MASILONYANA LOCAL MUNICIPALITY

DRAFT 2024/2025

PRINCIPLES POLICY ON BORROWING

(FOR IMPLEMENTATION ON 1 JULY 2024)

INDEX

MASILONYANA MUNICIPALITY
PRINCIPLES AND POLICY ON BORROWING

1. INTRODUCTION

1.1 This policy has been compiled in accordance with:-

1.1.1. Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003; Chapter 6.

1.2 Where this policy is contrary to other legislation, such legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/ she becomes aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2. DELEGATION OF POWERS

2.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

2.2 In terms of section 60 (2) of the MSA, the Council may only delegate to the Municipal Manager the power to make decisions on investments on behalf of the municipality within the municipality's investment policy contemplated in section 13 (2) of the MFMA.

2.3 According to the MFMA, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/ her. The Municipal Manager is therefore accountable for all transactions entered into by his/ her designates.

3. PURPOSE OF THE POLICY

3.1 The purpose of this policy is to ensure that the municipality follows the Municipal Finance Mangement Act chapter 6 when borrowing money from financial institutions.

BORROWING

Conditions applying to both short-term and long-term debt

4.1.1 The municipality may incur debt only if:-

The debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency; and

Section 48 (3) of the MFMA, regarding assets secured required for providing basic municipal services, has been complied with, if security is to be provided by the municipality.

4.2 Short-term Debt

4.2.1 The municipality may incur short-term debt only in accordance with and subject to the provisions of the MFMA and only when necessary to bridge:-

Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or

Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

4.2. The municipality may incur short-term debt only if:-

A resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

4.2.3 For the purpose of paragraph 11.2.2 above the municipal council may:-

Approve a short-term debt transaction individually; or

Approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that—

(i) the credit limit must be specified in the resolution of the council;

(ii) the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and

(iii) if the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

4.2.5 The municipality:-

Must pay off short-term debt within the financial year; and

May not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

5 Long-term Debt

5.1 The municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the MFMA and only for the purpose of:-

- Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution, including costs referred to in paragraph 11.3.4 below; or

- Re-financing existing long-term debt subject to paragraph 11.3.5 below.

5.2 The municipality may incur long-term debt only if:-

- A resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

- The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

5.3 The municipality may incur long-term debt only if the accounting officer:-

- has, in accordance with section 21A of the Municipal Systems Act:-

  (i) at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and

  (ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

- has submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of:-

  (i) the essential repayment terms, including the anticipated debt repayment schedule; and

  (ii) the anticipated total cost in connection with such debt over the repayment period.

5.4 Capital expenditure contemplated in paragraph 11.3.1 above may include:-

- Financing costs, including—

  (i) capitalised interest for a reasonable initial period;

  (ii) costs associated with security arrangements in accordance with section 48 of the MFMA;

  (iii) discounts and fees in connection with the financing;

  (iv) fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and

  (v) costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing;

- Costs of professional services directly related to the capital expenditure; and
- Such other costs as may be prescribed.

5.5 The municipality may borrow money for the purpose of re-financing existing long-term debt, provided that:-

- The existing long-term debt was lawfully incurred;
- The re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;
- The net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing; and
- The discount rate used in projecting net present value referred to above, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

6 IMPLEMENTATION AND REVIEW OF THIS POLICY

6.1 This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

12.1 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.