NAMA KHOI MUNICIPALITY

FINAL

FUNDING, BORROWING AND RESERVES POLICY

FOR IMPLEMENTATION:

1 JULY 2023

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ABBREVIATIONS

AO	Accounting Officer
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practise
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MSA	Municipal Systems Act (No. 32 of 2000)

1 PURPOSE OF THIS DOCUMENT

This policy sets outs the principles for determining the following:

- Projected billings, collections and all direct revenues;
- The provision for revenue that will not be collected;
- The funds the Municipality can expect to receive from investments;
- The proceeds the Municipality can expect to receive from the transfer or disposal of assets;
- The Municipality's borrowing requirements; and

The funds to be set aside in reserves

2 DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

"Accounting Officer" means the Municipal Manager and vice versa;

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

"Chief Financial Officer" means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the municipality;

"Council" or "Municipality" means the Municipal Council of Example Municipality as referred to in Section 18 of the Municipal Structures Act;

"Creditor" - in relation to a municipality, means any person or service provider to whom money is owing by the Municipality;

"Debt" means:

a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or

b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"Delegatee" means an official / person delegated to perform tasks on behalf of another person;

"Financial Statement" means statements consisting of at least:

a) a balance sheet (statement of financial position);

b) an income statement (statement of financial performance);

c) a cash-flow statement;

d) any other statements that may be prescribed; and

e) any notes to these statements.

"Financial year" means a year ending 30 June;

"Financing Agreement" means any long-term agreement, lease, installment purchase contract or hire purchase agreement under which the Municipality undertakes to pay the capital cost of property, plant or equipment over a period of time;

"Lender" – in relation to a municipality means a person or service provider who provides debt finance to a municipality;

"Long Term Debt" means debt which is repayable over a period exceeding 12 months;

"Municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including virtual or electronic evidence of indebtedness intended to be used in raising debt;

"Security" means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor;

"Short Term Debt" means a debt which is repayable over a period not exceeding 12 months.

In this document unless the context otherwise indicates, words and expressions denoting the singular shall include the plural and vice versa, words and expressions denoting the male sex shall include the female sex and vice versa and reference to a natural person shall include a legal person and vice versa.

3 BACKGROUND

The Local Government: Municipal Finance Management Act No 56 of 2003 (*hereafter MFMA*) section 18 requires that an annual budget may only be funded from:

a) Realistically anticipated revenues 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.

Section 19 of the MFMA also requires spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes. Furthermore, Chapter 6 of the MFMA 6 guides on the requirements of obtaining Short Term and Long Term Debt, Conditions to comply with when applying for Debt, Security, Disclosures and Municipal Guarantees.

The Local Government: Municipal Finance Management Act No 56 of 2003 Municipal Budget and Reporting Regulations, 2009 Section 8 requires that each Municipality should have a Funding and Reserves Policy.

4 OBJECTIVES

The objectives of the policy relating to funding and reserves are as follows:

a) To comply with the legislative requirements;

b) To ensure that the Municipality's Operating and Capital budgets are adequately funded;

c) To ensure that the Municipality's provisions and reserves are maintained at the required levels, in order to mitigate unfunded liabilities in future financial years; and

d) To achieve financial sustainability with acceptable levels of service delivery to the community.

The objectives of the policy relating to borrowing are as follows:

a) Manage interest rate and credit risk exposure;

b) Maintain debt within specified limits and ensure adequate provision for the repayment of debt;

c) To ensure compliance with all Legislation and Council policy governing borrowing of funds.

5 APPROVAL AND EFFECTIVE DATE

The Chief Financial Officer (CFO) is responsible for the submission of the Policy to Council to consider its adoption after consultation with the AO. Council shall indicate the effective date for implementation of the policy.

6 POLICY AMENDMENT

The AO must–

a) at least annually review the implementation of this Policy; and
b) when the AO considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations, 2008.

7 RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Accounting Policy;
- Asset Disposal Policy;
- Budget Implementation and Monitoring Policy;
- Credit Control and Debt Collection Policy;
- Delegation of Powers;
- Capital Infrastructure Investment Policy;
- Long Term Financial Planning Policy;
- Managing Electricity and Water Distribution Losses;
- Property Rates Policy; and
- Tariff, Indigent and Free Basic Services Policy.

8 REFERENCES

The following references were observed in compiling this document:

- Accounting Standards Board;
- Generally Recognised Accounting Practice (1-3);
- Government Gazettes (30013 & 31021);
- MFMA Budget Circular No 67 - 12 March 2013;
- MFMA Budget Circular No 70 - 04 Dec 2013;
- MFMA Circular 18 & 44;
- MFMA Circular 42: Funding a Municipal Budget;
- MFMA Circular No 13 - Service Delivery & Budget Implementation Plan - 31 January 2005;
- MFMA Circular No 28: Budget Content and Format – 2006/07 MTREF;
- MFMA Circular No 71 - Financial Ratios and Norms - 17 January 2014
- Municipal Finance Management Act (No. 56 of 2003);
- Municipal Property Rates Act (No. 6 of 2004), as amended;
- Municipal Structures Act, 1998; and
- Municipal Systems Act (No. 32 of 2000).

SECTION A - FUNDING

9 PRINCIPLES REGARDING THE FUNDING OF THE ANNUAL BUDGET

a) An annual budget may only be funded from:

(i) realistically anticipated revenues to be collected;

(ii) cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and

(iii) borrowed funds but only for the capital budget.

b) Realistic anticipated revenue projections must take into account:

(i) projected revenue for the current year based on collection levels to date; and

(ii) actual revenue collected in previous financial years.

c) Spending on a capital project may only occur if:

(i) the money for the project, excluding the cost of feasibility studies, has been appropriated in the budget;

(ii) the project, including the total cost, has been approved by Council;

(iii) the sources of funding have been considered, are available and have not been committed for other purposes;

d) Council has considered:

(i) the projected cost covering all financial years until the project is operational; and

(ii) the future operations costs and revenue on the project, including municipal tax and tariff implications.

10 FUNDING THE OPERATING BUDGET

a) The operating budget provides funding to departments for their medium term expenditure as planned. The Municipality categorises services rendered to the community according to its revenue generating capabilities as follows:

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

(ii) Economic services (services that should at least break-even, but do not necessarily generate any surpluses to fund other services rendered by the Municipality);

(iii) Rates and General (services that are funded by property rates, government grants or surpluses generated by the trading services).

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

(i) Property rates;

(ii) Service charges;

(iii) Government grants and subsidies;

(iv) Other sundry revenue, such as fines, interest received etc; and

(v) Cash backed accumulated surpluses from previous years not committed for any other purposes.

c) The following guiding principles apply when compiling the operating budget:

(i) The annual budget must be cash backed;

(ii) Growth parameters must be realistic taking into account the current economic conditions;

(iii) Tariff adjustments must be realistic, taking into consideration affordability, bulk increases and future projected growth according to the approved Integrated Development Plan (IDP);

(iv) Revenue from government grants and subsidies must be in line with allocations gazetted in the Division of Revenue Act and Provincial Gazettes;

(v) Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:

- a signed service level agreement;
- a contract or written confirmation; or
- any other legally binding document.

(vi) Property rates are levied according to the Municipal Property Rates Act and Property Rates Policy based on the market values. The budget is compiled using the latest approved Valuation Roll and any Supplementary Roll, consistent with current and past trends. Property rates tariffs and rebates are determined annually as part of the tariff setting process;

(vii) Property rates rebates, exemptions and reductions are budgeted either as revenue foregone or as a grant as per the MRPA depending on the conditions thereof;

(viii) Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service:

(ix) Metered services comprising of electricity and water:

- the consumption trends for the previous financial years;
- envisaged water restrictions or load shedding when applicable; and
- actual revenue collected in previous financial years.

(x) Refuse removal services:

- the actual number of erven receiving the service per category; and
- actual revenue collected in previous financial years.

(xi) Sewerage services:

- the actual number of erven receiving the service per category and the consumption trends per category; and
- actual revenue collected in previous financial years.

(xii) Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant as per MRPA depending on the conditions thereof;

(xiii) Other projected revenue is charged in terms of the approved sundry tariffs and fines considering the past trends and growth for each category;

(xiv) Provision for revenue that will not be collected is made against the expenditure item debt impairment and is based on actual collection levels for the previous financial year and the latest projected annual non-payment rate;

(xv) 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;

(xvi) Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends;

(xvii) A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for nine (9) months only of the total package considering the time for the recruitment process. As a guiding principle the salary budget should be in line with MFMA Circular No 71 which indicates a range of 25% - 40% of annual operating expenditure;

(xviii) To ensure the health of the municipal asset base, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels as maintenance budgets are normally lower than the recommended levels. As a guiding principle repairs and maintenance as a percentage of the carrying value of property, plants and equipment and investment property should not be less than 8%;

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

11 FUNDING THE CAPITAL BUDGET

a) The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non – existent. In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets. The capital budget provides funding for the Municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure. Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

(i) cash backed accumulated surpluses;

(ii) borrowings;

(iii) government grants and subsidies;

(iv) public donations and contributions; and

(v) operating revenue.

b) The following guiding principles apply when considering sources of funding for the capital budget:

(i) Government grants and subsidies:

- only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations 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; and
- government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

(ii) In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:

- a signed service level agreement;
- a contract or written confirmation; and/or
- any other legally binding document.

(iii) Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

(iv) The borrowing requirements as contained in the borrowing policy are used as a basis to determine the affordability of external loans over the Medium Term Revenue and Expenditure Framework. The ratios to be considered to take up new borrowings include:

- long-term debt to revenue (excluding grants) should not exceed 45%;
- payment rate of above 95%; and
- percentage of interest paid to operating expenditure in the range of 6% - 8%.

(v) Allocations to capital projects from cash backed accumulated surpluses will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:

- infrastructure projects to service new developments and the revenue received through the sale of erven must be allocated to the capital reserve for services; (to be considered)
- capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be funded from own generated revenue from the operating budget for that specific year;
- capital projects to replace and/or upgrade existing assets will be allocated to the capital replacement reserve; (to be considered)
- capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service (to be considered)

(vi) All capital projects have an effect on future operating budgets. The following cost factors should therefore be considered before approval:

- additional personnel cost to staff new facilities once operational;
- additional contracted services, such as security, cleaning etc.
- additional general expenditure, such as services cost, stationery, telephones, material etc.

- additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.
- additional costs to maintain the assets;
- additional interest and redemption in the case of borrowings;
- additional depreciation charges;
- additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

SECTION B - BORROWINGS

12 INTRODUCTIONS AND BACKGROUND

The Municipality may only incur debt in terms of the Municipal Finance Management Act, Act No. 56 of 2003. The Municipality may incur two types of debt, namely short-term and long-term debt.

a) A municipality may incur debt (short-term and long-term debt) only if:

(i) the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency; and

(ii) a council resolution is taken authorising the provision of security if security is to be provided by the municipality.

b) Short Term Debt

(i) The Municipality may incur short-term debt only when necessary to bridge:

(ii) Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistically anticipated income to be received within that financial year; or

(iii) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

(iv) A municipality may incur short-term debt only if:

- A resolution of the municipal council, signed by the executive mayor, has approved the debt agreement; and
- The AO has signed the agreement or other document which creates or acknowledges the debt.

(v) The Municipality:

- Must pay off short-term debt within a financial year; and
- May not renew or refinance its short-term debt.

(vi) A short term debt transaction may be:

- approve individually; or
- approve an agreement with a lender for short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that:
- the credit limit must be specified in the resolution of the council;
- in terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and
- if the council approves a credit facility that is limited to emergency use, the AO must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

(vii) No lender may willfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection 6.3(a).

(viii) If a lender willfully extends credit to a municipality in contravention of this policy, the municipality is not bound to repay the loan or interest on the loan.

(ix) This does not apply if the lender:

- relied in good faith on written representations of the municipality as to the purpose of the borrowing; and
- did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

c) Long Term Debt

(i) The Municipality may incur long-term debt for purposes of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government, to:

- Provide democratic and accountable government for local communities;
- Ensure the provision of services to communities in a sustainable manner;
- Promote social and economic development;
- Promote a safe and healthy environment; and
- Encourage the involvement of communities and community organizations in the matters of local government.

(ii) A municipality may incur long-term debt only if:

- a resolution of the municipal council, signed by the executive mayor, has approved the debt agreement; and
- the AO has signed the agreement or other document which creates or acknowledges the debt.

(iii) A municipality may incur long-term debt only if the AO of the municipality:

- has, in accordance with section 21A of the Municipal Systems Act:
- at least twenty one (21) days prior to the meeting the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and
- invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and
- has submitted a copy of the information statement to the municipal council at least twenty one (21) days prior to the meeting of the council, together with particulars of:
- the essential repayment terms, including the anticipated debt repayment schedule; and
- the anticipated total cost in connection with such debt over the repayment period.

(iv) Capital expenditure may include:

- financing costs, including:
- capitalised interest for a reasonable initial period;
- costs associated with security arrangements in accordance with section 48 of the Act;
- discounts and fees in connection with the financing;
- fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and
- costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.
- costs of professional services directly related to the capital expenditure; and
- such other costs as may be prescribed.

(v) A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:

- the existing long-term debt was lawfully incurred;
- the refinancing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;
- the net present value of projected future payments (including principal and interest payments) after refinancing is less than the net present value of projected future payments before refinancing; and
- the discount rate used in projecting net present value referred to in paragraph (12(c)(xiv)) above, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

(vi) A municipality's long-term debt must be consistent with its capital budget referred.

13 SECURITY

a) A municipality may by resolution of its council provide security for:

(i) any of its debt obligations; and

(ii) contractual obligations of the municipality undertaken in connection with capital expenditure by the persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the Constitution.

b) A municipality may in terms of section (a) provide any appropriate security, including by:

(i) giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral;

(ii) undertaking to effect payment directly from money or sources that may become available and to authorise the lender or investor direct access to such sources to ensure payment of the secured debt or the performance of the secured obligations, but this form of security may not affect compliance with section 8(2);

(iii) undertaking to deposit funds with the lender, investor or third party as security;

(iv) agreeing to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders or investors, including revenue intercepts, payments into dedicated accounts or other payment mechanisms or procedures;

(v) ceding as security any category of revenue or rights to future revenue;

(vi) undertaking to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;

(vii) undertaking to retain revenues or specific municipal tariffs or other charges, fees or funds at a particular level or at a level sufficient to meet its financial obligations;

(viii) undertaking to make provision in its budgets for the payment of its financial obligations, including capital and interest;

(ix) agreeing to restrictions on debt that the municipality may incur in future until the secured debt is settled or the secured obligations are met; and

(x) agreeing to such other arrangements as the municipality may consider necessary and prudent.

c) A council resolution authorising the provision of security:

(i) must determine whether the asset or right with respect to which the security is provided, is necessary for providing the minimum level of basic municipal services; and

(ii) if so, must indicate the manner in which the availability of the asset or right for the provision of that minimum level of basic municipal services will be protected.

(iii) If the resolution has determined that the asset or right is necessary for providing the minimum level of basic municipal services, neither the party to whom the municipal security is provided, nor any successor or assignee of such party, may, in the event of a default by the municipality, deal with the asset or right in a manner that would preclude or impede the continuation of that minimum level of basic municipal services.

(iv) A determination in terms of section (c) that an asset or right is not necessary for providing the minimum level of basic municipal services is binding on the municipality until the secured debt has been paid in full or the secured obligations have been performed in full, as the case may be.

14 DISCLOSURE

a) Any person involved in the borrowing of money by the municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor:

(i) disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor; and

(ii) take reasonable care to ensure the accuracy of any information disclosed.

b) Information to be provided should include:

(i) audited financial statements for the preceding three (3) financial years with audited outcomes;

(ii) approved annual budget;

(iii) the municipal integrated development plan; and

(iv) repayment schedules pertaining to existing short-term or long-term debt.

c) A lender or investor may rely on written representations of the municipality signed by the AO, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

15 MUNICIPAL GUARANTEES

a) A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

(i) the guarantee must be within limits specified in the municipality's approved budget.

b) Neither the national nor a provincial government may guarantee the debt of a municipality except to the extent that chapter 8 of the Public Finance Management Act provides for such guarantees.

16 APPROVAL

a) Once Council approves the loan, the AO has to enter into an agreement with the recommended financial institution on behalf of Council. The Chief Financial Officer must ensure that the terms and conditions are as originally agreed before the Council is committed;

b) All municipal loan commitments must be recorded in a Loans Register reflecting at a minimum the:

(i) Loan number;

(ii) Type of loan;

(iii) Financial institution;

(iv) Date issued;

(v) Purpose of loan;

(vi) Loan period;

(vii) Interest rate;

(viii) Installments (capital and interest);

(ix) Due dates (quarterly / half-yearly / yearly);

(x) Security (if any);

(xi) Final redemption date;

(xii) Opening balance at the beginning of the financial year;

(xiii) Amounts received during the financial year;

(xiv) Capital amounts redeemed during the financial year; and

(xv) Closing balance at the end of the financial year.

c) Sufficient provision must be made in the budget to depreciate assets linked to the loan.

17 DOCUMENTS TO BE KEPT ON RECORD

a) The following loan documentation and certificates, at a minimum, must be safeguarded at all times:

(i) Loan agreements;

(ii) Any applicable security agreements;

(iii) Copy of annual loans register;

(iv) Signed copies of monthly reconciliations;

(v) Copies of all repayments made;

(vi) Copies of amortization schedules; and

(vii) Copies of quarterly National Treasury returns.

SECTION C: RESERVES

All Reserves are "ring fenced" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognised Accounting Practices (GRAP).

The following ring fenced reserves exist:

18 CAPITAL REPLACEMENT RESERVE

Funding for capital budgets of future financial years are generated through contributions from the operating budget. Once the Municipality has reached its maximum gearing ability no further borrowings can be taken up. This necessitates that the Municipality also invests in a capital replacement reserve. However, it must be cash backed.

This reserve once fully established will enable the Municipality to provide internal funding for its capital replacement and renewal programme. Other contributions to the capital replacement reserve through the operating budget may include interest received on investments.

This reserve must be cash backed at all times to ensure the availability of cash to fund the municipal capital programme.

19 REVALUATION RESERVE

The revaluation reserve is created through the transfer of the increase in the carrying value identified through the revaluation of Property, Plant and Equipment. The revaluation process is performed to assess, and ultimately align the carrying value of Property, Plant and Equipment with its reasonably assessed fair value. This is an accounting concept and the reserve does not represent a cash reserve in the true sense. The reserve cannot be utilised for any other purpose than the accumulation of the increase in carrying value, or offsetting of a decrease in carrying value of Property, Plant and Equipment. The reserve and accounting treatment thereof is governed by GRAP 17.

20 SELF INSURANCE RESERVE

A Self-Insurance Reserve exists to provide cover for selected risks including fire, storm, workmen's compensation, public liability and motor vehicles. The reserve is re-insured externally to cover major losses.

Premiums are charged to the respective Directorates at market related rates, taking into account past experience of claims and replacement values of the insured assets. The reserve is subsequently utilised solely for the purpose of absorbing claims which may arise from time to time that is not covered by the municipality's referred insurance policy.

SECTION D: PROVISIONS

A provision is recognised when the municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

The municipality has the following provisions:

21 LEAVE ACCRUAL

Liabilities for annual leave are recognised as they accrue to employees. An annual accrual is made from the operating budget to the leave provision.

22 LANDFILL REHABILITATION PROVISION

The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision must be cash backed to ensure availability of cash for rehabilitation on closure.

23 PROVISION FOR LONG SERVICE AWARDS

Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash, only 75% of the long service leave provision is cash backed.

24 PROVISION FOR POST EMPLOYMENT MEDICAL BENEFITS

The municipality provides retirement medical care benefits by subsidizing the medical aid contributions to retired employees and their legitimate spouses. The entitlement to retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment.

SECTION E: OTHER ITEMS TO BE CASH BACKED

25 CONSUMER DEPOSITS

Consumer deposits are regarded as creditors, i.e. the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Consumer Deposits should be retained in cash.

26 DONATIONS, PULIC CONTRIBUTIONS AND UNSPENT GRANT FUNDING

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

27 POLICY IMPLEMENTATION

Procedures should be prepared and adopted by the AO, in consultation with the CFO and HOD(SO)s, to give effect to this policy.

COUNCIL APPROVAL:	IMPLENTATION DATE: 01 July 2023
.... R KRITZINGER SPEAKER	DATE: 01 July 2023