



FUNDING AND RESERVES POLICY

REVIEWED: 30.05.2022

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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 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 always 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 and cost reflective
- 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 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.

To achieve this objective, the municipality must annually, within financial means, budget for the replacement of redundant assets as well as acquire new assets, depending on the affordability and priority.

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 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 considered, 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 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

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 2022.



EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022

Item A63. 30.05.2022

MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-.6/1/1/3)

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

PURPOSE

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
- (2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
 - (a) setting out realistically anticipated revenue for the budget year from each revenue source;
 - (b) appropriating expenditure for the budget year under the different votes of the municipality;
 - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - (d) setting out—
 - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
- (3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
- (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
- (iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the municipality;

(f) particulars of the municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;

(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;

(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;

(iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—

(i) each political office-bearer of the municipality;

(ii) councillors of the municipality; and

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and

(ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets —

(1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

(a) in accordance with Chapter 4 of the Municipal Systems Act—

(i) make public the annual budget and the documents referred to in section 17(3); and

(ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets —

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
 - (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
 - (a) to the submissions; and
 - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tabled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

The Municipality's budget reflects funded, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draalberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.

- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

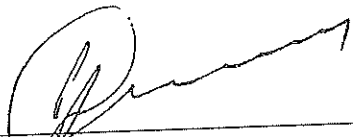
The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

RESOLVED : (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
 - i Asset Management Policy (as amended)
 - ii Credit Control and Debt Collection Policy (as amended)
 - iii Cash Management and Investment Policy (as amended)
 - iv Tariff Policy (as amended)
 - v Supply Chain Management Policy (as amended)
 - vi Virement Policy (as amended)
 - vii Borrowing Policy (as amended)
 - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD
ON 30 MAY 2022.**



**P. OLIVER
MUNICIPAL MANAGER (ACTING)**