KOUGA MUNICIPALITY

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Contents

1 Introduction

1.1 Purpose

In terms of Section 19 of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are allowed to spend money on capital projects, subject to certain requirements, and incur long term debt for these capital projects in accordance with and subject to any applicable provisions of Section 46 and 47 of this Act. It is for these reasons that a Borrowing Policy has been developed in accordance with a framework that may be prescribed by the Minister of Finance, acting with the concurrence of the Cabinet member responsible for local government.

1.2 Scope of the policy

This policy applies to the Kouga Municipality (hereafter referred to as the Municipality).

1.3 Objectives

The objectives of the Borrowing Policy of the Municipality are as follows:

- To comply with the legislative requirements;
- To ensure that funding sources are managed efficiently and effectively;
- Ensuring that adequate financial ratios are maintained at all times, for the management of cash flows; and
- To ensure that external funding is received from reputable service providers.

1.4 Definitions

The following definitions are applied in this document:

Act	Means the Municipal Finance Management Act, No 56 of 2003 and includes Sections 46 and 47 of the Act.
Council	Means the Council of the Kouga Municipality.
GRAP	Means the statements of Generally Recognised Accounting Practice that details the accounting treatment of Statement of Financial Position and Statement of Financial Performance items.
Lead debt arranger (also debt initiator or debt negotiator)	Means a person appointed by the Kouga Municipality to make arrangements for debt within the financial markets by way of loans or bonds.
Borrowing	Means funding that will be repaid to a financial service provider over more than one year.
MTREF	Means the Medium Term Revenue and Expenditure Framework which is assessed annually, reviewing the budget over a range of multiple years.
Municipality	Means the Kouga Municipality (KM).
Policy	Means the borrowing policy.

2 Legislation

Section 230 (A) of the Constitution provides the following:

1) A Municipal Council may, in accordance with national legislation—

(a) raise loans for capital or current expenditure for the municipality, but loans for current expenditure may be raised only when necessary for bridging purposes during a fiscal year; and

(b) bind itself and a future Council in the exercise of its legislative and executive authority to secure loans or investments for the municipality

Section 19 of the Municipal Finance Management Act, Act no 56 of 2003 states that:

1) A municipality may spend money on a capital project only if—

(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17 (2);

(b) the project, including the total cost, has been approved by the council;

(c) section 33 has been complied with, to the extent that that section may be applicable to the project; and

(d) the sources of funding have been considered, are available and have not been committed for other purposes.

(2) Before approving a capital project in terms of subsection (1) (b), the council of a municipality must consider—

(a) the projected cost covering all financial years until the project is operational; and

(b) the future operational costs and revenue on the project, including municipal tax and tariff implications

(3) A municipal council may in terms of subsection (1) (b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme.

Section 46 of the Municipal Finance Management Act, Act no. 56 of 2003 states that:

(1) A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of this Act, including section 19, and only for the purpose of—

(a) 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 subsection (4); or

(b) re-financing existing long-term debt subject to subsection (5).

(2) A municipality may incur long-term debt only if—

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

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

(3) 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—(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

(b) 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.

(4) Capital expenditure contemplated in subsection (1) (a) may include—

(a) financing costs, including—

(i) capitalised interest for a reasonable initial period;

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

(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;

(b) costs of professional services directly related to the capital expenditure; and

(c) such other costs as may be prescribed.

(5) A Municipality may borrow money for the purpose of re- financing existing long term debt, provided that:

(a) the existing debt was lawfully incurred;

(b) the long term debt does not extend the terms of the debt beyond the useful life of the assets for which the money was originally borrowed;

(c) the net present value of the projected future payments after re- financing is less that the net present value of projected payments before the re-financing; and

(d) the discount rate used in projecting the net present value referred to in paragraph (c), and any assumptions must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

(6) Municipality's long-term debt must be consistent with its capital budget referred to in section 17 (2)

In terms of Section 47 of the Municipal Finance Management Act, Act no. 56 of 2003:

A municipality may incur debt only if-

(a) it is denominated in Rand, and is not indexed to, or affected by fluctuations in the value of the Rand against any foreign currency; and

(b) if section 48(3) has been complied with, if security is provided to the municipality.

3 Borrowing Policy

3.1 Background

It has been the policy of this municipality to fund its capital projects by:

- Firstly, using funding that does not attract finance charges or funding that does not have a direct impact on rates and tariffs, primarily from National and Provincial Government and other grants and transfers;

- Secondly, from the Capital Replacement Reserve (CRR); and

- Thirdly, raising external debt finance (e.g. loans/bonds) from financial services providers.

3.2 Legislative and accounting framework

3.2.1 Current legislation

The legal requirements, in terms of Section 46 and 47 of the Municipal Finance Management Act, Act no. 56 of 2003 for the raising of a loan are included in detail in section 2 of this document.

3.2.2 Accounting Framework

Accounting for long term funding for capital projects/ assets must be in terms of all applicable statements of Generally Recognised Accounting Practice.

3.3 Assessment of funding requirements

Funding requirements for capital projects/ assets must be determined annually, including an assessment of the funding sources. This annual assessment of funding requirements and sources takes into account a multi-year period, and is done in order to determine the adequacy of the funding sources available to meet the determined requirements. Council must take into account how funding decisions affect the operating budget for the multi-year period, which will include the long term impact on tariffs.

3.4 Raising of external debt for future financing of capital expenditure

The Municipality may consider using the services of an expert, such as a lead debt arranger, to assist in raising external debt.

3.5 Compliance with financial service providers' requirements

3.5.1 Financial ratios

Where it has been decided that funding will be sourced externally, as it is an option available to the Municipality, it should be noted that financial service providers, when considering an application for external debt from a municipality, take certain financial ratios into consideration.

It is the CFO's responsibility to determine the applicable ratios for borrowing and suggested performance levels.

3.6 Raising of external debt with financing institutions and repayment of the debt

Where external debt is raised the loan repayment period should, if possible, be equal to or less than the economic life of the asset to be constructed.

Apart from satisfying the legal and accounting requirements, the Municipality's ability to service the consequential loan repayments must be assessed in the form of an annual financial plan covering the MTREF.

The financial plan must address, at a minimum, the following:

- ability to service the anticipated loan repayments;
- measures to enhance revenue and revenue collection; and
- ability to finance the associated operating costs.

The financial plan must be reviewed on an annual basis and must be submitted to Council, together with any amendments to this policy.

4 Review of the policy

This Borrowing Policy is the sole policy, governing long term funding of capital projects undertaken by the Municipality. This policy will be reviewed annually.