GEORGE

THE CITY FOR ALL REASONS

GEORGE MUNICIPALITY

FUNDING, BORROWING AND RESERVE POLICY

I N D E X

DEFINITIONS

Accounting Officer/AO (MFMA) "-

a) in relation to a municipality means the municipal official referred to in section 60.

Government/Division of revenue Allocation (MFMA) – "means—

a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;
b) an allocation of money to a municipality in terms of section 214(1)(c) of the Constitution;
c) an allocation of money to a municipality in terms of a provincial budget; or
d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;"

Approved Budget (MFMA) "- means an annual budget-

a) Approved by a Municipal Council; or
b) Approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"

Budget year "- means the financial year for which an annual budget is to be approved in terms of section 16(1);"

Capital Project "- means capital project as defined in terms of the Mscoa project segment.

Capital expenditure "-where used alone shall mean the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets in terms of Generally Recognised Accounting Practice, "

CRR – " shall mean Capital Replacement Reserve;"

Debt – "means—

a) a monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or
b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another;"

Delegation – "in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;"

Financial year – "The 12-month period between 1 July and 30 June."

Investment – “in relation to funds of a municipality, means—

a) the placing on deposit of funds of a municipality with a financial institution; or
b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;”

Month – “means one of the 12 months of a calendar year;”

Municipal Council or Council – “means the Council of a municipality referred to in section 18 of the Municipal Structures Act;”

Municipality –

a) “when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);”

Municipal manager – “means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act;”

MFMA: - The Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

MSA: - The Local Government Municipal Systems Act, 2000 (Act 32 of 2000).

National Treasury or N.T– “means the National Treasury established by section 5 of the Public Finance Management Act;”

Official – “in relation to a municipality or municipal entity, means—

a) an employee of a municipality or municipal entity;
b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;”

Political structure – “in relation to a municipality, means—

a) the Council of a municipality; or
b) any committee or other collective structure of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act;”

Public funds - all monies received by the municipality to perform the functions allocated to them.

Prescribe – “means prescribe by regulation in terms of section 168;”

Primary bank account – “means a bank account referred to in section 8(1);”

Quarter – “means any of the following periods in a financial year:

a) 1 July to 30 September;
b) 1 October to 31 December;
c) 1 January to 31 March; or
d) 1 April to 30 June;”

1. FUNDING, BORROWING AND RESERVES POLICY

1.1 LEGISLATIVE REQUIREMENTS

The legislative framework and regulations considered in determining the funding and reserves policy:

- Municipal Finance Management Act, 2003 (Act No 56 of 2003)
- Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009
- Municipal Finance Management Act: Municipal Regulation on Standard Chart of Accounts, Regulation 10178, published under Government Gazette 37577, 22 April 2014

1.2 ~~INTRODUCTION AND~~ PURPOSE AND OBJECTIVE OF THE POLICY

The Council sets itself the objective of becoming a financially sustainable municipality with basic levels of service delivery to the entire community.

This policy aims to:

- ensure that the Municipality has sufficient and cost-effective funding sources in order to achieve its objectives through the implementation of its operating and capital budget.
- set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

~~The legislative framework governing borrowings, funds and reserves are:~~

~~a) Local Government Municipal Finance Management Act, Act 56 of 2003 (MFMA) must be complied with and MFMA Circular 71 stipulates the following guidelines regarding borrowing:~~

~~**Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure**~~

~~Capital Cost (Interest Paid and Redemption) / Total Operating Expenditure x100~~

~~*Norm/Range: 6% - 8%*~~

~~**Debt (Total Borrowings) / Total Operating Revenue**~~

~~(Overdraft + Current Finance Lease Obligation + Non-Current Finance Lease Obligation + Short Term Borrowings + Long Term Borrowings) / Total Operating Revenue – Operational Conditional Grants) x 100~~

~~*Norm/Range: Maximum 45%*~~

The legislative framework and regulations considered in determining the funding and reserves policy

1.3 LEGISLATIVE OBLIGATIONS FOR THE POLICY

~~b)~~a) ~~Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009 stipulates:~~In accordance with Section 8(1) of the Municipal Budget and Reporting Regulation, each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating:

~~*"8. (1) Each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating –*~~

a) projected billings, collections and all direct revenues;
b) the provision for revenue that will not be collected;
c) the funds the municipality can expect to receive from investments;
d) the dividends the municipality can expect to receive from municipal entities;
e) the proceeds the municipality can expect to receive from transfer or disposal of assets;
f) the municipality's borrowing requirements;
g) the funds to be set aside in reserves. "

b) Section 8(2) of the Municipal Budget and Reporting Regulation requires that, when developing or amending the funding and reserves policy of the municipality, the municipal manager must ensure that the policy:

a) is consistent with the most recent actual billings and collection trends
b) takes into account the credit rating of the municipality, if available, the financial position of the municipality, the cost of borrowing and the capacity to repay debt
c) takes into account all the budget-related policies of the municipality, particular recent amendments to any of those policies

d) takes account of any statutory requirements to set aside funds in reserves
e) takes account of the transfer and disposal of assets

1.4 APPLICATION OF THE FUNDING TO MSCOA

c) The implementation of mSCOA requires the allocation of funding sources at a data string level to the budget of the municipality.
d) The Fund Segment of mSCOA shall reflect the underlying principle in recording of transactions to determine whether transact cash based or funds available to utilise.
e) The Funding segment's structure distinguishes between "Operational, Capital and Non- Funding Transactions":
   a) **Operational** : Operational revenue provides for funds from all other sources of income such as taxes, service charges, commercial services, transfer and subsidies, etc.
   b) **Capital**: Funds to finance capital projects.
   c) **Non-funding Transactions**: This is items that does not relate to a cash transaction.

2. SECTION A: FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

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:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes and
- 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 (cash/cash equivalents) inclusive of prior cash surpluses must equal or be more than cash payments. In determining whether the **budget is actually 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.~~

2.2 ~~STANDARD OF CARE~~PRINCIPLES OF FUNDING

a) Ensure that the Medium Term Expenditure Framework (annual budget) of the Municipality is appropriately funded.
b) Cash and Debt must be managed in terms of the municipality's "Cash Management, Banking, Investment" Policy.
~~a)~~ .

~~Each functionary in the budgeting and accounting process must do so with judgment and care that the objectives of this policy are achieved.~~

~~**STATEMENT OF INTENT**~~

~~The municipality will not pass a budget which is not cash – funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance and provided that the requirements of the MFMA must at all times be adhered to.~~

~~**2.2** CASH MANAGEMENT~~

~~Cash must be managed in terms of the municipality's "Cash Management, Banking, Investment" Policy.~~

~~LIABILITY MANAGEMENT~~

~~Debt must be managed in terms of the municipality's "Cash Management, Banking, Investment" Policy, together with any requirements in this policy.~~

2.3 FUNDING THE OPERATING BUDGET

~~2.3.1 INTRODUCTION~~

The municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur. The municipality recognises the plight of the poor, and in line with national and provincial objectives, commits itself to subsidising services to the poor. This may necessitate cross-subsidisation in some tariffs to be calculated in the budget process.

~~2.3.2~~2.3.1 GENERAL PRINCIPLES WHEN COMPILING THE OPERATING BUDGET

When preparing an annual or adjustment budget the main sources of revenue will be the following:

- Property Rates
- Services Charges
- Government Grants and Subsidies; and
- Other revenue, fines, interest received etc.

The following specific principles apply when compiling the 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;~~Ensure that the Medium Term Expenditure Framework (annual budget) of the Municipality is appropriately funded.

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, 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 recognised as revenue must equal the total expected expenditure from grants inclusive of capital expenditure and VAT as per directives given in various MFMA Circulars.

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

6. Projected revenue from property rates must include all rates to be levied. All rebates and discounts must be budgeted for as revenue foregone.

   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 unamortised 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 provision for the short-term portion of employee benefits, as well as an operating surplus calculated as percentage on the contribution in the budget of the prior year balance of the long–term benefits, be included in the operating budget to build sufficient cash for these requirements. ~~**The cash portion of the employee benefits must be accounted for in an "Employer Benefits Reserve".**~~

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

   In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from internally generated funds excluding assets funded from transfers and grants, public contributions and borrowings should be reflected as a surplus on the cash flow budget, however it is accepted that this could create an affordability issue in the short term requiring the treatment to be flexible.

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.

    An initial contribution to current provisions, as well as a percentage on the contribution in the budget of the prior year balance of the non-current provision, will be considered for budget purposes as cash surpluses until the necessary funding level is obtained.

2.4 FUNDING THE CAPITAL BUDGET

~~**INTRODUCTION**~~

The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non – existent.

In order to achieve this objective, the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

2.4.1 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of transfers and grants, public contributions and donations, borrowing and internally generated funds.

The capital budget is limited by the availability and access to the following main sources of funding:

a) Accumulated cash backed internal reserves such as the Capital Replacement Reserve;
b) Government Grants and Subsidies;
c) Public Donations and Contributions;
d) External borrowings.

a) Internally Generated Funds - Cash backed Reserves

i. The capital budget financed from internally generated funds is primarily funded from the capital replacement reserve (CRR) and surplus cash resources. The allocations of the funding sources from internally generated funds will be determined during the budget process.

ii. Allocations to capital projects from cash backed internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve. With reference to ~~Paragraph 5,~~ Section C - Reserves Policy.

iii. All capital projects have an effect on future operating budget therefore the following additional cost factors should be considered before approval:

- Personnel cost to staff new facilities once operational;
- Contracted services, that is, security, cleaning etc.;
- General expenditure such as services cost, stationery, telephones, material etc.;
- Other capital requirements to the operate facility such as vehicles, plant and equipment, furniture and office equipment etc.;
- Costs to maintain the assets;
- Interest and redemption in the case of borrowings;
- Depreciation charges;
- Revenue generation as the additional expenses incurred may be offset by additional revenue generated to determine the real impact on tariffs.

b) Government Grants and Subsidies:

iv. Only Government Gazetted allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial Gazettes may be used to fund projects;

v. The conditions of the specific grant must be taken into consideration when allocated to a specific project.

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

The Accounting Officer will annually evaluate the long-term effect of 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 Accounting Officer will put accounting measures in place to comply with this requirement as far as possible.

c) ~~c)~~ Public Donations and Contributions:

In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding has been received by the municipality already.

d) ~~d)~~ External Borrowing:

a. The borrowing requirements as contained in the Borrowing Policy in paragraph 3.1 are used as a basis to determine the affordability of external loans over the Medium-Term Income and Expenditure Framework. The ratios to be considered to take up additional borrowings are as follows, unless in contravention with any loan covenants:

i. Estimated long-term credit rating of BBB and higher;
ii. Interest Paid to Total Expenditure not to exceed 5%;
iii. Total Long-term Debt to Total Operating Revenue (excluding conditional grants and transfers) not to exceed 35%;
iv. Operating Cash Surplus generated before loan repayments are made covers the Total Annual Repayment at least 1 time;
v. Percentages of Total Annual Repayment (Capital and Interest) to Operating Expenditure to be less than 10%.

2.5 FUNDING COMPLIANCE MEASUREMENT

2.5.1 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 and be submitted with the budget. These indicators will include all indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved, unless those negative indicators can be reasonably explained, and any future budget projections address the turnaround of these indictors to within acceptable levels.

2.5.2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A positive cash/cash equivalents position should be maintained throughout the year. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the Reconciliation of Cash Requirements as determined by this policy and attached to this policy as Appendix "A".

2.5.3 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position (cash/cash equivalents and investments) of the municipality must be sufficient that it can provide for the cash-backing of~~:~~

- ~~Provide for the cash-backing of~~:
  - unspent conditional transfers and grants;
  - unspent conditional public contributions;
  - unspent borrowing;
  - the cash portion of statutory funds such as the Housing Development Fund;
  - VAT due to SARS;
  - secured investments (whether long- or short-term);
  - reserves as approved by the municipality and those portions of provisions as indicated elsewhere in this policy; and

- while~~T~~ taking~~e~~ into account other working capital requirements.

2.5.4 INDICATORS

3.5.4.1 ~~2.8.4.1~~ MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ("CASH COVERAGE")

This indicator shows the level of risk should the municipality experience financial stress.

~~2.8.4.2~~ 3.5.4.2 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 re-valued 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. In order to ensure a "balanced" budget but excluding such depreciation charges, the depreciation charges may be offset against the net surplus / deficit.

Should a budget result in a deficit after the offsetting, the budget will be deemed unfunded and must be revised.

~~2.8.4.3~~ 3.5.4.3 PROPERTY RATES/SERVICES CHARGE 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.

DESCRIPTION	PROPERTY	RATES	SERVICE CHARGES	TOTAL
A	Revenue of budget year	R XX	R XX	R XX
B	Less: Revenue of prior year	R XX	R XX	R XX
C	**=Revenue increase/decrease**	**R XX**	**R XX**	**R XX**
D	% Increase/(Decrease)	C/B %	C/B %	C/B %
E	Less: Upper limit of macro Inflation target	%	%	%

F	**=Growth in excess of inflation target**	**%**	**%**	**%**
G	Less: Expected growth %	%	%	%
H	**=Increase attributed to tariff Increase above macro inflation target**	**%**	**%**	**%**

The formula to be used is as follows:

In the event that the percentage in (h) above is greater than zero, a proper motivation must accompany the budget at submission, or the budget must be revised.

3.5.4.4 CASH COLLECTION PERCENTAGE RATE

~~2.8.4.4 CASH COLLECTION PERCENTAGE RATE~~

The object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA. 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.

~~2.8.4.~~3.5.4.~~5~~5 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 per cent and the cash collection rate, but other factors such as past performance can have an influence on it. Excessive differences should be motivated and/or explained in the MTREF budget report.

3.5.4.6 ~~2.8.4.6~~ 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 liability management.

3.5.4.~~2.8.4.~~7 GRANT REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE

The percentage attained should never be less than 100 per cent 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.

3.5.4.~~2.8.4.~~8 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 debtor's balances should be investigated and reported.

3.5.4.~~2.8.4.~~9 REPAIRS AND MAINTENANCE EXPENDITURE LEVEL

Property Plant and Equipment should be maintained properly at all times in order 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 in order 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. As a general benchmark the maintenance budget infrastructure assets should be between 7.5 per cent and 10 per cent of the asset values (write down values). Currently the ratio is below this and the benchmark should be achieved as indicated in the Long-term financial plan.

Where the budgeted amounts for repairs and maintenance reflected on is less than which was provided for in the budget of the asset value (write down value) of the municipality's Plant Property and Equipment (PPE) as reflected in the municipality's annual financial statements, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the on-going health of the municipality's infrastructure supported by reference to its asset management plan or disclosure of determination of the repairs and maintenance per asset class in the MTREF budget report.

3. SECTION B: BORROWING POLICY

The municipality may only raise long-term borrowings in accordance with its 'Cash Management, banking and investment Policy.

Municipal infrastructure has a long-term economic life and it is appropriate to fund assets of this nature with long term external borrowing. The economic life of assets should be equal to or longer than the tenure of the external borrowing.

The Accounting Officer must put accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year, i.e. any unspent borrowings at year end must be cash-backed in the 'Cash backed reserves/accumulated surplus reconciliation'.

Repaying long-term liabilities will impact directly on future tariffs that will be charged to consumers. For this reason, Council will give priority to borrowing for revenue-generating assets only. Provision for acquiring non-revenue generating assets will be made by way of utilising other funding sources.

3.1 LEGAL REQUIREMENTS

The legislative framework governing borrowings, funds and reserves are:

- It is required that the Municipality comply with the guidelines of Chapter 6 of the MFMA with regards to Debt Disclosure as detailed in Sections 46, 47, 48 and 49. ~~This section should be read in conjunction with point (c) under paragraph 4.2. on page 6.~~

- Section 46 of the MFMA should be read in conjunction with Section 19 of the MFMA.

- External borrowings may only be incurred for approved capital programmes and may under no circumstances be allocated to fund the Operating Budget.

f) Local Government Municipal Finance Management Act, Act 56 of 2003 (MFMA) must be complied with and MFMA Circular 71 stipulates the following guidelines regarding borrowing:

Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure

Capital Cost (Interest Paid and Redemption) / Total Operating Expenditure x100

Norm/Range: 6% - 8%

Debt (Total Borrowings) / Total Operating Revenue

(Overdraft + Current Finance Lease Obligation + Non-Current Finance Lease Obligation + Short Term Borrowings + Long Term Borrowings) / Total Operating Revenue – Operational Conditional Grants) x 100

Norm/Range: Maximum 45%

~~The municipality may only raise long-term borrowings in accordance with its 'Cash Management, banking and investment Policy.~~

~~The Accounting Officer must put accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.~~

~~For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year, i.e. any unspent borrowings at year end must be cash-backed in the 'Cash backed reserves/accumulated surplus reconciliation'.~~

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~~2.6 LEGAL REQUIREMENTS~~

~~It is required that the Municipality comply with the guidelines of Chapter 6 of the MFMA with regards to Debt Disclosure as detailed in Sections 46, 47, 48 and 49. This section should be read in conjunction with point c) under paragraph 4.2. on page 6. External borrowings may only be incurred for approved capital programmes and may under no circumstances be allocated to fund the Operating Budget.~~

~~Municipal infrastructure has a long-term economic life and it is appropriate to fund assets of this nature with long term external borrowing. The economic life of assets should be equal to or longer than the tenure of the external borrowing.~~

~~2.7~~3.2 ~~GENERAL POLICY~~NEW BORROWINGS

Council borrows money by raising loans as it considers appropriate. Council approves borrowing by resolution. Projected debt levels are ascertained from detailed cash flow forecasts prepared during the Strategic and Annual Planning process, in line with the budget and IDP.

Council raises money for the primary purpose of investment in assets, i.e. property, plant or equipment to be used for the purpose of achieving the objectives of local government as set out in section of the Constitution of South Africa. In evaluating new borrowings (in relation to source, term, size and pricing) the Director: Finance will take into account the following:

3.2.1 The size of the loan in relation to the economic life of the project.
3.2.2 Revenue, if any, flowing from the project.
3.2.3 The impact of the new debt on total debt and therefore on the borrowing limits
3.2.4 Relevant margins under terms and conditions of each borrowing source
3.2.5 Council's overall debt maturity profile, to avoid concentration of debt at reissue/rollover time.
3.2.6 Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.
3.2.7 Available terms from banks as well as stock issuance or annuity loans.
3.2.8 Legal documentation and financial covenants.
3.2.9 Impact on the relevant tariffs (in case of specific assets) or property rates in case of general assets.

~~2.8~~3.3 BORROWING LIMITS

In managing borrowing Council will adhere to the following limits (based on Council's latest core financial statements) taking cognizance of our current debt position.

~~2.8.1~~3.3.1 The maximum level of all long-term external debt will not exceed 25% of total carrying value of non-current assets.

~~2.8.2~~3.3.2 The gross interest and redemption expense of all external long-term borrowing will not exceed 15% of total own revenue as reflected in the Statement of Financial Performance.

~~2.9~~3.4 LIQUIDITY AND CREDIT RISK MANAGEMENT

Council's ability to readily raise cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to generate property rates income, manage its image in the money and capital markets and its relationships with bankers.
Council needs to ensure funds are available for repayment of debt; that maturities of investments and debt are matched through rolling cash flow forecasts; that investments are maintained in liquid assets and that funds are available through committed and/or uncommitted bank facilities.

~~2.10~~3.5 SECURITY

As a general principle, Council will not offer assets or special rates as security for general borrowing programs, however: - In the event of the lending institutions stipulating a requirement, Council may approve security by way of:

3.5.1 Charging a deemed rate or percentage of rates and/or service revenue; or
3.5.2 In special circumstances levy a charge over one or more of the Council's assets; or
3.5.3 Offer the project to be funded by the loan(s) as security for the loan(s).

~~2.11~~3.6 REPAYMENT

The Council will repay the capital and interest of each loan from the budget allocated to that particular loan.

~~2.12~~3.7 ~~CONTINGENT LIABILITIES~~GURANTEES

Council may from time to time, provide financial guarantees within its legal capacity. Management will ensure that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Before granting a guarantee, Council will secure collateral guarantees from the organization members. These actions are to be guided by S50 of the MFMA.

~~2.13~~3.8 FOREIGN CURRENCY BORROWING

Council may not raise loans in a foreign currency.

~~3.~~4. SECTION C: RESERVES POLICY

~~INTRODUCTION~~

Fund accounting historically formed the major component of municipal finance in the Institute for Municipal Finance Officers (IMFO) standards.

After the change to General Recognised Accounting Practices (GRAP), fund accounting is no longer allowed.

However, the municipality recognises the importance to itself, its creditors, financiers, staff and the general public of providing for 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.

~~3.1~~4.1 LEGAL REQUIREMENTS

There are no specific legal requirements for the creation of reserves, except for reserves for the Housing Act, No 107 of 1997 that requires the creation of the Housing Development Fund. The GRAP Standards themselves do not provide for reserves.

The GRAP "Framework for the Preparation and Presentation of Financial Statements" states in paragraph 91 that such reserves may be created, but "Fund Accounting" is not allowed and any such reserves must be a "legal "reserve, i.e. created by law or Council Resolution.

~~3.2~~4.2 TYPES OF RESERVES

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

All reserves are "ring fenced" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognized Accounting Practices (GRAP):

~~3.2.1~~4.2.1 ~~4.3.1~~ CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality has established of the following reserve:

a) ~~a)~~ ***Capital Replacement Reserve (CRR)***

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance or other operating expenditure.

The CRR must be cash–backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the budget.

~~a) Other statutory reserves~~

~~b)~~a) Housing Development Fund

~~The Housing Development Fund has been prescribed by law.~~

In terms of the Housing Act, 1997 all proceeds from housing developments which include rental income and sale of houses must be paid into the Housing Development Fund.

In order to ensure compliance with GRAP, all revenue to be received related to the Housing Development Fund and expenditure to be incurred that shall be funded from the Housing Development Fund, shall be budgeted for as revenue and expenditure respectively, with the surplus/deficit resulting from these transactions being transferred to the Housing Development Fund via the Statement of Net Assets in the Annual Financial Statements.

~~All reserves are "ring fenced" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognized Accounting Practices (GRAP):~~

~~3.2.2~~4.2.2 ~~4.3.2~~ NON – CASH FUNDED RESERVES

On occasion it is necessary to create non – cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required.

The Accounting Officer is delegated to create reserves for future depreciation offsetting, in the absence of a standard similar to IAS 20.

~~3.3~~4.3 ACCOUNTING FOR RESERVES

~~3.3.1~~4.3.1 ~~4.4.1~~ REVALUATION RESERVE

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

~~3.3.2~~4.3.2 ~~4.4.2~~ 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.

~~4.~~5. SECTION ~~C~~D: POLICY MANAGEMENT

This Funding, Borrowing and Reserves Policy is the only policy of the municipality in this regard and replaces any past policies. The Funding, Borrowing and Reserve Policy forms part of the municipality overall financial objectives and therefore forms part of approved Budget Related Policies. Any revision of this policy must be approved by Council.

~~This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.~~This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

APPENDIX A

RECONCILIATION OF CASH REQUIREMENTS

Cash flow from operating activities	R XX
Add : Depreciation from own funds	R XX
Add : Contribution to current provisions	R XX
Add : 20% of prior year non – current provisions balance	R XX
Add : 5% of prior year non – current employee benefits balance	R XX
Add : Contribution to Valuation reserve	R XX
Add : Unspent conditional grants	R XX
Add : Unspent public contributions	R XX
Add : Unspent borrowings	R XX
Add : VAT due to SARS	R XX
Add : Secured investments	R XX
Add : Cash portion of Statutory Reserves	R XX
Add : Working Capital Requirements	R XX
= Minimum Cash Surplus Requirements for the year	R XX

FUNDING, BORROWING AND RESERVE POLICY

This Policy is effective from the date of approval by the Council, as per the approved system of Delegations of the George Municipality.

Signed at GEORGE on the ___**day** of **May 2023.**

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DR MR GRATZ
MUNICIPAL MANAGER