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# MATATIELE LOCAL MUNICIPALITY

## DEBT CAPACITY POLICY

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1. OBJECTIVE

The objective of the policy is to define the circumstances under which the municipality can incur debt.

2. PRINCIPLES

The guidelines regarding debt is outline in Sections 45 to 49 of the Municipal Finance Management Act and provides for the following:

- 2.1 Short-term Debt can be incurred for operating or capital requirements, if it can be realistically repaid within a financial year; and
- 2.2 Long-term Debt can be incurred for the acquisition of property, plant and equipment, repayable over the estimated life of the assets financed.

3. LONG-TERM DEBT

- 3.1 The management team is responsible for the identification of the need to incur debt, in accordance with an approved budget.
- 3.2 The manager of the division requiring debt finance is responsible for the initiating of a request for debt finance for capital expenditure to the Municipal manager, which request should detail, at least, the anticipated cost of the property, plant and equipment to be financed, its estimated life, and the cash (if any) that will be generated by the item over its estimated life, with a motivation to support the financing thereof by means of Debt.
- 3.3 The Municipal Manager must consider the request, and only approve such, if he/she is convinced that the municipality can not do without the expense, and there is no alternative means of financing the purchase.
- 3.4 The Municipal Manager will ascertain, with the assistance of the Chief Financial Officer if the municipality will be able to afford the capital charges emanating from the debt, with due cognisance of the impact thereof on municipal tariffs and property rates.

3.5 The Municipal Manager will obtain at least three alternative quotations from financing institutions and prepare a recommendation regarding the most advantageous arrangement to the municipality, after approval of the debt to be incurred.

3.6 The Municipal Manager will then prepare the required information statement, as envisaged in Section 46(3) of the Municipal Finance Management Act, and seek approval from Council regarding the Debt.

#### 4. SHORT-TERM DEBT

4.1. Short-term debt will only be incurred when necessary to bridge financing, as required for Long-term debt, and only after approval has been obtained for such Long-term Debt in accordance with Section 46 of the Municipal Finance Management Act.

4.2. Short-term debt will under no circumstances be considered to finance operational costs.