CITY OF MATLOSANA

FUNDING & RESERVE POLICY

2024/2025

FUNDING POLICY 2024/25

1. Application and Scope

The Funding Policy is applicable to the City of Matlosana 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

Funding of capital and operating budget

(a) The budget may be financed only from:

I. realistically expected revenues, based on current and previous collection

II. levels ; . cash-backed funds available from previous surpluses where such funds are not required for other purposes; and

ill. borrowed funds in respect of the capital budget only.

3. CAPITAL BUDGET

(a) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

(b) The envisaged sources of funding for the capital budget must be properly Considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

(c) Before approving a capital project, the Council must consider:

i. the projected cost of the project over all the ensuing financial years until the project becomes operational,

ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

(d) Before approving the capital budget, the council shall consider:

i. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,

ii. depreciation of fixed assets,

iii. maintenance of fixed assets, and

iv. any other ordinary operational expenses associated with any item on such capital budget.

(e) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.

(f) The capital expenditure shall be funded from the following sources:

Revenue or Surplus

- If any project is to be financed from revenue this financing must be included In the
- cash budget to raise sufficient cash for the expenditure.
- If the project is to be financed from surplus there must be sufficient cash Available at time of execution of the project

External loans

- External loans can be raised only if it is linked to the financing of an asset;
- A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;
- The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;
- Interest payable on external loans shall be included as a cost in the revenue

budget;

- Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

Grant Funding

- Non capital expenditure funded from grants

° must be budgeted for as part of the revenue budget;

° Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.

- Capital expenditure must be budgeted for in the capital budget;
- Interest earned on investments of Conditional Grant Funding shall be Capitalised if the conditions state that interest should accumulate in the fund.
- If there is no condition stated, the interest can then be allocated directly to the revenue accounts.
- Grant funding does not need to be cash backed but cash should be secured before spending can take place.

4. OPERATING BUDGET

(a) The municipality shall budget in each annual and adjustments budget for the contribution to:

i. provision for accrued leave entitlements equal to 100% of the accrued leave

ii. entitlement of officials as at 30 June of each financial year,

iii. provision for bad debts in accordance with its rates and tariffs policies

iv. provision for the obsolescence and deterioration of stock in accordance with its stores management policy

v. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.

vi. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

(b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.

(c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

(d) The operating budget shall reflect the impact of the capital component on:

- depreciation charges
- repairs and maintenance expenses
- interest payable on external borrowings
- other operating expenses.

(e) The chief financial officer shall ensure that the cost of indecency relief is separately reflected in the appropriate votes.

5. UNSPEND CONDITIONAL GRANTS

5.1 Criteria for the rollover of conditional grant funds

Section 22 of the 2019 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer, provincial treasury and transferring national officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 22(2) of the DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer must be addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2019 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):

a) Proof that the project tender was published and the period for tender submissions closed before 31 March;

b) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or

Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project;

d) Incorporation of the Appropriation Statement;

e) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2020 (attach cash flow projection for the applicable grant).

4. A progress report (also in percentages) on the status of each project's implementation that includes an attached, legible implementation plan);

5. The value of the committed project funding, and the conditional allocation from the funding source;

6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;

7. Municipalities must not include previous year's unspent conditional grants as a rollover request. Rollover of rollovers will not be considered;

8. An indication of the time-period within which the funds are to be spent if the roll over is approved; and

9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

5.2 <u>Unspent conditional grant funds for 2019/20</u>

The process to ensure the return of unspent conditional grants for the 2018/19 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2020 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile.

Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2020. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2019 DoRA that the unspent funds are committed to identifiable projects, the roll over application pack must be submitted to National Treasury by 31 August 2020. National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 22 October 2020 or whether it will agree to any alternative payment arrangement or schedules.

Step 5: National Treasury will communicate the unspent conditional grants amount by 05 November 2020. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 18 November 2020.

Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 18 November 2020, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 02 December 2020 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved roll overs are addressed in the Annexure to MFMA Circular No. 86.