

**WEST COAST
DISTRICT MUNICIPALITY**

DEBT MANAGEMENT POLICY

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DEBT MANAGEMENT POLICY: WEST COAST DISTRICT MUNICIPALITY

Introduction

A municipality may incur two types of debt, namely short-term and long-term debt.

A short-term debt may only be incurred when necessary to bridge:

- Shortfalls within a financial year in anticipation of specific and realistic income to be received within that financial year; or
- To finance capital needs within a financial year in anticipation of funds deriving from specific and enforceable grants or long term debt commitments.

A short-term debt:

- Must be paid off within a year; and
- May not be renew or refinanced.
- “Statutory Conditions” means the Conditions and Criteria for the Raising of Loans by Municipalities contained in the Department of Finance Regulations No. R412 of 27 March 1998, or any amendment or substitution thereof.

A long-term debt:

- may only be incurred for the purpose of capital investment in property, plant and equipment to be used for the purpose of achieving the objects of local government.

No lender may extend credit to a municipality for the purpose of renewing or refinancing debt that must be paid off in terms of the above.

If a lender willfully extends credit to a municipality for the purpose of renewing or refinancing debt, the municipality is not bound by the contract in terms of which the credit was extended to the municipality.

The Municipal Manager is the Accounting Officer of the municipality. However, he/she may delegate certain duties/tasks to designated Officials, who would be accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his designates.

1. Definitions

Accounting officer means the municipal manager.

Chief financial officer means an officer of a municipality designated by the Municipal Manager to be administratively in charge of budgetary and treasury functions.

Councillor means a member of a municipal council.

Councillor responsible for financial matters means –

- (a) in the case of a municipality with an executive committee referred to in section 42 of the Municipal Structures Act, the member of the committee elected as mayor;
- (b) in case of a municipality with an executive mayor referred to in section 60 of the Municipal Structures Act, the executive mayor; and
- (c) in case of a municipality which does not have either an executive committee or an executive mayor, the councillor to whom the responsibility for budgetary matters has been assigned by the council;

Creditors in relation to a municipality, means any person to whom money is owing by the municipality.

Debt means –

- (a) a monetary liability or 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.

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

Financial statement means statements consisting of at least –

- (a) a balance statement;
- (b) an income statement;
- (c) a cash-flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements.

Financial year means a year ending 30 June.

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.

Lender in relation to a municipality, means a person who provides debt finance to a municipality;

Local municipality means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality;

Long-term debt means debt which is repayable over a period exceeding one year.

Municipal council or council means a municipal council referred to in section 157 of the Constitution;

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;

Municipality –

- (a) as a corporate entity, means a municipality as described in section 2 of the Municipal Systems Act; 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);

Municipal manager means a person appointed in terms of section 82 of the Municipal Structures Act as the head of the municipality's administration;

Security means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor; and

Short term debt means a debt which is repayable over a period not exceeding one year.

2. Objectives

The objectives of this policy are to:

- Record the circumstance under which a municipality may incur debt.
- 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.
- Record the key performance indicators to ensure access to the money markets.

3. Scope of the policy

This policy deals with:

- Conditions on which municipal debt may be incurred.
- Security.
- Approvals.
- Financial viability.

4. Conditions on which Municipal Debt may be incurred:

4.1 Statutory conditions

A municipality may incur debt provided:

4.1.1 The debt is denominated in Rand and is not indexed to, or affected by fluctuations in the value of other currencies.

4.1.2 The debt is approved by resolution of the council.

4.1.3 The Municipal Manager, at least 21 days prior to the meeting of the council at which the resolution is to be considered, has published a notice in a newspaper of general circulation:

- Stating particulars of the draft resolution, including the amount of the loan, the purpose of the loan to be incurred and the particulars of any security to be provided; and
- Inviting the public to submit written representations to the council in respect of the draft resolution.

4.1.4 The Municipal Manager prior to the adoption of the resolution, has submitted an information statement to the council setting out the purpose for which the debt is to be incurred, the anticipated total cost of credit over the repayment period, the essential repayment terms, and particulars of any security to be provided;

4.1.5 The relevant resolution was adopted at a meeting of the council which was open to attendance by the public; and

4.1.6 Where security is to be provided, the provisions of section 5 below have been complied with.

4.2 Administrative conditions

4.2.1 To obtain council's approval for a long-term loan the Municipal Manager or his delegate must submit:

- A quotation from at least three financial institutions stating the loan period (payback-period), comparable interest rates and administrative costs.
- A long-term operating budget reflecting the effect of capital costs on service charges.
- Statements from the financial institutions that the proposed instruments are in line with national legislation.

4.2.2 To obtain council's approval for a bank-overdraft, call bond or short-term loan the Municipal Manager or his delegate must submit:

- A cashflow statement indicating the anticipated shortfalls and anticipated further income streams that will repay the short-term debt.
- Monthly cashflow reports indicating progress toward the repayment of the bankoverdraft, call bond or short-term loan.

5. Security

5.1 A municipality may by a resolution of the council authorise security to be provided for any of its debt obligations.

5.2 Without contravening the above point, a municipality, when incurring debt, may:

- (a) Undertake to maintain revenues or specific charges, fees, tariffs or funds at a particular level or at a level sufficient to meet its obligations arising from that debt;
- (b) Undertake to effect payment directly from monies or sources that may become available and authorise direct access to such sources to ensure payment of those obligations;
- (c) Undertake to make provision in its budgets for the payment of those obligations, including capital and interest;
- (d) Undertake to deposit funds with the lender or a third party as security for the debt;
- (e) Agree to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to ledgers, including revenue intercepts, payments into special purpose funds or accounts or other payment mechanisms or procedures;
- (f) Cede as security any category of revenue or rights to future revenue specified in the financing agreement or information statement contemplated in 3.2 above;
- (g) Undertake to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;
- (h) Agree to restrictions on debt the municipality may want to incur in future; and
- (i) Agree to such other arrangements, as the municipality may consider necessary and prudent.

5.3 A council resolution authorizing the giving of security in terms of 3.1:

- (a) Must determine whether the assets or right with respect to which the security is given, is necessary for providing a minimum essential municipal service; and

- (b) If so, must indicate the manner in which the availability of the asset or right for the provision of that service will be protected.
- 5.4 If the resolution has determined that the asset or right is necessary for providing a minimum essential municipal service, the lender to whom the municipal security is given, may not, in the event of a default by the municipality, deal with the asset or right in the manner that would preclude or impede the continuation of the minimum essential municipal service.
- 5.5 A determination in terms of 3.3 that an asset or right is not necessary for providing a minimum essential municipal service is binding on the municipality until secured debt has been paid in full.

6. Approval

- 6.1 If the council approves the loan, the Municipal Manager or Municipal Treasurer should enter into an agreement with the recommended financial institution on councils behalf. The Municipal Treasurer ensure that the term and conditions are as originally agreed before committing the council.
- 6.2 The loans register must then be updated and a spreadsheet drawn up reflecting at least the following relevant information:
 - (a) Type of loan;
 - (b) Financial institution;
 - (c) Purpose of loan;
 - (d) Loan period;
 - (e) Interest rate;
 - (f) Installments (capital and interest);
 - (g) Due dates; and
 - (h) Security.

- 6.3 The budget must be updated to facilitate the repayments of the loans.
- 6.4 Arrange for the relevant documentation to be completed in order for payments to be made timeously i.e. debit order.

7. 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 statement every year.
- 7.2 An analysis of at least the following ratios and comparison to the following norms must be included in the report:

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

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

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**
Grant & Subsidies/Total income
Norm: Less than 4% of income
- (h) Cash funded operating budget**
Provisions for WC + Bad debt/Gross increase in debtors
Norm: 100% coverage
- (i) Salary and bulk purchases coverage**

$$\frac{[(\text{Investments} + \text{cash}) - \text{Bankoverdraft}]}{12} (\text{Salaries} + \text{Bulk purchases})$$
Norm: 200% coverage
- (j) Financing method for net current assets**
Deposits + accumulated surplus/Net current assets
Norm: 100% coverage
- (k) Financing method for long-term assets**
Borrowing + statutory funds/Long-term assets + Long-term debtors + Deferred Charges
Norm: 100% coverage

7.3 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.

8. SHORT TITLE

This policy shall be known as the Debt Management Policy of the West Coast District Municipality.

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