



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

ANNEXURE 11

FUNDING AND RESERVES POLICY

May 2020



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1. DEFINITIONS AND ABBREVIATIONS

“City” means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No 479 of 22 September 2000 issued in terms of the Local Government Municipal Structures Act 1998 or any structure or employee of the City acting in terms of delegated authority.

“General Valuation” means the periodic revaluation of all properties in the municipal area in terms of section 30 of the MPRA.

“IDP” means the Integrated Development Plan of the City of Cape Town, which sets out the strategic and budget priorities adopted by the Council of the City of Cape Town in terms of section 25(1) of the Municipal Systems Act.

“LTFP” means Long Term Financial Plan.

“MFMA” means the Local Government Municipal Finance Management Act No 56 of 2003.

“MBRR” means the Municipal Budget and Reporting Regulations made in terms of section 168 of the MFMA (Act No. 56 of 2003);

“MPRA” means Local Government: Municipal Property Rates Act, 6 of 2004 as amended from time to time as well as regulations published in terms of the MPRA, which is referred to as the “Property Rates Act” in the by-law but for the purpose of brevity, shall be referred to as the “MPRA” in this policy.

“Municipal Systems Act” means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

2. PROBLEM STATEMENT

Regulation 8 of the MBRR states that each municipality must have a funding and reserves policy.

3. STRATEGIC FOCUS AREA

3.1 The City's IDP identifies five strategic focus areas which provide a solid foundation for the articulation of service delivery. These are The Opportunity City, The Safe City, The Caring City, The Inclusive City and The Well-Run City. Within the strategic focus areas, the City has further identified linked objectives.



3.2 This policy supports the following strategic focus area and objective:

3.2.1 The Well Run City - Objective 5.1: Operational sustainability

This objective is about delivering services and creating value for customers in an operationally sustainable manner based on evidenced led decision making so that the City can remain financially stable and resilient to shocks in a changing environment.

4. ROLE PLAYERS AND STAKEHOLDERS

4.1 In order to give effect to the policy, the following role players including their respective powers, duties and responsibilities are listed below:

4.1.1 Budget Department - Review the policy and strategy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.

4.1.2 Directorates and departments - Inform the Budget department of any matters which may influence this policy.

4.1.3 Council - Responsible for the approval of the policy.

5. REGULATORY CONTEXT

5.1 Section 18 of the MFMA states:

(1) *An annual budget may only be funded from—*

(a) *realistically anticipated revenues to be collected;*

(b) *cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*

(c) *borrowed funds, but only for the capital budget referred to in section 17 (2).*

(2) *Revenue projections in the budget must be realistic, taking into account—*

(a) *projected revenue for the current year based on collection levels to date; and*

(b) *actual revenue collected in previous financial years.*

5.2 Section 19 of the MFMA states:

(1) *A municipality may spend money on a capital project only if—*

(a) *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 referred to in section 17(2);*

(b) *the project, including the total cost, has been approved by the council;*

(c) *section 33 has been complied with, to the extent that that section may be applicable to the project; and*

(d) *the sources of funding have been considered, are available and have not been committed for other purposes.*



- (2) *Before approving a capital project in terms of subsection (1) (b), the council of a municipality must consider –*
 - (a) *the projected cost covering all financial years until the project is operational; and*
 - (b) *the future operational costs and revenue on the project, including the municipal tax and tariff implications.*
- 5.3 Section 21 (1) of the MFMA states that the Mayor of a municipality must –
 - (a) *Co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible*
- 5.4 Regulation 8 of the MBRR states that:
 - (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 which 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 the transfer or disposal of assets;*
 - (e) *the proceeds the municipality can expect to receive from the transfer or disposal of assets;*
 - (f) *the municipality's borrowing requirements; and*
 - (g) *the funds to be set aside in reserves.*
 - (2) *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, particularly recent amendments to any of those policies;*
 - (d) *takes account of any statutory requirements to set aside funds in reserves; and*
 - (e) *takes account of the transfer and disposal of assets.*

6. PURPOSE

- 6.1 This policy intends to set out the assumptions and methodology for estimating the following:
 - 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 the transfer or disposal of assets;
- f. The municipality's borrowing requirements; and
- g. The funds to be set aside in reserves

7. POLICY DIRECTIVE DETAILS

7.1 Projected billings, collections and direct revenue are prepared in accordance to the following annual approved Council policies:

7.1.1 The Long Term Financial Plan (LTFP) Policy, which aims to ensure that all long-term financial planning is based on a structured and consistent methodology thereby ensuring long-term financial affordability and sustainability.

7.1.2 In terms of Section 4(1)(c) of the Systems Act, a municipality has the right to finance the affairs of the municipality by imposing, inter alia, rates on property. The Rates Policy sets out the manner in which the City levies a rate on properties in its area. Rates are levied in accordance with the Local Government: Municipal Property Rates Act as an amount in Rand based on the property value contained in the City's General Valuation Roll and Supplementary Valuations.

7.1.3 The Tariff policies as required in terms of Section 74 of the Systems Act and section 62(1) (f) of the MFMA which guides the annual setting (or revision) of tariffs inclusive of:

- The annual approved consumptive tariffs, rates and basic charges for Electricity services, Water services and Waste management services.

7.1.4 The objective of the Credit Control and Debt Collection Policy is as follows:

- Focus on providing standardised credit control procedures and mechanisms;
- provide standardised collection procedures to enforce payments of all outstanding debt as raised on the debtor's account;
- provide provisions for indigent debtors that is consistent with the Rates and Tariff 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; and



- effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy.
- 7.2 The funds the municipality can expect to receive from investments.
The City has a Cash Management and Investment Policy which purpose is to secure the sound and sustainable management of the City's surplus cash and investments. The budget for investment income is calculated by considering the timing of anticipated inflows and outflows of cash during the year as well as the interest earned on the expected cash balances of reserves to be backed by cash.
- 7.3 The dividends the municipality can expect to receive from municipal entities.
This is not applicable to the City as no dividends are received from any of the City's entities.
- 7.4 The proceeds the municipality can expect to receive from the transfer or disposal of assets.
This methodology is governed by the Asset Management Policy, the Supply Chain Management Policy and the Immovable Property Asset Management Policy and Framework.
- 7.5 The municipality's borrowing requirements.
Borrowing is done in terms of the City's Borrowing Policy. The annual borrowing requirements for the budgeted year are determined in accordance with the City's cash flow requirements. Borrowing requirements over the MTREF is annually included in the City's approved budget.
- 7.6 The following funds are required to be set aside in reserves.
The City creates and maintains reserves in terms of specific requirements, namely:
- 7.6.1 Capital Replacement Reserve (CRR).
In order to finance the acquisition of property, plant and equipment and other assets from internal sources, cash amounts are transferred from the accumulated surplus to the CRR.
The following guidelines are set for the creation and utilization of the CRR:
- The cash funds that back up the CRR are invested until utilised;
 - The CRR may only be utilised for purchasing items of property, plant and equipment, and not for their maintenance, unless otherwise directed by Council; and
 - Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.



7.6.2 Insurance reserves

- Self-insurance reserve

A general insurance reserve has been established and covers claims that may occur, subject to reinsurance where deemed necessary. Premiums are charged to the respective services, taking into account the claims history and replacement value of the insured assets.

- Compensation for occupational injuries and diseases (COID) reserve
The COID Act requires the City to deposit cash and/or securities with the Commissioner, the market values of which in aggregate shall not be less than the capitalised value of the City's continuing liability as at 31 December each year.

7.6.3 Housing Development Fund

The Housing Act requires the City to maintain a separate housing operating account. This legislated separate operating account is known as the housing development fund that is required to be fully cash-backed.

8. IMPLEMENTATION, EVALUATION AND REVIEW

- 8.1 This policy framework is important for the financial compliance of the City. It provides for an administrative guidance for the Funding and Reserves management.
- 8.2 In terms of section 17(3)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.
- 8.3 Changes in legislation must be taken into account for future amendments to this policy. Any amendments to this policy must be re-submitted to council for review and approval.