BLOUBERG LOCAL MUNICIPALITY

2020/21

FUND RESERVE POLICY

TABLE OF CONTENTS

1. Definitions

"Accounting officer'' The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA;

''Approved budget'' means an annual budget approved by a municipal council;

"Budget-related policy'' means a policy of a municipality affecting or affected by the annual budget of the municipality;

"Capital Budget" This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods;

''Chief financial officer'' means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 81 of the MFMA be delegated by the accounting officer to the chief financial officer;

''Council'' means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"Financial year" means a 12-month year ending 30 June;

"Line Item" an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures **[See appendix "B" for current item structure];**

"Municipal budget and reporting regulation" its main aim is to secure sound and sustainable management of the budgeting & reporting practices of municipalities;

"Operating Budget" it is financial plan which outlines proposed expenditures for the financial year and estimates of revenues that finance them;

''Service delivery and budget implementation plan'' means a detailed plan approved by the Mayor of a municipality in terms of section 53(1) *(c)* (ii) of the MFMA, for implementing the municipality's delivery of municipal services and its annual budget;

"Virement" is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes;

''Vote'' means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned**. [See appendix "A" for current Vote structure];**

''Vote holder'' means any manager with authorised financial delegations.

2. List of abbreviations

AO – Accounting Officer

BLM- Blouberg Local Municipality

CFO – Chief Financial Officer

CRR –Capital Replacement Reserve

IDP- Integrated Development Plan

MFMA – Municipal Finance Management Act No. 56 of 2003

SDBIP - Service delivery and budget implementation plan

MBRR – Municipal budget and reporting regulations

Policy- Means the Funding & Reserves Policy

3. Preamble

The MFMA states that each municipality needs to develop a strategy to fund infrastructure (both new and replacement) that takes into account internally generated funds, borrowing, development charges, transfers and any other relevant source of capital funding. A municipality's capital replacement reserve must reflect the accumulated provision of internally generated funds designated to replace aging assets – it must therefore be fully cash-backed.

Therefore Blouberg Local Municipality adopts the funding and reserves policy as set out in this document.

4. Purpose

4.1. The aim is 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.

4.2. Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets.

5. Objectives

The objectives of the policy are to:

5.1. To ensure that the operating and capital Budget of Blouberg Local Municipality is appropriately funded.

5.2. Ensure that cash resources and reserves are maintained at the required levels to avoid future year unfunded liabilities in future financial year.

5.3. To achieve financial sustainability with acceptable levels of service delivery to the community.

5.4. To comply with the Legislative requirements.

6. Legislative Framework

The following pieces of legislation further inform the backbone of the policy:

6.1. According to the MBRR, each Municipality must have funding and reserves Policy which set out the assumptions and methodology for estimating:

(a) projected billings, collection and all directed revenue;

(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) Funds to be set aside in reserves.

6.2. Municipal Finance Management Act, Act 56 of 2003

6.3. MFMA Circular No.67 – Municipal Budget Circular for 2013/14 MTREF

7. Funding and Reserves Policy

7.1. Background

The operating and Capital Budgets are prepared on an annual basis for a three-year period, based on the IDP. The expenditure as proposed in these budgets must be funded from the available revenue streams, without placing an undue financial burden on consumers and ratepayers.

The impact on the Municipality's financial position is also taken into account, when considering the balancing of the budget i.e. ensuring that the revenues are sufficient to meet the proposed expenditure.

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

7.2. Operating and Capital Budget Principles

The operating budget allocates funding to Directorates over MTREF. The preparation of the operating budget is underpinned by the following principles:

- A balanced budget is prepared;
- Property rates are levied in accordance with Municipal Property Rtes Act, based on land and improvements. The budget is compiled using

the latest valuation roll taking in to account the anticipated growth in the property market. Property rates and Rebates Tariffs are determined annually as part of the rating policy review process.

- Projected billings for metered services, such as Electricity -the actual consumption patterns for the previous financial years are used as a basis, which is then adjusted with the anticipated growth and/or contraction in consumption patterns.
- The needs to enhance the Municipality's revenue base.
- The capital budget allocates funding to projects over the MTREF. The amounts provided for in the capital budget will be limited to the available internal and external sources of funding, taking in to account the financial affordability considerations in to account.
- Budget allocations to Directorates are based on the key service delivery priorities as reflected in the IDP.

7.3. RESERVES

7.3.1. Capital Replacement Reserve

(a) Municipal capital replacement reserve must reflect the accumulated provision of internally generated funds designated to replace aging assets – it must therefore be fully cash-backed.

(b) This reserve once fully established will enable the municipality to provide internal funding for its capital replacement and renewal programme.

8. Funding of Annual Budget

An annual budget may only be funded from:

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

(b) Borrowed funds but only for capital expenditure

(c) Capital expediting may only incur on a capital project if:

(d) The funding for the project has been appropriated in the capital budget

(e) The total cost for the project has been approved by Council

(f) the future budgetary implications and projected cost covering all financial years until the project is operational has been considered

7.3.2. Capital Replacement Reserve Procedure

(a) Priority should be given to providing cash-backing for the replacement of assets used to provide basic services and revenue earning assets;

(b) Where assets were financed by borrowing, the level of cash-backing must take into consideration the likely funding strategy to replace the assets;

(c) Cash-backing should also be provided for assets that were originally financed by conditional grants (it must be assumed that national government *will not fund the replacement of such assets in the future*);

(d) The overall level of cash-backing should take into consideration the increasing cost of replacing assets;

(e) The overall level of cash-backing should also take into account the opportunity cost of holding cash investments relative to the demand for new infrastructure and the cost of borrowing; and

(f) The municipality shall conduct a functional assessment of infrastructure assets in order to determine the appropriate level of cash-backed capital replacement reserve funding required

(g) The actual amount allocated for interest on investments is contributed to the capital replacement reserve.

(h) Future Vat reclaimed from conditional grants will be directed towards capital replacement reserve fund from the beginning of 2012/13 financial year

9 <u>Financial Responsibilities</u>

Budget and Treasury office must be responsive for capital replacement reserve fund in order for its budget fully cash backed.

10 Replacement Reserve <u>Restrictions</u>

All capital projects have an effect on future operating budget therefore the following cost factors should not be funded from capital replacement reserve fund:

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

(b) Additional contracted services, that is, security, cleaning etc.

(c) Additional general expenditure, that is, services cost, stationery, telephones, material etc.

(d) Additional other capital requirements to the operate facility, that is, 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;

11.1. Additional revenue generation from new capital projects. The impact of additional expenditure items must be offset by additional revenue generated from own income.

*9. **Implementation & Monitoring***

- This Policy shall be implemented as at 1 July 2016 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.
- The implementation of this policy will be done by all relevant officials within BLM and monitoring will be done by Budget & Treasury Office.
- The availability of cash is one of the most important requirements for financial sustainability and must be closely monitored.
- Surplus cash not immediately required for operational purposes is invested in terms of the municipality's investment policy to maximize the return on cash.

10. **BORROWING REQUIREMNTS**

The borrowing requirements will be based on the backlogs of the infrastructure needs taking into consideration the operational impact of any loans.

Sources of the Policy

Definition of CRR

Municipal Finance Management Act No. 56 Of 2003

MFMA Circular No.58 – Municipal Budget Circular for 2012/13 MTREF