



# **FUNDING AND RESERVES POLICY**

## **2018-2019**

**APPROVAL DATE BY COUNCIL: 7 JUNE 2018**

**COUNCIL RESOLUTION NUMBER: LC.MC – 63/05/2018**

# Lesedi Local Municipality

Annexure b

## Funding and Reserves: Policy and Procedures

### Table of Contents

<b>1</b>	<b>Purpose of the policy .....</b>	<b>3</b>
<b>2</b>	<b>Legislative framework.....</b>	<b>3</b>
<b>3</b>	<b>Definitions .....</b>	<b>3</b>
<b>4</b>	<b>Introduction .....</b>	<b>4</b>
<b>5</b>	<b>Policy .....</b>	<b>4</b>
5.1	Cross subsidization .....	4
5.2	Tariff Increases .....	4
5.3	Disposals of property, plant and equipment.....	5
5.4	Borrowing requirements.....	5
5.5	Billing.....	5
5.6	Exemptions, rebates and reductions on rates .....	6
5.7	Fees, tariffs and rates .....	6
5.8	Revenue projection/Collection Rate .....	6
5.9	Expenditure .....	7
5.10	Reserves .....	7
5.11	Grants .....	7
5.12	Other income.....	7
5.13	Cash funded expenses .....	8
5.14	Increases in rates and services charges .....	8
<b>6</b>	<b>Scope .....</b>	<b>8</b>
<b>7</b>	<b>Review and amendments .....</b>	<b>8</b>
<b>8</b>	<b>Procedures.....</b>	<b>8</b>

## 1 Purpose of the policy

The purpose of this Policy is to establish norms and standards in the compilation of the annual and adjustments budget by setting out funding and reserves standards

## 2 Legislative framework

This Policy has been prepared in terms of the Municipal Finance Management Act (MFMA) and the new Municipal Budget and Reporting Regulations as issued by National Treasury.

## 3 Definitions

“A **Tariff**” can be defined as a fair and equitable user charge that is levied to a distinctly identifiable group of consumers, mainly to recover the costs incurred in the provision of a particular service and to provide a reasonable return on investment for the service provider. To fully recover the costs incurred and to be fair, the tariff must be proportional to the amount of service consumed and it must also consider the consumers’ ability to pay.

“**Long term debt**” refers to obligation that exceeds the 3 year Medium Term Revenue and Expenditure Framework.

“**Investment**” in relation to funds of a municipality, means -

- a) the placing of funds of a municipality with a financial institution
- b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving funds

“**Billing**” refers to the process of generating an invoice to recover sales price from the customer

“**Reserves**” refers to the funds that are earmarked by an entity from its retained earnings for future use

“**Disposal of assets**” refers to the selling or giving away assets, including transferring assets for less than market value.

## 4 Introduction

In compiling the annual Medium Term Revenue and Expenditure Framework (MTREF) budget this policy will give guidance on what income may be included.

As required by the MFMA, the annual budget in prescribed format must set out realistically anticipated revenue from each revenue source;

**In terms of s18(1) of the MFMA:** “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 the capital budget.

## 5 Policy

### 5.1 Cross subsidization

- In the compilation of the annual budget, it is accepted that cross subsidization across the services takes place by means of trading services surplus being utilized (mainly water and electricity) to subsidize other non income generating municipal services like roads, parks, libraries etc and to alleviate the pressure on the rates tariff increase.

### 5.2 Tariff Increases

- The municipality must ensure that the tariff increases rates are not below the inflation rate targets.
- Tariff increases should not undermine the macro-economic objectives or negatively affect the investor confidence.
- Lesedi in particular is cautious not to extend the rates and taxes in a manner that may impact negatively on residential, agricultural, mining and industrial sector.
- Lesedi is mindful that national economic, tax and fiscal policy objectives are not undermined through excessive municipal rates increases

### 5.3 Disposals of property, plant and equipment.

- Proceeds of disposals may only be included in the annual budget allocation when there is clear and unambiguous commitment that the disposal process will be carried through
- Evidence of this commitment must be provided before disposal proceeds can be included in the annual budgets/Adjustment budget. In terms of the MFMA, Lesedi may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.

### 5.4 Borrowing requirements

- All borrowings must be distinguished between long and short term
- Short term borrowings (i.e. debt repayable over a period not exceeding one year) can only be incurred to finance current expenditure. This form of borrowing must be excluded as far as possible in the annual budget allocations as a source of funding.
- Where short term funding is used as bridging finance then requirements of s45 of the MFMA must be complied with.
- Long term borrowings may be included in the annual budget allocation when there is clear evidence that all the legal requirements relating the borrowing have been complied with as contained in section 46 of the MFMA.
- Long term debt can only be incurred for the purpose of funding capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution and/or re-financing existing long-term debt subject to s46(5) of the MFMA.

### 5.5 Billing

- The Municipality shall levy the property rate on the market value of all rateable properties as recorded in the Municipality's valuation roll and supplementary valuation roll.

## 5.6 Exemptions, rebates and reductions on rates

- Any exemptions, rebates and reductions to the categories of properties and owners must be administered in terms of an approved policy by Lesedi Council.

## 5.7 Fees, tariffs and rates

- Income from fees, service charges may be included in the annual budget/adjustments budget when there is evidence of Deputy Municipal Managers reviewing all fees, service charges and other charges to be included in the operating budget in accordance with Council's tariff policy.
- In determining the tariffs, care must be exercised that :-
  - (a) users and consumers are treated fairly, equitably and without bias in the application of tariffs;
  - (b) the amount a user pays for services is in proportion to the use of that service;
  - (c) tariffs reflect the cost of the service;
  - (d) tariffs are set at levels that secure the financial sustainability of the service;
  - (e) it encourages and promotes the efficient use of scarce resources.

## 5.8 Revenue projection/Collection Rate

- The Municipal Manager and/or delegate shall be responsible for the collection of all monies due to the Lesedi.
- The revenue projection used in the annual budget compilation should be:
  - realistic
  - take into consideration the recent collection rate experience
  - actual revenue collected in the previous financial year
  - any other relevant economic and environmental factors affecting the municipality
- The Accounting Officer, with the advice of the Chief Financial Officer, will recommend the collection rate to be used in the compilation of the budget for approval by Council.

## 5.9 Expenditure

- Expenditure may only be incurred after the approval of the operating and capital expenditure Budget.
- The timing of all expenditure should take into account the cash flow position of the municipality as advised by Chief Financial Officer.

## 5.10 Reserves

- The Municipality shall establish an asset financing reserve (AFR) for the purpose of financing capital projects and the acquisition of capital assets.
- Unappropriated cash-backed surpluses and net gains on the disposal of PPE, to the extent that such surpluses are not required for operational purposes may be used to fund operational and capital expenditure budget allocations
- To the extent that capital contribution has been paid into municipal bank account, an equal amount will be ring fenced into a reserve account. The relevant amount and applicable conditions will be used allocated to the funding of the relevant property, plant and equipment

## 5.11 Grants

- Grants as a source of funding will only be included in the budget when documentary evidence is available through publication in the relevant gazette.

## 5.12 Other income

- To the extent that funds are not ring fenced, interest earned from investments may be used to fund operational and capital expenditure budget allocations
- Additional amounts can be appropriated as contributions in annual budget to the extent that those additional funds would have represented a surplus in the statement of financial performance.

### **5.13 Cash funded expenses**

- No expenditure may be incurred against any fund unless provision has been made for such expenditure in the annual or an adjustments budget.

### **5.14 Increases in rates and services charges**

- The Municipal Manager and the Chief Financial Officer are responsible for the calculation of proposed increases in property rates and service charges.
- The Senior Management Team is responsible to review the calculations and ensure that there is compliance with any relevant circulars issued by National Treasury and/or the Executive Mayor in respect of allowable or projected growth in operating and capital expenditures.
- The cluster responsible for providing or managing the service will be responsible for recommending the relevant annual increase

## **6 Scope**

- This policy is applicable to all revenue that is included in the annual and adjustments budget.

## **7 Review and amendments**

- This policy will be reviewed annually and/or as circumstances change and update is required.

## **8 Procedures**

- Obtain a list of all income lines from the information system
- The list must include actual income from the previous audited financial year, actual income received to date for current financial year for the identified period
- Obtain all the latest National and Provincial gazettes which contain the division and allocation of revenue
- Obtain properly authorized and signed contracts and/or letters of commitment where any party commits to funding of any activity related to the business of Lesedi



- Revenue projection for the next annual budget must be based on supportable evidence of the previous collection rate
- The rate of increase for the outer years of the budget must be in line with the budget policy as approved by Council
- Any projection of revenue will take into account the norms and standards as determined from time to time by National Treasury

### **9 Adption**

This policy has been considered and approved by the Council of **Lesedi Local Municipality** on this day.....

This policy will take effect at **Lesedi Local Municipality** on the 1st of July..... 2018