PORT ST JOHN'S MUNICIPALITY

Funding and Reserves Policy

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INTRODUCTION

This policy is mandated by Section 8 of the Local Government: Municipal Budget and Reporting, Regulations which is made in terms of section 168 of the Municipal Finance Management Act, 2003, (Act No. 56 of 2003).

OBJECTIVE

The Council sets as an objective a long term financially sustainable municipality with acceptable levels of service delivery to the community. This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

Fund accounting historically formed the major component of municipal finance in the IMFO standards. After the change to General Recognised Accounting Practices (GRAP), fund accounting is no longer allowed.

The municipality, however, recognizes the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public 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.

This policy therefore aims to provide for a measure of protection by creating certain reserves.

1. GUIDING PRINCIPLES

The Port St John's Municipality's Funding and Reserves Policy is based on the following principles:

1) Affordability
2) Financial sustainability
3) Equity
4) Efficiency

2. BACKGROUND

DEFINITIONS

For the purposes of this Policy funds and reserves are defined as:

(1) Funds include revenue from property taxes, services, fines and government grants and subsidies.

(2) Reserves are created in terms of GRAP to set aside funds that will be used for a specific purpose.

Reserves can be into two main categories being "cash funded" and "non–cash funded".

(1) Cash funded reserves

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserve:

(a) Statutory reserves

It may be necessary to create cash backed reserves prescribed by law. The Accounting Officer must create such reserves according to the directives in the relevant laws.

3. LEGISLATIVE REQUIREMENTS

(1) Funding

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of

2003) (MFMA), an annual budget may only be funded from:

1) Realistically anticipated revenues to be collected.
2) Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
3) Borrowed funds, but only for capital projects.

Furthermore, 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.

The requirements of the MFMA are 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.

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

(2) Reserves

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. However the housing development is no longer the duty of the local government. The GRAP standards themselves do not provide for reserves.

4. ACCOUNTING FOR RESERVES

(1) Revaluation reserve

The accounting for the revaluation reserve must be done in accordance with the requirements of GRAP 17 - Property, plant and equipment.

(2) Other reserves

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 appropriated against these reserves.

5. UNDERLYING POLICIES AND APPLICATION

PROJECTED BILLINGS, COLLECTIONS AND DIRECT REVENUE

These projections are prepared in accordance with the following annual approved Council policies:

1) The Credit Control and Debt Collection Policy and
2) Indigent Policy.

The objectives of these policies are as follows:

1) Focusing on all outstanding debt as raised on the debtor's account.
2) Providing for a common credit control and debt collection policy.
3) Promoting a culture of good payment habits amongst debtors and instil a sense of responsibility towards the payment of accounts and reducing municipal debt.
4) Subject to the principles provided for in this Policy, use innovative, cost effective,
5) Efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process.
6) Effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy.

7) Tariff Policy which guides the annual setting (or revision) of tariffs, hence the policy does not make specific tariff proposals, nor does it deal in any detail with the implementation of specific tariff proposals. The policy is applicable to all tariffs for water and sanitation services provided by Port St John's Municipality. This policy is also applicable to all sundry tariffs.

THE PROVISION FOR REVENUE THAT WILL NOT BE COLLECTED

The bad debts provision policy, which is reviewed annually, underpins the manner in which the Port St John's Municipality makes provision for revenue that will not be collected within a financial year.

THE FUNDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM INVESTMENTS

The Port St John's Municipality has a Cash and Investment Policy which its purpose is to secure the sound and sustainable management of the Port John's Municipality's surplus cash and investments. Cash must be managed in terms of the aforementioned policy.

It is calculated based on the budgeted cash-flow, taking into consideration the timing of anticipated inflows and outflows of cash during the year.

THE DIVIDENDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM MUNICIPAL ENTITIES

This is not applicable as Port St John's Municipality does not receive any dividend.

THE PROCEEDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM THE TRANSFER OR DISPOSAL OF ASSETS

This methodology is governed by the Asset Management Policy and the Supply Chain Management Policy.

THE MUNICIPALITY'S BORROWING REQUIREMENTS

The Port St John's Municipality's borrowing requirements are determined in accordance with the Port St John's Municipality's affordability thereof.

Debt must be managed in terms of the municipality's Borrowing Policy, together with any requirements in this policy.

THE FUNDS TO BE SET ASIDE IN RESERVES

The funds to be set aside in reserves are subject to affordability.

THE FOLLOWING LIABILITIES SHALL BE CASH BACKED

1) Unspent conditional grant funding
2) Retention on projects
3) Consumer deposits

The municipality must ring fence the conditional grants through a specific investment account.

6. FUNDING THE OPERATING BUDGET

GENERAL PRINCIPLES WHEN COMPILING THE OPERATING BUDGET

(1) The budget must be cash – funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates.

(2) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information.

(3) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay.

(4) Revenue from government grants and subsides must be in accordance with the amounts promulgated in the Division of Revenue Act (DoRA), proven provincial transfers and any possible transfers to or from other municipalities.

For the purpose of the cash flow budget any national or provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation and be included in changes in cash and cash equivalents and payables.

Within the budget, grants recognized as revenue must equal the total expected expenditure from grants.

(5) Projected revenue from services charges must be reflected as net (i.e. all billing less revenue foregone, including free basic services.

(6) Projected revenue from property rates must include all rates to be levied.

For the purpose of the cash flow budget all rebates and discounts must be deducted from the projected revenue.

(7) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortized discount must be included in the operating budget.

(8) Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality. It is therefore determined that the short-term expenditure portion of employee benefits be funded from the current year operating cash surplus.

(9) Depreciation must be fully budgeted for in the operating budget.

(10) Contributions to provisions (non-current and current) do not form part of the cash flow. It is necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

7. FUNDING THE CAPITAL BUDGET

The capital budget can be funded by way of own cash, grants, public contributions as well as external loans.

(1) Cash

The capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions will be determined during the budget process.

(2) Grants (Including Public Contributions)

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 also be taken that unusual grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

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

Depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The municipal manager will put such accounting measures in place as to comply with this requirement as far as possible.

(3) External Loans

The municipality may only raise loans in accordance with its Borrowing Policy. The municipal manager must also put such accounting measures in place to ensure that no unspent portions of loans raised must be included in the cash surplus for the year.

8. GENERAL

The municipal manager shall be responsible for the implementation and administration of this Policy.

ADOPTION OF THE POLICY

Policy adopted by Council of Port St Johns Local Municipality for implementation.

Approved by: Council On ________________________

Date

Resolution No. ________________________

Confirmed by the Honourable Speaker ________________________

Signature

Cllr C.S Mazuza