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GREATER TZANEEN MUNICIPALITY

FINANCE DEPARTMENT

FUNDING AND RESERVES POLICY

PREAMBLE

In the spirit of the Municipal Finance Management Act, (No. 56 of 2003) "to modernize budget and financial management practices by placing Local Government Finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors" and,

Where the Budget and Reporting Regulations of 2009 (Government Gazette 32141) prescribes this policy as a necessary instrument to monitor and sustain the Municipality's financial management,

Therefore the Greater Tzaneen Municipality adopts the funding and reserves policy as set out in this document.

1. OBJECTIVES OF POLICY

The policy sets out to ensure that the annual budget of Greater Tzaneen Municipality is fully funded and that all funds and reserves are maintained at the required level to avoid future year unfunded liabilities. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework.

The policy shall apply to all the relevant parties within the Greater Tzaneen Municipality that are involved throughout the budget process and financial management disciplines.

to, or affected by, fluctuations in the value of the Rand against any foreign currency.

18. INTERNAL CONTROL

The internal control procedures involves Internal Audit and Performance Management, and the Auditor general reviewing and testing the systems of the Finance Department on a regular basis. In order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the portfolio.

Controls deemed most important include:-

- Control of collusion, separation of duties
- Custodial safekeeping of loan agreements and contracts
- Clear delegation of duties
- Checking and verification by senior officials of all transactions
- Documentation of transactions and repayments
- Code of ethics and standards
- Procedure manuals
- Electronic Funds Transfer limits and a detailed procedure manual for the system.

19. NATIONAL TREASURY REPORTING AND MONITORING REQUIREMENTS

The Municipality submits numerous returns to National Treasury. It is mainly coordinated by the Finance department. One such report deals with the Municipality's external interest paid each month. Another return, prepared on a quarterly basis, requires the Municipality to itemise all its external borrowings for the quarter ended.

20. MUNICIPAL REGULATIONS ON DEBT DISCLOSURE

The Municipal Regulations on Debt disclosure has been promulgated (Government Gazette no. 29966, 15 June 2007) and has been effective from 1 July 2007 for a municipality or municipal entity. Municipal Finance Management Act: Municipal Regulations on Debt Disclosure.

The implementation of the regulations will help to strengthen the level of confidence in Municipal fiscal affairs and enable the capital markets to effectively participate by providing access to a range of competitive funding instruments for the provision of Municipal infrastructure and other capital development in accordance with Section 46 of the Municipal Finance Management Act.

2. BUDGET ASSUMPTIONS AND METHODOLOGY

2.1 Capital Budgets

2.1.1 Basis of Calculation

- a) The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d) In addition, the Council shall consider the likely impact of such operational expenses- net of any revenues expected to be generated by such item- on future property rates and service tariffs.

2.1.2 Funding of the Capital Budget

Other Funding Sources

- a) Own Funds
- b) Grants and subsidies as allocated in the annual Division of Revenue of Act.
- c) Grants and subsidies as allocated by Provincial Government.
- d) External Loans
- e) Private Contributions

2.2 Operational Budget

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2.2.1 Basis of Calculation

- a) The incremental approach is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.
- c) An income based approach shall be used where the realistically anticipated income is determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

2.2.2 Assumptions for various budget categories

The following assumptions are used when compiling the budget for the following expenditure categories:

a) Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the responsible National Minister.

b) Collection Costs

It refers to costs attributed to the maintenance of the financial system used for the collection of outstanding amounts and is based on the service level agreement.

c) Depreciation

The above is calculated at cost, using the straight line method, to allocate the depreciation cost to the residual

values over the estimated useful lives of the assets.

d) Interest External Borrowings

The above refers to interest and redemption that has to be repaid on an external loan taken up by Council. The budget is determined by the repayments that the Municipality is liable for based on the agreements entered into with the other party.

e) Bulk Purchases

The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.

f) Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPI and prior actual expenditure trends.

g) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.

h) Contributions to Funds

Refers to the contribution made to provisions (e.g. insurance reserve fund) on an annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

i) Internal Charges and Recoveries

This category refers to interdepartmental charges within the organization.

j) Appropriations

Refers to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

2.2.3 Funding of the Operational Budget

The operating budget shall be financed from the following sources:

a) Service Charges

- (i) Electricity Charges
- (ii) Water Sales
- (iii) Refuse Removal Fees
- (iv) Sewerage Fees

b) Taxes

Increases in tariffs and rates will be based on actual billed revenue and as far as possible be limited to inflation plus an additional percentage as prescribed by National Treasury. Detailed information will be found in the Tariff Policy.

c) Grants & Subsidies

Grants and subsidies shall be based on all the Gazetted grants and subsidies plus all other subsidies received by the organization.

d) Interest on Investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment Policy of the organization.

e) Rental Fees

Income from rental property will be budgeted for based on the agreements entered into.

f) Fines

Income from fines will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of December of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year.

g) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of December each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year.

3. BORROWING REQUIREMENTS

The borrowing requirements are based on the backlogs of the infrastructure needs taking into consideration the operational impact of any loans.

4. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented as at 1 July 2011 and shall be reviewed on an annual basis to ensure that it is in line with the Municipality's strategic objectives and with legislation.

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GREATER TZANEEN MUNICIPALITY

FINANCE DEPARTMENT

LONG TERM FINANCIAL PLANNING POLICY

1. INTRODUCTION

Financial Management is the cornerstone of any organisation. Controls and policies must be in place to achieve sound financial management. Over the first year of the 5-year plan, financial regulations and policies must be reviewed to ensure all legal, internal control and social requirements are met. Implementing the projects included in the 5-year plan will require large capital investment, which in turn requires effective management and control.

The Greater Tzaneen Municipality has recognised that to be successful the IDP must be linked to a workable financial plan, which includes a multiyear budget.

Financial Strategies Overview

The following section sets out general financial strategies that should guide the Municipality in practicing sound financial management. The financial strategies include a general consideration, which will apply to the detailed financial resources (capital and operational) and revenue raising. Other considerations are:

- Asset Management
- Financial Management
- Capital Financing
- Operational Financing
- Cost Effectiveness
- Financial Issues

2. GENERAL CONSIDERATIONS

- ✓ Social Responsibilities