CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

FUNDING RESERVES POLICY

2026- 2027

Adopted in an Ordinary Council meeting held on 27 May 2026.

SECTION FIN. 17

MUNICIPAL FUNDING RESERVES POLICY

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Definitions

In this policy, unless the context indicates otherwise-

"Act" - means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

"Council" - means the Municipal Council of the District Municipality of Chris Hani referred to in section 18 of the Municipal Structures Act;

"Gazette"- means the Government Gazette.

''Accounting Officer'' – means Municipal Manager

'' MFMA'' – means Municipal Finance Management Act

''GRAP'' – means Generally Recognised Accounting Practices

''IDP'' – means Integrated Development Plan

''ISA 20'' – means International Standard on Auditing.

1. INTRODUCTION AND OBJECTIVE

The Council sets itself the objective of becoming a financially sustainable municipality with basic level of service delivery to the entire community.

This policy is consistent with the Act and the gazetted framework

2. ADOPTION OF FUNDING RESERVE POLICY

The Council of Chris Hani District Municipality must formally adopt the funding reserves policy which shall be consistent with the Act and its regulations.

The effective date of this policy or any amendments thereto, shall be the date

of its adoption by Council.

3. PURPOSE OF FUNDING RESERVE POLICY

Funding Reserves policy is aimed at ensuring that the municipality has sufficient and cost-effective cash funding to achieve its objective through the implementation of its operating and capital budget.

4. SCOPE AND APPLICATION

The scope of the policy is set in terms of Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009 stipulates:

"8. (1) Each municipality must have a funding and reserves policy which must set out the assumption and methodology for estimating.

a) projected billings, collection, 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 revenue from transfer or disposal of assets;
f) the municipality's borrowing requirements; and
g) the funds to be set aside in reserves.

5.STRATEGIC OBJECTIVE

The objectives of the policy are –

(a) to ensure that the municipality has prepared a credible and funded budget to sustain its operational requirements and meet its service delivery target in terms of South African Constitution.

6. LEGISLATIVE FRAMEWORK

According to the Municipal Financial Management Act no 56 of 2003 section 18 and 19, an annual budget may only be funded from;

a) Realistically anticipated revenue to be collected.

b) Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and

c) Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once funding sources have been considered, are available and have not been committed for other purpose.

The requirement of the MFMA is clear in that the budget must be cash funded i.e cash receipts (cash and cash equivalent) inclusive of prior cash surpluses must equal or more that cash payment. In determining whether the budget is cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specific by National Treasury from time to time.

7. STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care that the objectives of this policy are achieved.

7. KEY PRINCIPLES

7.1 The Funding Reserves Policy is based on the following principles: -

a) Affordability;

b) Financial Sustainability.

c) Equity; and

d) Efficiency.

7.2 Funding the operating budget

The municipality objective is that the user of municipal resources must pay for such usage in the period in which it will occur. The municipality recognises the plight of the poor, and in line with national and provincial objectives, commit itself to subsidising service to poor. This may necessitate cross subsidisation in some tariff to be calculated in the budget process. The operating budget provides funding to department for their medium-term expenditure as planned. The Municipality categories services rendered to the community according to its revenue generating capabilities as follows: -

- ✓ Trading services (services that generate predetermined surpluses that can be used to fund other services rendered by the Municipality)

The operating budget is funded from the following main sources of revenue: -

- ✓ Service Charge (Water and Sewerage)
- ✓ Government grants and subsidies
- ✓ Other sundry income, such as fines, tender documents, interest received etc; and
- ✓ Cash backed accumulated surpluses from previous years not committed for any other purposes.

7.3 General Principles when compiling the operating budget

The following specific principles apply when compiling the budget:

a) The annual budget must be cash backed i.e revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates.

b) Growth parameters must be realistic taking into account the current economic conditions and historic adjusted for current reliable information.

c) Tariff adjustment must be fair, taking into consideration general inflation indicators as well as the geographic regions ability to pay and affordability bulk increase and future projected growth according to the approved Integrated Development Plan (IDP).

d) Revenue from government grants and subsidies must be in line with the allocations gazetted in the Division of Revenue Act, proven provincial transfers.

For the purpose of the Cash flow budget any National and Provincial grants that have been re appropriated for roll over purposes must be excluded from the calculation and be included in changes in Cash and Cash equivalent and payables;

Within the budget, grants recognised as revenue must equal the total expected expenditure from grants inclusive of capital expenditure and VAT as per directives given in various MFMA Circulars

e) Projected revenue from service charge must be reflected as net (i.e all billing less revenue forgone, including free basic services). The realistic based on current and past trends be considered with expected growth the current economic conditions.

The following factors must be considered for each service: -

- Metered services of water: -
  - ✓ consumption trends for the previous years;
  - ✓ envisaged water restrictions; and
  - ✓ actual revenue collected in previous financial years.
- Sewerage services:-
  - ✓ The actual number of erven receiving the service per category and / or consumption trends per category and
  - ✓ Actual revenue collected in previous financial years.

f) Other projected revenue is charged in terms of the approved other income considering the past trends and expected growth for each category;

g) Employee related cost include contributions to non - current and current employee benefits. It is acknowledged that the non - current benefits requirement are well above the initial cash capabilities of the municipality.

It is therefore determined that provision for the short-term portion of employee benefits, as well as an operating surplus calculated as percentage on the contribution in the budget of the prior year balance of the long-term benefits, be include in the operating budget to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employer Benefits Reserve".

h) Individual expenditure line items are to be reviewed each year when compiling the budget to ensure proper control over operating expenditure. Increase for these line items must be linked to the average inflation rate and macro – economic indicators unless a signed agreement or contract stipulates otherwise.

8. FUNDING THE CAPITAL BUDGET

The municipality objective is to maintain, through proper maintenance and replacement measures, existing levels of services and to improve and implement service based on the needs as identified through community consultative process which finds expression in the Integrated Development Plan.

Provision on capital budget will limited to availability of sources of funding and affordability. The main source of funding for capital expenditure are: -

- ✓ available own funds;
- ✓ government grants and subsidies; and
- ✓ operating revenue

The following guiding principles apply when considering source of funding for the capital budget :-

- Government grants and subsidies
- ✓ Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocation as per Provincial Gazettes may be used to fund projects.
- ✓ the conditions of the specific grant must be taken into consideration when allocated to a specific project.
- ✓ Accounting officer will annually evaluate the long- term effect of capital grants on future tariffs and if deemed necessary, report to Council
- ✓ Accounting officer will put accounting measures in place to comply with this requirement as far as possible.

8.1 All capital projects influence future operating budget therefore the following additional cost factors should be considered before approval: -

- ✓ Personnel cost to staff new facilities once operational;
- ✓ Contracted services, that is, security, consumables etc;
- ✓ General expenditure such as services cost, stationery, telephones etc;

- ✓ Additional other capital requirement to operate the facility, such as vehicles, plant and equipment, furniture, and office equipment etc;
- ✓ Cost to maintain the assets;
- ✓ Interest and redemption in the case of borrowing;
- ✓ Depreciations charges; and
- ✓ Revenue generation as the additional expense incurred may be offset by additional revenue generated to determine the real impact on tariffs.

9. FUNDING COMPLIANCE MEASUREMENT

- ✓ The municipality must ensure that the annual budget or any subsequent adjustment budget complies with the requirement of the MFMA and this policy. For this purpose, a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators will include all indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

9.1 CASH AND CASH EQUIVALENTS AND INVESTMENT

- ✓ A positive cash/ cash equivalent position should be maintained throughout the year. The availability of cash is one of the most important requirements for financial sustainability and must be closely monitored to ensure a minimum cash day on hand as may be determined from time to time.
- ✓ Changes in the municipal environment that may have an impact on the municipal cash position include, but not limited to the following: -
  - changes in revenue levels as a result of changes in consumption patterns (water restrictions, etc);
  - reduced growth as a result of economic conditions; and
  - increase in non-payment rate due to economic conditions.
- ✓ Surplus cash not immediately required for operation purposes is invested in terms of the Council Investment and Cash Management Policy so as to maximise the return on investment.

9.2 CASH PLUS INVESTMENT LESS APPLICATION OF FUNDS

The overall cash position (cash / cash equivalent and investment) of the municipality must be sufficient that it can

- Provide for the cash backing of:-

- ✓ Unspent conditional grants;
- ✓ VAT due to SARS;
- ✓ secured investment (whether long or short – term); and
- ✓ reserves as approved by the municipality.

- Take into account other working capital requirement.

10. TYPE OF RESERVES

10.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality has established of the following reserves:

a) Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance or other operating expenditure.

The CRR must be cash- backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the budget.

b) Other statutory reserves

All reserves are "ring fenced '' as internal reserves within the accumulated surplus, except for provisions as followed by the General Recognised Accounting Practices

10.2 NON- CASH FUNDED RESERVES

The municipality is necessary to create non – cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserves if required.

The Accounting Officer is delegated to create reserves for future depreciation offsetting, in the absence of standard similar to IAS 20.

11. UTILISATION OF RESERVES AND MONITORING

The municipality will assess its reserves and utilise according to the percentage derived by the Accounting Officer. The monitoring will be delegated to the Chief Financial Officer by the Accounting Officer based on the budget and cash projections.

Properly monitoring the age and condition of infrastructure and developing a long-term plan for maintenance and replacement, municipalities will increase accountability and efficiency in both managing their assets and improving their service levels.

12. FUND AND RESERVE POLICY REPORTING AND ACCOUNTING

12.1 REVALUATION RESERVES

The accounting for the Revaluation Reserves must be done in accordance with the requirement of GRAP 17

12.2 OTHER RESERVES

The accounting of all reserves must be processed through the Statement of Financial Performance. The required transfer to or the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus

It is a condition of GRAP and this policy that no transaction may be directly appropriated against these reserves.

13. DELEGATION OF AUHORITY

The Council may, in terms of Section 59 of the Municipal Systems Act 2000, delegate any of its functions and responsibilities in respect of this policy to Accounting Officer.

14. REVIEW OF POLICY

This policy on FUNDING RESERVE POLICY will be reviewed annually or earlier if so, required by legislation.

Any changes to the funding and reserve policy must be adopted by Council and be consistent with the Act and any National Treasury regulations

15. APPLICATION

The policy shall apply to the following: -

a. Councillors
b. Officials

16. NON – COMPLIANCE

Non-compliance with the policy shall constitute a case of misconduct and will be dealt with in line with the disciplinary code of the District Municipality.

11. EFFECTIVE DATE

The effective date of this policy, or any amendments thereto, shall be the date of its adoption by Council.

This Policy takes effect on the 01st of July 2026.

Policy Adopted on the Chris Hani District Municipality council meeting; dated **27 May 2026**

Council Resolution number: **C163**
2025/2026

Signed by Municipal Manager: G. Mashigi (Initial & Surname) _____ (Signature) 09/06/2026 (Date)

Signed by Speaker of the Council: J. CENGANI (Initial & Surname) _____ (Signature) 09/06/2026 (Date)

Adopted in an Ordinary Council meeting held on 27 May 2026.