



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 11

FUNDING AND RESERVES POLICY

Table of Contents

1. DEFINITIONS AND ABBREVIATIONS.....	2
2. PROBLEM STATEMENT	2
3. STRATEGIC FOCUS AREA.....	2
4. ROLE PLAYERS AND STAKEHOLDERS.....	3
Budget Department.....	3
Directorates and Departments	3
Council.....	3
5. REGULATORY CONTEXT	3
6. PURPOSE	4
7. POLICY DIRECTIVE DETAILS.....	4
8. IMPLEMENTATION, EVALUATION AND REVIEW.....	6

1. DEFINITIONS AND ABBREVIATIONS

“**CITY**” means the City of Cape Town;

“**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;

“**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

Section 8 of the Municipal Budget and Reporting Regulation (MBRR) states that each municipality must have a funding and reserves policy.

3. STRATEGIC FOCUS AREA

The **five** strategic focus areas provide a solid foundation for service delivery. The strategic focus areas are the opportunity city, the safe city, the caring city and the well-run city.

The City has also identified **11 priorities** that span the five strategic focus areas. By elevating these 11 priorities, it is expected that the strategic focus area outcomes will be accelerated.

This policy supports the following strategic focus area:

Well Run City: 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.

Objective 5.1: Operational sustainability.

4. ROLE PLAYERS AND STAKEHOLDERS

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

- Budget Department
Review the policy and strategy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.
- Directorates and Departments
Inform the Budget department of any matters which may influence this policy.
- Council
Responsible for the approval of the policy.

5. REGULATORY CONTEXT

Section 18 Funding of expenditure. — (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—
- (d) projected revenue for the current year based on collection levels to date; and
 - (e) actual revenue collected in previous financial years.

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*

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;*
- (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; takes account of any statutory requirements to set aside funds in reserves; and takes account of the transfer and disposal of assets.*

6. PURPOSE

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. The LTFP financial model annually provides:

- The parameters and assumptions for the compilation of the operating and capital budgets over the MTREF; and
- These parameters and assumptions should be included in the approved budget document

7.1.2 The Rates Policy that sets out the manner in which the City may impose Rates. Rates are levied in accordance with the MPRA as a cent-in-the-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 Credit Control Policy, Debt Collection Policy and Indigent Policy. The objective 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.

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

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 are determined in accordance with the City's affordability thereof through the LTFP process. Borrowing requirements over the MTREF is annually included in the City's approved budget.

7.6 The funds to be set aside in reserves

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

(a) Capital Replacement Reserve (CRR).

A CRR should be created for the purpose of financing capital projects and for the acquisition of assets. This reserve is limited to the following revenue sources:

- i. Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- ii. Interest on the investments of the CRR, appropriated in terms of the investments policy; and
- iii. Additional amounts appropriated as contributions in annual operating budgets.

(b) Insurance reserve

This reserve consists of a self-insurance reserve and a compensation for occupational injuries and diseases (COID) reserve. The insurance reserve covers claim 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. Provision for the COID reserve is as prescribed by the COID Act.

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 20 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.