CITY OF MBOMBELA

FUNDING AND RESERVES POLICY

1. Legislative Mandate

This policy is required in terms of Section 8 of the Local Government: Municipal Budget and Reporting Regulations which is in accordance with Section 17 and 168 of the Municipal Finance Management Act No. 56 of 2003.

2. Objective of the Policy

The objectives of the policy are as follows:

2.1 Ensure that the municipality is financially sustainable and viable in order to achieve the Constitutional objectives through implementation of credible and funded budgets.

2.2 Ensure that cash resources and reserves are kept at the required levels to fund future capital investments and operating commitments.

The policy sets out the assumptions and methodology for estimating the following:

- 2.1 Projected billings, collections and all direct revenues.
- 2.2 Provision for revenue that will not be collected.
- 2.3 Funds that the municipality can expect from investments.
- 2.4 Proceeds the municipality can expect to receive from the transfer or disposal of assets.
- 2.5 Council's borrowing requirements.
- 2.6 Funds to be set aside in reserves.

3 Budget Assumptions and Methodology

3.1 Operating Budget

3.1.1 Basis of preparation

- (a) The incremental approach is used in preparing the medium term operating budget except in instances where a contractual commitment has been made that would span over more than one financial year. In these circumstances a zero based method will be followed.
- (b) The medium term revenue and expenditure framework (operating budget) shall be based on realistically anticipated revenue which should be equal to the anticipated operating expenditure in order to have a balanced and funded budget.
- (c) A cash flow management modelling and cash backing reserves shall be used to determine funding of the operating budget.
- (d) The medium term operating budget shall be realistically projected at a cash backed surplus to build internal funding reserves (CRR) that will fund capital budget.

3.1.2 Projected billings, collections and all direct revenues

The operating budget shall be funded from the following realistically anticipated revenue to be generated:

(a) Property rates
(b) Service Charges
(c) Refuse removal services
(d) Sewerage Services
(e) Water Services
(f) Rental of municipal facilities

The annual increase on tariffs and rates on the above items shall be determined in accordance with the rates and tariff policies.

(g) Agency fees

Agency fees relates monies collected on behalf of the provincial government The agency fees shall be budgeted as gross inflows of the commission to be received or receivable for the collection.

(h) Fines

Revenue from fines will be budgeted for based on the best estimate of the inflow of resources or economic benefits to the Municipality. The revenue would include an estimate of the fines to be issued taking into account certain variables such as discounts, validity of the fines, rebates etc. The revenue would also be informed by the fines revenue recognized during the preceding year.

(i) Interest on investments

The budget projection shall be in accordance with the investment policy.

(j) Other income

All other income will be budgeted for based on the income receivable in the preceding year and the percentage growth informed by the CPI inflation.

(k) Unconditional and Conditional grants

Revenue from government grants shall be in line with the allocations gazette in the Division of Revenue Act, applicable to the financial year and the two outer financial years.

The operating revenue will be projected taking into consideration the previous 3 years payment level trend including the current financial year, external economic factors, internal capacity and development and debtor's age analysis.

3.1.3 Provision for revenue that will not be collected

Considering the projected payment level for the medium term taking into account the external economic factors, the municipality will provide for doubtful debts in the budget being the difference between the projected payment level and the total rates and services charge revenue budgeted amount for the financial year.

3.1.4 Employees related cost budget

The annual increase on the budget for employees related cost shall be based on the Bargaining Council Agreement entered into between the South African Local Government Association, representing employers and organised labour representatives (unions).

3.1.5 Councilors’ Remuneration

The annual increase on the budget for councilors’ remuneration shall in accordance with the Public Officers- Bearers Act, No. 92 of 1997.

3.1.6 Bulk electricity budget

The annual increase on the budget for bulk electricity shall be based on the National Energy Regulator of South Africa determinations, directives and National Treasury guidance.

3.1.7 Depreciation

The depreciation expense which is a measure of a rate on which the assets are utilized, shall be budgeted on an annual basis based on the cost of the assets over their estimated useful lives as contained in the asset register which will be updated and maintained in terms of the standards of the General Recognised Accounting Practice.

No depreciation offsets shall be done for assets funded through conditional grants.

3.1.8 Operating projects

Projects which do not meet the definition and recognition criteria of an asset as contained in the General Recognised Accounting Practice standards shall be budgeted for on the operating budget irrespective of the funding source. An asset is a resource controlled by Council as a result of past events and from which future economic benefits or service potential is expected to flow to Council.

3.1.9 Repairs and Maintenance

Investment in municipal assets through repairs and maintenance shall be budgeted for based on the asset maintenance plans and shall be at an acceptable norm as set by National Treasury.

3.2 Capital Budget

The municipality shall prepare a fully funded capital budget aligned to the Integrated Development Plan (IDP) using zero-based budgeting method except in instances where a contractual commitment has been made that would span over more than one financial year (multi- year projects).The impact of the capital budget on the current and future operating budgets in terms of finance charges, to be incurred on external loans, depreciation of property plant and equipment, repairs and maintenance and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when a medium term capital budget is compiled. In addition, Council should consider the likely impact of such operational expenses net of any revenues to be generated from such assets on rates and tariffs.

The capital budget must be funded the following sources of funding:

3.2.1 Own revenue

Council shall establish a Capital Replacement reserve for the purpose of financing capital investments. The reserve shall be established from the following:

(i) unappropriated cash-backed surpluses from budgeted statement of financial performance;
(ii) further amounts appropriated as contributions in each annual or adjustments budget;
(iii) Proceeds on disposal of assets

3.2.2 Other funding sources

(i) Capital grants and subsidies as gazette in the Division of Revenue Act
(ii) Capital grants and subsidies allocated by Provincial government
(iii) Borrowings/ External loans
(iv) Service contributions
(v) Any other financing source secured

All capital funding sources shall be kept separately in order to maintain cash backing of the reserves.

Any unfunded projects identified and included on the integrated development plan shall be implemented once funding has become available to the municipality, and such projects shall be called ad-hoc projects and shall appear below the capital budget totalling amount.

3. Borrowing requirements

Council shall on a regular basis procure for credit rating assessment from respective credit rating agencies. The rating will be analysed and taken into consideration should a need to source external loan funding arises. The municipality shall utilize the funding obtained from long-term external loan to fund its capital programme in accordance with the approved budget.

Short-term borrowing finance shall be taking up as a bridging finance in case where the municipality experiences a short-term cash flow challenges and while the municipality is in a process of taking a long-term loan. The repayment of the short-term shall be within a financial year in accordance with section 45 of the Municipal Finance Management Act, 56 of 2003.

4. Capital Replacement Reserve

The municipality shall establish and maintain a reserve to be utilized solely for funding its capital programmes in accordance with the approved budget. The contribution to the reserve shall as indicated in paragraph 3.2.1 of this policy.

5. Accumulated Surplus Reserve

The reserve shall be maintained as follows;

5.1 Distributable Reserve

The distributable reserve shall be utilised for funding of the municipal budget if it is cash-backed.

6. Implementation and review of the policy

This policy shall be effective from 01 July 2016 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and applicable legislations.