

NAME OF POLICY	FUNDING AND RESERVES POLICY
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**Emfuleni Local Municipality
Funding and Reserves Policy**

Table of Contents

1	Introduction	3
2	Definitions	4
3	Legislative Framework	4
4	Policy	5
4.1	Projected Billings	5
4.2	Projected Collections	Error! Bookmark not defined.5
4.3	Revenue from Investments.....	6
4.4	Disposal of Assets	6
4.5	Borrowing Requirements	6
4.6	Reserves	6
<u>4.7</u>	<u>Capital Contributions</u>	<u>7</u>
4.8	Cross Subsidisation	7
4.9	Grants.....	7
4.10	Other Revenue	8
5	Scope	8
6	Review and amendments	8

1 Introduction

This document will give policy guidance on the revenue, reserves and cash receipts to be appropriated in, as well as financial ratios to be maintained for the Medium Term Revenue and Expenditure Framework (MTREF) period.

The purpose of this policy is to set out assumptions and methodology for:

- i. Determining available revenue and cash receipts to be appropriated in the budget for a particular year as well as the two outer years (MTREF); and
- ii. To regulate the provision of amounts in reserves.

2 Definitions

“Billing” refers to the determination of consumption of municipal services by consumers on a monthly basis and the recording thereof on the financial system;

“Collections” are actual cash receipts relating to:

- (a) revenue from services rendered by the municipality and in respect of which a tariff is charged; and
- (b) taxes levied on property owners.

Collections exclude grants received and donations received by the municipality.

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

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

“Dividend” refers to a share of the profits of a municipal entity or a company which is not a municipal entity, distributed to the municipality as a shareholder and determined in relation to the number of shares held by the municipality in it.

“Assets” are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

“Reserves” refer to funds from the accumulated surpluses which are earmarked for a special purpose.

“Tariff” means a charge for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

“**Tax**” means property rates or other taxes, levies or duties that a municipality may impose on property owners within in area of jurisdiction.

“**Projected Collections**” are cash receipts, expected from consumers for billings made to them.

“**Cross-Subsidization**” means when revenue from a function or vote is used to defray costs of another function or vote.

3 Legislative framework

In terms of section 18 of the MFMA:

“(1) 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.

(2) Revenue projections in the budget must be realistic, taking into account—

- (a) Projected revenue for the current year based on collection levels to date; and
- (b) Actual revenue collected in previous financial years.”

This policy has been prepared in terms of regulation 8 (2) of the Municipal Budget and Reporting Regulations of 2009, issued in terms of the Municipal Finance Management Act of 2003, which requires that:

“Each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating-

- (a) Projected billings, collections 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 receive from the transfer or disposal of assets;

- (f) The municipality's borrowing requirements; and
- (g) The funds to be set aside in reserves"

4 Policy

4.1 Projected Billings

4.1.1 The Municipality shall determine revenue per source for the financial year under review as well as the two outer years following the respective financial year.

4.1.2 Billing by unit for at least the two preceding financial years and billings to date for the current financial year, certified for correctness by the relevant departmental head, shall be used in the determination of projected billings.

4.1.3 Projected billings shall take into account estimated growth and other relevant factors into consideration.

4.1.4 Projected billings shall also be made for each month of the financial year under review.

4.1.5 The municipal tariff policy shall be used in the determination of the tariffs for service charges, property taxes and other revenue.

4.2 Projected Collections

4.2.1 Projected collections in the budget must be realistic and must take into account actual revenue collected for at least the two previous financial years as well as collections to date on the current financial year.

4.2.1 Interventions made by the municipality to improve or sustain the collection rate shall be considered in the determination of collections to be made.

4.2.3 Estimated provision for revenue which will not be collected from taxes, levies, rates and other charges must be budgeted for separately and reflected on the expenditure side of the municipality's budget and not netted out from budgeted revenue.

4.2.4 Projected collections shall be made for each month of the financial year under review.

4.3 Revenue from investments

4.3.1 To the extent that funds are not ring fenced, interest earned from investments may be used to fund operational and capital expenditure budget allocations.

4.3.2 Investments shall be made in terms of the investments policy of the municipality.

4.3.3 Actual investments held by the municipality as well as funds expected to be invested during the financial year shall be used in the projection of interest to be received.

4.3.4 Actual shareholding the municipality has in its entities and other companies as well as the dividends history shall be used in the projection of dividends to be received by the municipality.

4.4 Disposals of Assets

4.4.1 Proceeds of disposals of assets may only be included in the annual budget allocation when there is clear and unambiguous commitment that the disposal process will be carried through.

4.5 Borrowing requirements

4.5.1 The municipality shall incur borrowings in terms of the Borrowing and Investments Policy.

4.5.2 Only the capital budget may be funded from borrowings.

4.5.3 The municipality may incur expenditure on a project funded from borrowings only when the provisions of sections 18, 19 and 46 of the MFMA have been complied with.

4.6 Reserves

4.6.1 Reserves used to fund expenditure in the budget shall be cash-backed and shall be invested in terms of the Investment Policy of the municipality.

4.6.2 Reserves are limited to 50% that must be kept as an investment, whereas the other 50% can be appropriated for capital and operating budget.

4.7 Capital Contributions

5.7.1 To the extent that a capital contribution has been paid into the municipal bank account, an equal amount will be ring-fenced into a capital contributions reserve account.

5.7.2 The amount will be used to fund the maintenance of the relevant property, plant and equipment.

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

4.8 Cross-subsidization

4.8.1 In the funding of the annual budget, it is accepted that cross-subsidization across the services takes place by means of trading services surpluses being utilised (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.

4.9 Grants

5.9.1 Grants as a source of funding shall only be appropriated in the budget when documentary evidence is available through publication in the relevant gazette and shall be used to meet the conditions as detailed in the gazette or the service level agreement.

5.9.2 Grant amounts shall to the extent that they remain unused; be invested separately and in line with the investments policy of the municipality.

5.9.3 Grant amounts which remain unspent at the end of a financial year shall be included in the budget for the following financial year only when approval is granted by the National or Provincial Treasury.

4.10 Other revenue

4.10.1 Actual revenue for the previous two financial years and for the year to date shall be used to determine projected revenue relating to sources which are not mentioned above.

5.10.2 The relevant Standards of Generally Recognised Accounting Practice on Revenue, as updated as well as relevant Interpretations issued by the Accounting Standards Board shall be used to project other revenue and amounts of revenue which need to be appropriated to the relevant provisions for doubtful debt.

5 Scope

This policy is applicable to all revenue and reserves that are included in the annual and adjustments budget of the Emfuleni Local Municipality and shall be applied by all officials during the budgeting processes.

6 Review and amendments

This policy is effective once it is approved by Council and shall be reviewed at least annually by the CFO.