



Harry Gwala District Municipality

**HGDM-P005
FUNDING AND
RESERVES
POLICY
2016-17
(DRAFT)**



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Harry Gwala District Municipality

1. PURPOSE OF THE POLICY

This policy is informed by Regulation 8 of the MBBR's which sets out the assumptions and methodology for estimating the following:

- a) Projected billings, collections and all direct revenues;
- b) The provision for revenue that will not be collected;
- c) The funds the municipality can expect to receive from investments;
- d) The dividends the municipality can expect to receive from municipal entities;
- e) The proceeds the municipality can expect to receive from the transfer or disposal of assets;
- f) The municipality's borrowing requirements; and
- g) The funds to be set aside in reserves

Subsection 2 of Regulation 8 further states that when developing or amending the funding and reserves Policy, the municipal manager must ensure that the Policy;

- a) Is consistent with the most recent actual billings and collection trends;
- b) Takes into account the credit rating of the municipality, if available, the financial position of the municipality, the cost of borrowing and the capacity to repay debt;
- c) Takes into account all the budget-related policies of the municipality, particularly recent amendments to any of those policies;
- d) Takes account of any statutory requirements to set aside funds in reserves and
- e) Takes account of the transfer and disposal of assets.

These estimations are for the purposes of determining the annual budget of the municipality.

2. DEFINITIONS/ABBREVIATIONS

MFMA - the Municipal Finance Management Act, (No.56 of 2003)

MBRR -means Municipal Budgeting & Reporting Regulations (Government Gazette 32141 dated 17 April 2009)

GRAP - means Generally Recognised Accounting Practice

DORA - Division of Revenue of Act.

CFO -means Chief Financial Officer

IDP -means Integrated Development Plan

SDBIP -means Service Delivery and Budget Implementation Plan



HOD -means Head of Department

CPIX -means Consumer Price Index excluding interest rates on mortgage bonds

3. GUIDING PRINCIPLES

3.1. The Harry Gwala District Municipality's Funding and Reserves Policy is based on the following principles:

- a) Affordability: The affordability test shall determine in line with the Going Concern Principle as per the previous year's audited AFS.
- b) Financial sustainability
- c) Equity, and
- d) Efficacy
- e) Regulation 8, 10 and 12 of the MBBR's.

3.2. Harry Gwala District Municipality have a funding and reserve policy which sets out the assumption and methodology for estimating –

- a) Projected billings and collections
- b) The provision for revenue that will not be collected
- c) The funds the municipality can expect to receive from municipal entities
- d) The proceeds the municipality can expect to receive from municipal entities
- e) The proceeds the municipality can expect to receive from the transfer or disposal of assets
- f) The municipality's borrowing requirements; and
- g) The funds to be set aside in reserves

3.3. When developing or amending the funding reserves policy of the municipality, the municipal manager must ensure that the policy –

- a) Is consistent with the most recent actual billings and collection trends;
- b) Takes into account the credit rating of the municipality, the financial position of the municipality, the cost of borrowing and the capacity to repay debt;
- c) Takes into account all the budget-related policies of the municipality, particularly recent amendments to any of those policies;



- d) Takes account of any statutory requirements to set aside funds in reserves;
and
- e) Takes account of the transfer and disposal of assets

4. UNDERLYING POLICIES AND APPLICATION

4.1 FUNDING OF EXPENDITURE

- a) The funding of an annual budget must;
 - i. Be estimated in accordance with the assumption and methodologies set out in the funding and reserves policy of the municipality referred to in regulation 8;
and
 - ii. Be consistent with the trends, current and past, of actual funding collected or received.
- b) Realistically anticipated revenues to be received from national or provincial government, national or provincial public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds. Acceptable documentation is constituted by –
 - i. In the case of allocations or transfers from national or provincial government, the latest available –
 - ✓ Gazetted allocations or transfers to the municipality following the approval of the current year's Division of Revenue Act, national annual budget, national adjustments budget, relevant provincial annual budget or provincial adjustments budget;
 - ✓ Proposed allocation or transfers to the municipality contained in the tabled national and provincial budgets as detailed in accordance with section 36(2) of the act;
 - ✓ Written notifications from the relevant treasury of proposed allocations or transfers subsequent to the previous year's national or provincial



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- approved annual budget and latest adjustment budgets, but prior to the current year's budgets being tabled; or
- ✓ The previous year's allocations or transfers in the national and provincial annual budgets and adjustments budgets gazetted;
- ii. In the case of transfers from other municipalities, the latest available –
- ✓ Transfers in the approved annual budget or any subsequent approved adjustments budget of the transferring municipality;
 - ✓ Proposed transfers contained in the tabled annual budget of the relevant transferring municipality;
 - ✓ Written notification of proposed transfers from transferring municipalities communicated to the municipality in terms of section 37(2) of the act; or
 - ✓ The previous year's transfers in the approved annual budget or any adjustments budget of the transferring municipality; and
- iii. In the case of agency payment, public contributions, donations, donor grants or any other grants, subsidies or contributions, the relevant service level agreement, contract or other legally binding documents which guarantees the funding
- c) Estimating provision for revenue from rates, levies or other charges that will not be collected must be budgeted for separately and reflected on the expenditure side of the municipality's annual budget and not netted out from budgeted revenue.
- d) The cash flow budget required in terms of schedule A must reflect all funds realistically forecast to be collected, including arrears.
- e) The municipal manager in signing the quality certificate in schedule A, certifies that all ratepayers and consumers are accounted for in the annual budget calculations and that billing system including property records and metering information are up to date and consistent with the revenue projections in the annual budget
- f) To determine whether an annual budget is funded in accordance with section 18 of the MFMA, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budget together with any requirements for working capital and cash investments held for statutory or contractual purposes.



4.2 RELIED, CHARITABLE, TRUST OR OTHER FUNDS (MFMA SECTION 12)

- a) Funds created in terms of section 12 of the Act must be full cash backed
- b) A municipality may take expenditures or donations in support of the objectives for which funds created in terms of section 12 of the Act were established if approved in an annual budget or adjustments budget.
- c) No municipal funds may be paid into a fund created in terms of section 12 of the act.

4.3 PROJECTED BILLINGS, COLLECTIONS AND DIRECT REVENUE

These projections are prepared in accordance to the following annual approved Council policies:

- a) The Credit Control policy, Debt Collection Policy and Indigent Policy. The objective of these policies are as follows:
 - b) focus on all outstanding debt as raised on the debtor's account;
 - c) provide for a common credit control and debt collection policy;
 - d) promote a culture of good payment habits amongst debtors and instil a sense of responsibility towards the payment of accounts and reducing municipal debt;
 - e) Subject to the principles provided for in this Policy, use innovative, cost effective, efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process.
 - f) Effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy.
 - g) Tariff Policy which guides the annual setting (or revision) of tariffs, hence the policy does not make specific tariff proposals, nor does it deal in any detail with the implementation of specific tariff proposals. The policy is applicable to all tariffs for water and sanitation services provided by Harry Gwala District Municipality. This policy is also applicable to all sundry tariffs.



4.4 THE PROVISION FOR REVENUE THAT WILL NOT BE COLLECTED

The Bad Debts Provision Policy, which is reviewed annually, underpins the manner in which the Harry Gwala District Municipality makes provision for revenue that will not be collected within a financial year.

4.5 THE FUNDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM INVESTMENTS

The Harry Gwala District Municipality has a Banking and Investment Policy which purpose is to secure the sound and sustainable management of the Harry Gwala District Municipality's surplus cash and investments.

It is calculated based on the Budgeted cash-flow, taking into consideration the timing of anticipated inflows and outflows of cash during the year.

4.6 THE DIVIDENDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM MUNICIPAL ENTITIES

This is not applicable to the Harry Gwala District Municipality as no dividends are received from any of the Harry Gwala District Municipality's entities.

4.7 THE PROCEEDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM THE TRANSFER OR DISPOSAL OF ASSETS

This methodology is governed by the Asset Control Policy and the Supply Chain Management Policy.

4.8 THE MUNICIPALITY'S BORROWING REQUIREMENTS

The Harry Gwala District Municipality's borrowing requirements are determined in accordance with the Harry Gwala District Municipality's affordability thereof.

4.9 THE FUNDS TO BE SET ASIDE IN RESERVES

The funds to be set aside in reserves are subject to affordability.



5. THE FOLLOWING LIABILITIES SHALL BE CASH BACKED

- Unspent conditional grant funding
- Retention on projects
- Consumer deposits
- The municipality must ring fence the conditional grants through a specific investment account.

6. LEGAL COMPLIANCE

- 6.1 The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.
- 6.2 Compliance to regulation 8 of the MBBR's must also be considered.

7. REVIEW OF POLICY

In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the review policy tabled to Council for approval as part of the budget process.

The following should be taken into account for future amendments to this policy:

- Changes in financial strategy;
- Changes in no-financial strategic strategies; and
- Changes in legislation

Policy section:	Director: Budget and Reporting
Current date:	30 March 2016
Previous review date:	22 May 2015



8. APPROVAL AND IMPLEMENTATION OF POLICY

This policy shall be implemented once approved by council on 01 July 2016.

Policy section:	Director: Budget and Reporting
Approval by council:	