

OVERBERG

DISTRICT MUNICIPALITY

FUNDING AND RESERVES POLICY

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FUNDING AND RESERVES POLICY

1. INTRODUCTION

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

2. PURPOSE

- 2.1 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.

3. DEFINITIONS

“**CRR**” refers to the Capital Replacement Reserve

“**GRAP**” are standards of Generally Recognised Accounting Practice.

“**MFMA**” refers to the Local Government: Municipal Finance Management Act (56 of 2003).

“**MSA**” refers to the Local Government: Municipal Systems Act (32 of 2000).

“**Municipality**” refers to the Overberg District Municipality.

4. LEGISLATIVE REQUIREMENTS

- 4.1 The policy aims to give effect to the requirements and stipulations of –
- The Municipal Finance Management Act 56 of 2003 (MFMA);
 - Treasury regulations issued in terms of the MFMA;
 - The Municipal Structures Act 17 of 1998;

4.2 There are no specific legal requirements for the creation of reserves The GRAP Standards itself also do not provide for reserves.

However, the GRAP “Framework for the Preparation and Presentation of Financial Statements” states in paragraph 91 that such reserves may be created, but “Fund Accounting” is not allowed and any such reserves must be a “legal” reserve, i.e. created by law or Council Resolution.

4.3 In terms of Sections 18 and 19 of the 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.

4.4 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.

4.5 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.

4.6 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.

5. SCOPE FOR APPLICATION

This policy applies to all funding and reserves of the municipality.

6. SECTION A: FUNDING POLICY

6.1 STANDARD OF CARE

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

6.2 STATEMENT OF INTENT

6.2 The municipality will not pass 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.

6.3 CASH MANAGEMENT

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

6.4 DEBT MANAGEMENT

6.4 Debt must be managed in terms of the municipality's Debt Management Policy, together with any requirements in this policy.

6.5 FUNDING THE OPERATING BUDGET

6.5.1 INTRODUCTION

The municipality's objective is that the user of municipal resources must pay for such usage in the period it occurs.

6.5.2 GENERAL PRINCIPLE WHEN COMPILING THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

- a) The budget must be cash-funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
- c) Tariff adjustments must be fair;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

Furthermore, in the budget the total grants recognised as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA circular 48.

- e) Projected revenue from services charges must be reflected as net
- f) Only changes in fair values related to cash may be included in the cash flow budget. Changes to un-amortised discount must be included in the Operating Budget but excluded in the cash flow budget.
- g) Contributions to provisions (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

6.6 FUNDING THE CAPITAL BUDGET

6.6.1 INTRODUCTION

The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non – existent.

In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

6.6.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of own contributions, grants, public contributions as well as external loans.

Own Contributions

The capital budget financed from own contributions must primarily be funded from the Capital Replacement Reserve.

Notwithstanding the above the capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions are determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.

External Loans

The municipality may only raise loans in accordance with its Borrowing Policy.

The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year.

6.7 FUNDING COMPLIANCE MEASUREMENT

6.7.1 INTRODUCTION

The municipality wants to ensure that the budget or adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return,

unless any negative indicators can be reasonably explained and future budget projections address the turn-around of these indicators to within acceptable levels.

6.7.2 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- vat and other statutory payments due to SARS;
- third-party payroll creditors;
- secured investments; and
- other working capital requirements.

7. SECTION B: RESERVES POLICY

7.1 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.

This policy aims to provide for such measure of protection by creating certain reserves.

7.2 TYPES OF RESERVES

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

7.2.1 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) Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance– or other operating expenditure.

The CRR must be cash–backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements.

7.2.2 NON – CASH FUNDED RESERVES

It might be necessary to create non – cash funded reserves for a variety of reasons, including GRAP requirements. The Accounting Officer must create any reserves prescribed by the accounting standards.

7.3 ACCOUNTING FOR RESERVES

7.3.1 OTHER RESERVES

It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves

8. SECTION C: OTHER MATTERS

8.1 RELATED POLICIES

The following policies are related to this policy:

8.1.1 Cash management and investment policy

8.1.2 Debt management policy

8.1.3 Borrowing policy

8.2. REVIEW

This Funding and Reserves Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of the policy must be approved by the Municipal Council.

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

9. EFFECTIVE DATE

This policy shall come into effect on 1 July 2017.