

MSUNDUZI MUNICIPALITY



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The Msunduzi Municipality

FUNDING AND RESERVES POLICY

TABLE OF CONTENTS

1. INTRODUCTION 3

2. OBJECTIVE OF THE POLICY 3

3. APPLICATION AND SCOPE 3

4. POLICY DIRECTIVE 4

5. RESERVES 5

6. IMPLEMENTATION, EVALUATION AND REVIEW 6

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1. Introduction

Regulation 8 of the Municipal Budget and Reporting Regulation (MBRR) states that each municipality must have a funding and reserves policy.

This policy deals with funding the budget, realising surplus in the operations and building reserves in order for the municipality to expand the capital programs as prioritised on the Integrated Development Plan (IDP).

2. Legislation background

Section 18 of the Municipal Finance Management act prescribes that:

Funding of expenditure. —(1) An annual budget may only be funded from—

- a) realistically anticipated revenues to be collected;
- b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- c) borrowed funds, but only for the capital budget referred to in section 17 (2).

(2) Revenue projections in the budget must be realistic, taking into account—

- a) projected revenue for the current year based on collection levels to date; and
- b) actual revenue collected in previous financial years.

Regulation 8 of the MBRR states that:

1) Each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating—

- 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.

2) When developing or amending the funding and reserves policy of the municipality, the

- a) municipal manager must ensure that the policy—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.

3. Objective of the policy

This policy intends to set out the assumptions and methodology for estimating the following :

- a) Projected billings, collections and 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 proceeds the municipality can expect to receive from the transfer or disposal of assets.
- e) The municipality's borrowing requirements
- f) The funds to be set aside in reserves

4. Policy Directive

Projected billings, collections and direct revenue are determined in accordance with the following annual council policies and budget documentation:

- a) Parameters and assumptions for the compilation of the operating and capital budget over the MTREF.
- b) The Rates Policy that sets out the manner in which the municipality may impose property rates. Property rates are levied in accordance with the Municipal Property Rates Act 6 of 2004 as a cent in the randage based on the property value in municipality's General Valuation Roll and Supplementary Valuations.
- c) The Tariff policies prescribed by section 74 of Municipal Systems Act 117 of 1998 which guides the annual setting/revision of tariffs which includes the annual approved consumptive tariffs, rates, basic charges for electricity, water and waste management services.
- d) The Credit Control Policy, Debt Collection Policy and Indigent Policy whose objectives are primarily focus on all the outstanding debt to promote a culture of good payment and provide efficient debt collection methods.
- e) The Cash and Investment Policy promotes sound and sustainable management of the municipality's surplus cash and investments. The funds expected to be received from investments are calculated based on the budgeted cash flow, taking into account the timing of anticipated inflows and outflows of cash during the year
- f) The proceeds that the municipality expect to receive from the transfer or disposal of assets are informed by the Asset Management Policy and the Supply Chain Management Policy
- g) The Municipality's borrowing requirements are done in terms of the Borrowing Policy. The borrowing requirements are determined in accordance with affordability using various metrics.
- h) The Funds set aside in reserves is determined by affordability as dictated by the liquidity position from time to time.

5. Reserves

The creation of reserves is sometimes required by statute or other law in order to give the Municipality and its creditors an added measure of protection from the effects of future losses as well as to provide funding for future capital expenditure. Transfers to such reserves are deemed to be appropriations of accumulated surpluses and deficits, and not expenses. Any such transfers are disclosed in the statement of changes in net assets.

The municipality has the following reserves:

5.1 Capital Replacement Fund (CRR)

The purpose of the Capital Replacement Reserve is to set aside funds for financing capital projects and acquisition of assets. This reserve is therefore an asset financing source that represents an alternative to other funding sources available to the municipality namely external loans (interest bearing borrowings); and, transfers and subsidies.

The reserve is to funded but not limited to the following sources:

- a) Unappropriated cash backed surpluses to the extent such surplus are not required for operational purposes.
- b) Cash proceeds from the sale of any item of Property, Plant and Equipment or Investment property
- c) Percentage of amount that was utilised in the previous year for the Purchase of Property, Plant and Equipment
- d) Vat recoveries from SARS.
- e) Interest on the investments of the CRR, appropriated in terms of the investments policy: and
- f) Additional amounts appropriated as contributions in annual operating budgets.

The CRR will only be utilised for the purpose of acquiring Assets and will not be used for maintenance thereof.

5.2 Housing Development Fund

The Housing Development fund was established in terms of the Housing Act, (Act No 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.

In terms of the Housing Act, all proceeds from housing developments which include rental income and sale of houses must be paid into the Housing Development Fund. Monies standing to credit off the Housing Development Fund can be used only to finance housing developments within the municipal areas subject to the approval of the Provincial MEC responsible for housing. The Housing operating account is included in the Statement of Financial Performance. The net result of the Housing Operating Account is then transferred from/to the accumulated surplus/(deficit). Since the HDF was established in terms of legislation it may be reported separately in the statement of financial position and the statement of changes in net assets. The accumulated fund of the HDF includes the Loans extinguished on 1 April 1999.

5.3 Revaluation Reserve

The Revaluation Reserve is established upon revaluation of a class of Heritage Assets. Under the revaluation model, the difference between the revalued amount and the carrying amount is recognised in the revaluation surplus. In the case of a reversal of an increase in excess of the increase previously recognised in the revaluation surplus, or a reversal of a decrease previously recognised in surplus or deficit, it will be recognised in surplus or deficit. An amount recognised in surplus or deficit is shown as an impairment loss.

The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit when the asset is derecognised transferring the portion when the asset to which the surplus relates to is disposed of.

5.4 Insurance Reserve

Insurance reserve is created to set aside amounts to offset potential losses or claims that cannot be insured externally. The reserve covers claims that may occur subject to reinsurance where deemed necessary.

The balance of the Insurance reserve is determined based on insurance risk carried by the municipality and past claims history and, is increased by a transfer from the accumulated surplus/(deficit).

Claims are settled by transferring a corresponding amount from the Insurance reserve to the accumulated surplus.

This reserve must be cash-backed to effectively manage claims

5.5 COID Reserve

The COID reserve is established for Compensation for Occupational Injuries and Diseases where permission to retain contributions has been obtained from the Compensation Commissioner.

The municipality should ensure that all contributions to, or from the COID reserve are shown as transfers between the COID reserve and Accumulated Surplus.

The provision for the COID reserve is as prescribed by the Compensation for Occupational Injuries and Diseases Act no 130 of 1993.

6 Implementation, evaluation and review

- 6.1 This policy framework is important for the financial compliance of Msunduzi Local Municipality. It provides for an administrative guidance for the Funding and Reserves management.
- 6.2 In terms of section 17(3)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval 20 as part of the budget process.
- 6.3 Changes in legislation must be taken into account for future amendments to this policy. Any amendments to this policy must be re-submitted to council for review and approval.

The policy as amended will be effective as from **1 July 2021**