

## Policy Amendments

### Draft Budget 2016-2017

23 March 2016

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#### (1) Funding & Reserve Policy

##### 2. SECTION A: FUNDING POLICY

##### 2.6 FUNDING THE OPERATING BUDGET

##### 2.6.2 GENERAL PRINCIPLE WHEN COMPLYING THE OPERATING BUDGET

###### Currently read as:

- (h) **Employee Related Costs** include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined that provision for the short term portion of employee benefits, as well as an Operating Surplus calculated at 5% of the prior year balance of the long-term benefits, be included in the operating budget, in order to build sufficient cash for this requirements. The cash portion of the employee benefits must be accounted for in an "Employer Benefits Reserve".

###### **Recommend:**

- (h) **Employee Related Costs** include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined that **consideration must be given subjects to affordability and budget constrains** provision for the short term portion of employee benefits, as well as an Operating Surplus calculated at 5% of the prior year balance of the long-term benefits, be included in the operating budget, in order to build sufficient cash for this requirements. The cash portion of the employee benefits must be accounted for in an "Employer Benefits Reserve".

###### Currently read as:

- i) Depreciation must be fully budgeted for in the operating budget.

In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget.

**Recommend:**

**Delete**

~~i) Depreciation must be fully budgeted for in the operating budget.~~

~~In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget.~~

**Currently read as:**

**j) Contributions to Provisions** (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

It is therefore a requirement that the contribution to current provisions, as well as 20% of the prior year balance of the non current provision, is budgeted as cash surpluses until the necessary funding level is obtained.

**Recommend:**

~~j) i) Contributions to Provisions~~ (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

It is therefore a requirement that **consideration must be given subjects to the affordability and budget constrains**, the contribution to current provisions, as well as 20% of the prior year balance of the non current provision, is budgeted as cash surpluses until the necessary funding level is obtained.

**2.8**

**FUNDING COMPLIANCE MEASUREMENT**

**Currently read as:**

**2.8.5 SURPLUS/DEFICIT EXCLUDING DEPRICIATION OFFSETS**

*It is almost certain that the Operating Budget, which includes depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a Deficit.*

As determined elsewhere in this policy *it is not the intention that the users of the assets funded from grants, public contributions and revaluations must be burdened with tariff increases to provide for such depreciation charges.* In order to ensure a “**Balanced**” **Budget** but excluding such depreciation charges, the depreciation charges must be offset against the net surplus / deficit.

Should the budget result in a deficit after the offsetting, the budget will be deemed unfunded and must be revised.

**Recommend:**

Delete

**2.8.5 SURPLUS/DEFICIT EXCLUDING DEPRICIATION OFFSETS**

*It is almost certain that the Operating Budget, which includes depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a Deficit.*

*As determined elsewhere in this policy it is not the intention that the users of the assets funded from grants, public contributions and revaluations must be burdened with tariff increases to provide for such depreciation charges. In order to ensure a “Balanced” Budget but excluding such depreciation charges, the depreciation charges must be offset against the net surplus / deficit.*

*Should the budget result in a deficit after the offsetting, the budget will be deemed unfunded and must be revised.*

**Currently read as:**

**2.8.6 PROPERTY RATES/SERVICE CHARGE REVENUE%INCREASE LESS MACRO INFLATION TARGET**

The intention of this indicator is to ensure that tariff increases are in line with macro economic targets, but also to ensure that revenue increases for the expected growth in the geographic area is realistically calculated.

The formula to be used is as follows:

	DESCRIPTION	PROPERTY RATES	SERVICE CHARGES	TOTAL
A	New Year Revenue Budget	R XX	R XX	R XX
B	Less: Revenue of prior year	R XX	R XX	R XX
<b>C</b>	<b>=Revenue Increase/Decrease</b>	<b>R XX</b>	<b>R XX</b>	<b>R XX</b>
D	% Increase/(Decrease)	C/B %	C/B %	C/B %
E	Less: Upper Limit of Macro Inflation Target	%	%	%
<b>F</b>	<b>=Growth in Excess of Inflation Target</b>	<b>%</b>	<b>%</b>	<b>%</b>
G	Less: Expected Growth %	%	%	%
<b>H</b>	<b>=Increase attributed to Tariff Increase above Macro Inflation Target</b>	<b>%</b>	<b>%</b>	<b>%</b>

In the event that the percentage in (H) above is greater than 0, a proper motivation must accompany the budget at submission, or the budget must be revised.

### **2.8.7 CASH COLLECTION % RATE**

The object of the indicator is to establish whether the **Projected Cash to be Collected** is realistic and complies with section 18 of the M.F.M.A.

The **Collection Rate** for calculating the provision for impairment of receivables must be based on past and present experience. Past Experience refers to the collection rates of the prior years and Present Experience refers to the collection rate of the current financial year as from 1 July, as well as the current financial year as from 1 January.

It is not permissible to project a collection rate higher than the rates currently being obtained, even if the municipality recently approved a debt collection policy or implemented additional debt collection measures. Any improvement in collection rates during the budget year may be appropriated in an Adjustment Budget.

### **2.8.8 DEBT IMPAIRMENT EXPENSE % OF BILLABLE REVENUE**

This indicator provides information whether the **Contribution to the Provision for Impairment of Receivables** is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance might have an influence on it. Any difference, however, must be motivated in the budget report.

### **2.8.9 CAPITAL PAYMENTS % OF CAPITAL EXPENDITURE**

This indicator provides information as to the **Timing for Payments** on capital projects and utilising allowed payment terms.

### **2.8.10 BORROWING AS A % OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)**

This indicator provides information as to compliance with the M.F.M.A. in determining borrowing needs. The Accounting Officer must ensure that the Municipality's Debt Management Policy is being complied with.

### **2.8.11 GRANTS REVENUE AS A % OF GRANTS AVAILABLE**

In order to ensure that the budget contains all grants available, this indicator must be calculated. The percentage may never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

### **2.8.12 CONSUMER DEBTORS CHANGE (CURRENT AND NON - CURRENT)**

The object of the indicators is to determine whether budgeted reductions in outstanding debtors are realistic.

Non-current Debtors should include debtors where arrangements for payment over an extended period of time were made.

An unacceptable high increase in either current– or non– current debtors' balances should be investigated and acted upon.

#### **2.8.13 REPAIRS AND MAINTANCE EXPENDITURE LEVEL**

It is of utmost importance that the municipality's Property Plant and Equipment be maintained properly, in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements.

Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

As a general benchmark the Maintenance Budget should be between 5% and 8% of the asset values.

#### **2.8.14 ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL**

This indicator supports further the indicator for repairs and maintenance.

The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset in order to determine whether the renewal program is sufficient or needs revision.

#### **2.8.15 FINANCIAL PERFORMANCE BUDGET**

Although it is not a legal requirement that the financial performance budget should balance, it only makes management sense that it should balance.

A number of line–items influence the net result of the financial performance budget. It includes capital grant revenue, depreciation charges including those where assets were funded from grants and public contributions, unamortised discounts and gains/losses on the disposal of Property Plant and Equipment. These items need to be taken into consideration in order to establish if the operating budget is realistic and credible.

#### **2.8.16 FINANCAIL POSITION BUDGET**

This indicator provides an overall view of the **Projected Financial Position** over the periods of the Medium Term Expenditure framework, including movements in inventory and payables.

#### **2.8.17 CASH FLOW BUDGET**

A **Positive Cash Flow** is a good indicator of a Balanced Budget, as well as the ability of the municipality to meet its future commitments.

The **Cash Flow Budget**, however, does not include those items such as contributions to the provisions described elsewhere in this policy, the effect of depreciation charges etc, and care must be taken not to let a projected positive cash inflow lead to additional expenditure requests, without taking the requirements of those items into consideration.

**Recommend:**

~~2.8.6~~ Change 2.8.5

~~2.8.7~~ Change 2.8.6

~~2.8.8~~ Change 2.8.7

~~2.8.9~~ Change 2.8.8

~~2.8.10~~ Change 2.8.9

~~2.8.11~~ Change 2.8.10

~~2.8.12~~ Change 2.8.11

~~2.8.13~~ Change 2.8.12

~~2.8.14~~ Change 2.8.13

~~2.8.15~~ Change 2.8.14

~~2.8.16~~ Change 2.8.15

~~2.8.17~~ Change 2.8.15

## **(2) Credit Control & Debt Collection Policy**

### **9. Action against non-payment or defaulters**

**Currently read as:**

9.2.2 However, within seven (7) calendar days after each monthly due date for payment of municipal accounts for property rates and/or service charges, the municipal manager shall send out to every defaulting accountholder, that is, every accountholder who as at the date of the notice not paid the monthly account in full or has not made an acceptable arrangement with the municipal manager for partial or late payment, a notice stating that unless full payment is received or an acceptable arrangement made with the municipal manager for partial or late payment, the municipal water and electricity supply of the property to which the account in arrears relates, shall be terminated or restricted seven (7) calendar days after the date of the notice for residential properties and 48 hours for businesses. Disconnections/restrictions will not be affected on Friday to Sunday or any day on / before a Public Holiday.

**Recommend:**

9.2.2 However, within seven (7) calendar days after each monthly due date for payment of municipal accounts for property rates and/or service charges, the municipal manager shall send out to every defaulting accountholder, that is, every accountholder who as at the date of the notice not paid the monthly account in full or has not made an acceptable arrangement with the municipal manager for partial or late payment, a notice stating that unless full payment is received or an acceptable arrangement made with the municipal manager for partial or late payment, the municipal water and electricity supply of the property to which the account in arrears relates, shall be terminated or restricted

seven (7) calendar days after the date of the notice for residential properties and 48 hours for businesses. Disconnections/restrictions will not be affected on Friday to Sunday or any day on / before a Public Holiday. **It shall be specifically recorded that the water connection for residential consumers shall not be disconnected, instead it will be restricted.**

**Currently read as:**

9.3.1.3 If a debtor's account is in arrears for more than 30 days, water and electricity will be restricted (or disconnected where appropriate) to the minimum level (where appropriate) as approved by municipality in the budget for the year

**Recommend:**

9.3.1.3 If a debtor's account is in arrears for more than 30 days, water and electricity will be restricted (or disconnected where appropriate) to the minimum level (where appropriate) as approved by municipality in the budget for the year **It shall be specifically recorded that the water connection for residential consumers shall not be disconnected, instead it will be restricted.**

**Currently read as:**

9.5 Legal action

- 9.5.1 The issuing of letter of demand to defaulters is the beginning of a legal process and payments for amounts outstanding can only be made to the municipality.
- 9.5.2 It is important that legal action be instituted against defaulters when the credit control section was unsuccessful with the collection process. The legal process (including judgement and execution of firstly moveable and thereafter immovable assets) will be followed against defaulters who do not respond to letters of demand.
- 9.5.3 In any event, if water and electricity services have been terminated or restricted in the case of a property in respect of which the account is in arrears, and the accountholder has not paid such arrears, including the interest raised on such account, or made an acceptable arrangement with the municipal manager for the payment of the account in arrears, including the interest raised on such account, within a period of 28 (twenty eight) calendar days after the date of termination or restriction of the service(s) concerned, the municipal manager shall forthwith institute legal action.

**Recommend:**

**9.5.4 If accounts are handed over for collection to an external Attorney, the debtor will be responsible for all legal costs to the Municipality.**

### (3) POLICY ON THE WRITING-OFF OF IRRECOVERABLE DEBT

Currently read as:

#### NOTICE

#### INTEREST WRITE-OFF INCENTIVE ON SETTLEMENT OF DEBTS

Council has resolved, as a gesture of goodwill, to write-off interest on Arrear Debts, subject to the following conditions:

#### CONDITIONS:

- Only interest accumulated up to 31 March 2014 will qualify for the incentive.

#### **Recommend:**

Delete

- ~~Only interest accumulated up to 31 March 2014 will qualify for the incentive.~~

### (4) Indigent Policy

#### Chapter 2: Indigent policy

#### 4. Extent of support

#### Currently read as:

4.6 If a prepaid meter is installed at low-cost housing schemes, no deposit or connection fees for water are payable.

#### **Recommend:**

4.6 If a prepaid meter is installed at low-cost housing schemes, no deposit or connection fees for water (and electricity) are payable.

#### 6. Application for support

#### Currently read as:

6.2 The application form is to contain, inter alia, the following important information

6.2.1 details of the account holder

6.2.2 proof of total household income (income as defined by SARS as well as pension grant)



- 6.2.3 identification documents;
- 6.2.4 certificate from bank may be requested; and
- 6.2.5 number and names of dependants (proof may be requested).

**Recommend:**

Insert

6.2.6 Uncompleted forms will not be accepted.

**(5) Tariff Policy**

- Attached as annexure

**(6) Supply Change Management Policy.**

- Attached as annexure

**(7) Rates Policy.**

- Attached as annexure

**(8) Asset Management Policy**

**Currently read as:**

The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode which shall be recorded in the asset register.

The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode, **where possible and practical**, which shall be recorded in the asset register.