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**DRAFT FUNDING AND  
RESERVES POLICY**

**2023/24**

## **1. Policy Title**

Funding and Reserves Policy

## **2. Main Purpose**

The funding and reserve policy is aimed at ensuring that the Municipality has sufficient and cost-effective cash funding in order to achieve its objectives through the implementation of its operating and capital budgets

## **3. Scope of the Policy**

This policy sets out the assumptions and methodology for estimating the following:-

- Projected/estimated revenue, billings, collections and all direct revenues;
- The provision for revenue that will not be collected;
- The interest the Municipality can expect to receive from investments;
- The proceeds the Municipality can expect to receive from the disposal of assets;
- The Municipality's borrowing requirements; and
- The funds to be set aside in reserves.

## **4. Strategic Objective**

To ensure that the municipality has prepared a credible and funded budget to sustain its operational requirements and meet its service delivery targets in terms of the South African Constitution and approved IDP.

## **5. Key Principles**

The Funding and Reserves Policy is based on the following principles:-

- Affordability;
- Financial sustainability;
- Equity; and
- Efficiency.

## **6. Governance Issues**

- The Constitution of the Republic South Africa, 1996
- Municipal Budget & Reporting Regulations, 2008
- Municipal Finance Management Act, (Act 56 of 2003)

## **7. Policy Procedures**

### **1.1 FUNDING OF THE ANNUAL BUDGET**

7.1.1 An annual budget may only be funded from:

- realistically anticipated revenues to be collected;
- cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and
- borrowed funds but only for the capital budget.

7.1.2 Realistic anticipated revenue projections must take into account:-

- projected revenue for the current year based on collection levels to date; and
- actual revenue collected in previous financial years.

1.1.3 Spending on a capital project may only occur if:-

- the money for the project, excluding the cost of feasibility studies, has been appropriated in the budget;
- the project, including the total cost, has been approved by Council;
- the sources of funding have been considered, are available and have not been committed for other purposes;
- Council has considered:-
  - the projected cost covering all financial years until the project is operational; and
  - the future operations costs and revenue on the project, including Municipal tax and tariff implications.

### **1.2 DEBT MANAGEMENT**

7.2.1 Debt is managed in terms of the Council's Credit Control Policy.

7.2.2 The estimated revenue that will not be collected is adequately budgeted as an expense and is based on the projected annual collection rate for services

### **1.3 CASH MANAGEMENT**

7.3.1 The availability of cash is one of the most important requirements for financial sustainability and must be closely monitored to ensure a minimum cash days on hand as may be determined from time to time.

7.3.2 Changes in the municipal environment that may have an impact on the municipal cash position include, but not limited to the following:-

- changes in revenue levels as a result of changes in consumption patterns (water restrictions, load shedding etc);
- reduced growth as a result of economic conditions;
- increase in non-payment rate due to economic conditions or political reasons; and
- implementation of electricity industry pricing policy (such as inclining block tariffs).

7.3.3 Surplus cash not immediately required for operation purposes is invested in terms of the Council's Investment and Cash Management Policy so as to maximise the return on investment.

### **1.4 OPERATING BUDGET**

7.4.1 The operating budget provides funding to departments for their medium term expenditure as planned. The Municipality categorises services rendered to the community according to its revenue generating capabilities as follows:-

- Trading services (services that generate predetermined surpluses that can be used to fund other services rendered by the Municipality);
- Rates and General (services that are funded by property rates, government grants or surpluses generated by the trading services).
  - Economic services (services that should at least break-even, but do not necessarily generate any surpluses to fund other services rendered by the Municipality);

7.4.2 The operating budget is funded from the following main sources of revenue:-

- Property rates;
- Service charges;
- Government grants and subsidies;
- Other sundry revenue, such as fines, interest received etc; and
- Cash backed accumulated surpluses from previous years not committed for any other purposes.

7.4.3 The following guiding principles apply when compiling the operating budget:-

- The annual budget must be cash backed;
- Growth parameters must be realistic taking into account the current economic conditions;
- Tariff adjustments must be realistic, taking into consideration affordability, bulk increases and future projected growth according to the approved Integrated Development Plan (IDP);
- Revenue from government grants and subsidies must be in line with allocations gazetted in the Division of Revenue Act and Provincial Gazettes;
- Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the transfer of funds such as:-
  - (a) a signed service level agreement;
  - (b) a contract or written confirmation; or
  - (c) any other legally binding document.
- Property rates are levied according to the Municipal Property Rates Act and Property Rates Policy based on market value. The budget is compiled using the latest approved Valuation Roll and any Supplementary Valuation Roll, consistent with current and past trends. Property rates and rebates are determined annually as part of the tariff setting process;
- Property rates rebates, exemptions and reductions are budgeted either as

revenue foregone or as a grant in aid in terms of relevant legislation

- Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service:-
  - (a) Metered services comprising of electricity and water:-
    - the consumption trends for the previous financial years;
    - envisaged water restrictions or load shedding when applicable; and
    - actual revenue collected in previous financial years.
  - (b) Refuse removal services:-
    - the actual number of erven receiving the service per category; and
    - actual revenue collected in previous financial years.
  - (c) Sewerage services:-
    - the actual number of erven receiving the service per category and/or consumption trends per category; and
    - actual revenue collected in previous financial years.
- Tariff rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant in aid in terms of relevant legislation;
- Other projected revenue is charged in terms of the approved sundry tariffs and fines considering the past trends and expected growth for each category.
- Estimated revenue that will not be collected will be expensed against the expenditure item debt impairment and is based on the Credit Control Policy.
- Accumulated surpluses may be utilized to fund current year's operating deficit.
- Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends.
- Depreciation charges are fully budgeted for according to the asset register.
- The annual cash flow requirement for the repayment of borrowings must be fully taken into consideration with the setting of tariffs.
- A detailed salary budget is compiled on an annual basis. All filled and funded vacant positions are budgeted for in total.
- To ensure the health of the municipal asset base, sufficient estimates must be made for the maintenance of existing and infrastructure assets based on affordable levels.

- Individual expenditure line items are to be reviewed each year when compiling the budget to ensure proper control over operating expenditure.

- Increases for these line items must be linked to the average inflation rate and Macro-economic indicators unless a signed agreement or contract stipulates otherwise.

## **7.5 CAPITAL BUDGET**

7.5.1 The capital budget provides funding for the Municipality's capital programme based on the Integrated Development Plan priorities.

7.5.2 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:-

- available Own Funds;
- Borrowings;
- Government Grants and Subsidies;
- public donations and contributions; and
- Surplus funds.

7.5.3 The following guiding principles apply when considering sources of funding for the capital budget:-

- Government grants and subsidies:-

(a) only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial Gazettes may be used to fund projects;

(b) the conditions of the specific grant must be taken into consideration when allocated to a specific project; and

(c) Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

- In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the transfer of funding is guaranteed by means of:-

(a) a signed service level agreement;

(b) a contract or written confirmation; and/or

(c) any other legally binding document.

- Public donations, contributions and other grants are provided for on the relevant



department's operating budget to the extent that the conditions will be met during the financial year.

- The borrowing requirements as contained in the borrowing policy are used as a basis to determine the affordability of external loans over the Medium Term Revenue and Expenditure Framework.

7.5.4 All capital projects have an effect on future operating budgets. The following cost factors should therefore be considered before approval:-

- Additional personnel cost to staff new facilities once operational;
- Additional contracted services, such as security, cleaning etc.
- Additional general expenditure, such as services cost, stationery, telephones, material etc.
- Additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.
- Additional costs to maintain the assets;
- Additional interest and redemption in the case of borrowings;
- Additional depreciation charges;
- Additional revenue generation. The impact of expenditure items should be offset by additional revenue generated to determine the real impact on tariffs

## **7.6 PROVISIONS**

7.6.1 A provision is recognized when the Municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

7.6.2 Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

7.6.3 The Municipality has the following provisions:-

- **Landfill Rehabilitation Provision**

The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected

future cost to rehabilitate the landfill site.

## **7.7 OTHER ITEMS TO BE CASH BACKED**

### **7.7.1 Donations, Public Contributions, Unspent Conditional Grants**

Revenue received from conditional grants, donations and funding is recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

## **7.8 IMPLEMENTATION AND REVIEW OF THIS POLICY**

7.8.1 This policy shall be implemented once approved by Council.

7.8.2 This policy must be reviewed on an annual basis and the reviewed policy tabled to Council for approval as part of the annual budget process.

## **8. Competence and Capacity to Implement**

- Budget and Treasury Office

## **8. Relevant Legislation Applicable to this Policy**

This policy gives effect to the provision of the following legislation.

- The Constitution of the Republic of South Africa, 1996
- The Municipal Budget & Reporting Regulations, 2008
- The Local Government Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)