



BORROWING POLICY

1. Application and Scope

The policy will be effective as from 1 July 2010.

2. Objectives of Policy

To regulate the borrowing framework of Midvaal Local Municipality to ensure optimum use is made of financial gearing.

3. Introduction

Given that a large portion of municipal infrastructure has a long-term economic life and a general principle is that the current ratepayers should not pay for the usage of future ratepayers, there is a strong economic argument to finance this capital expenditure through long-term borrowing in order to accelerate the pace of delivery and to mirror the repayment of funds with the economic life of the asset.

The economic life of assets should always be equal to or longer than the tenure of the debt finance.

4. Legislative Framework

Chapter 6 of the MFMA and the National Treasury Municipal Regulations on Debt Disclosure must be complied with.

4.1. Process

The process as required by the MFMA is as follows:

Section 46

- (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.

4.2. Other Conditions

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

Section 47 - A municipality may incur debt only if:

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

Section 48 (Security)

- (1) A municipality may, by resolution of its council, provide security for-
 - (a) any of its debt obligations; (If security is provided, there are additional conditions to be complied with).

Section 49 (Disclosure)

- (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.

- (2) 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.

In addition to the above MFMA requirements, the Debt Disclosure Requirements must be complied with in respect of information to be provided.

The following Information to be provided to National Treasury with respect to a long-term debt proposal.

	Details	MFMA
1	A copy of the <i>information statement</i> required by section 46(3), containing particulars of the proposed borrowing (debt) instrument.	46(3)(a)(i)
2	If not already incorporated in the <i>information statement</i> , please ensure the following information is provided separately (note QBMR = Quarterly Borrowing Monitoring Return to NT, see over page for further information): <ul style="list-style-type: none"> • amount of debt to be raised through borrowing or other means • 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) • total estimated cost of the borrowing (debt) over the repayment period • type of instrument (select from QBMR) • security to be provided (select from QBMR) and provide details • source of loan funds (select from QBMR) 	46(3)(b)(i) and (ii)
3	A schedule of consultation undertaken, including: <ul style="list-style-type: none"> • date(s) when the <i>information statement</i> was made public • details of meetings, media adverts and other methods used to consult on the proposed long-term borrowing (debt) 	46(3)(a)(i), (ii)
4	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(6) 17(2) 19

	Details	MFMA
5	<p>If the borrowing (debt) is for the purpose of refinancing existing long-term borrowing (debt), the following information:</p> <ul style="list-style-type: none"> • 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 payments <u>before</u> refinancing, including the discount rate and assumptions used. • the net present value of projected future payments <u>after</u> refinancing, including the discount rate and assumptions used. 	46(5)
6	<p>What source of funding will be used to repay the loan? Please specify the revenue stream(s) and whether this is existing revenue, or new revenue.</p>	19(1)(d)
7	<p>Schedule of <u>all</u> long-term borrowing (debt) obligations in the format of the QBMR showing principal and interest payments for the life of <u>all loans</u> and any associated investments set up as sinking funds etc.</p>	
8	<p>In the case of a municipal entity, details of any guarantee or other forms of security to be issued by the parent municipality(s) in respect to the entity's proposed borrowing (debt).</p>	50
9	<p>Please note: a copy of the council/board of directors' resolution approving the borrowing (debt) instrument should be forwarded once approved.</p>	

5. 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 the 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.

In a municipal environment, however, it is advisable that interest rate risk be limited insofar as possible. This will ensure stability in terms of annual rates increases and reduce the potential of unfunded liabilities arising during the year without the ability to adjust the revenue of the municipality.

The policy directive is to negotiate fixed interest rates on all long term borrowings. Variable rates should be used for short term debt only.

6. Form of borrowings

Long term borrowings will be taken up in the following forms:

- Balance Sheet loans (both secured and unsecured) from registered South African banks and/or other financial institutions offering balance sheet loans
- Long term debt agreements between the RSA National Government and the municipality (where applicable)
- Long term debt agreements between State Owned Enterprises of the RSA National Government and the municipality (where applicable)
- Long term debt agreements between municipalities (where applicable)

7. Limitations

Midvaal's Long Term Financing Strategy has been used as basis to determine the affordability of loans over the Medium Term Income and Expenditure Framework (MTIEF) Period.

The assumptions of the forecast model are as follows:

- The operating income and expenditure will grow with between 6% and 35% per annum (within the current inflation target setting and Eskom indicative price increases).
- Debtor's payment levels of 97% on current billings. In addition, amounts in arrears will be collected and written off with varying amounts over the 3 year period.
- The capital budget has an actual implementation rate of 100%. This was used as indicator of how the cash position will be as "worst-case" scenario.

8. Conclusion

The provision of municipal and social infrastructure to the community should be fast-tracked to ensure backlog eradication within the timeframes set by National Government, or as soon as possible thereafter. In order to achieve this, a myriad of funding methods, including borrowings will be applied by the Midvaal Local Municipality.