DIPALESENG LOCAL MUNICIPALITY

BORROWING POLICY

2025-26

CONTENTS

1. **DEFINITIONS**

"*act*" means the Local Government: Municipal Finance Management

Act, 2003 (Act No. 56 of 2003).
"*disclosure statements*" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instruments; and

- a person who intends to incur debt by issuing securities backed by municipal debt.

"*financing agreement*" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"*lender*" means a person who provides debt finance to the municipality. "*Long term debt*" means debt repayable by the municipality over a period

exceeding one (1) year. "*municipal debt*" means:

(a) a monetary liability or obligation on a municipality by:

- a financing agreement, note, debenture, bond, or overdraft; and

- the issuance of municipal debt instruments.

(b) a contingent liability such as that created by guaranteeing a

monetary liability or obligation of another.

"*security*" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"*short term debt*" means debt that is repayable over a period not exceeding one (1) year.

2. PURPOSE

The purpose of the policy is to govern the taking up of short-term or long-

term debt according to the legislative framework.

3. OBJECTIVES OF POLICY

The objectives of the policy are to:

- Enable the municipality to exercise its obligation to ensure sufficient cash resources to implement the capital programme in the most cost-effective manner.
- Ensure compliance with the relevant legal and statutory requirements relating to municipal borrowing.
- Manage interest rate and credit risk exposure.
- Maintain debt with specified limits and ensure adequate provision for the repayment of debt.

4. LEGISLATIVE

To maintain financial sustainability.

The legislative framework governing borrowings are:

4.1 Local Government Municipal Finance Management Act, Act 56 of 2003; and

4.2 Local Government Municipal Regulations and Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007.

5. COMPULSORY DISCLOSURES WHEN INCURRING MUNICIPAL DEBT

When entering into discussions with a prospective lender with a view to incur municipal debt, the municipality must indicate in writing to the prospective lender whether it intends to incur short- term or long-term debt.

In the case of short-term debt it must be disclosed whether the debt is to bridge:

(a) shortfalls within a financial year during which the debt is incurred, in expectation or specific and realistic anticipated revenue to be received with that financial year; or

(b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

5.3 In the case of long-term debt, whether the purpose of the debt is for:

(a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objectives of local government, subject to section 46(4) of the act.

6. **CONSIDERATIONS WHEN INCURRING LONG TERM OR SHORT**

refinancing of existing long-term debt, subject to section 46(5) of the act.

TERM DEBT

The following should be considered when borrowing funds:

- the type and extent of benefits to be obtained from the borrowing. the length of time the benefits will be received.
  the beneficiaries of the acquisition or development.
- the impact of interest and redemption payments on both current and forecasted property tax income.
- the current and future capacity of the property tax base to pay for borrowings and the rate of growth of the property tax base.
- likely movements in interest rates for variable rate borrowings. other current and projected sources of funds.
  competing demands for funds.
- timing of money market interest rate movements and the long term rates on the interest rate curve.
- the municipality will, in general, seek to minimize its dependence on borrowings in order to minimize future revenue committed to debt servicing and redemption charges.
- the municipality may only borrow funds, in terms of the Municipal Finance Management Act, for the purpose of acquiring assets, improving facilities or infrastructure to provide service delivery.

7. **LEGISLATIVE PROCESS**
The process as required by the act is as follows: **Short-term debt**

A municipality may incur short-term debt only if:

(a) a resolution of the municipal council, signed by the executive mayor, has approved the debt agreement; and

(b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

A short-term debt transaction may be:

A municipality:
(a) must pay off short-term debt within the financial year; and

(b) 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.

No lender may wilfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection 6.3(a).

If a lender wilfully extends credit to a municipality in contravention of paragraph 6.4, the municipality is not bound to repay the loan or interest on the loan.

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

1. (i) the credit limit must be specified in the resolution of the council;
2. (ii) in terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and
3. (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.

7.6 Subsection 6.5 does not apply if the lender:

(a) relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

(b) did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

Long-term debt

7. 7.7 A municipality may incur long-term debt only if:

   (a) a resolution of the municipal council, signed by the executive mayor, has approved the debt agreement; and

   (b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

8. 7.8 A municipality may incur long-term debt only if the accounting officer of the municipality:

   (a) has, in accordance with section 21A of the Municipal Systems Act:

(ii) at least twenty one (21) days prior to the meeting 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

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

(b) has submitted a copy of the information statement to the municipal council at least twenty one (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.

7.9 Capital expenditure contemplated in 5.3(a) may include:

(a) financing costs, including:

(i) capitalized interest for a reasonable initial period; (ii) costs associated with security arrangements in accordance with section 48 of the act;

3. (iii) discounts and fees in connection with the financing;
4. (iv) fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and
5. (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.

10. A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:
    1. (a) the existing long-term debt was lawfully incurred;
    2. (b) the refinancing 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;
    3. (c) the net present value of projected future payments (including principal and interest payments) after refinancing is less than the net present value of projected future payments before refinancing; and
    4. (d) the discount rate used in projecting net present value referred to in paragraph (c), 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.
11. 7.11 A municipality's long-term debt must be consistent with its capital budget referred to in section 17(2) of the act.

8. **CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG- TERM DEBT**

8.1 A municipality may incur debt only if:

10.1 Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor:

(a) disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor; and

(b) take reasonable care to ensure the accuracy of any information disclosed.

A lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

10.2 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 act has been complied with, if security is to be provided by the municipality.

9. **SECURITIES**
9.1 A municipality may by resolution of its council provide security for:

- any of its debt obligations; and
- contractual obligations of the municipality undertaken in connection with capital expenditure by the persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the Constitution.
- Appropriate security is contemplated in section 48(2) of the act.
- Other additional conditions to be complied with are contemplated in section 48(3) to 1

A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

(a) the guarantee must be within limits specified in the municipality's approved budget.

Neither the national nor a provincial government may guarantee the debt of a municipality except to the extent that chapter 8 of the Public Finance Management Act provides for such guarantees.

12. **SUBMISSION OF DOCUMENTS**

12.1 When entering into discussion with a prospective lender with a view to incur short-term or long-term debt, the following information must be made available to the prospective lender.

(a) audited financial statements for the preceding three (3) financial years with audited outcomes;

(b) approved annual budget;

(c) the municipal integrated development plan; and

(d) repayment schedules pertaining to existing short-term or long-term debt.

13. **NOTIFICATION TO NATIONAL TREASURY**

13.1 The following information must be provided to National Treasury with respect to a long-term debt proposal:

Details MFMA

(a) A copy of the information statement required by section 46(3), containing particulars of the proposed borrowing (debt) instrument:

♣ the name of the municipality;
♣ where the municipality is located;
♣ particulars of the proposed debt;
♣ amount of proposed debt;
♣ purposes for which the debt is to be incurred;

and
♣ particulars of any security to be provided. 46(3)(a)(i)

(b) If not already incorporated in the information statement, the following information is provided separately:

♣ amount of debt to be raised through borrowing or other means;

♣ issue date;
♣ purposes for which the borrowing (debt) is to be incurred;
♣ interest rate(s) applicable (state whether fixed or variable etc.);
♣planned start and end date (term of instrument);
♣ detailed repayment schedule for the duration of the borrowing (debt) (showing dates and all payments of principal and interest etc.);
♣ final maturity date;
♣ total estimated cost of the borrowing (debt) over the repayment period;
♣ type of instrument;
♣ debt amortization terms;
♣ security to be provided and provide details; and
♣ source of loan funds. A schedule of consultation undertaken, including: ♣ date(s) when the information statement was made public; and
♣ details of meetings, media adverts and other methods used to consult on the proposed long- term borrowing (debt);

A copy of the approved budget and relevant documentation supporting the budget, highlighting the asset(s) to be funded by the proposed borrowing (debt) and the revenue to be received. It must be demonstrated that the proposed borrowing (debt) is consistent with the IDP, the capital budget and the revenue is shown accordingly. 46(3)(b)(i) and (ii)46(3)(a)(i), (ii) 46(6) 17(2) 19 46(3)(b)(i) and (ii)

♣ description of the asset(s) for which the original loan was required;

♣ the useful remaining life of the asset(s)
♣ the net present value of the asset(s), including the discount rate used and any assumptions in the calculations;

♣ the net present value of projected future payment before refinancing, including the Discount rate and assumptions used; and
♣ the net present value of projected future payments after refinancing, including the discount rate and assumptions used.

A copy of the council/board of directors' resolution approving the borrowing (debt) instrument should be forwarded to National and relevant provincial Treasury once approved.

14. **FINANCIAL AFFAIRS OF THE MUNICIPALITY**

14.1 The following information concerning the financial situation and financial management of the municipality must be disclosed:

- schedule of all long-term debt obligations stating principal and interest payments for the life of all loans and any security provided to secure such debt;
- the amount of any short-term debt outstanding;
- the revenue of the municipality for the preceding three (3) financial years stated separately:

1. (i) government grants and public donations;
2. (ii) revenue from rates and service charges; and
3. (iii) other revenue sources what source of funding will be used to repay the loan; details of any default by the municipality on outstanding or repaid debt during the preceding three (3) years;

- he reserves of the municipality;
- a summary of financial policies and practices; and
- the latest credit rating obtained.
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15. **INTEREST RATE RISK**

- As a general principle when interest rates are expected to decrease, it is advisable that a floating rate be negotiated in order to take advantage of the lower interest rates in future. If interest rates are expected to increase, it is advisable to obtain a fixed rate so that the benefits of the current low interest rate are maintained.
- The interest risk must be limited in so far as possible. The policy directive is to negotiate fixed interest rates for all long-term borrowings. This will ensure stability of the repayments and reduce the risk for high rates and tariff increases as a result of interest rate hikes in the market.

16. **DEBT REPAYMENT PERIOD**

Variable rates should be considered for short-term debt only.

- The period for which a loan may be received will vary from time to time according to the capital requirements of the municipality, presently the typical debt repayment period is between 15 to 20 years, cognizance should be taken of the useful lives of the assets to be financed by the debt and careful consideration of the interest rates.
- Should it be established that it will be cost effective to borrow funds for a shorter duration than the useful lives of the asset as indicated by the interest yield curve, the municipality should negotiate the loan to optimize the most favourable and cost-effective benefit to the municipality.

17. **LIMITATIONS**

To ensure a financially viable municipality the following ratios are used to

determine the municipal gearing ability to borrow:

- ♣ ·long-term credit rating of BBB;
- ♣ ·interest cost to total expenditure to not exceed 8%;
- ♣ ·long-term debt to revenue (excluding grants) not be exceed 50%;
- ♣ ·payment rate mature above 95%; and
- ♣ ·percentage of capital charges to operating expenditure less than 18%.

18. **REVIEW**

This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

19. **SHORT TITLE**

This policy shall be called the Borrowing Policy of the Dipaleseng Local Municipality.

1 This policy comes in effect on date of approval.

Implementation Date	Council Resolution no.	Adopted Date
1 July 2025	**140/05/25**	**28/05/2025**