MERAFONG CITY LOCAL MUNICIPALITY

FUNDING AND RESERVES POLICY

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Policy: Funds And Reserve Policy	**Effective Date:**
Approved:	**Review Date:**

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by Council and may be reviewed on an earlier date if necessary.

PREAMBLE

In an attempt to ensure that the municipal budget processes are effectively and efficiently followed by all Departments within the Merafong City Local Municipal area of jurisdiction, in order to ensure that basic services are delivered to the communities timeously as required by the ***Constitution of the Republic of South, Municipal Systems Act No. 32 of 2000****, section 18 of the* ***Municipal Finance Management Act No. 56 of 2003*****,** other municipal policies, Budget and Reporting Regulations and other government regulations, the Merafong City Local Municipality hereby approves the Funding and Reserves Policy

1 INTRODUCTION

The purpose of this document is to outline sound principles to be adhered to in managing the funds and reserves of the Municipality.

2 SCOPE

This policy must be adhered to by all Councillors, management, staff and officials of the Municipality. Failure to comply with the policy will result in the institution of disciplinary proceedings against the parties involved.

3 FUNDING OF BUDGET EXPENDITURE

The annual budget must generally be funded for capital and operating expenditure or as may be prescribed from time to time by the national or provincial government.

3.1 The municipality will only fund the budget from the following revenue streams:

(a) realistically anticipated direct revenues to be collected from tariffs, rates, taxes, levies, service fees and other charges;

(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes;

(c) borrowed funds which may only be used for capital expenditure; and

(d) realistically anticipated revenues to be received from national or provincial government, other municipalities, donors or any other source with acceptable documentation in terms of regulation 10 2(a)(b) and (c) of the Budget and Reporting Regulations of 17 April 2009 No:32141 that guarantees funds.

3.2 Revenue projections in the budget must be realistic and take into account:

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

(b) actual revenue collected in previous financial years

3.3 The basis for funding the budget based on assumptions and estimates as provided in paragraph below must be with regard to:

(a) projected billings and collections

(b) provision for revenue not to be collected

(c) the funds to be received by the municipality from its investments

(d) proceeds that the municipality will get from disposal of its assets

(e) borrowing requirements of the municipality and

(f) funds to be set aside as reserves.

4 RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

4.1 The municipality may set up a relief, charitable, trust or other funds for purposes of community development in terms of a deed constitution approved by the council. All relief, charitable, trust other funds established in terms of this policy whether by a political structure or an office bearer may only be opened in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund.

4.2 The municipality may open a separate bank account in the name of the municipality for the purpose of a relief, charitable, trust or other fund.

4.3 Money received by the municipality for the purpose of a relief, charitable, trust or other fund must be paid into a bank account of the municipality, or if a separate bank account has been opened into that account.

4.4 Money in a separate account opened in terms of this paragraph may be withdrawn from the account without appropriation in terms of an approved budget, but only:

(a) by or on the written authority of the accounting officer acting in accordance with decisions of the municipal council; and

(b) for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

4.5 Only donations, grants or funds appropriated in the budget for purposes of the relief, charitable, trust or other funds may be deposited into an account opened in terms of this paragraph.

5 FUNDING OF CAPITAL PROJECTS

Capital projects may only be funded if approved in terms of an Integrated Development Plan of the municipality or a council resolution.

5.1 The municipality may spend money on a capital project only if—

(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget;

(b) provisions relating to contracts having future budgetary implications in terms of section 33 has been complied with, to the extent that that section may be applicable to the project; and

(c) the sources of funding have been considered, are available with reference to acceptable documentation in terms of regulation 10 2(a) (b) and (c) of the Budget and Reporting Regulations of 17 April 2009 No: 32141 and have not been committed for other purposes.

5.2 Before approving a capital project, the council must consider:

(a) the projected cost covering all financial years until the project is operational; and (b). the future operational costs and revenue on the project, including municipal revenue, expenditure and long term budgetary implications.

5.3 The council may approve capital projects below a prescribed value either individually or as part of a consolidated capital programme.

6 BUDGET FUNDING ASSUMPTIONS

6.1 The municipal budget is prepared on the basis of MTREF based accrual accounting, a system of accounting where transactions are brought to account in the financial year in which they occur; irrespective of whether cash is paid or received in respect of such transactions during the financial year concerned.

6.2 Capital budget is the estimate of the capital expenses which will be incurred over the relevant financial year; and the sources of finance from which these expenses will be funded.

6.3 Funding must therefore given the current global economic crisis affecting South Africa and the municipality in particular reflect on the following priorities:

- Management of debt collection;
- Commitment to the eradication of poverty;
- Local Economic Development(LED) initiatives that foster micro and small business opportunities and job creation;
- Optimisation of asset base; and
- Expediting spending on capital projects that are funded by conditional grants.

6.4 Further the municipality will fund its budget based on the endeavour to meet the following national objectives; being:-

- Protect the poor.
- Build capacity for long-term growth.
- Sustain employment growth.
- Maintain sustainable debt level.
- Address sectoral barriers to growth and investment.

6.5 The budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets. The municipal fiscal environment is influenced by a variety of macroeconomic control measures. For instance the

National Treasury determines the ceiling of year on year increases in the total operating budget; whilst the National Electricity Regulator (NER) regulates electricity tariff increases. Various government departments also affect municipal service delivery through the level of grants and subsidies.

6.6 The following are therefore assumptions and estimates in when funding the budget:

6.6.1 Inflationary Pressures

6.6.1.1 The budget funding must consider huge inflationary pressures and the impact of tariff increases on the poor and the broader community.

6.6.1.2 Council must take these inflation forecasts; as well as local economic conditions into consideration when determining their new rates; tariffs and other charges and developing 2020/2021 and MTREF. Furthermore; the existing inflation rate as reported in the Quarterly Bulletin of the Reserve Bank must be taken into account when drafting the budget.

The following headline inflation forecasts underpin the national 2017/18 Budget:

Fiscal year	2017/18	2018/19	2018/19	2019/20
	Estimate	Forecast		
CPI Inflation	6.4%	5.7%	5.7%, 5.6%	5.6%
Real GDP Growth	1.3%	2.0%	2.0%, 2.2	2.2%

6.6.2 Investment of Funds and Interest for Borrowing

6.6.2.1 Investments made with the various financial institutions are strictly in compliance with Municipal Finance Management Act and the Investment Regulations.

6.6.2.2 The Investment returns especially interest thereof must be considered for funding of budgets. The borrowing needs may have to be considered in the future.

6.6.2.3 The municipality will budget up to 3 % of its budget for reserves that will be used as cash for investments.

The borrowing repayments achieved and projected measured in overall percentage of the total budget are as follows:

Description	30 June 2015	30 June 2016	Projections for June 2017
Average repayment percentage against the budget	2.2%	3.4%	1.2%

6.6.3 Tax Base Growth

6.6.3.1 The financial benefits of continued property and commercial development must be property audited and costed by projection. This is expected to increase municipal revenue as rates and tariffs base will grow.

The overall increase/decrease in the tax base achieved and projected measured in overall percentage of the total budget are as follows:

Description	30 June 2015	30 June 2016	Projections for June 2017
Average increase/decrease percentage against the budget	0%	0%	0%

6.6.4 Collection Rate

6.6.4.1 Collection rate is the cash collected from consumers expressed as a percentage of the amount billed. The average monthly collection rate and projections for 2017/2018 must be made and factor:-

6.6.4.2 More efforts must still be made to collect outstanding amounts. Revenue not collected will be reflected appropriately in the cash flow and performance statement of the municipality.

6.6.4.3 A provision for uncollected revenue and bad debts will be made in accordance with current trends and projections in the budget.

Projected monthly rate of collection against for the 2017/2018 financial year.

Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %	75.00 %

6.6.5 Bulk Tariff Increases Electricity and Water

Electricity

6.6.5.1 The Eskom price increase of bulk electricity supplied to municipalities will increase by 2.2 per cent on 1 July 2017. NERSA approved an annual 2.2 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2017/18.

6.6.5.2 NERSA had not issued a guideline tariff increase.

Council will not be able to increase its tariffs in line with the Escom increase. Council had examined the cost structure of providing electricity services and will apply to NERSA for electricity tariff increases that reflect the total cost of providing the service to achieve fully cost-reflective tariffs that will help council to achieve financial sustainability.

Water

6.6.5.3 Rand Water had advised council that they will increase their water tariffs to municipalities by 10.2% from the 1 July 2017.

Water tariffs must be on aggregate fully cost-reflective – inclusive of bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; The increase of prices water for 2017/2017 year is necessitated by increases in maintenance of ageing infrastructure and provision of services to new areas developed.

6.6.5.4 Other factors that contributes to increases in levels of rates and service charges are; among others;

- Increased maintenance of network and structures.
- Provision for filling new vacant positions.
- Infrastructure roll out and provision of basic services.

6.6.6 Salary Increase

The South African Local Government Bargaining Council entered into a three-year *Salary and Wage Collective Agreement* for the period 01 July 2015 to 30 June 2018. The preparation of the 2017/18 MTREF constitutes implementation of the last year of the agreement which municipalities must implement as follows:

• *2017/18 Financial Year – average CPI (Feb 2016 – Jan 2017) + 1 per cent*

The previous years were:

• *2015/16 Financial Year – 7 per cent*

• *2016/17 Financial Year – average CPI (Feb 2015 – Jan 2016) + 1 per cent*

The average CPI was 6.4% for the period Feb 2016 to Jan 2017, therefore the increase will be 7.4% for 2017/2018.

Due to the amendments to the mines valuations and council's poor financial situation only critical positions can be filled in 2017/2018.

6.6.7 Demand for Services

6.6.7.1 The demand for services if forever increasing with new commercial, industrial and residential centres developed. The new Low Cost housing and relocation are in particular expected to impact on the demand for services. Self funding of infrastructure may be a challenge to the municipality. The municipality must establish accurate figures for these purposes.

6.6.7.2 All of the above result in the demand for basic services like electricity; water; sanitation; refuse removal and cleansing increasing accordingly; together with the infrastructure developments like the construction of roads and storm water drainage.

6.6.8 Free and Subsidized Basic Services

As a manner of taking care for the poor; the municipality through its indigent policy will subsidies indigent households. Cost of the Subsidy has an impact in the funding of the budget. Accurate figures of current and projected future indigent applications should be made based on the previous and current years' subsidy patterns taking into account the economic meltdown effects on the local communities.

6.6.9 Service Charges and Other Fees

6.6.9.1 There is currently no alternative mechanisms other than rates tariffs for generation of revenue to the municipality. In terms of Municipal Systems Act; the determination of tariffs is the sole responsibility of Council. When determining rates and tariffs; the Council considers affordability by consumers. The municipality should investigate possibility of providing services to neighbouring municipalities as sources for funding its budget.

6.6.10 Valuation

A total number of 32 210 properties are reflected on the Valuation Roll for 2012; with a total value of R 15.597.610.800 billion.

With the increase in property development at a rate of 0% for the year 2014/2015, a total number of 32 210 properties are estimated for the valuation roll of 2014/2015 with an estimated total value of R 15.597.610.800 billion

7. RESERVES

7.1 The municipality creates and maintains reserves in terms of the municipal finance management act of 2003, the investment policy the regulation 8 Budget and Reporting Regulations of 17 April 2009 No: 3214.

7.2. Reserves established by the municipality should be out the net cash surplus available at the end of the financial year.

7.3 Reserves must be invested and used in terms of the Investment policy of the municipality. These transfers from the net surplus may only be made if they are backed by cash. Interest earned on the reserves invested is recorded as part of total interest earned in the Statement of Financial Performance. Such interest may be used as revenue to fund the municipal budget.

AUTHORITY

Formulation Policy	:	Acting Chief Financial Officer
Authorisation Policy	:	Council
Ownership	:	Acting Municipal Manager
Maintenance Manager	:	Acting Manager: Budget and Treasury