



BEAUFORT WEST MUNICIPALITY

BUDGET RELATED POLICY NO. 2

FUNDING AND RESERVES POLICY

DOCUMENT AND VERSION CONTROL

Version: Revision 5

Date: 06 June 2023

Summary:

This document describes the funding and reserves policy that will be applicable with effect from **1 July 2023**.

Copies of this document can be viewed at the offices of the Municipality, all the public libraries in the municipality and the municipal website.

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1. Definitions

“Accounting Officer” The municipal manager 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.

“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 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.

“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.

“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 on 30 June.

“Line Item” an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure

“Operating Budget” The Town’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

“Ring Fenced” An exclusive combination of line items grouped for specific purposes for instance salaries and wages.

“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) 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.

“Project codes ” 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 appropriating for the purposes of the department or functional area concerned.

2. Legislative framework

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).

3. Objectives of this Policy

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

4. Introduction

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.

The municipality will fund its budget based on the endeavours to meet the amongst other the following national objectives; being to-

- Protect the poor;

- Build capacity for long-term growth;
- Sustain employment growth;
- Maintain sustainable debt level; and
- Address sectoral barriers to growth and investment.

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 taken into account when considering the balancing of the budget.

5. Projected billings, Collections and Direct Revenue

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

- a) The Rates Policy which sets out the manner in which the municipality may impose rates on property;
- b) The Tariff Policy which guides the annual setting (or revision) of tariffs; and
- c) 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.

6. Funding sources for the Operating and Capital budget

6.1 The Operating Budget

The operating budget shall be financed from the following sources:

- a) Service Charges such as;
 - Electricity Charges
 - Water Sales
 - Refuse Removal Fees
 - Sewerage Fees

- b) Property Taxes

- 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.

c) Grants & Subsidies

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

d) Rental Fees

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

e) Fines

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

f) Other Revenue

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

g) Proceeds from the transfer or disposal of assets

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

6.2 The Capital Budget

6.2.1 Capital projects may only be funded;

- if approved in terms of an Integrated Development Plan and approved budget of the municipality.

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.

6.2.2 The Capital Budget will be funded from:

a) 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.

b) 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.

7. Provision for Revenue that will not be collected

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

8. The funds the municipality can expect to receive from investment

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

9. Borrowing requirements

- The affordability of loans over the Medium-Term Revenue and Expenditure Framework (MTREF) period is determined before external loans are considered.
- 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 CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve 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 investments of the CRR; and or in terms of the investments policy;
 - 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. Date of Approval & Signature

As approved by Council at the Council meeting which was held on 6 JUNE 2023

Signed at B/WEST on the 14...th day of JUNE 2023.


Municipal Manager