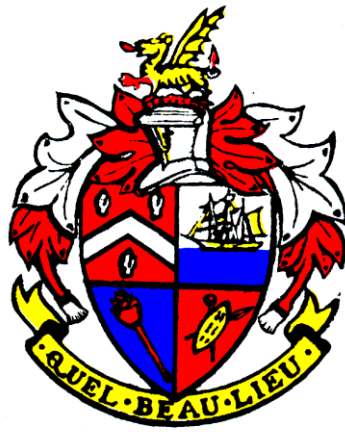


**RICHMOND LOCAL
MUNICIPALITY**



**FINAL FUNDS & RESERVES POLICY
2024/2025**

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1 Definitions

For the purpose of this policy:

“Council”

Means the Council of the municipality, any committee or person to which or to whom an instruction has been given or any power has been delegated or sub-delegated in terms of, or as contemplated in, section 59 of the Local Government: Municipal Systems Act, 2000 or a service provider in respect of any power, function or duty of the Council.

“Councillor”

Means a member of the municipal Council of the Richmond Municipality.

“Cost Element”

Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organization. Secondary cost elements are utilized to reallocate cost by means of assessments, internal billing etc.

“Chief Financial Officer”

Means the head of the Financial Services Department as contemplated in Section 80 of the MFMA.

"Municipal Manager"

Means the person appointed by the Municipal Council as the Municipal Manager for the municipality in terms of section 82 of the Local Government Municipal Structures Act, 1998 (Act No. 117 of 1998) and includes any person to whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty.

“Official”

Means all persons in the fulltime employment of the Richmond Municipality.

“Operational”

Means revenue or expenditure included in or to be incurred on the operating budget

“Capital”

Means the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets.

“Line item”

Means the 13 character number included in the operating budget (example 1030310226900: Council general professional fees)

“Financial Year”

Means the period from 1 July until 30 June of the next year.

“Virement”

Means shifting of funds between line items within a vote. Webster’s New millennium TM Dictionary of English defines “Virement” as “a regulated transfer or reallocation of money from one account holder, especially public funds.”

“SDBIPs”

Means Service delivery and budget implementation plans.

“Budget Steering Committee”

Means the committee that is established in terms of Budget and reporting regulation 4(1) to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA.

“Vote”

Means:

- One of the main segments into which a budget of a municipality is divided for the appropriation of money 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.

“Project”

Means a capital project or programme, but will exclude a small capital item not exceeding the capitalisation threshold as contained in the Asset Management Policy

“Expenditure by type”

Means the following main expenditure classifications in which a budget under different votes can be divided:

- Employee related costs;
- Remuneration of councillors;
- Debt impairment;
- Depreciation and asset impairment;
- Finance charges;
- Other materials;
- Contracted services;
- Transfers and grants;
- Other expenditure; and
- Repairs and maintenance

2 Preamble

In the spirit of the Municipal Finance Management Act, (No.56 of 2003) “to modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors” and,

Where the Budget and Reporting Regulations of 2009 (Government Gazette 32141) prescribes this policy as a necessary instrument to monitor and sustain the municipality’s financial management,

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

3 Objectives of this Policy

The policy sets out to ensure that the annual budget of Richmond Municipality is fully funded and that all funds and reserves are maintained at the required level to avoid future year unfunded liabilities. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework.

The policy shall apply to all the relevant parties within the Richmond Municipality that are involved throughout the budget process and financial management disciplines.

The objective of this policy is to set out the assumptions and methodology for estimating as prescribed by Budget Regulation 8:

- Budgeting principles to be followed;
- Projected billings, collections and all direct revenues;
- The provision for revenues that will not be collected;
- The funds the municipality can expect to receive from investments;
- The dividends the municipality can expect to receive from municipal entities if applicable;
- The proceeds the municipality can expect to receive from the transfer or disposal of assets;
- The municipality's borrowing requirements; and
- Virement of funds in the budget
- Budget procedures and responsibilities of the Budget Office
- Financial Ratios / Norms

4 Budgeting Assumptions & Principles to be Followed

4.1 Basis of Calculation of Capital Budget

- The **zero-based method** is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- In addition, the council shall consider the likely impact of such operational expenses- net of any revenues expected to be generated by such item- on future property rates and service tariffs.

4.2 Funding Sources for the Capital Budget

4.2.1 Own Funding Sources

The Council shall establish possible revenue sources to fund the capital budget. These may include the following:

- Any cash backed un-appropriated surplus from previous financial years, except for the amount reserved for redemption of external loans, and where there is a shortfall in the External financing fund for redemption of external loans, and as far as it is not required to finance the payment of operating creditors or for other operational purposes, may be appropriated to the municipality's reserve for the replacement of capital assets. These available funds can only be appropriated through an annual or adjustments budget
- Further amounts appropriated as contributions in each annual or adjustments budget; and
- Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

4.2.2 Other Funding Sources

The Ad- Hoc capital budget shall 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 Loan(s) may only be considered as a funding source for revenue generating capital projects/items only and of which the lifespan is not less than the redemption term of the envisaged external loan
- Private Contributions
- Any other financing source secured by the local authority.

4.3 Basis of Calculation of Operational Budget

- The **zero-based approach** is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.
- An income-based approach shall be used where the realistically anticipated income is determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget
- An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good by utilising available accumulated surplus, excluding any reserves set aside for specific purposes. Should the accumulated surplus, excluding reserves set aside for specific purposes be insufficient to cover the operating deficit it will be made good in the next adjustments budget or annual budget
- The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100%, of the accrued leave entitlement of officials as at 30 June of each financial year as required by the relevant accounting standard, and shall budget appropriately for contributions to such provision in each annual and adjustments budget

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- The municipality shall establish and maintain a provision for bad debts in accordance with its accounting policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget
 - All expenses, including depreciation expenses, shall be cash funded.
 - Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of outstanding external loans relating to the department or service
 - The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the cash and investment policy
 - The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its asset management and accounting policy. The municipality shall endeavour to provide sufficient for repair and maintenance in the operating budget component of each annual and adjustments budget
 - In the preparation of the draft operating budget component of the annual budget, the principle used will be a zero based. The allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department (director), service or function concerned shall have the right to allocate the total budgeted amount to the line items within such vote, except in so far as the line item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, salaries and related contributions, vehicle cost items, entertainment, departmental levies, office teas and meals, Grants in aid, special events or projects, contribution to provisions, skills development levies payable, Rebates, year end functions etc.)
 - Notwithstanding the preceding principle, the budget for salaries, allowances and salaries related benefits shall be separately prepared. The remuneration of political office bearers and other councillors shall be excluded from this limit as this is governed by SALGA
 - The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line items within the vote will be held responsible for service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the Mayor
 - In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from property rates and refuse. The affordability by the community and regulating of tariffs such as rates/refuse will however dictate the increases in tariffs and subsequently the ratios
 - When considering the draft annual budget, the Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts

of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the Council shall endeavour to ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index, where the municipality has control over the increase in tariffs

- Increases needs to be cost reflective.
- Appointment of officials and other staff will only be made in terms of the guidelines as set out in the Recruitment policy of the municipality
- The use of any facility of the municipality, for which a charge has been determined in terms of the tariff policy, free of charge or utilised by any department, must be reflected as revenue for that facility and an expense for that department or a grant in terms of section 67 of the Municipal Finance Management Act
- To ensure that the financial year end is not delayed, that the creditors can be closed in time to ultimately comply with the completion of financial statements by 31 August as prescribed by the MFMA, all normal interdepartmental orders, orders and direct purchases will finally close on 31 of May of each year. Only emergency orders may be issued after this date, which must be authorised by the Chief Financial Officer after considering the motivation by the relevant director for the emergency. Lack of planning will not constitute an emergency
- With the compilation of the budget the budget office shall take into account all relevant National and or Provincial Budget circulars that may be issued from time to time

4.3.1 Funding Sources for Operational Budget

- Refer to the Budget Policy
- The operating budget shall be funded from the following sources per MFMA Section 18 of Chapter 4:
 - Realistically anticipated revenues to be collected
 - Cash Backed accumulated funds from previous years' surpluses not committed for any other purposes
- Revenue Projections in the budget must be realistic taking into account:
 - Projected Revenue for the current year based on collection levels to date
 - Actual Revenue collected in the previous financial years

5 The Provision for Revenues that will not be Collected

The municipality shall budget on a yearly basis per financial year for revenue that will not be collected from debtors per Debt and credit collection policy.

- Recoverability of each debt will be reviewed annually
- The municipal manager shall as soon as possible after the 30 June present to council a report indicating amounts in arrears which the municipality believes will not be collected
- Council will then approve the write off of such arrears, if satisfied with the reasons provided

6 Funds the Municipality can expect to receive from Investments

The interest on investments is calculated on the interest rate applicable to each investment and investments of surplus funds that is in accordance with the cash management and investment policy

7 Proceeds the Municipality is expected to receive from the Transfer or Disposal of Assets

In terms of the Asset Management Policy, asset may only be disposed of as indicated in this policy. Proceeds from such disposals will depend on projections for a specific period of time and will differ from one financial year to another.

8 The Municipality's Borrowing Requirements

The borrowing requirements are based on the backlogs of the infrastructure needs taking into consideration the operational impact of any loans. Long terms debt will only be incurred for capital expenditure for revenue generating services.

All borrowings will be undertaken in terms of the Borrowing Policy of the municipality

9 Virement of funds in the budget

Virement of funds in the budget will be made in terms of the virement policy of Richmond Municipality.

The aim is to give heads of departments and programmes greater flexibility in managing their budgets. To facilitate virement rules will be applicable for the shifting of funds between line items, items, projects, programmes. This policy aims to provide guidance to senior management in the use of virements as a mechanism in their day to day management of their budgets. In addition, it specifically aims to empower senior managers with an efficient financial and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

The Chief financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative processes within the system of delegations is one of these controls.

A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

Changing circumstances and priorities during a financial year may give rise to a need to virement (transfer) funds within votes as defined in the MFMA. The treatment of such instances may, however be dependent on whether an adjustments budget is required or not.

10 Budget procedures and responsibilities of the Budget Office

The budget process, procedures and responsibilities of the Richmond Municipality are clearly defined in the budget policy of the municipality.

11 Funds to be set aside in reserves

The following reserves will be cash backed:

- Housing Development Fund

12 Funding Compliance Measurement

1. Introduction - The municipality must ensure that the annual budget or any subsequent adjustments budget complies with the requirements of the MFMA and this policy. For this purpose, a set of indicators must be used as part of the budget process. These indicators include all the indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.
2. Cash and cash equivalents and investments - A positive Cash and Cash Equivalents position should be maintained throughout the year
3. Cash plus investments less application of funds - The overall cash position of the municipality must be sufficient to include:
 - a. unspent conditional grants.
 - b. unspent conditional public contributions.
 - c. unspent borrowings.
 - d. VAT due to SARS.
 - e. ceded investments.
 - f. the cash portion of statutory funds such as the Housing Development Fund.
 - g. other working capital requirements; and
 - h. the cash position must be sufficient to back reserves as approved by the municipality and those portions of provisions as indicated in this policy.
4. Monthly average payment covered by cash and cash equivalents ("cash coverage") - This indicator shows the level of risk should the municipality experience financial stress.
5. Surplus/deficit excluding depreciation offsets - It is probable that the operating budget including depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a deficit. As determined elsewhere in this policy it is not the intention that residents be burdened with tariff increases to provide for such depreciation charges. To ensure a "balanced" budget, the cash position must be determined. Should a budget result in a deficit cash position, the budget will be deemed unfunded and must be revised.
6. Property rates / service charges revenue percentage increase less macro inflation target - The intention of this indicator is to ensure that tariff increases are in line with macro-economic targets, but also to ensure that revenue increases for the expected growth in the geographic area are realistically calculated.
7. Cash collection % rate - The objective of this indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA. 5 The collection rate for calculating the provision for impairment of receivables must be

based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 1 July. It is not permissible to project a collection rate higher than the current rate. Any improvement in collection rates during the budget year may be appropriated in an Adjustments Budget.

8. Debt impairment expense as a percentage of billable revenue - This indicator provides information as to whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance can have an influence on it. Any deviation must be motivated in the budget report.
9. Borrowing as a percentage of capital expenditure (excluding grants and contributions) - This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the Municipality's Cash Management and Investment Policy
10. Grant revenue as a percentage of grants available - The percentage attained should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.
11. Consumer debtors change (current and non-current) - The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic. Any unacceptably high increase in either current or non-current debtors' balances should be investigated and reported.
12. Repairs and maintenance expenditure level - Property Plant and Equipment should always be maintained properly to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program to fund other less important expenditure requirements. Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.
13. Asset renewal/rehabilitation expenditure level - This indicator supports further the indicator for repairs and maintenance. The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset to determine whether the renewal program is sufficient or needs revision.

13 Implementation and Review of Policy

This policy was implemented as at 1 July 2015 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.