

UMJINDI MUNICIPALITY

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ANNEXURE X

Debt Management Policy

UMJINDI LOCAL MUNICIPALITY

DEBT MANAGEMENT POLCIY





Core Business Area	Financial Services Directorate
Operational Area	Income / Debt Management

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PREAMBLE

Whereas Sections 45 to 51 of the Local Government: Municipal Finance Management Act, 2003 (No. 56 of 2003) prescribe the conditions under which the municipality may occur debt;

And whereas the municipal council wishes to stipulate the administrative arrangements regulating borrowing;

Now therefore the municipality of Umjindi adopts the following Debt Management Policy.

DEBT MANAGEMENT POLICY MUNICIPALITY

Definitions

1. (1) "*Chief financial officer*" means an officer of a municipality designated by the municipal manager to be administratively in charge of budgetary and treasury functions.

- (2) "*Debt*" means –
 - (a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft, or the issuance of municipal securities; or
 - (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

- (3) "*Delegation*" in relation to a duty, includes an instruction or request to perform the duty, and *delegate* has a corresponding meaning;

- (4) "*Financial statements*" means statements consisting of at least –
 - (a) a balance sheet;
 - (b) an income statement;
 - (c) a cash-flow statement;
 - (d) any other statements that may be prescribed; and
 - (e) any notes to these statements.

- (5) "*Financing agreement*" includes any long-term agreement, lease, installment purchase contract, or hire purchase agreement under which a municipality undertakes to pay the capital cost of property, plant, or equipment over a period of time.

- (6) "*Lender*" in relation to a municipality, means a person who provides debt finance to a municipality;
- (7) "*Long-term debt*" means debt which is repayable over a period exceeding one year.
- (8) "*Municipal council or council*" means a municipal council referred to in section 157 of the Constitution;
- (9) "*Municipal debt instrument*" means any note, bond, debenture, or other evidence of indebtedness issued by a municipality, including dematerialise or electronic evidence of indebtedness intended to be used in trade;
- (10) "*Municipality*" –
- (a) as a corporate entity, means a municipality as described in section 2 of the Local Government: Municipal Systems Act; 2000 (No. 32 of 2000) and
 - (b) as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998);
- (11) "*Municipal manager*" means a person appointed in terms of section 82 of the Municipal Structures Act as the head of the municipality's administration;
- (12) "*Security*" means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor; and
- (13) "*Short term debt*" means a debt which is repayable over a period not exceeding one year.

- (14) "*The Act*" means the Local Government: Municipal Finance Management Act, 2003 (No. 56 of 2003).

Objectives

2. (1) The objectives of this policy are to:
- (a) record the circumstance under which a municipality may incur debt.
 - (b) describe the conditions that must be adhered to by the Municipal Manager or his/her delegate when a loan application is submitted to council for approval; and
 - (c) record the key performance indicators to ensure access to the money markets.

Scope of the policy

3. (1) This policy deals with:
- (a) conditions on which municipal debt may be incurred;
 - (b) security;
 - (c) approvals; and
 - (d) financial viability.

Conditions on which Municipal Debt may be incurred:

4. (1) Statutory conditions
- (a) The statutory conditions under which a municipality may occur short- and long-term debt are prescribed in Sections 45 to 50 of the Act.
- (2) Administrative conditions

- (a) To obtain council's approval for a long-term loan the municipal manager or his delegate must submit:
 - (i) The bid committee's recommendation after having obtained and evaluated quotations from at least three financial institutions stating the loan period (payback-period), comparable interest rates and administrative costs;
 - (ii) a long-term operating budget reflecting the effect of depreciation and/or capital costs on service charges; and
 - (iii) statements from the financial institutions that the proposed instruments are in line with national legislation.
- (b) To obtain council's approval for a bank-overdraft, call bond or short-term loans the Municipal Manager or his/her delegate must submit:
 - (i) a cashflow statement indicating the anticipated cash shortfalls and future income streams that will repay the short-term debt; and
 - (ii) monthly cashflow reports indicating progress toward the repayment of the bankoverdraft, call bond or short-term loan.

Security

- 5. (1) The conditions under which the municipality may provide security for its debt obligations are prescribed in section 48 of the Act.

Approval

- 6. (1) If the council approves the loan, the municipal manager should enter into a financial agreement with the recommended financial institution on councils behalf. The chief financial officer must ensure that the term and conditions are as originally agreed before the council is committed.

- (2) All municipal loan commitments must be recorded in a loans register reflecting:-
- (a) the type of loan;
 - (b) lending institutions;
 - (c) purposes of loans;
 - (d) loan periods;
 - (e) interest rates;
 - (f) capital repayments (redemption);
 - (g) due dates;
 - (h) securities;
 - (i) assets linked to loans;
 - (j) depreciation costs of the assets; and
 - (k) difference between interest and redemption and depreciation cost.
- (3) Sufficient provision must be made in the budget to depreciate assets linked to the loan. Where the depreciation is insufficient to cover the interest and redemption costs an additional provision for the difference between depreciation and interest and redemption must be made.
- (4) The municipal manager or his/her delegate must arrange for the relevant documentation to be completed in order for payments to be made timeously i.e. debit order.

Financial viability

7. (1) The municipal manager or his/her delegate 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 and the end of each financial year.

(2) The chief financial officer must complete a financial analysis of at least the following ratios and norms and recommend possible steps to rectify deviations to the municipal council:

(a) Coverage of Short-term Portion of Long Term Liabilities (STPLTL)

$[(\text{Investment} + \text{cash}) - \text{bank overdraft}] / \text{STPLTL}$

Norm: 100% coverage

(b) Short-term debt

$\text{Bank-overdraft} + \text{STPLTL} + \text{call loans} / \text{total Income}$

Norm: less than 8,33% of income

(c) Debtors tests

$(\text{Gross Debtors} / \text{total income from rates and service charges}) \times 365$

Norm: between 42 to 56 days

(d) Creditors test

$(\text{Creditors} / \text{total expenditure}) \times 365$

Norm: less than 60 days

(e) Capital Cost Burden

$\text{Total capital cost} / \text{total income}$

Norm: less than 20%

(f) Staff cost

$\text{Salaries} / \text{total gross expenditure}$

Norm: less than 35% of gross expenditure

(g) Grant dependency

$\text{Grant \& Subsidies} / \text{total income}$

Norm: Less than 4% of income

(h) Cash funded operating budget

$\text{Provisions for WC} + \text{bad debt} / \text{gross increase in debtors}$

Norm: 100% coverage

- (3) The municipal manager must indicate the steps already taken to address deviations from the norms or any other actions required to ensure access to the capital market on a continuous basis.

SHORT TITLE

8. This policy will be known as the debt management policy for the Umjindi municipality.