

LEKWA-TEEMANE LOCAL MUNICIPALITY

“NW396”



FUNDING AND RESERVES POLICY

**ADOPTED BY COUNCIL
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PREAMBLE

In the spirit of the Municipal Finance Management Act, (No.56 of 2003) “ to modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors” and,

Whereas the Budget and Reporting Regulations of 2009 (Government Gazette 32141) prescribes this policy as a necessary instrument to monitor and sustain the municipality’s financial management,

Therefore the Lekwa-Teemane Local Municipality adopts the Funding and Reserves Policy as set out in this document.

1. OBJECTIVES OF POLICY

The policy sets out to ensure that the annual budget of Lekwa-Teemane Local Municipality is fully funded and that all funds and reserves are maintained at the required level to avoid future year unfunded liabilities. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework.

The policy shall apply to all the relevant parties within the Lekwa-Teemane Local Municipality that are involved throughout the budget process and financial management disciplines.

2. BUDGET ASSUMPTIONS AND METHODOLOGY

2.1. Capital Budgets

2.1.1. Basis of Calculation

- a) The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c) 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 fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d) In addition, the council shall consider the likely impact of such operational expenses net of any revenues expected to be generated by such item on future service tariffs and other revenue streams.

2.1.2 Funding of the Capital Budget

Own Funding Sources

The Council may establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following:

- a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes

- b) further amounts appropriated as contributions in each annual or adjustments budget; and
- c) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

Other Funding Sources

The Ad- Hoc capital budget shall be financed from external sources such as the following:

- a) Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b) Grants and subsidies as allocated by Provincial government.
- c) External Loans
- d) Private Contributions/Developer Contributions
- e) Any other financing source secured by the local authority.

2.2. Operational Budget

2.2.1. Basis of Calculation

- a) The incremental approach is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year. In these instances the zero based method will be followed.
- b) The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.

- c) 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

2.2.2. Assumptions for various budget categories

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

a) Salaries, Wages and Allowances

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 limitations and percentages as determined by the responsible National Minister.

b) Collection Costs

It refers to costs attributed to the maintenance of the financial system used for the collection of outstanding amounts and is based on the service level agreement.

c) Depreciation

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

d) Interest External Borrowings

The above refers to interest and redemption that has to be repaid on external loans taken up by Council. The budget is determined by the repayments that the municipality is liable for based on the agreements entered into with the other party.

e) Bulk Purchases

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

f) Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPI and prior actual expenditure trends.

g) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing/maintaining their assets.

h) Contributions to Funds

Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and/or any other factor that could have an effect on the required level of provision.

i) Less: Debited Elsewhere

This category refers to interdepartmental charges within the organization. The performance of each line items is analyzed where after the budget is based on the preceding year's performance.

j) Appropriations

Refers to transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

2.2.3. Funding of the Operational Budget

The operating budget shall be financed from the following sources:

a) Service Charges and Water Sales

b) Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

c) Interest on Investments

The budget for interest and investment shall be in accordance with the anticipated level of investment and assumptions with regard to the applicable interest rate and should comply with the Cash Management and Investment policy of the organization.

d) Rental Fees

Income from rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year

e) Fines

Income from fines will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year

g) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year

2.2.4. The provision for revenue that will not be collected

The Bad Debts Provision and Write-Off Policy, which is reviewed annually, underpin the manner in which the Municipality makes provision for revenue that will not be collected within a financial year.

3. BORROWING REQUIREMENTS

The borrowing requirements are based on the backlogs of the infrastructure needs taking into consideration the operational impact of any loans and subject to the Borrowing Management Policy.

4. REVIEW OF POLICY

This policy shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.