

PRINCE ALBERT MUNICIPALITY



FUNDING AND RESERVES POLICY

Draft Policy

March 2024

TABLE OF CONTENTS

1. APPLICATION AND SCOPE3

2. OBJECTIVES OF THIS POLICY3

3. INTRODUCTION3

4. PROJECTED BILLINGS, COLLECTIONS AND DIRECT REVENUE4

5. FUNDING SOURCES FOR THE OPERATING AND CAPITAL BUDGET4

 5.1) OPERATING BUDGET 4

 5.1.1) Service Charges 4

 5.1.2) Property Taxes 4

 5.1.3) Grants & Subsidies 4

 5.1.4) Rental Fees 5

 5.1.5) Fines 5

 5.1.6) Other Income 5

 5.2) CAPITAL BUDGET5

 5.2.1) Own Funding Sources 6

 5.2.2) Other Funding Sources 6

6. PROVISION FOR REVENUE THAT WILL NOT BE COLLECTED6

7. THE FUNDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM INVESTMENT6

8. PROCEEDS FROM THE TRANSFER OR DISPOSAL OF ASSETS7

9. BORROWING REQUIREMENTS.....7

10. CAPITAL REPLACEMENT RESERVE (CRR)7

11. SHORT TITLE AND COMMENCEMENT7

1. APPLICATION AND SCOPE

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).

2. OBJECTIVES OF THIS POLICY

To ensure the operating and capital budgets of council are appropriately funded and to ensure that provisions and reserves are maintained at the required levels to avoid future year unfunded liabilities.

3. INTRODUCTION

(a) The municipal budget is prepared on the accrual basis, a system of accounting where transactions are brought to account in the financial year in which they occur irrespective of whether cash is paid or received in respect of such transactions during the financial year concerned.

(b) The municipality will fund its budget based on the endeavours to meet the amongst other the following national objectives; being to –

- (i) Protect the poor;
- (ii) Build capacity for long-term growth;
- (iii) Sustain employment growth;
- (iv) Maintain sustainable debt levels; and
- (v) Address sectoral barriers to growth and investment.

(c) The funding of the operating and capital budgets is done on an annual basis for the MTREF period. The budget is then balanced from an accounting (accrual) as well as a cash perspective. The impact of movements in the Statement of Financial Position is considered when considering the balancing of the budget.

4. PROJECTED BILLINGS, COLLECTIONS AND DIRECT REVENUE

(a) These projections are prepared in accordance with the following annual approved council policies:

- (i) The Rates Policy which sets out the manner in which the municipality may impose rates on property;
- (ii) The Tariff Policy which guides the annual setting (or revision) of tariffs; and
- (iii) The policy is applicable to all tariffs for electricity, water, sanitation and solid waste services provided by the municipality. This policy is also applicable to all sundry tariffs.

5. FUNDING SOURCES FOR THE OPERATING AND CAPITAL BUDGET

4.1) OPERATING BUDGET

The operating budget shall be financed from the following sources:

5.1.1) Service Charges

- (i) Electricity Charges
- (ii) Water Sales
- (iii) Refuse Removal Fees
- (iv) Sewerage Fees

5.1.2) Property Taxes

- (i) Increases in tariffs and rates will be based on actual billed revenue and as far as possible be limited to inflation plus an additional percentage increase to accommodate the growth of the town and more importantly to remain affordable and realistic. Detailed information can be found in the Tariff Policy.

5.1.3) Grants & Subsidies

- (i) Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

5.1.4) Rental Fees

- (i) Fees for rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year.

5.1.5) Fines

- (i) Fees for fines will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

5.1.6) Other Income

- (i) All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

4.2) CAPITAL BUDGET

Capital projects may only be funded;

- if approved in terms of an Integrated Development Plan of the municipality or a council resolution. The municipality may spend money on a capital project only;
- if the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget;
- provisions relating to contracts having future budgetary implications in terms of section 33 has been complied with, to the extent that that section may be applicable to the project; and
- the considered sources of funding are available with reference to acceptable documentation in terms of regulation 10 2(a) (b) and (c) of the Budget and Reporting Regulations and have not been committed for other purposes.

The Capital Budget will be funded from:

5.2.1) Own Funding Sources

The Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets.

5.2.2) Other Funding Sources

The capital budget shall also be financed from external sources such as the following:

- Grants and subsidies as allocated in the annual Division of Revenue of Act;
- Grants and subsidies as allocated by Provincial government
- External Loans;
- Private Contributions;
- Contributions from the Capital Development Fund (developer's contributions); and
- Any other financing source secured by the local authority.

6. PROVISION FOR REVENUE THAT WILL NOT BE COLLECTED

- (a) The municipality makes provision in the operational expenditure budget for revenue that will not be collected in the budget year.
- (b) This provision that will be made is based on past trends in payment rates.

7. THE FUNDS THE MUNICIPALITY CAN EXPECT TO RECEIVE FROM INVESTMENT

- (a) The municipality makes provision in the operational revenue budget for revenue that will be realized on investment.
- (b) The interest received on investment is included in the revenue budget.
- (c) This forecast will be based on projected interest rates and projected investments for the period.

8. PROCEEDS FROM THE TRANSFER OR DISPOSAL OF ASSETS

- (a) The proceeds from transfer or disposal of assets will be budgeted in the operational revenue budget.

9. BORROWING REQUIREMENTS

- (a) The affordability of loans over the Medium-Term Revenue and Expenditure Framework (MTREF) period is determined before external loans are considered.
- (b) Capital costs (interest and redemption payments) should be within the acceptable norms and in terms of the Borrowing Policy.

10. CAPITAL REPLACEMENT RESERVE (CRR)

- (a) Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:
- Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - Interest on the investments of the CRR; if the CRR is invested in a separate account or investment;
 - Additional amounts appropriated as contributions in each annual or adjustments budget.
- (b) Before any asset can be financed from the CRR the financing must be available within the reserve as cash because this fund must be cash backed.
- (c) If there is insufficient cash available to fund the CRR, this reserve fund will then be adjusted to equal the available cash;

11. SHORT TITLE AND COMMENCEMENT

This policy is called the Municipal Funding and Reserves Policy (Draft) and shall come into effect on 01 July 2024.