NGAKA MODIRI MOLEMA
DISTRICT MUNICIPALITY

FUNDING AND RESERVES POLICY

“Leaders in Intergrated Municipal Governance”

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PREAMBLE

WHEREAS the Municipal Budget and Reporting Regulations, 2008 published in Government Gazette No. 32141 on 17 April 2009 (hereafter "the Regulations") were promulgated in terms of section 168 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (hereafter "the MFMA");

AND WHEREAS the Ngaka Modiri Molema District Municipality (hereafter "the Municipality") is required in terms of regulation 8 of the Regulations to have a Funding and Reserves Policy which complies with the provisions of the said regulation;

NOW THEREFORE, the Municipal Council of the Municipality adopts this Funding and Reserves Policy (hereafter "this policy") in order to comply with the provisions of the aforementioned regulation 8, to ensure that the operating and capital budgets of the Municipality are appropriately funded, and to ensure that provisions and reserves are maintained at the required levels to avoid future years unfunded liabilities.

THE NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY:

FUNDING AND RESERVES POLICY

TABLE OF CONTENTS

CHAPTER 1
INTRODUCTORY PROVISIONS

1. DEFINITIONS

In this policy, except where the context otherwise indicates, or it is expressly stipulated otherwise, the following words and expressions shall have the respective meanings assigned to them hereunder, and words and expressions to which a meaning has been assigned in terms of the provisions of the MFMA and the Regulations promulgated in terms thereof, will have a corresponding meaning assigned thereto in terms of the said act and regulations. All headings are included for convenience only and shall not be used in the interpretation of any of the provisions of this policy.

NO.	WORD/EXPRESSION	DEFINITION
	"A"	
1.1	**"Accounting Officer"**	Means the Municipal Manager appointed in terms of section 54A of the Systems Act and as referred to in section 60 of the MFMA.
1.2	**"annual budget"**	Means the budget approved by the Council of the Municipality for any particular financial year, and shall include any adjustments to such a budget.
1.3	**"annually"**	Means once every financial year.
	"B"	
1.4	**"Borrowing Policy"**	Means the Borrowing Policy of the Municipality as envisaged in terms of Chapter 6 of the MFMA.
	"C"	
1.5	**"Cash Management and Investment Policy"**	Means the Cash Management and Investment Policy of the Municipality as envisaged in terms of section 13(1) of the MFMA.

1.6	**"Constitution"**	Means the Constitution of the Republic of South Africa, 108 of 1996.
1.7	**"Council"**	Means the Municipal Council of the Municipality as referred to and constituted in terms of the provisions of section 157 of the Constitution.
1.8	**"Credit Control and Debt Collection Policy"**	Means the Credit Control and Debt Collection Policy of the Municipality as envisaged in terms of the provisions of section 96 of the Systems Act.
	"F"	
1.9	**"financial year"**	Means the period starting from 1 July in any year and ending on 30 June of the following year.
1.10	**"Funding and Reserves Policy" or "this policy"**	Means the Funding and Reserves Policy of the Municipality as envisaged in terms of regulation 8 of the Regulations.
	"M"	
1.11	**"Mayor" or "Executive Mayor"**	Means, in terms of the provisions of section 1 of the MFMA, in relation to a municipality with an executive mayor, the councillor elected as the executive mayor of the Municipality in terms of section 55 of the Structures Act.
1.12	**"Municipal Finance Management Act" or "MFMA"**	Means the Local Government: Municipal Finance Management Act, Act 56 of 2003 and the regulations promulgated in terms of this act.
1.13	**"Municipality"**	Means the NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY a local government and legal entity with full legal capacity as contemplated in section 2 of the Systems Act read with the provisions of Chapter 7 of the Constitution and sections 12 and 14 of the Structures Act, with its main place of business and the offices of the Municipal Manager, as envisaged in terms of the provisions of section 115(3) of the Systems Act, at: c/o Carrington Street & First Avenue, Industrial Site, MAFIKENG, NORTH WEST PROVINCE, and may, depending on the context, include: (a) its successor in title; or

		(b) a functionary, employee or official exercising a delegated power or carrying out an instruction, in the event of any power being delegated as contemplated in terms of the provisions of section 59 of the Systems Act, or exercising any lawful act in the furtherance of the Municipality's duties, functions and powers; or (c) an authorised service provider fulfilling a responsibility assigned to it by the Municipality through a service delivery agreement.
1.14	**"Municipal Property Rates Act" or "MPRA"**	Means the Local Government: Property Rates Act, Act 6 of 2004 and promulgated Regulations in line with the Act.
1.15	**"municipal service" or "services"**	Means a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether: (a) such service is provided or to be provided by the Municipality through an internal mechanism contemplated in section 76 of the Systems Act; and (b) fees, charges or tariffs are levied in respect of such service or not.
1.16	**"municipal tariff" / "tariff"**	Means a fee, charge or tariff for services which the Municipality may levy in terms of the provisions of section 75A of the Systems Act for the provision of a municipal service to the local community, and includes a surcharge on such fee, charge or tariff.
	"R"	
1.17	**"rates"**	Means a municipal rate on property levied in terms of section 229(1)(a) of the Constitution and section 2(1) of the MPRA.
1.18	**"Rates Policy"**	Means the Rates Policy of the Municipality as adopted by the Municipality and envisaged in terms of section 3(1) of the MPRA.
	"S"	

1.19	**"Structures Act"**	Means the Local Government: Municipal Structures Act, Act 117 of 1998.
1.20	**"Supply Chain Management Policy"**	Means the Supply Chain Management Policy of the Municipality as envisaged in terms section 111 of the MFMA.
1.21	**"Systems Act"**	Means the Local Government: Municipal Systems Act, Act 32 of 2000.
	"T"	
1.22	**"tariff policy"**	Means the Tariff Policy of the Municipality as envisaged in terms of section 74(1) of the Systems Act.

2. ABBREVIATIONS

In this policy the following abbreviations will be used to signify the meaning or entity as indicated:

DORA	The Division of Revenue Act, as enacted at the beginning of April every year.
GRAP	General Recognised Accounting Practices.
IDP	Integrated Development Plan.

3. AIM, PURPOSE AND OBJECTIVES OF THIS POLICY

The aim and purpose of this policy is to:

(1) ensure that the Municipality has sufficient and cost-effective cash funding in order to achieve its objectives through the implementation of its operating and capital budgets; and

(2) the objectives of this policy are to set 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 proceeds the Municipality can expect to receive from the transfer or disposal of assets;

(e) the Municipality's borrowing requirements; and

(f) the funds to be set aside in reserves.

4. TITLE AND APPLICATION

(1) This policy shall be known as the Funding and Reserves Policy of the Municipality and is applicable to the municipal area of the Municipality.

(2) This policy revokes all previous policies, decisions and/or *ad hoc* clauses within any other policy, regarding the subject matter of this policy.

5. COMMENCEMENT AND VALIDITY

This policy, being a budgetary policy, shall come into full force and effect upon the adoption thereof by the Council of the Municipality by resolution, which resolution will be part of the adoption process of the Municipality's annual budget as referred to in paragraph 16(1) below.

6. RESPONSIBLE AUTHORITY

(1) The responsible authority for the adoption and implementation of this policy is the Municipality, and where applicable the Council of the Municipality.

(2) In terms of section 62 of the MFMA, the Accounting Officer of the Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure *inter alia* that the Municipality has and implements:

(a) the Tariff Policy referred to and envisaged in section 74 of the Systems Act;

(b) the Credit Control and Debt Collection Policy referred to and envisaged in section 96(b) of the Systems Act;

(c) the Rates Policy as required in terms of MPRA;

(d) the Cash Management and Investment Policy referred to and envisaged in terms of section 13(1) of the MFMA; and

(e) the Supply Chain Management Policy of the Municipality referred to and envisaged in terms of section 111 of the MFMA.

7. POLICY PRINCIPLES

The Municipality undertakes to promote the following principles regarding this policy:

(1) affordability;

(2) financial sustainability;

(3) equity; and

(4) efficiency.

8. LEGISLATIVE FRAMEWORK

This policy is mandated, designed and must be implemented within the framework of *inter alia* the following legislation:

(a) regulation 8 of the Regulations;

(b) the Constitution;

(c) the Systems Act;

(d) the MFMA;

(e) all relevant directives and guidelines issued by National Treasury, and more specifically National Treasury MFMA Circulars 51 and 64.

9. FUNDING OF THE ANNUAL BUDGET

(1) An annual budget may only be funded from:

(a) realistically anticipated revenues to be collected or received;

(b) cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and

(c) borrowed funds, but only for the capital budget and projects.

(2) Realistic anticipated revenue projections must take into account:

(a) projected revenue for the current year based on collection levels to date; and

(b) actual revenue collected in previous financial years.

(3) Spending on a capital project may only occur if:

(a) the money for the project, excluding the cost of feasibility studies, has been appropriated in the budget;

(b) the project, including the total cost, has been approved by Council;

(c) the sources of funding have been considered, are available and have not been committed for other purposes;

(d) Council has considered:

(i) the projected cost covering all financial years until the project is operational; and

(ii) the future operations costs and revenue on the project, including municipal tax and tariff implications.

10. DEBT MANAGEMENT

(1) The municipal debt is managed in terms of the Credit Control and Debt Collection Policy.

(2) The provision for revenue that will not be collected is adequately budgeted as an expense (bad debt provision) and must be based on the projected annual non-payment for services.

11. CASH MANAGEMENT

(1) The Municipality's cash management and investment is managed in terms of the Municipality's Cash Management and Investment Policy.

(2) The availability of cash is one of the most important requirements for financial sustainability and must be closely monitored to ensure a minimum cash days on hand of ninety (90) days for daily operations.

(3) Changes in the municipal environment that may have an impact on the municipal cash position include:

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

(b) reduced growth as a result of economic conditions;

(c) increase in non-payment rate due to economic conditions or political reasons; and

(d) implementation of electricity industry pricing policy (inclining block tariffs).

(4) Surplus cash not immediately required for operation purposes by the Municipality, shall be invested in terms of the Municipality's Cash Management and Investment Policy so as to maximise the returns on the investments.

12. OPERATING BUDGET

(1) The operating budget of the Municipality provides funding to departments for their medium term expenditure as planned. The Municipality categorises the municipal services rendered to the community according to its Tariff Policy.

(2) In accordance with Section 18 of the MFMA, the operating budget can only be funded from realistically anticipated revenue. Provision for bad debt and depreciation, although non cash items, are not to be used to "balance" operating shortfalls.

(3) The operating budget is funded from the following main sources of revenue:

(a) property rates levied in terms of the MPRA and the Rates Policy;

(b) fees, charges or tariffs levied in terms of the provisions of section 75A of the Systems Act and the Tariff Policy;

(c) government grants and subsidies;

(d) other sundry revenue, such as fines, interest received etc; and

(e) cash backed accumulated surpluses from previous years not committed for any other purposes.

(4) The Municipality shall apply when compiling the operating budget:

(a) the annual budget must be cash 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);

(b) growth parameters must be realistic taking into account the current economic conditions;

(c) tariff adjustments must be realistic, taking into consideration affordability, bulk increases and future projected growth according to the approved Integrated Development Plan (IDP);

(d) revenue from government grants and subsidies must be in line with allocations gazetted in the Division of Revenue Act (DORA) and Provincial Gazettes;

(e) 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:

(i) a signed service level agreement;

(ii) a contract or written confirmation; or

(iii) any other legally binding document.

(f) property rates are levied in accordance with the MPRA and the Rates Policy of the Municipality based on the market values of the properties. The budget is compiled using the latest approved Valuation Roll of the Municipality and any Supplementary Roll, consistent with current and past trends. Property rates tariffs and rebates are determined annually by the Municipality as part of the tariff setting process, and as set out and referred to in the Tariff Policy and Tariff Schedule;

(g) property rates rebates, exemptions and reductions are budgeted either as revenue foregone or as a grant as per MFMA Budget Circular 51, depending on the conditions thereof;

(h) projected revenue from municipal service charges must be realistic, based on current and past trends, with expected growth considering the current economic conditions. The following factors must be considered for each municipal service:

(i) metered municipal services comprising of electricity and water:

(aa) the consumption trends for the previous financial years;

(bb) envisaged water restrictions or load shedding when applicable; and

(cc) actual revenue collected in previous financial years.

(ii) refuse removal services:

(aa) the actual number of erven receiving the refuse removal service per category; and

(bb) actual revenue collected in previous financial years.

(iii) sewerage services:

(aa) the actual number of erven receiving the sewerage service per category and the consumption trends per category; and

(bb) actual revenue collected in previous financial years.

(i) rebates, exemptions or reductions for municipal service charges are budgeted either as revenue foregone or as a grant as per MFMA Budget Circular 51 depending on the conditions thereof;

(j) other projected revenue is charged in terms of the approved sundry tariffs and fines, considering the past trends and expected growth for each category;

(k) provision for revenue that will not be collected is made against the expenditure item debt impairment and is based on actual collection levels for the previous financial year and the latest projected annual non-payment rate;

(l) 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;

(m) 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;

(n) depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer is made from the accumulated surplus. However, this is limited to the deemed fair value of assets previously funded from grants and donations. In addition, the annual cash flow requirement for the repayment of borrowings must be fully taken into consideration by the Municipality with the setting of tariffs;

(o) a detailed salary budget is compiled on an annual basis by the Municipality. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for nine (9) months only of the total package considering the time for the recruitment process. As a guiding principle, the salary budget of the Municipality should not constitute more than 25% of annual operating expenditure;

(p) to ensure the health of the municipal asset base, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels as maintenance budgets are normally lower than the recommended levels. As a guiding principle, repair and maintenance should constitute at least between 8% and 10% of total operating expenditure and should annually be increased incrementally until the required targets are achieved;

(q) individual expenditure line items are to be revised each year by the Municipality, when compiling the budget, to ensure proper control over operating 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.

13. CAPITAL BUDGET

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

(2) Provisions on the capital budget will be limited by the Municipality to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

(a) cash backed accumulated surpluses;

(b) borrowings;

(c) government grants and subsidies;

(d) public donations and contributions; and

(e) operating revenue.

(3) The following guiding principles apply when the Municipality is considering sources of funding for the capital budget:

(a) Government Grants and Subsidies:

(i) only gazette allocations or transfers as reflected in the Division of Revenue Act (DORA), or allocations as per Provincial Gazettes may be used to fund projects;

(ii) the conditions of the specific grant must be taken into consideration when allocated to a specific project; and

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

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

(i) a signed service level agreement;

(ii) a contract or written confirmation; and/or

(iii) any other legally binding document.

(c) public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

(d) the borrowing requirements as contained in the Borrowing Policy of the Municipality are 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 Municipality to take up new borrowings include:

(i) long-term credit rating of at least BBB;

(ii) interest cost to total expenditure to not exceed 8%;

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

(iv) payment rate of above 90%;

(v) percentage of capital charges to operating expenditure less than 15%.

(e) allocations to capital projects from Cash Backed Accumulated Surpluses **(subject to the provisions below)** will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:

(i) capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be funded from the Municipality's own generated revenue from the operating budget for that specific year;

(ii) infrastructure projects to service new developments and the revenue received through the sale of erven must be allocated to the Capital Reserve for Services;

(iii) capital projects to replace and/or upgrade existing assets will be allocated to the Capital Replacement Reserve; and

(iv) capital projects to upgrade bulk services will be allocated to the Capital Bulk Contributions Reserve for each service.

(4) In accordance with Section 19 of the MFMA, the Municipality may spend money on a capital project only if:

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

(b) the project, including the total cost, has been approved by Council;

(c) 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

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

(5) Before approving a capital project the Council of the Municipality must consider:

(a) the projected cost covering all financial years until the project is operational; and

(b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

(6) All capital projects have an effect on future operating budgets of the Municipality. The following cost factors must therefore be considered by the Municipality before approval:

(a) additional personnel cost to staff new facilities once operational;

(b) additional contracted services, such as security, cleaning etc.;

(c) additional general expenditure, such as services cost, stationery, telephones, material etc.;

(d) additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.;

(e) additional costs to maintain the assets;

(f) additional interest and redemption in the case of borrowings;

(g) additional depreciation charges; and

(h) additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

14. RESERVES

(1) To ensure that funding is readily available to the Municipality for future development and the timeous 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.

(2) All reserves are "*ring fenced*" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognised Accounting Practices (GRAP).

(3) The following ring fenced reserves should be established and cash backed over a period of time:

(a) Capital Reserve for New Developments

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

(b) Capital Replacement Reserve

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.

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

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

(i) interest received on investments;

(ii) surface rentals from mines as identified from time to time; and

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

(c) Bulk Capital Contribution Reserves

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.

15. PROVISIONS

(1) A provision is recognised 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.

(2) Provisions are revised annually by the Municipality and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

(3) The Municipality should have the following provisions:

(a) Leave Provision

Liabilities for annual leave are recognised 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 to be redeemed for cash at once, only 75% of the leave provision is cash backed.

(b) Landfill Rehabilitation Provision

The landfill sites rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill sites. This provision must be cash backed to ensure availability of cash for rehabilitation on closure.

(c) Long Services Awards

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.

(d) Post-Employment Medical Care Benefits

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

16. IMPLEMENTATION AND REVIEW OF THIS POLICY

(1) This policy shall be implemented once approved by Council as part of the budgetary policies of the Municipality, as referred to in the provisions of regulation 7 of the Municipal Budget & Reporting Regulations, 2008, and section 17(3)(e), section 21(1)(b)(ii)(bb), section 22(a)(i) and section 24(2)(c)(v) of the MFMA.

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