



Budget Funding and Reserves
Policy
2023/2024

BUDGET FUNDING AND RESERVES POLICY

LEGISLATIVE CONTEXT

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

To ensure that the operating and capital budgets of the municipality are appropriately funded.

To ensure that provisions and reserves are maintained at the required levels.

To avoid future year unfunded liabilities.

To set out the assumptions and methodology for estimating the following:

- a) Projected billings, collections and all direct revenues.
- b) The provision for revenue which will not be collected.
- c) The funds the municipality can expect to receive from investments.
- d) The dividends to 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.
- g) The funds to be set aside in reserves.

GUIDING PRINCIPLES

The budget may be financed only from:

- Realistic expected revenues based on current and previous collection levels.
- Cash-backed funds available from previous surpluses where such funds are not required for other purposes, and borrowed funds in respect of the capital budget only.

The municipality's Funding and Reserves Policy is based on the following principles:

- Affordability.
- Financial sustainability.
- Equity.
- Efficiency.

UNDERLYING POLICIES AND APPLICATION

Projected billing, collections and direct revenue

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

The credit Control Policy, Debt Collection and Indigent Policy. The objectives of these policies are as follows:

- Focus on all outstanding debt as raised on the debtor's account.
- Provide for a common credit control and debt collection policy.
- Promote a culture of good payment habits amongst debtors and instill a sense of responsibility towards the payment of accounts and reducing municipal debt.
- Subject to the principles provided for in this policy, use innovative, cost effective, efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process.
- Effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy.

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 provided by the UThukela District Municipality. This policy is also applicable to all sundry tariffs.

The provision for revenue which will not be collected

The Bad Debt Provision Policy, which is reviewed annually, underpins the manner in which the 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 municipality has a Cash Management and Investment Policy which purpose is to secure the sound and sustainable management of the municipality's surplus cash and investments.

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

The dividends the municipality can expect to receive from municipal entities

This is not applicable to the municipality as no dividends are received from any entities.

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 municipality's borrowing requirements are determined in accordance with the municipality's affordability thereof.

Capital replacement reserve (CRR)

The municipality shall establish a CRR for the purposes of financing capital projects and the acquisition of assets.

Such reserves shall be established from the following sources of revenue:

- Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes.

- Interest on the investment of the CRR, appropriated in terms of the investment policy.
- Additional amounts appropriated as contributions in each annual or adjustment budget.
- Before any assets can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash-backed.
- If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash.

The funds to be set aside in reserves.

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