for providing a minimum essential municipal service;and
14. If so, must indicate the manner in which the availability of the assetor right for the provision of that service will beprotected.
15. If the resolution has determined that the asset or right is necessary for providing a minimum essential service, the lender to whom themunicipal security is given, may not, in the event of a default by the Municipality, deal with the asset or right in the manner that would preclude or impede the continuation of the minimum essential municipalservice.
16. A determination in terms of 6(c) that an asset or right is not necessary for providing a minimum essential municipal service is binding on the Municipality until the secured debt has been paid infull.

# APPROVAL

1. Once Council approves the loan, the Accounting Officer has to enter into an agreement with the recommended financial institution on behalf of Council. TheChief Financial Officer must ensure that the terms and conditions are as originally agreed before the Council iscommitted;
2. All municipal loan commitments must be recorded in a Loans Registerreflecting at a minimumthe:
3. Loannumber;
4. Type ofloan;
5. Financialinstitution;
6. Dateissued;
7. Purpose ofloan;
8. Loanperiod;
9. Interest rate;
10. Installments (capital andinterest);
11. Due dates (quarterly / half-yearly /yearly);
12. Security (ifany);
13. Final redemptiondate;
14. Opening balance at the beginning of the financialyear;
15. Amounts received during the financialyear;
16. Capital amounts redeemed during the financial year;and
17. Closing balance at the end of the financialyear.
18. Sufficient provision must be made in the budget to depreciateassets linked to theloan;
19. **INTERNAL CONTROL OVERBORROWINGS**

## Draw-down claims onloans

Regular claims must be prepared, signed and submitted for processing to the financing institution providing the loan facility.The following supporting documents must be attached to each draw-down claim:

1. Signed copy of Certified Statement, signed be anauthorised representative of theMunicipality;
2. Signed copy of Application for Loan Draw-down, signed by an authorised representative of the Municipality;and
3. Expenditure summary listing the expenditure beingclaimed.

## Repayments made onloans

Loans are paid at the end of each quarter, being March, June, September and December as norm but subject to conditions of loans by the lender . Payments are made in terms of the amortization schedules or notices from the financing institution for the respective loans due for repayments. The following supporting documents must be attached to each loan repayment:

1. Signed copy of cheque requisition;and
2. Copy of amortization schedule or notice from financinginstitution detailing the capital and interest amounts due andpayable.

## Reconciliations between General Ledger / Loans Registerand FinancingInstitutions

The following reconciliations are performed between the Loans Register,

Statements / Amortization schedules of financing institutions and the General Ledger and are examined by a senior official under the direction of the Chief Financial Officer:

1. Loans Register to General Ledger on a monthlybasis;
2. Capital redemptions per the General Ledger to the redemptions schedule on a monthlybasis;
3. Interest paid per the General Ledger to the interest schedules ona monthly basis;and

## Documentation kept onrecord

The following loan documentation and certificates, at a minimum, must be safeguarded at all times:

1. Loanagreements;
2. Any applicable securityagreements;
3. Copy of annual loansregister;
4. Signed copies of monthlyreconciliations;
5. Copies of all repaymentsmade;
6. Copies of amortizationschedules;
7. Copies of quarterly National Treasury returns.

# REPORTING AND MONITORINGPROCEDURES

Regular reporting mechanisms shall be put in place in order to assess the overall standing of the Municipality’s borrowings and to ensure that the current borrowings comply with policy objectives, guidelines, applicable legislation and regulations.

## As a minimum, the following reports shall be prepared:For Internal Treasurymanagement

1. A monthly schedule of loans detailing each loan;and
2. A monthly reconciliation of all interest / capital repaid andcapital received.

## For the Mayor andCouncil

A monthly report, within 15 working days of each month, on the borrowing portfolio to the Mayor and thereafter to the Finance PortfolioCommittee for information, detailing:

1. Dateissued;
2. Interestrate;
3. Loannumber;
4. Referencenumber;
5. Redemptiondate;
6. Institution fundingsource;
7. Opening balance at the beginning of the financialyear;
8. Amounts received during the financialyear;
9. Capital amounts redeemed during the financial year;and
10. Closing balance at the end of the financialyear.

## For Externalparties

1. A schedule of the Municipality’s borrowings must be published aspart of the annual financialstatements;
2. Any information to be submitted to the financing institutions andor security providers / guarantors as and whenrequired.

# FINANCIAL VIABILITY

Where it has been decided that funding will be sourced externally, the financial service provider may, when considering an application for external debt from the municipality, take certain ratios into consideration.

The CFO/Delegate must determine the applicable ratios for long term funding and suggested performance levels.The ratios should be monitored to ensure that the City is able to meet its requirements to access external debt from financial services providers of its choice.

Supply Chain Management procedures must be followed in evaluating and appointing an appropriate credit rating agency for securing and maintaining an appropriate credit rating from a recognised, reputable credit rating organisation if dictated by the source of funding required.

1. The Accounting Officer or his / her delegatee must ensure that the Municipality is financially viable and will be able to access the capital market. A report in this regard must be submitted to Council after the completion of the financial statements at the end of every financialyear;
2. To ensure a financially sustainable Municipality, the ratios below are used as guidelines to determine the City’s ability to borrow The Chief Financial Officer must complete a financial analysis of atleast the following ratios and the achievement of the following targets / norms must be included in thereport:
3. Percentage of Total Debt to Assets: A = B / C x 100;were



A = Percentage Debt in relation to Assets,

B = [ Long-term Liabilities + Current Portion of Long-term Liabilities], C = Total Assets

*Target = Less than 10% (Note: End March 2025 = 3,8%)*

1. Percentage of Debt toRevenue: A = B / C x 100;were

= Percentage Debt in relation to Revenue,



A B

C

= [ Long-term Liabilities + Current Portion of Long-term Liabilities ],

= [ Total Income for the year – Operating Government Grants ]

*Target = Less than 35% of Revenue (Note: End March 2025 = 25%)*

1. Percentage of Capital Charges to OperatingExpenditure: A = B / C x 100;were

= Percentage Capital Charges in relation to Operating Expenditure,



A

B C

= Capital Charges,

= Operating Expenditure

*Target = Less than 16% (Note: End March 2025 =14%)* (iv)Percentage of Interest Paid to Operating Expenditure: A = B / C x 100;were

= Percentage Interest Paid in relation to Operating Expenditure,



A

B C

= Interest Paid,

= Operating Expenditure

*Target = Less than 5% (Note: End March 2025 = 2,15%)*

1. Percentage of Total Debt toEquity: A = B / C x 100;were

= Percentage Debt in relation to Equity,



A B

C

= [ Long-term Liabilities + Current Portion of Long-term Liabilities ],

= Funds & Reserves

*Target = Less than 10% (Note: End March 2025 = 4,32%)*

1. Gearing:

A = B / C; were

= Ratio of Equity in relation to Long-term Debt,



A

B C

= Funds & Reserves,

= [ Long-term Liabilities + Current Portion of Long-term Liabilities ]

*Target = Less than 25% (Note: End March 2025 = 23%)*

1. Current Ratio: A = B / C;were

A = Ratio of Current Assets in relation to Current Liabilities, B = Current Assets,



C = Current Liabilities

*Norm = Better than 2 : 1 (Note: End March 2025 = 1,47 : 1)*

1. LiquidRatio: A = B / C;were

A = Ratio of Cash Assets in relation to Current Liabilities, B = Cash Assets (e.g. Call Deposits, Cash, Bank),



C = Current Liabilities

*Norm = At least 1.5: 1 (Note: End March 2025 = 0,96 : 1)*

1. Percentage of Outstanding Debtors toRevenue: A = B / C x 100;were

A = Percentage Outstanding Debtors in relation to Revenue,



B = [ Consumer Debtor + Other Debtors – Current Portion of Long-term Receivables],

C = Total Income for the year



*Target = Less than 18% (Note: End March 2025 = 15,2%)*

1. Percentage of Personnel Cost to Operating Income: A = B / C x 100;were

= Percentage of Personnel Cost in relation to Operating Income,



A

B C

= Personnel Cost,

= Operating Income

*Norm = less than 30% of Operating Income (Note: End March 2025*

*= 28,33%)*

1. The Accounting Officer must indicate the steps to be taken in order to address deviations from the set targets and / or any otheractionsrequired to ensure access to the capital market on a continuousbasis.

# ANNUAL REVIEW OFPOLICY

This policy will be reviewed regularly or when so required by changes to legislation. Any changes to this policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.

# EFFECTIVEDATE

The effective date of this policy shall be **01 July 2019.**