

DRAKENSTEIN MUNICIPALITY

FUNDING AND RESERVE POLICY

REVIEWED: OCTOBER 2010

Funding and Reserve policy

1. Application and Scope

The Funding and Reserves Policy is applicable to the Drakenstein Municipality.

2. Objectives of Policy

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

3. Introduction

The funding of the operating and capital budgets is done on an annual basis for a three year horizon. The budget must be balanced both from an accounting perspective 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.

4. Funding of Capital and operational Budget

The budget may be financed only from:

- i. realistically expected revenues, based on current and previous collection levels;
- ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and borrowed funds in respect of the capital budget only.

5. 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 must be based on past trends and payment rates.

6. 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 will be budgeted for in the revenue budget. This forecast will be based on projected interest rates and projected investments for the period.

7. Dividends received from municipality entities

If the municipality has municipal entities the dividends received from these entities must be budgeted in the operational revenue budget of the municipality.

8. Proceeds from transfer or disposal of assets

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

9. Borrowing requirement

a. The borrowing requirements as contained in the Borrowing Policy provide for the following:

i. Drakenstein Long Term Financing Strategy has been used as basis to determine the affordability of loans over the Medium Term Income and Expenditure Framework (MTREF) Period.

10. Capital Replacement Reserve (CRR)

a. Council shall establish a CRR for the purpose of financing capital projects

b. And the acquisition of assets. Such reserve shall be established from the following sources of revenue:

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;

c. Additional amounts appropriated as contributions in each annual or adjustments budget; and

d. Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

e. If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;

f. Transfers to the CRR must be budgeted for in the cash budget;