

SWARTLAND MUNICIPALITY

FUNDING AND RESERVES POLICY



REVIEWED AND AMENDED

**FOR THE 2024/25 AND 2025/26
FINANCIAL YEARS**

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FUNDING AND RESERVE POLICY

1. INTRODUCTION AND OBJECTIVE

The Council sets as objective a long term financially sustainable municipality with acceptable levels of service delivery to the community.

This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

2. SECTION A: FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes. and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes and the budget for such capital project has been approved by council.

The requirements of the MFMA are therefore clear in that the budget must be cash – funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care with the primary objective of ensuring that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

The municipality will not approve a budget which is not cash – funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, provided that the requirements of the MFMA must at all times be adhered to.

2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

2.5 DEBT MANAGEMENT

Debt must be managed in terms of the municipality's Debt and Borrowings Policy, together with any requirements in this policy

2.6 FUNDING OF THE OPERATING BUDGET

2.6.1 Basis of Calculation

- The incremental approach is used in preparing the annual Operating Budget, except in cases where contractual commitment has been made that would span over more than one financial year. In these instances the zero-based method will be followed.
- The annual Operating Budget shall be based on realistically anticipated revenue that should be equal to the anticipated operating expenditure in order to result in a balanced budget.
- An income-based approach shall be used where the realistically anticipated income is determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

2.6.2 Assumptions for different categories

The following assumptions are used when compiling the budget for the following expenditure categories:-

2.6.2.1 Employee-Related Costs and Councillors' Remuneration

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitation and percentages as determined by the responsible National Minister

2.6.2.2 Depreciation and Amortisation

Depreciation is calculated at Deemed cost using the straight line method, to allocate depreciation cost to the residual values over the estimated useful lives of the assets.

2.6.2.3 Interest on External Borrowings

The above refers to interest and redemption that has to be repaid on an external loan taken up by the Municipality. The Budget is determined by the repayments that the Municipality is liable for based on the loan agreements entered into with the Institutions.

2.6.2.4 Bulk Purchase

The expenditure on bulk purchases shall be determined by using the tariffs as stipulated by the WCDM and NERSA or any other service provider from time to time.

2.6.2.5 General Expenses

The growth will be based on a percentage growth in line with the prevailing growth rates and the CPI and prior actual expenditure trends. Such expenditure are commonly separately disclosed under various headers such as Other Expenditure, Contracted Services, Inventory Consumed etc.

2.6.2.6 Contributions to funds

Contributions made to provisions are based on previous actual expenditure and or calculations for future contributions as reflected in the actuarial and engineer reports for post-employment benefits and landfill site restoration, respectively and any other factor that could have an effect.

2.6.2.7 Debt impairment

Contributions made to debt impairment is based on experience from past events given reasonable predictions about how the macro-economic factors might impact the collection of revenue based on each revenue type (e.g. the collection of traffic fines would be different from the collection of electricity).

2.6.2.8 Transfers and subsidies paid

The amount payable to charities, social upliftment projects and other similar transfer payments are subject to the provisions of the Grants-in-Aid policy.

2.6.3 The Operating Budget shall be financed from the following sources.

- Electricity charges
- Water sales
- Refuse removal fees
- Sewerage fees
- Other Service Charges

These charges will be levied based on the approved tariff policy.

2.6.3.1 Service charges

Service charges are those charges levied in terms of the services provided to consumers in respect of the 4 main categories of services, namely Electricity, Water, Sanitation (sewerage) and Refuse. All service charges comprise a minimum fee per annual (often levied monthly). Where a consumer elects to not subscribe to a service, a minimum monthly levy is still charged, namely the availability charge. Tariffs are set in accordance with the stipulations as set out in the Tariff Policy.

2.6.3.2 Property Rates

Assessment rates are levied in terms of the Municipal Property Rates Act based on land and improvements value. Tariffs are set in accordance with the stipulations as set out in the Tariff Policy.

2.6.3.3 Grants and Subsidies and public contributions

Grants and subsidies shall be based on all gazetted grants from the National and Provincial Treasuries and all other Public Contributions from organisations.

2.6.3.4 Interest on Investments

The budget for interest on investments shall be in accordance with the Cash and Investment Policy of the Municipality.

2.6.3.5 Interest on Outstanding Debtors

Interest may be charged on outstanding debtors at a predetermined rate that is linked to the prime lending rate of banks (e.g. prime + 1%). Interest may be classified as both exchange and non-exchange transactions.

2.6.3.6 Rental Fees

The budget for income from rental will be based on the fees set out in the rental contracts.

2.6.3.7 Other Income

All other income will be budgeted on the actual Income received in the preceding year and a percentage growth rate for the particular year. These revenues may be charged as per the approved Tariff Policy or any other legislation that prescribes the tariffs to be charged.

2.6.3.8 Public contributions

Public contributions are those solicited and unsolicited funds that are received from the public. These funds often have a specific intent. Given the responsibility to ethically manage public contributions, public contributions shall be spent in accordance with a written purpose linked to specific expenditure accounts. Public contributions shall be supported by a written agreement

which will stipulate the terms to recognise the revenue in terms of the intent specified by the funder. If the funder chooses to not allocate the contribution in terms of a written agreement linked to a specific intent, the donation will be recognised as income immediately. At year-end each fund with a remaining balance shall be reported to the funder to ensure transparent accountability of the funds (only applicable to funds where a written intent was specified and such funds remained unspent).

2.7 FUNDING OF THE CAPITAL BUDGET

The Capital Budget can be funded by way of own contributions, grants, public contributions, borrowings or any other financing source secured by the local authority.

2.7.1 Own Funding Sources

The Municipality has established a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets on the following conditions:-

2.7.2 Purpose of the CRR

It is the policy of the Municipality to establish a Capital Replacement Reserve. The purpose of the CRR is to set funds aside for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to other funding sources available to municipalities, namely external loans (interest bearing borrowings) and government grants and subsidies.

2.7.3 Contributions to the CRR

It is the policy of Council to make contributions annually to the CRR to ensure that the CRR remains a capital funding source for the future. The Municipality will determine its future capital financing requirements and endeavour to transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the Municipality's ability to raise external finance and the amount of Government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR. Every year, with the closure of the financial records, the Chief Financial Officer will decide on the amount that should be contributed to the CRR also taking into account the influence of depreciation, interest on investments, etc.

Included in the Annual Financial Statements for each year is a Cash flow Statement. This statement will disclose the annual increase in the bank balances for each year, as per the line "Net increase/(decrease) in cash and cash equivalents". In order to preserve resources for future generations, the Chief Financial Officer, subject to the approval of the Accounting Officer, will decide on an addition amount that should be contributed to the CRR based on 10% to 20% of any Net increase in cash and cash equivalents for the year. This additional contribution will be implemented with effect of 1 July 2024.

The proceeds from Capital Contributions (Development Charges) that were not utilised on capital expansion during the year (or received in-kind) must be transferred to the CRR.

2.7.4 Contributions from third parties

Municipal budgets are subject to an ever increasing demand with limitations on the municipal ability to increase resources available to service these demands. In order to increase the available resources to fund capital requirements, the municipality shall employ contributions from third parties (donations, grants or development charges (see 2.7.4.1) in order to fund the capital requirements.

2.7.4.1 Development charges

Development charges comprise either a monetary charge or the installation of new assets based on municipal engineering specifications or both. The portion of the development charge receivable in the form of assets will not be included as a contribution to the CRR. Only the monetary component of development charges shall be accounted for as a contribution to CRR.

2.7.5 External loans

Subject to legislation (including regulations) the municipality may enter into long term borrowings in order to fund capital budget requirements.

2.8 Accounting Requirements

The balance of the CRR must always be represented by cash. The CRR may only be utilised for the financing of items of property, plant and equipment as specified in GRAP 17 for the Municipality and may not be used for the maintenance of any assets. Whenever an asset is financed out of the CRR an amount equal to the cost price of the asset purchased is transferred from the CRR into Accumulated Surplus on the Statement of Changes in Net Assets. This is done to accommodate future annual depreciation charges on assets funded from the CRR.

A register must be kept with full details of all the following transactions:

- (a) Land Sales.
- (b) Developers Contributions (monetary component only).

2.9 Other Funding Sources

The Capital Budget shall be financed from external sources such as the following:

- Grants and subsidies as allocated in the Division of Revenue Act
- Grants and subsidies as allocated by Provincial Government or the District Municipality
- External loans
- Public contributions
- Any other financing sources secured by local authorities

(also refer section 2.7)

3. SECTION B: RESERVES

3.1 Introduction

The Municipality recognises the importance of providing to the Municipality itself, as well as its creditors, financiers, staff and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

3.2 Types of Reserves

Reserves can be classified into two main categories being “cash funded” and “non–cash funded”.

3.2.1 Cash Funded Reserves

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

a) Statutory Fund

It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

b) Capital Replacement Reserve

- The Capital Replacement Reserve is a reserve to finance future capital expenditure.

c) Self-Insurance Reserve

- The Municipality envisages instituting a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally. The reserve is also used to increase the excess payable in a bid to reduce the annual insurance premiums due to the insurer of the municipality.
- Annual contributions will be determined by the CFO during the budgeting process and claims against the reserve will be limited to a budget as determined by the CFO on an annual basis.
- Accounting requirement would comprise:
 - Premiums are charged to the respective services, taking into account the claims history and replacement value of the insured assets.
 - Contributions to and from the reserve are transferred via the Statement of Changes in Net Assets to the reserve.

This reserve will be implemented at the sole discretion of the Chief Financial Officer.

3.2.2 NON – CASH FUNDED RESERVES / PROVISIONS

On occasion it is necessary to create non – cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve.

4. REVIEW OF THE POLICY

The Funding and Reserves Policy is the only policy of the Municipality in this regard and replaces any preceding post policies in this regard. Any revision of the policy must be approved by Council.

Whenever the Minister of Finance or National Treasury requires changes to the policy by way of legislation, changes to GRAP or otherwise, it must be reviewed annually and submitted for consideration by Council.

Date of first adoption: 1 July 2015