UGU DISTRICT MUNICIPALITY

Policy Custodian	**Budget & Treasury Office**
Policy Name	**Borrowing Policy**
Policy Number	**5/2/P**
Status **Date**	**Adopted** **2025/2026 FY**
Approved by	**Council** **C/R 11.1**
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Date for Next Review	**2026/2027 FY**

Contents

PREAMBLE

Whereas section 230A of the Constitution of the Republic of South Africa, 108 of 1996 permits Municipalities to raise loan, in accordance with the Constitution. Chapter 6 of the Municipal Finance Management Act, Act 56 of 2003 prescribes the types of debt and conditions under which the Municipality may incur the said debt. This Policy sets out the objectives, principles, and guidelines for borrowing, ensuring that debt is raised prudently, transparently, and in alignment with municipal financial sustainability.

1. INTRODUCTION

The Municipality sets itself the objective of becoming financially sustainable, ensuring basic levels of service delivery to the entire community. The entire service delivery gives rise to a large demand for building infrastructure, resulting to requirement of additional funding. Therefore, borrowing is an essential element to obtain additional funding sources to fund Municipal capital programmes.

2. DEFINITIONS

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

"**Disclosure statements**" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instruments; and
- a person who intends to incur debt by issuing securities backed by municipal debt.

"**Financing agreement**" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"**Lender**" means a person who provides debt finance to the Municipality.

"**Long term debt**" means debt repayable by the Municipality over a period exceeding one (1) year.

"**Municipal debt**" means:

(a) A monetary liability or obligation on a municipality by:
- a financing agreement, note, debenture, bond or overdraft; and
- the issuance of municipal debt instruments.

(b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"Municipality" means Ugu District Municipality

"**Security**" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"**Short term debt**" means debt that is repayable over a period not exceeding one (1) year.

3. Policy Objectives

The purpose and objectives of this Policy are 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:

3.1. Manage interest rate and credit risk exposure.

3.2. Maintain debt within specified limits and ensure adequate provision for the repayment of debt.

3.3. Ensure compliance with all Legislation and Council policy governing borrowing of funds.

3.4. Ensure that borrowing is prudent, transparent, and financially sustainable.

3.5. Manage interest rate, credit, liquidity, and operational risks

4. Legislative Framework

All borrowings made by the Municipality shall be subject to the requirements of the Local Government:

4.1 Constitution of South Africa, Section 230A and 152

4.2 Municipal Finance Management Act, Act 56 of 2003 (Chapter 6: Sections 45–50)

4.3 Municipal Regulations on Debt Disclosure (GN R492, Government Gazette 29966, 2007)

4.4 MFMA Circulars and National Treasury guidelines

4.5 Related Municipal Policies: Budget Mangement Policy

4.6 Cash Management Policy,

4.7 Virement Policy,

4.8 Credit Control & Debt Collection

5. Policy application and Types of Debt

5.1. This Policy applies to the debt incurred by the Municipality through the issue of municipal debt instruments or in any other way.

5.2. Without deviating from the generality of the preceding subparagraph, this policy will apply:

5.2.1. To any debt, whether short -term or long term.

5.2.2. To any debt incurred pursuant to any financing agreement, which includes any of the following agreements under which the Municipality undertakes to repay a long-term debt over a period of time:

5.2.2.1. Loan agreements.

5.2.2.2. Leases.

5.2.2.3. Instalment purchase contracts.

5.2.2.4. Hire purchase arrangements.

5.2.3. To any debt created by the issuance of municipal debt instruments, including:

5.2.3.1. Any note.

5.2.3.2. Bond; or

5.2.3.3. Debenture; and

5.2.4. To any contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

6. Principles Guiding Borrowing Practices

The following principle shall guide the borrowing practices of the Municipality, namely:

6.1. Risk Management: The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rate and credit risk exposure.

6.2. Cost of Borrowings: The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, infrastructure needs, and the borrowing limits determined by Legislation.

6.3. Prudence: Borrowings shall be made with care, skill, prudence and diligence. To this end, officials of the Municipality are required to:

6.3.1. adhere to this policy, and other procedures and guidelines.

6.3.2. exercise due diligence.

6.3.3. prepare all reports in a timely fashion.

6.3.4. ensure strict compliance with all Legislation and Council policy.

6.4. Transparency Full disclosure to Council, National Treasury, and prospective lenders.

6.5. Accountability – Roles, responsibilities, and reporting lines must be clearly defined.

6.6. Alignment – Borrowing must align with revenue projections, credit control, and debt collection mechanisms.

6.7. **Guarantees**

6.7.1. The Municipality may issue guarantees only in accordance with the provisions of Section 50 of the MFMA.

ROLES AND RESPONSIBILITY

7.1. The Municipal Council must review, approve, and adopt the borrowing policy that guides how the municipality may borrow funds.

7.2. The Municipal Council also has an oversight role, as they monitor the municipality's debt levels and financial sustainability, ensuring borrowing does not create excessive financial risk.

7.3. The Municipal Manager, as Accounting Officer of the Municipality, shall be responsible for implementing this Policy, provided that he or she may delegate in writing any of his or her powers under this Policy to any other official of the Municipality.

7.4. The Chief financial officer shall be responsible for ensuring the following:

7.4.1. Risk management: Identifies and evaluates risks (interest rate risk, refinancing risk, currency risk).

7.4.2. Reporting and Transparency: Reports to the municipal council on existing debt levels, new borrowing proposals, repayment schedules

7.4.3. Affordability Analysis: Conducts affordability assessments before any borrowing and Advises council on the financial implications of proposed loans, and provides the necessary Liquidity ratios

7.5. The Legal Office shall be responsible for ensuring the following:

7.5.1. Legal Compliance and Advisory: Advise the municipal council and executive on legal risks related to proposed loans.

7.5.2. Confirm that borrowing aligns with constitutional and statutory mandates.

7.5.3. Contract Review and Negotiation: Ensure terms protect municipal interests.

7.5.4. Verify enforceability of agreements under applicable law

7.6. The Office of Budget and Treasury Office through, Cash Management shall be responsible in implementation, monitoring and evaluation of the policy.

7.7. **Internal Control**

The Accounting Officer shall ensure that mechanisms, procedures and systems are put in place to ensure that:

1. Duties are separated in order to prevent fraud, collusion and other misconduct.
2. loan agreements and contracts are kept in proper safe custody.
3. there is a clear delegation of duties relating to the borrowing process.
4. senior officials check and verify all transactions.
5. transactions and repayments are properly documented.
6. a Code of ethics and standards is established and adhered to.
7. procedures relating to the borrowing process are established.

7.8. National Treasury Reporting and Monitoring Requirements

The Municipality shall promptly submit all returns and reports relating to borrowings as required by National Treasury, including reports on the Municipality's external interest paid each month, and the quarterly itemization of all of its external borrowings.

8. Monitoring and Evaluation

8.1. Factors to be considered by the Cash Management Office, under Budget and Treasury Office when borrowing policy is evaluated and monitored

The Municipality shall consider the following factors when deciding whether to incur debt:

8.6.1. the type and extent of benefits to be obtained from the borrowing.

8.6.2. the length of time the benefits will be received.

8.6.3. beneficiaries of the acquisition or development financed by the debt.

8.6.4. the impact of interest and redemption payments on both current and forecast income.

8.6.5. the current and future capacity of the Municipality's revenue base to pay for borrowings.

8.6.6. other current and projected sources of funds.

8.6.7. likely movements in interest rates for variable rate borrowings.

8.6.8. competing demands for funds.

8.6.9. timing of money market interest rate movements and the long-term rates on the interest rate curve.

8.6.10. The Municipality will, in general, seek to minimise its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges.

8.7. Borrowing Limits and Sources

8.7.1. Subject to any particular determination of the Council of the Municipality, the Municipality may enter into financing agreements with:

8.7.2. Registered South African Banks.

8.7.3. The Development Bank of Southern Africa.

8.7.4. Vendors of goods acquired under instalment purchase contracts or hire purchase arrangements.

8.7.5. Any other institution approved by the Council from time to time.

8.8. Unless the Council of the Municipality specifically determines otherwise, the Municipality shall not incur any debt by the issuance of any municipal debt instruments.

8.9. Short-term Debt

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

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:

8.9.2. 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

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

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

8.10. Overdraft Facility

8.10.1. **Purpose**

8.10.1.1. The overdraft facility provides short-term financing to bridge temporary cash flow shortfalls and ensure uninterrupted service delivery. It is not for capital expenditure or long-term financing.

8.10.2. **Approval and Limits**

8.10.2.1. Overdrafts must be approved annually by Council.

8.10.2.2. Any increase during the financial year requires Council approval with supporting justification.

8.10.2.3. Maximum limits must align with cash flow projections and annual budget.

8.10.3. **Conditions of Use**

8.10.3.1. Facility may only be used for temporary operational funding.

8.10.3.2. Interest rates, fees, and repayment terms must be considered in advance.

8.10.3.3. Use must comply with Section 45(3) of the MFMA.

8.10.4. **Security**

8.10.4.1. Any security provided must comply with Section 48 of the MFMA and be Council-approved.

8.10.5. **Monitoring**

8.10.5.1. CFO to monitor usage daily and report monthly to Council.

8.10.5.2. Interest, costs, and repayments must be fully documented.

8.10.5.3. Facility must be repaid within the financial year, 8.10.6. **Governance and Compliance**

8.10.6.1. Only **authorized officials** may access the facility, following internal delegation procedures.

8.10.6.2. Subject to **internal controls, audit, and oversight**.

8.10.6.3. Must comply with **MFMA provisions, Treasury regulations, and Council resolutions**.

8.11. Long Term Debt

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

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

8.11.3. 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

8.11.4. Re-financing existing long-term debt, subject to section 46(5).

8.12. Refinancing

8.12.1. Short-term debt may not be renewed or refinanced where that would have the effect of extending the short-term debt into a new financial year.

8.12.2. The Municipality may borrow in order to refinance long-term debt subject to the conditions contained in Section 46(5) of the MFMA.

8.13. Early repayment of loans

8.13.1. No loans will be repaid before due date unless there is a financial benefit to the Municipality.

8.13.2. The Municipality shall therefore assess the nature and extent of any benefits of early repayment before it makes any such early repayment.

8.13.3. Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the assessment.

8.14. Debt Repayment Period

8.14.1. As far as is practical, cognisance must be taken of the useful lives of the underlying assets to be financed by the debt for purposes of determining the duration of the debt.

8.14.2. Should it be established that it is cost effective to borrow the funds for a duration shorter than that of the life of the asset, the Municipality should endeavour to negotiate terms for the loan agreement on a shorter duration.

8.15. Provision for Redemption of Loans

8.15.1. The Municipality may set up sinking funds to facilitate loan repayments, especially when the repayment is to be met by a bullet payment on the maturity date of the loan.

8.15.2. Such sinking funds may be invested directly with the Lender's Bank.

8.15.3. The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

8.16. Non-Repayment or Non-Servicing of Loan

8.16.1. The Municipality must honour all its loan obligations.

8.16.2. Failure to effect prompt payment may jeopardise the Municipality's credit rating and adversely affect the ability of the Municipality to raise loans in the future loans at favourable interest rates.

8.16.3. In addition to ensuring the timely payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements, including, in particular, the following where applicable:

8.16.4. furnishing audited annual financial statements.

8.16.5. maintaining long-term credit rating.

8.16.6. reporting of material changes in financial position of the Municipality.

8.17. Borrowing Prohibitions

8.17.1. The Municipality shall not under any circumstances borrow funds for the purposes of investing them.

8.18. Front-Loading Prohibited

The Municipality (shall only under the following specific conditions borrow funds) for the purposes of funding grant funded projects in advance and use future grants as security for the repayment of such advances.:

Approval from Grantor, inclusive of undertaking in writing that such approval will not, in any way, diminish the chances of the Municipality qualifying for such grant.

8.19. Resolution of Council approval

Conclusion of Agreement, to which Municipality, Grantor and relevant Treasury are Parties.

8.20. Security

8.20.1. Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).

8.20.2. Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

8.21. Disclosure

8.21.1. Section 49 of the MFMA requires that any person involved in the borrowing of money by a municipality must, when interfacing with a prospective lender or when preparing documentation for consideration by a prospective investor Any Official involved in the securing of loans by the Municipality must, when interacting disclose all relevant information in that persons possession or within that person's knowledge that may be material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.

8.21.2. In addition, the Disclosure Regulations establish detailed requirements for the disclosure of information to prospective lenders and investors. Regulations 2, 3, 4, 5, 15, 16 and 17 are of particular importance to the Municipality, given the nature of the borrowings which it intends to make.

8.22. Other Reporting and Monitoring Requirements

The Municipality shall on a monthly basis perform the following control and reporting functions relevant to borrowings:

1. Reconciliation of bank accounts.
2. Payment requisition verification and authorization.
3. Completion of South African Reserve Bank returns.
4. Maintain schedule of payment dates and amounts.
5. Complete National Treasury Cash Flow returns.
6. Submission of particulars of borrowings as required by Section 71 of Municipal Finance Management Act, Act 56 of 2003.
7. Perform analysis of ratios.
8. Scrutinise loan agreements to ensure compliance with loan covenants.
9. The Municipality shall on a quarterly basis perform the following control and reporting functions relevant to borrowings:
10. Submit National Treasury Borrowings return
11. Prepare debt schedules for reporting to the Executive Committee

9. Council approval

9.1. Sections 45(2) and 46(2) require that short-term debt and long-term debt respectively may be incurred only if: A resolution of the Council, signed by the Mayor, has approved the debt agreement.

10. Commencement of Policy

10.1. This Policy shall come into effect on the date of adoption by the Ugu District Municipality Council

11. AMENDMENT AND/OR ABOLITION

11.1 This policy may be amended or repealed by the Municipality through a Council Resolution.

12 COMPLIANCE AND ENFORCEMENT

12.1 Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

13 POLICY REVIEW

13.1 This Policy will be reviewed annually to ensure applicability and relevance.

Records of Approval

Meeting	Date	Resolution
Review 2021/2022		
Policy Review Committee	Policy Review Committee	Policy Review Committee
MANCO	MANCO	MANCO
Portfolio Committee on Finance	Portfolio Committee on Finance	Portfolio Committee on Finance
EXCO	EXCO	EXCO
Council	Council	Council
Review 2022/2023		
Policy Review Committee	Policy Review Committee	Policy Review Committee
MANCO	MANCO	MANCO
Portfolio Committee on Finance	Portfolio Committee on Finance	Portfolio Committee on Finance
EXCO	EXCO	EXCO
Council	Council	Council
Review 2023/2024		
Policy Review Committee	Policy Review Committee	Policy Review Committee
MANCO	11 March 2024	Recommended to Portfolio Committee on Finance
Portfolio Committee on Finance	20 March 2024	Recommended to Exco
EXCO	20 March 2024	Recommended to Council
Council	23 May 2024	Approved
Review 2024/2025		
Policy Review Committee	18 February 2025	Recommended to MANCO
MANCO	19 May 2025	Recommended to Finance Portfolio Committee
Joint Portfolio Committee on Finance and EXCO	26 May 2025	Recommended to Council
Council	29 May 2025	Approved
Review 2024/2025		
Policy Review Committee	24 February 2026	Recommended to MANCO
MANCO	04 May 2026	Recommended to Finance Portfolio Committee
Portfolio Committee On Finance	12 May 2026	Recommended to EXCO
EXCO	20 May 2026	Recommended to Council
Council	28 May 2026	Approved