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Mopani District Municipality
Borrowing Policy

MOPANI

DISTRICT MUNICIPALITY

2025/26

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AMENDMENT AND APPROVAL RECORD

Issue	Amendment description	Originator	Approved By	Date

Name of the District: Mopani Municipality		
Borrowing policy		
Department: Finance **Responsibility : Accounting Officer**		
____________________ **Prepared and submitted by the Accounting Officer to Council** **Date:** ____________________	____________________ **Adopted by Council (Signed by Chairperson obo Council)** **Date:** ____________________	**Implementation Date:**

1. Legislative framework and best practice regulations

Key principles contained in the following legislation were applied to develop this policy:

a) Constitution of South Africa Sec 139
b) Municipal Finance Management Act, 1999 (Act No 56 of 2003);
c) Municipal Regulations on Debt Disclosure ("the Disclosure Regulations")
d) National Treasury Regulations, March 2005; and
e) GRAP 13: Leases.
f) GRAP 5: Borrowing Costs

2. Purpose

The purpose of this policy is to establish a borrowing framework for the Municipality and to set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds, in order to:

I. manage interest rate and credit risk exposure;
II. maintain debt within specified limits and ensure adequate provision for the
III. repayment of debt; and
IV. ensure compliance with all Legislation and Council policy governing borrowing of funds.

3. Objective

The objective of this policy is to enable the district to achieve the following:

a) to ensure that, within the legal framework, the district's financing needs and its payment obligations are met at the lowest possible cost, consistent with a prudent degree of risk;
b) to record the circumstances under which the district may incur loans and borrowings;
c) to describe the conditions that must be adhered to by the Accounting Officer when a loan and borrowing application is submitted to the Council for approval; and
d) to set out the internal control measures with regards to the maintenance and repayments of loans and borrowings.

4. Definitions, acronyms and abbreviations

For the purpose of this policy, unless the context indicates otherwise, the following definitions are set out for the terms indicated:

4.1 ***"Accounting Officer"*** – is the Municipal Manager.

4.2 ***"Act"*** – is the Municipal Finance Management Act No.56 of 2003, as amended. (formerly the FET Act)

4.3 ***"Borrowing"*** – is the receiving of something of value in exchange for an obligation to pay back something of usually greater value at a particular time or periods in the future.

4.4 ***"District"*** – is Mopani District Municipality.

4.5 **"Council"** – Mopani District Council.

4.6 ***"Department";"COGHSTA"***– is the Department of Co-operative Government Housing,Settlements and Traditional Affairs.

4.7 ***"Finance lease"*** – is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.(GRAP13)

4.8 ***"Lender"*** – in relation to a district, is a person or service provider who provides debt finance to district.

4.9 ***"Loan"*** – is the act of receiving money, property or other material goods from another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open ended credit up to a specified ceiling amount such as an overdraft limit.

4.10 ***"Long term debt"*** – is a loan or borrowing which is repayable over a period exceeding 12 months.

4.11 ***"Operating lease"*** – is a lease other than a finance lease. (GRAP13)

4.12 ***"Security"*** – is a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a lender.

4.13 ***"Short term debt"*** – is a borrowing which is repayable over a period not exceeding 12 months.

5. Scope

a) SHORT-TERM DEBT

5.1 The Municipality may incur short–term debt only in accordance with and in the circumstances contemplated in Section 45 of the MFMA.

5.2 In particular, the provisions of section 45 (1) of the MFMA must be noted, these requiring that the Municipality may incur short –term debt only when necessary to bridge:

5.2.1 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

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

5.3 Furthermore, as required by section 45 (4) of the MFMA, the Municipality must pay off short term debt within the financial year.

b) OVERDRAFT FACILITY

I. Overdraft facilities are regulated by Section 45(3) of the MFMA.

II. The Municipality may have an overdraft facility limited to R5 million which is to be utilized only in emergency circumstances and be repaid as soon as the funds are obtained, but in any case within the financial year.

c) LONG-TERM DEBT

I. The Municipality may incur long-term debt only in accordance with and in the circumstances contemplated in Section 46 of the MFMA.

II. Long-term debt may be incurred only for the purposes contemplated in Section 46(1) of the MFMA, namely:

- 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; or
- re-financing existing long-term debt, subject to section 46(5).
- long-term debt will only be incurred for capital expenditure for the following revenue generating services:
  - Water;
  - Sewerage;
  - Refuse removal;

- Electricity; and
- Roads.

New long-term debt will only be incurred if the financial ratios, norms and credit rating of the municipality is positive and the indicators are of such nature that it will not put undue pressure on the tariffs and affordability levels of the community of loans.

6 Considerations for external debt financing

6.2 Type of debt:

Subject to the approval by the Council, the District may raise money by means of a loan, which may be short term or long-term, or by means of an overdraft facility. In determining the acceptable level of borrowings, the following must be considered:

6.2.1 Loans

(a) Short-Term:

The district may incur short-term debt only when necessary to bridge operational funding shortfalls. The district must adhere to the following conditions when short term debt is incurred:

- Short-term debt must be paid within 3 months of its incurrence; and
- Short-term debt may not be renewed or refinanced.

(b) Long-Term

- The district will confine long-term borrowing to capital improvements including infrastructure developments and expansions only, to create more access to learning programmes which may generate more funds for the district.
- The district will not use long-term debt for current obligations.

6.2.2 Overdraft Facility

a) The district may enter in an agreement with a financial institution for an overdraft facility subject to the following;

- The overdraft facility needs to be managed by the Chief Financial Officer and must form part of the monthly reports to the Council.
- When the facility is utilised, the district must ensure that it is only utilised for operational purposes and must ensure that the facility does not remain in overdraft for more than 3 consecutive months.

6.3 Factors to consider when borrowing

(a) Risk management:
The district needs to manage interest rate risk, credit risk exposure and to maintain debt within specified limits. Potential funding sources should be reviewed and analysed by the Chief Financial Officer to ensure that interest rate and credit risk exposure is prudently managed.

Regardless of what financing structure is utilised, a feasibility study must be performed for each transaction, including quantification of potential risks and benefits, matching the borrowing period with the useful life of the asset being financed, as well as an analysis of the impact on the creditworthiness, debt affordability and cash flows of the district.

(b) Cost of borrowings:
Borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, borrowing covenants (for example; early repayment penalty clauses), infrastructure needs, and economic forecasts of interest rate movements and any limitations set by the Council for the specific District.

The interest rate should be fixed over the term of the loan to eliminate interest rate fluctuations and to create certainty with regards to cash flow forecasting.

(c) Prudence:
Borrowings should be made with care, skill, prudence and due diligence and based on the approval of Council.

(d) Strategic debt allocation
The district should seek to minimise its dependence on borrowings within its overall ability to service repayments within budgeted cash flows.

The district may only borrow funds for the purpose of achieving the strategic objectives of the district.

6.4 Other Special conditions relating to Borrowings and Finance Leases

a) The debt must be denominated in rand and must not be indexed to, or affected by fluctuations in the value of the rand relative to other currencies.

b) The district may enter into a finance lease agreement subject to the approval of the Council and the Accounting Officer. The Chief Financial Officer must ensure that a register is maintained of all finance leases in the name of the district. All finance leases greater than five years will require Council approval.

c) The Accounting Officer must sign the contractual agreement or other document which creates or acknowledges the debt, after approval is obtained from the Council and and/or Council whichever is relevant in terms of this policy.

d) The rights and obligations to the debt must vest in the district; therefore, all loans must be registered in the name of the District.

7 Security

7.2 In order to make borrowing possible and/or lower the cost of borrowing, the Accounting Officer may authorise security to be furnished for any of its debt obligations, provided approval is obtained from the Council.

7.3 When furnishing security for any of its debt obligations, consideration must be given to the following:

a) Determine whether the asset or right with respect to which the security is given, is necessary for providing a minimum essential municipal service; and

b) If so, indicate the manner in which the availability of the asset or right for the provision of that service will be protected.

7.4 If it is determined that the asset or right is necessary for providing a minimum essential service, the lender to whom the district security is given, may not, in the event of a default by the district, deal with the asset or right in the manner that would preclude or impede the continuation of the minimum essential District service.

8 Approval

8.2 To obtain the Council's approval to apply for a loan or overdraft facility, the Council must submit the motivation to the Department who will review the motivation and submit it to the Council for approval.

8.3 The motivation must include the following information;

a) The reason why the loan is required by the district

b) Indication of the extent to which the loan would enable the district to develop infrastructure and increase access to students.

c) Indications of the extent to which the loan would be directly linked to the strategic objectives of the district

d) amount of the loan;

e) the purpose for which the debt is to be incurred;

f) the particulars of any security to be provided;

g) a draft loan agreement reviewed and recommended by the district's legal adviser;

h) a cash-flow forecast over the loan period indicating how the loan will be serviced.

8.4 After approval is obtained from the Council to raise money by means of a loan or overdraft, the district must follow the tender process to select a preferred financial institution. The Accounting Officer subject to the approval of Council, should enter into an agreement with the financial institution recommended by the Bid Adjudication Committee, on behalf of the district.

8.5 The Accounting Officer must ensure that the final term and conditions of the loan are as approved by the Council.

8.6 The Accounting Officer must ensure that a Register is maintained of all Loans, Overdrafts and Securities.

9 Conditions for Council to approve the raising of loans by Districts

The purpose of setting the conditions under which the Council may approve the raising of loans by the districts is to ensure that these loans are indeed required by Districts. Also to ensure that they would serve as an investment by way of enabling Districts to develop infrastructure that might generate more funds through fees collected from offering additional programmes.

Another purpose is to protect Districts from becoming highly indebted due to loans taken which are not in the best interests of the district and cannot be directly linked to promoting quality services at the district.

9.2 The motivation should be received by the Council at least one month prior to the date by which the district intends to apply for the loan.

9.3 A long term loan may only be applied for for infrastructure development

9.4 A short term loan or an overdraft facility may be applied for operational purposes only.

9.5 On request, the district must disclose other loans or overdraft agreements entered into, which are not yet settled by the district.

9.6 The new loan, together with any existing unsettled loans, cannot exceed 5% of the total income of the district including grant income and income received for skills programmes.

9.7 The district must show positive growth in income and accumulated profits over the previous three years.

9.8 In addition to the above, the Council will also consider whether the following balance sheet ratios are within acceptable ranges; on a case by case basis; to ensure that the District is not over indebted and that it has the potential to repay the loan.

a) Return on capital employed;
b) Current ratio working capital ratio;
c) Debt Equity ratio.

9.9 The Council will consider all the information submitted and use his/her discretion for the approval of the loan or overdraft.

10 Prohibited borrowing practices

10.2 No foreign borrowing are permitted
10.3 The district may not guarantee the debt of any other entity or individual.
10.4 The Department may not guarantee the debt of any District, entity or individual.
10.5 The district may not refinance existing debt without approval from the Council.

11 **Internal control over borrowings**

In order to prevent losses arising from fraud, misrepresentations or error, a system of internal control must govern the administration and management of the borrowings portfolio. Internal controls over the following functions, as a minimum, should be implemented:

11.2 Repayments made on loans

a) The budget and cash flow forecast must be updated to facilitate the repayment of the debt.

b) Payments should be made in terms of the amortisation schedule or notices from the financing institution for the respective loans due for repayments.

c) The copy of the amortisation schedule or notice from the financing institution, detailing the capital and interest payable, must be attached to each loan repayment.

11.3 Accounting records

a) The accounting records, including the loan register, must be updated regularly.

b) Monthly reconciliations are to be performed between the ledger and the statements from the financial institutions to confirm the capital balance outstanding and that the interest has been correctly charged to the income statement.

c) The Chief Financial Officer must report to the finance portfolio on the progress of the loan repayments against the forecast. Any material deviations from the forecast must be reported to Council.

11.4 Loan register

The loan register must include the following details:

a) Loan number;
b) Date issued;
c) Type of loan;
d) Name of financial institution;
e) Purpose of loan;
f) Loan period;
g) Interest rate (a fixed interest rate is recommended)
h) Installment (capital and interest);
i) Due dates for capital and interest payments (monthly / quarterly / half-yearly / yearly);
j) Security (if any);
k) Final redemption date;

The following reconciliations must be performed and reviewed on a monthly basis:

a) Capital balance outstanding, as reflected in the amortisation schedule, to the general ledger; and
b) Interest paid, per the amortisation schedule, to the general ledger.

11.5 Maintenance of documentation

The following loan documentation must be maintained and safeguarded at all times:

a) Approval from Council;
b) Loan agreements;
c) Any applicable security agreements;
d) Copy of annual loan register;
e) Signed copy of monthly reconciliations of loan records to the general ledger;
f) Copy of all repayments made; and
g) Copy of amortisation schedules.

12 Non-payment or non-servicing of loans

12.2 The district must honour all of its loan obligations timeously. Failure to effect prompt payment may jeopardise the district's credit rating and will adversely affect the prospect raising of future loans.

12.3 In addition to the timeous payment of the loans, the district must adhere to the covenants stipulated in the loan agreements and the under-mentioned are some examples of typical covenant requirements:

a) furnish audited annual financial statements on a timely basis; and
b) long term credit rating not to decline below a certain level.

13 Adoption of policy

This policy is effective from the date on which it is adopted by the Council.

14 Availability of borrowing policy

A copy of this policy and other relevant documentation should be made available on the district website.

15 Annual revision of policy

This policy will be subject to an annual review by District Council to ensure its relevance.

16 POLICY MONITORING AND EVALUATION

16.2.1 This policy shall be implemented and effective once recommended by the Local Labour Forum and approved by Council.

16.2.2Non-compliance to the stipulations contained in this policy shall be regarded as breach of Code of Conduct, which shall be dealt with in terms of the Code of Conduct.

16.2.3 Head of Corporate Services shall carry out the monitoring and evaluation of the policy's implementation.

17 POLICY APPROVAL

This policy was formulated by Budget and treasury Management in consultation with the
Treasury.

18 COMMENCEMENTS

18.1 This policy shall come into effect on the date of adoption by council.

19. REVIEW OF THE POLICY

19.1 The policy shall be reviewed annually or when a need arises.

20. REPEAL

20.1 The policy shall repeal all previous policies formulated before its approval.

21 STAKE HOLDER 'S CONSULTATION

21.1 All stakeholders were consulted on the

22 ADOPTION BY THE COUNCIL

Resolution NO:	Approved date:
Effective Date 01 July	Review date: Annually

23AUTHORITY

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MUNICIPAL MANAGER
MR TJ MOGANO

COUNCIL SPEAKER
CLLR NM MASWANGANYI