LEKWA-TEEMANE LOCAL MUNICIPALITY

FUNDING RESERVES POLICY 2025/2026 FY

APPROVED: 30th May 2025

EFFECTIVE DATE : 01st July 2025

Contents

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

1.1 “**Accounting Officer**”/ “**AO**” – means the Municipal Manager as referred to in section 60 of the Act;

1.2 “Approved Budget” - means an annual budget:

(a) approved by a Municipal Council; or

(b) Approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the Act;”

1.3 “**Budget year**” - means the financial year for which an annual budget is to be approved in terms of section 16(1) of the Act;

1.4 “**Capital expenditure**” **-** where used alone shall mean the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets in terms of Generally Recognised Accounting Practice “(GRAP”),

1.5 “**Chief Financial Officer**” – means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the Municipality;

1.6 “**Council” or “Municipality**” – means the Municipal Council of the Lekwa-Teemane Local Municipality as referred to in Section 18 of the Municipal Structures Act, and referred to in section 157(1) of the Constitution;

1.7 “**Creditor**” – in relation to a municipality, means any person or service provider to whom money is owing by the Municipality;

1.8 “**Debt**” – means –

(a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or

(b) a contingent liability such as that created by guaranteeing monetary availability or obligation of another.

1.9 "**Delegatee**" – means an official / person delegated to perform tasks on behalf of another person;

1.10 "**Delegation**" - in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

1.11 "**Division of Revenue Act**" **-** means the Division of Revenue Act, 2 of 2013;

1.12 "**Financial Statement**" – means statements consisting of at least –

(a) a balance sheet (statement of financial position);

(b) an income statement (statement of financial performance);

(c) a cash-flow statement;

(d) any other statements that may be prescribed; and

(e) any notes to these statements.

1.13 "**Financial year**" – means a period of twelve months ending on the 30 June;

1.14 "**Government/Division of revenue Allocation**" – means;

(a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;

(b) an allocation of money to a Municipalityin terms of section 214(1)(c) of the Constitution;

(c) an allocation of money to a Municipalityin terms of a provincial budget; or

(d) any other allocation of money to a Municipalityby an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

1.15 “**Investmen**t” – in relation to funds of a municipality, means—

(a) the placing on deposit of funds of a Municipalitywith a financial institution; or

(b) the acquisition of assets with funds of a Municipalitynot immediately required, with the primary aim of preserving those funds;

1.16 “**MFMA**” – means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

1.17 “**Municipal Manager**” – means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act;”

1.18 “**Municipal Property Rates Act**” - means the Local Government: Municipal Property Rates Act 6 of 2004;

1.19 “**National Treasury**”– means the National Treasury established by section 5 of the Public Finance Management Act, 1 of 1999;

In this Policy, unless the context otherwise indicates, words and expressions denoting the singular shall include the plural and vice versa, words and expressions denoting the male sex shall include the female sex and vice versa and reference to a natural person shall include a legal person and vice versa.

2. OBJECTIVES OF POLICY

2.1 The objectives of the policy are to:

2.1.1 To comply with the legislative requirements;

2.1.2 Ensure that the Municipality has sufficient and cost-effective funding sources to achieve its objectives through the implementation of its operating and capital budget;

2.1.3 Ensure that the medium-term expenditure framework (annual budget) of the Municipality is appropriately funded;

2.1.4 Ensure that the Municipality’s provisions/cash resources and reserves are maintained at the required levels, to avoid future year unfunded liabilities in future financial years;

2.1.5 To achieve financial sustainability with acceptable levels of service delivery to the community; and

2.1.6 Set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

2.1.7 More specifically, in accordance with section 8(1) of the MFMA Budget and Reporting Regulations, each Municipality must have a funding and reserves policy, which must set out the assumptions and methodology for estimating the following:

2.1.7.1 Projected billings, collections and all direct revenues;

2.1.7.2 The provision for revenue that will not be collected;

2.1.7.3 The funds the Municipalitycan expect to receive from investments;

2.1.7.4 The Municipality’s borrowing requirements;

2.1.7.5 The funds to be set aside in reserves; and

2.1.7.6 The proceeds the Municipalitycan expect to receive from the transfer or disposal of assets;

3. BACKGROUND AND PURPOSE

3.1 Section 18 of the MFMA requires that an annual budget may only be funded from:

3.1.1 Realistically anticipated revenues to be collected;

3.1.2 Cash backed accumulated funds from previous years’ surpluses not committed for other purposes; and

3.1.3 Borrowed funds, but only for capital projects.

3.2 Section 19 of the MFMA also requires 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. Furthermore, Chapter 6 of the MFMA 6 guides on the requirements of obtaining Short Term and Long Term Debt, Conditions to comply with when applying for Debt, Security, Disclosures and Municipal Guarantees.

3.3 The MFMA Municipal Budget and Reporting Regulations, 2009 Section 8 requires that each Municipality should have a Funding and Reserves Policy.

3.4 The funding and reserves policy is aimed to ensure that the Municipality has sufficient and cost-effective funding in order to achieve its objectives through the implementation of its operating and capital budgets.

3.5 Section 8(2) of the MFMA Budget and Reporting Regulation requires that, when developing or amending the funding and reserves policy, the Municipal Manager must ensure that the policy:

3.5.1 is consistent with the most recent actual billings and collection trends;

3.5.2 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;

3.5.3 takes into account all the budget-related policies of the municipality, particular recent amendments to any of those policies;

3.5.4 takes account of any statutory requirements to set aside funds in reserves;

3.5.5 takes account of the transfer and disposal of assets

3.6 This policy aims to set guidelines towards ensuring financial viability over both the short- and long-term which includes reserves requirements.

4. APPROVAL AND EFFECTIVE DATE

This policy will be effective as from __________

5. POLICY AMENDMENT

5.1 The Accounting Officer must–

5.1.1 at least annually review the implementation of this Policy; and

5.1.2 when the Accounting Officer considers it necessary, submit proposals for the amendment of this Policy to the Council.

5.2 The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the MFMA Budget and Reporting Regulations, 2008.

6. RELATIONSHIP WITH OTHER POLICIES

6.1 This policy needs to be read in conjunction with other relevant adopted policies of the Municipality, including the following:

6.1.1 Accounting Policies;

6.1.2 Cash Management and Investment Policy;

6.1.3 Borrowing Policy; and

6.1.4 Long Term Financial Plan Policy;

7. PRINCIPLES REGARDING THE FUNDING OF THE ANNUAL BUDGET

7.1 An annual budget may only be funded from:-

7.1.1 Realistically anticipated revenues to be collected;

7.1.2 Cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and

7.1.3 Borrowed funds but only for the capital budget.

7.2 Realistic anticipated revenue projections must take into account:-

7.2.1 Projected revenue for the current year based on collection levels to date; and

7.3 Actual revenue collected in previous financial years.

7.3.1 Spending on a capital project may only occur if:-

7.3.2 The money for the project, excluding the cost of feasibility studies, has been appropriated in the budget;

7.3.3 The project, including the total cost, has been approved by Council;

7.3.4 The sources of funding have been considered, are available and have not been committed for other purposes;

7.3.5 Council has considered: -

7.3.5.1 The projected cost covering all financial years until the project is operational; and

7.3.5.2 The future operations costs and revenue on the project, including municipal tax and tariff implications.

8. LEGISLATIVE REQUIREMENTS

8.1 This Policy shall be executed and implemented in accordance with following regulating instruments:

8.1.1 MFMA;

8.1.2 Municipal Finance Management Act: Municipal Regulation on Standard Chart of Accounts, Regulation 10178, published under Government Gazette 37577, 22 April 2014; and

8.1.3 MFMA Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

8.2 In accordance with section 8(1) of the MFMA Budget and Reporting Regulation, each Municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating:

8.2.1 projected billings, collections and all direct revenues;

8.2.2 the provision for revenue that will not be collected;

8.2.3 the funds the Municipality can expect to receive from investments;

8.2.4 the dividends the Municipality can expect to receive from municipal entities;

8.2.5 the proceeds the Municipality can expect to receive from transfer or disposal of assets; and

8.2.6 the Municipality's borrowing requirements.

8.3 Furthermore, In terms of Sections 18 and 19 of the MFMA, an annual budget may only be funded from:

8.3.1 Realistically anticipated revenues to be collected;

8.3.2 Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and

8.3.3 Borrowed funds, but only for capital projects.

8.4 Spending on capital projects may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

8.5 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.

8.6 In determining whether the budget is actually cash funded and ensuring long term financial sustainability, the Municipalitywill use analytical processes, including those specified by National Treasury from time to time.

9. FUNDING OF ANNUAL BUDGET

9.1 An annual budget may only be funded from:

9.1.1 Cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and/or

9.1.2 Borrowed funds but only for capital expenditure.

9.2 Realistic anticipated revenue projections must take into account:

9.2.1 Projected revenue for the current year based on collection levels to date;

9.2.2 Actual revenue collected in previous financial years.

9.2.3 Capital expediting may only incur on a capital project if:

9.2.3.1 The funding for the project has been appropriated in the capital budget;

9.2.3.2 The total cost for the project has been approved by council;

9.2.3.3 The future budgetary implications and projected cost covering all financial years until the project is operational has been considered;

9.2.3.4 The implications of the capital budget on municipal tax and tariff increases; and

9.2.3.5 The sources of funding are available and have not been committed for other purposes.

10. CASH MANAGEMENT

10.1 Cash must be managed in terms of the municipality's Cash Management and Investment Policy, read together with the requirements of this Policy.

10.2 The availability of cash is one of the most important requirements for financial sustainability and must be closely monitored to ensure sustainability of expenditure.

10.3 Changes in the Municipality's environment that may have an impact on the municipal cash position include:

10.3.1 Changes in revenue levels as a result of consumption patterns (water restrictions, load shedding etc.);

10.3.2 Reduced growth as a result of economic conditions;

10.3.3 Increase in non-payment rate as a result of economic conditions;

10.3.4 Implementation of electricity industry pricing policy (inclining block tariffs); and

10.3.5 Increased debt levels.

10.4 Surplus cash not immediately required for operational purposes is invested in terms of the Municipality's investment policy to maximize the return on cash.

11. OTHER ITEMS TO BE CASH BACKED

11.1. The overall cash position (cash/cash equivalents and investments) of the Municipality must be sufficient that it can provide for the cash-backing of:

11.1.1. Donations, public contributions, unspent grant funding;

11.1.2. unspent conditional transfers and grants;

11.1.3. unspent conditional public contributions;

11.1.4. unspent borrowing;

11.1.5. VAT due to SARS;

11.1.6. secured investments (whether long- or short-term);

11.1.7. reserves as approved by the Municipality

11.1.8. Take into account other working capital requirements.

11.2. Revenue received from conditional grants, donations and funding is recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

11.3. Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any othe items on the operating or capital budget other than that for which it was intended.

11.4. These shall therefore be retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

12. DEBT MANAGEMENT

12.1. Debt is managed in terms of the municipal Credit Control And Debt Collection Policy and the writing off of bad debts and impairments of debtors' policy.

12.2. The provision for revenue that will not be collected are budgeted as an expense and is based on the projected annual non-payment rate for each service.

13. OPERATING BUDGET

13.1. The Municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur.

13.2. The Municipality further recognizes the plight of the poor, and in line with national and provincial objectives, commits itself to subsidizing services to the poor. This may necessitate cross-subsidization of some tariffs to be calculated in the budget process.

13.3. The operating budget provides funding to departments for their medium-term expenditure as planned. The Municipality categorizes services rendered to the community according to its revenue generating capabilities as follows:

13.3.1. Trading services – services that generate surpluses that can be used for cross subsidization to fund other services;

13.3.2. Economic services – services that break even with no surpluses;

13.3.3. Rates and general services – services that are funded by rates, surpluses generated by trading services, and/or other revenues generated such as fines, interest received, grants and subsidies etc;

13.4. The operating budget is funded from the following main sources of revenue:

13.4.1. Property rates;

13.4.2. Surpluses generated from service charges;

13.4.3. Government grants and subsidies; and

13.4.4. Other revenue, fines, interest received etc.

13.4.5. Cash backed accumulated surpluses from previous years not committed for any other purposes.

13.5. The following guiding principles apply when compiling the operating budget:

13.5.1. The annual budget must be backed. This implicates that apart from expenditure being budgeted, it must always be cash funded (provision for bad debt must therefore be equal to actual payment levels);

13.5.2. Growth parameters must be realistic taking into account the current economic conditions;

13.5.3. Tariff adjustments must be realistic, taking into consideration the general inflation, affordability, bulk increases and the demand according to the approved integrated development plan (IDP);

13.5.4. There will be no budget allocated to national and provincial funded projects unless the necessary grants to the Municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act;

13.5.5. Revenue from government grants and subsidies must be in line with allocations gazette in the Division of Revenue Act and provincial gazettes;

13.5.6. Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:

13.5.6.1. signed service level agreement;

13.5.6.2. contract or written confirmation; or

13.5.6.3. any other legally binding document.

13.5.7. The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation;

13.5.8. Property rates are levied according to the Municipal Property Rates Act, and property rates policy based on land and improvement values;

13.5.9. The budget is compiled using the latest approved valuation and supplementary roll, consistent with current and past trends;

13.5.10. Property rates tariffs and rebates are determined annually as part of the tariff setting process;

13.5.11. Property rates rebates, exemptions and reductions are budgeted either as revenue foregone or a grant as per directive in MFMA budget circular 51, depending on the conditions thereof.

13.5.12. Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions;

13.5.13. The following factors must be considered for each service:

13.5.13.1. Metered services comprise of electricity and water;

13.5.13.2. the consumption trends for the previous financial years; - envisaged water restrictions or load shedding when applicable;

13.5.13.3. actual revenue collected in previous financial years.

13.5.14. ***Refuse removal services:***

13.5.14.1. the actual number of erven receiving the service per category; and

13.5.14.2. actual revenue collected in previous financial years.

13.5.15. ***Sewerage services:***

13.5.15.1. the actual number of erven receiving the service and the consumption trends per category; and

13.5.15.2. actual revenue collected in previous financial years.

13.5.16. Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant as per directive in MFMA budget circular 51 depending on the conditions thereof.

13.5.17. Other projected income is charged in terms of the approved sundry tariffs and fines considering the past trends and expected growth for each category.

13.5.18. Provision for revenue that will not be collected is made against the expenditure item bad debt and based on actual collection levels for the previous financial year and the projected annual non-payment rate.

13.5.19. Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. The actual amount allocated for interest on investments is contributed to the capital replacement reserve.

13.5.20. Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting thereof; and

13.5.21. Transfers from the accumulated surplus to offset the increased depreciation charges as a result of the implementation of GRAP 17 will be phased out over several years.

13.5.22. A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for six (6) months only of the total package considering the recruitment process. As a guiding principle the salary budget should not constitute more than 35% of annual operating expenditure.

13.5.23. Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer from the accumulated surplus is made. However, the annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.

13.5.24. To ensure the health of municipal assets, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels, resulting that maintenance budgets are normally lower than the recommended levels. Therefore, the mere reduction of maintenance budgets to balance annual budgets must carefully be considered.

13.5.25. As a guiding principle, repair and maintenance should constitute between 5 and 8% of total operating expenditure and should annually be increased incrementally until the required targets are achieved.

13.5.26. Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure. Increases for these line items must be linked to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

14. CAPITAL BUDGET

14.1. 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.

14.2. To achieve this objective, the Municipality must annually, within financial means, budget for the replacement of redundant assets as well as acquiring new assets.

14.3. The capital budget provides funding for the Municipality’s capital programme based on the needs and objectives as identified by the community through the IDP and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

14.4. Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

14.4.1. Accumulated cash back internal reserves/Generated Funds;

14.4.2. The capital budget may be financed from internally generated funds such as the capital replacement reserve and surplus cash resources. The allocations of the funding sources from internally generated funds will be determined during the budget process.

14.4.3. Borrowings:

14.4.3.1. The Municipality may only raise long-term borrowings in accordance with its Borrowing Policy;

14.4.3.2. The AO must put accounting measures in place to ensure that no unspent portions of loans are utilized for operating purposes;

14.4.3.3. 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, i.e. any unspent borrowings at year end must be cash-backed in the 'Cash backed reserves reconciliation';

14.4.3.4. Council will give priority to borrowing for revenue generating assets only. Provision for acquiring non-revenue generating assets will be made by way of utilizing other funding sources.

14.4.4. Government grants and subsidies:

14.4.4.1. 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 be taken that the acceptance of grant funding does not place an unreasonable burden on the residents for future operating and maintenance costs which may be higher than their ability to pay.

14.4.4.2. The Accounting Officer will annually evaluate the long-term effect of capital grants on future tariffs, and if deemed necessary, report on such to Council.

14.4.5. Public donations and contributions.

14.5. The following guiding principles apply when considering sources of funding for the capital budget:

14.5.1. ***Government grants and subsidies:***

14.5.1.1. only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per provincial gazettes may be used to fund projects;

14.5.1.2. the conditions of the specific grant must be taken into consideration when allocated to a specific project; and

14.5.1.3. government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

14.6. In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:

14.6.1. signed service level agreement;

14.6.2. contract or written confirmation; and/or

14.6.3. any other legally binding document.

14.7. Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

14.8. Allocations to capital projects from cash back internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:

14.8.1. infrastructure projects to service new developments and the revenue is received through the sale of erven must be allocated to the capital reserve for services;

14.8.2. capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be allocated to the capital reserve from revenue which is funded from the revenue budget for that specific year. A general principle is that these types of capital expenditure should not exceed more than 1% of total operating expenditure;

14.8.3. capital projects to replace and/or upgrade existing assets will be allocated to the capital replacement reserve; and/or

14.8.4. capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.

14.9. All capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:

14.9.1. Additional personnel cost to staff new facilities once operational;

14.9.2. Additional contracted services, that is, security, cleaning etc;

14.9.3. Additional general expenditure, that is, services cost, stationery, telephones, material etc;

14.9.4. Additional other capital requirements to the operate facility, that is, vehicles, plant and equipment, furniture and office equipment etc;

14.9.5. Additional costs to maintain the assets;

14.9.6. Additional interest and redemption in the case of borrowings;

14.9.7. Additional depreciation charges;

14.9.8. Additional revenue generation; and

14.9.9. Depreciation charges.

14.10. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

14.11. The borrowing requirements as contained in the Borrowing Policy of the Municipalityare used as a basis to determine the affordability of external loans over the Medium Term Revenue and Expenditure Framework. The ratios to be considered by the Municipalityto take up new borrowings include:

14.11.1. long-term credit rating of at least BBB;

14.11.2. interest cost to total expenditure to not exceed 8%;

14.11.3. long-term debt to revenue (excluding grants) not to exceed 50%;

14.11.4. payment rate of above 90%;

14.11.5. percentage of capital charges to operating expenditure less than 15%;

14.12. In accordance with Section 19 of the MFMA, the Municipalitymay spend money on a capital project only if:

14.12.1. the money for the project (excluding feasibility study cost) has been budgeted for in the capital budget;

14.12.2. the project, including the total cost, has been approved by Council;

14.12.3. compliance with section 33 of the MFMA (contracts with future budgetary implications), to the extent that the said section may be applicable to the project; and

14.12.4. the sources of funding have been considered, are available and have not been committed for other purposes.

14.13. Before approving a capital project, the Council of the Municipality must consider:

14.13.1. the projected cost covering all financial years until the project is operational; and

14.13.2. the future operational costs and revenue on the project, including municipal tax and tariff implications

15. PROVISIONS

15.1. A provision is recognized when the Municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

15.2. Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities. The Municipalityhas the following provisions:

15.2.1. *Leave provision*

15.2.1.1. Liabilities for annual leave are recognized as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Due to the fact that not all leave balances are redeemed for cash, only 75% of the leave provision is cash backed.

15.2.2. *Landfill rehabilitation provision*

15.2.2.1. The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure.

15.2.2.2. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision must be cash backed to ensure availability of cash for rehabilitation on closure.

15.2.3. *Post employment medical care benefits*

15.2.3.1. The Municipalityprovides post-retirement medical care benefits by subsidizing the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment.

15.2.3.2. This provision must be cash backed to ensure the availability of cash for the payment of medical aid payments.

15.2.4. ***Long Services Awards***

15.2.4.1. Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash at once, only 75% of the long service leave provision is cash backed

16. CONSUMER DEPOSITS

16.1. Consumer deposits are partial security for a future payment of an account. Deposits are considered a liability as the deposit is utilized on the account once the service is terminated. Therefore, the funds are owed to consumers and can therefore be utilized to fund the operating or capital budget.

17. RESERVES

17.1. The Municipality recognises the importance to itself, its creditors, financiers, staff and the general public of providing for 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.

17.2. To ensure that funding is readily available to the Municipality for future development and the time-consuming replacement of infrastructure responsible for service delivery, it will be prudent for the Municipality to create dedicated reserves that are cash backed at all times.

Reserves can be classified into two main categories being “cash funded reserves” and “non – cash funded reserves”, and all reserves are ring fenced as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognised Accounting Practices (GRAP)

17.3. The following ring-fenced reserves should be established and cash backed over a period of time:

17.3.1. ***Capital Reserve for New Developments***

17.3.1.1. This reserve will be used by the Municipalityto fund capital expenditure to service new developments. Each development is ring fenced within this reserve.

17.3.1.2. The valuer determines the price for the erven to be sold and the revenue generated through the sale of erven is then allocated to the specific development. This reserve must be cash backed at all times to ensure the availability of cash to fund the capital expenditure required to service the erven.

17.3.2. ***Capital Replacement Reserve***

17.3.2.1. Funding for capital budgets of future financial years are generated through contributions from the operating budget. Once the Municipality has reached its maximum gearing ability, no further borrowings can be taken up. This necessitates that the Municipality also invests in a capital replacement reserve. However, it must be cash backed.

17.3.2.2. This reserve, once fully established, will enable the Municipality to provide internal funding for its capital replacement and renewal programme.

17.3.3. Other contributions to the capital replacement reserve through the operating budget may include:

17.3.3.1. interest received on investments;

17.3.3.2. surface rentals from mines as identified from time to time; and

17.3.3.3. This reserve must be cash backed at all times to ensure the availability of cash to fund the municipal capital programme***.***

17.3.4. ***Bulk Capital Contribution Reserves***

17.3.4.1. This reserve is intended to supplement capital expenditure of the Municipality for the necessary expansions and upgrading of bulk infrastructure due to new developments. Revenue generated through bulk services contributions are allocated to this reserve for each applicable service. This reserve must also be cash backed at all times.

17.3.5. ***Other Reserves***

17.3.5.1. The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus.

It is a condition of GRAP and this Policy that no transactions may be directly appropriate against these reserves.

18. REVIEW

18.1. This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

19. SHORT TITLE

19.1. This policy shall be called the Funds and Reserves Policy of Lekwa Teemane Local Municipality.