



THULAMELA MUNICIPALITY

FUNDING AND RESERVES

POLICY

2025/26

1. APPLICATION AND SCOPE

The Funding and Reserves Policy is applicable to the Thulamela 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.
- To establish a Capital Replacement Reserve to adequately provide for the renewals of assets when it reaches the end of its economic life.

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 funding of the budget.

4. OPERATING BUDGET POLICIES

The Operating Budget provides funding to departments for medium term expenditure. The Operating Budget is developed with certain guiding principles, including the following:

- A funded budget is compiled on an annual basis.
- Assessment rates are levied in terms of the Municipal Property Rates Act based on land and improvements value. The budget is compiled using the latest approved valuation roll as basis and adjusted for expected growth in the property market. Assessment rates tariffs and rebates are determined annually as part of the tariff setting process.
- Solid waste revenue is billed based on the size of the erven receiving the service. Other income is charged in terms of the approved tariffs. The budget is compiled based on historic trends and adjusted for expected growth and or contraction in service levels.
- Provision for revenue that will not be collected is made against the "Provision for bad debt" line item. Actual collection levels for the period directly preceding the budget year is used as benchmark for setting the expected collection level.
- Interest from investment income is based on the actual long term investments that the municipality has, as well as the amount reasonably expected to be earned on cash amounts held during the year. The budgeted financial statements are used as guide on cash amounts that will be available to generate interest income.
- Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once off projects (and with no recurring operating expenditure resulting thereof).
- The increased depreciation impact as a result of the implementation of GRAP 17 will be phased in over a ten year period (funding from accumulated surplus).
- It will be endeavoured to limit tariff increases to the annual inflation rate or the bulk purchases increases from Council's service providers. Any increases in excess of the above will be to fund additional capital expenditure to address service delivery backlogs and to upscale maintenance activities.
- The budget is compiled net of VAT, i.e. the amounts budgeted for will be the net cost to Council after VAT has been taken into consideration.
- ***Thulamela Municipality is registered on the Payments Basis for VAT with the Turnover Based Method as the apportionment calculation method.***
- ***100% VAT is claimable on all departments for expenditure items that comply with the relevant VAT legislation.***
- The offsetting of income and expenditure amounts is not supported and income and expenditure amounts are budgeted for where recoverable jobs are undertaken. This includes recoveries from staff on telephone accounts.
- A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and funded vacancies are budgeted for at an affordable level that will be determined as part of the MTREF compilation process. In addition to this, an amount is determined on an annual basis to fund critical new positions. This amount is budgeted for centrally and transferred to the relevant departments as and when allocations are made by the Accounting Officer.
- Council supports the principle of making sufficient provision for the maintenance of existing assets and infrastructure, yet affordability does result in maintenance budgets being lower than the levels recommended by the National Treasury.

- Individual line items in the Operating Budget are to be reviewed each year when developing the budget to ensure proper control over the expenditure and to examine the possibility of rationalization.
- A budget implementation circular is issued on an annual basis to provide guidance on the utilisation of the various line items in the operating budget.

5. CAPITAL BUDGET POLICIES

An annual capital budget will be developed as part of the annual budget. Expenditure on capital will be in terms of the annual capital budget. Provision on the annual capital budget will be limited to available internal and external funds.

Allocations made to departments from the available internal funding, will be based on the Growth and Development Strategy and the Project Prioritisation Model. The Budget Steering Committee facilitates the allocation of resources.

5.1 IMPACT OF CAPITAL BUDGET ON FUTURE OPERATING BUDGETS

All capital projects have a recurring effect on future operating budgets. The following main cost components should be considered before capital projects are approved:

- Additional staff cost required to staff any new facility once operational.
- Additional contracted services, i.e. external security, cleaning services, etc.
- Additional general expenditure, i.e. services cost, stationery, cleaning materials, etc.
- Additional costs to maintain the assets.
- Additional depreciation charges (non-cash item).
- Additional interest and redemption to service loans to fund the capital budget.

Projects may, however, also result in additional revenue generation. The impact that the expenditure has, must be offset by the additional revenue generated to determine the real impact on the operating budget, and the possible effect on tariffs.

5.2 MULTI-YEAR BUDGET AND COMMITMENTS

Departments are allowed to commit both the internal and confirmed external funds in accordance with the multi-year budget.

Thulamela Municipality will consider the provision of guarantees for the borrowings of entities as approved by Council within limits of affordability.

6. FUNDING POLICIES

6.1 OPERATING BUDGET

The municipality categorises services rendered to the community according to its revenue generating capabilities:

- Trading services (services that generate surpluses that can be used to fund other services rendered by the municipality);
- Economic services (services that break-even, but do not generate any surpluses to fund other services rendered by the municipality); and
- Rates and general (services that are funded by assessment rates, government grants or surpluses generated by the trading services).

The operating budget is thus funded from the following main sources of income:

- Assessment rates;
- Equitable share;
- Other service charges, fines and sundry income; and ○ Other government grants.

The funding mix will be presented on an annual basis as part of the operating budget.

6.2 CAPITAL BUDGET

The capital budget is mainly funded from Government grants and borrowings at present.

The funding mix will be presented on an annual basis as part of the capital budget.

Funding for capital budgets of future years will be generated through a combination of methods, being internal revenue (to mainly fund asset renewals), grants and donations (with a dedicated effort to lobby for additional grant allocations and private sector injections) as well as borrowings as and when the current debt book is redeemed to ensure maximum use is made of funding options, including gearing at the optimal levels.

7. RESERVES

As required by GRAP, only provisions are shown separately on the face of the Statement of Financial Position. All reserves are “ring-fenced” as internal reserves within the Accumulated Surplus. Ring-fenced reserves are as follows:

- Assets fair value reserve;
- Bulk contributions reserves (**roads and parks**); and
- Capital Replacement Reserve (to adequately provide for the renewals of assets when it reaches the end of its economic life).

The assets fair value reserve is not supported by cash but is only used for the phasing in of increased depreciation charges as a result of the full implementation of GRAP 17.

The Cash Management Policy provides for the cash requirements for provisions and reserves. Reserves must be funded and cash backed as detailed in the Cash Management Policy.