RAY NKONYENI
MUNICIPALITY

"The Game changer of South Coast Development"

FUNDING AND RESERVES POLICY

2024/2025

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DEFINITIONS OF FUNDING AND RESERVES POLICY

"Accounting Officer"- means the Municipal Manager.

"Approved budget," means an annual budget-

(a) approved by a municipal council, or

(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"**Capital**" where used alone shall mean the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets.

"**Capital Budget"** this is the estimated amount for capital item in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost which is normally written off over a number of fiscal periods.

"**Capital Project**" means capital project as per mSCOA project segment.

***"*CRR"-**Capital replacement reserves .

"**Operating budget"** the towns financial plan, which outlines proposed expenditure for the coming financial year and estimates the revenue used to finance them,

"Rate" means a municipal rate on property envisaged in section 229 (1) (a) of the Constitution.

FUNDING POLICY

1. APPLICATION AND SCOPE

This policy is mandated by Section 8 of the Local Government: Municipal Budget and Reporting Regulations which is made in terms of section 168 of the Municipal Finance Management Act, 2003 (Act no.56 of 2003).

2. OBJECTIVES OF THIS POLICY

To ensure the operating and capital budgets of council are appropriately funded and also to ensure that provisions and reserves are maintained at the required levels to avoid future year unfunded liabilities.

3. INTRODUCTION

The municipal budget is prepared on the accrual basis, a system of accounting where transactions are brought to account in the financial year in which they occur irrespective of whether cash is is paid or received in respect of such transactions during the financial year concerned.

The municipality will fund its budget based on the endeavors to meet the amongst other the following national objectives; being to-

- Protect the poor;
- Build capacity for long-term growth;
- Sustain employment growth;
- Maintain sustainable debt level; and
- Address sectorial barriers to growth and investment.

The funding of the operating and capital budgets is done on an annual basis for the MTREF period. The budget is then balanced from an accounting (accrual) as well as a cash perspective. The impact of movements in the Statement of Financial Position is taken into account when considering the balancing of the budget.

4. PROJECTED BILLINGS, COLLECTIONS AND DIRECT REVENUE

These projections are prepared in accordance with the following annual approved council policies:

a) The Rates Policy which sets out the way the municipality may impose rates on property.
b) The Tariff Policy which guides the annual setting (or revision) of tariffs; and
c) The policy is applicable to all tariffs for electricity, water, sanitation, and solid waste services provided by the municipality. This policy is also applicable to all sundry tariffs.

5. FUNDING SOURCES FOR THE OPERATING AND CAPITAL BUDGET

5.1 The Operating Budget

The operating budget shall be financed from the following sources:

a) Service Charges such as;

- Refuse Removal Fees
- Sewerage Fees

b) Property Taxes

Increases in tariffs and rates will be based on actual billed revenue and as far as possible be limited to inflation plus an additional percentage increase to accommodate the growth of the town and more importantly to remain affordable and realistic.

c) Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

d) Rental Fees

Fees for rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year.

e) Fines

Fees for fines will be budgeted for based on the income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

f) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

5.2 The Capital Budget

5.2.1. Capital projects may only be funded;

- if approved in terms of an Integrated Development Plan of the municipality or a council resolution. The municipality may spend money on a capital project only;
- if the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget;

- provisions relating to contracts having future budgetary implications in terms of section 33 of the MFMA has been complied with, to the extent that that section may be applicable to the project; and
- the considered sources of funding are available with reference to acceptable documentation in terms of regulation 10 2(a) (b) and (c) of the Budget and Reporting Regulations and have not been committed for other purposes.

5.2.2. The Capital Budget will be funded from:

a) Own Funding Sources

The Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets.

b) Other Funding Sources

The capital budget shall also be financed from external sources such as the following:

- Grants and subsidies as allocated in the annual Division of Revenue of Act;
- Grants and subsidies as allocated by Provincial government;
- External Loans;
- Private Contributions;
- Contributions from the Capital Development Fund (developer's contributions); and
- Any other financing source secured by the local authority.

6. PROVISION FOR REVENUE THAT WILL NOT BE COLLECTED

The municipality makes provision in the operational expenditure budget for revenue that will not be collected in the budget year.

This provision that will be made is based on past trends in payment rates.

7. THE FUNDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM INVESTMENT

- The municipality makes provision in the operational revenue budget for revenue that will be realized on investment.
- The interest received on investment is included in the revenue budget.
- This forecast will be based on projected interest rates and projected investments for the period.

8. PROCEEDS FROM THE TRANSFER OR DISPOSAL OF ASSETS

The proceeds from transfer or disposal of assets will be budgeted in the operational revenue budget.

9. BORROWING REQUIREMENTS

The affordability of loans over the Medium-Term Revenue and Expenditure Framework (MTREF) period is determined before external loans are considered.

Capital costs (interest and redemption payments) should be within the acceptable norms and in terms of the Borrowing Policy.

10. CAPITAL REPLACEMENT RESERVE (CRR)

a) Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:
   i. Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes.
   ii. Interest on the investments of the CRR; and or in terms of the investments policy.
   iii. Additional amounts appropriated as contributions in each annual or adjustments budget.

b) Before any asset can be financed from the CRR the financing must be available within the reserve as cash because this fund must be cash backed.

c) If there is insufficient cash available to fund the CRR, this reserve fund will then be adjusted to equal the available cash.

RESERVES POLICY

11. LEGAL REQUIREMENTS

a) There are no legal requirements for the creation of reserves apart for the Housing Act, No.107 of 1997 that requires the creation of the Housing Development Fund.

b) According to Generally Recognised Accounting Practices (GRAP) such reserves may only be created if such reserves are cash backed. Fund accounting is not allowed, and any reserves must be legal reserves created by law or through a Council Resolution.

12. TYPES OF RESERVES

No non-cash funded reserve is allowed in Ray Nkonyeni Municipality.
The following reserve is allowed in Ray Nkonyeni Municipality:
- Capital Replacement Reserve (CRR)

12.1 *Capital Replacement Reserve (CRR)*

a) The capital replacement reserve is a capital asset financing source that represents an alternative to other funding sources available, namely external loans, government grants and subsidies.

b) An amount equal to the actual depreciation charges, bulk service levies received, the VAT
claimed on capital budget projects (unless committed as own funding on that particular grant), revenue received from insurance claims linked to the replacement of capital assets as result of insurance claims and the proceeds on land sales must be contributed to the capital replacement reserve – Only to be applicable once the municipal budget is cash funded with the implementation of the Budget Funding Plan.

c) As at year end the Chief Financial Officer must determine whether the Municipality meets its minimum liquidity criteria as stipulated in the Cash Management and Investment Policy. Excess cash in addition to the prescribed level in terms of the Cash Management and Investment Policy is to be calculated and may be appropriated to the Capital Replacement Reserve.

d) The Capital Replacement Reserve may only be utilised for purpose of financing capital assets, specifically for the replacement or renewal of existing capital assets and may not be used for the maintenance of any capital assets.

e) The amount available for financing of the next year capital program is determined as follow: (Financial years has been included only for reference purposes)

Step 1 - Determine the excess cash:

Excess cash in CRR is determined by using the opening balance of previous year (1 July 2023) less the
current year capital budget allocation (2023/2024) finance from the capital replacement reserve.

Step 2 - Determine the current year contributions to CRR:

The current year contributions are the budgeted depreciation charges, bulk service levies received,
the VAT claimed on capital projects, and the proceeds on land sales (2023/2024)

Step 3 – Determine the available amounts:

- The available amount for the next budget (2024/2025) is 50% of the result as determined in Step1
plus the result of Step 2. (% to be increased once the budget is funded)
- The exercise in terms of step 2 is repeated for the two outer years using the budgeted figures,
whilst the rest of the surplus in Step 1 is divided equally between two outer years.
- The intension is never to deplete the capital replacement reserve over a MTREF period, but rather to sustain at least the current levels of own funding available for the financing of the capital program.

The municipality aims but is not limited to use not less than 80% of the programmes or projects financed from the Capital Replacement Reserve towards the upgrading, replacement and refurbishment of existing assets and the rest towards the creation of new capital assets.

13. REVIEW OF POLICY

The Chief Financial Officer shall be the custodian of the Policy and shall be responsible for the review of the policy, every year (1) as minimum. The approval of this policy shall lie with the Municipal Executive Committee.