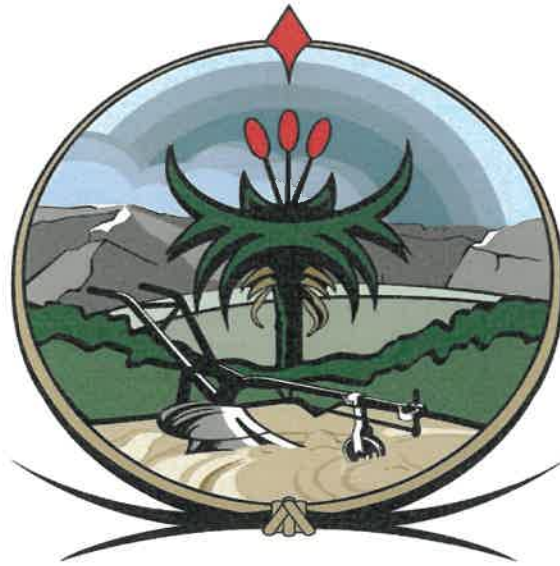


CHRIS HANI DISTRICT MUNICIPALITY



CHRIS HANI DISTRICT MUNICIPALITY

SUSTAINING GROWTH THROUGH OUR PEOPLE

Equitable Share Policy

2024-2025

Adopted in an Ordinary Council Meeting held on 24 May 2024

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I. DEFINITIONS

"Constitution" means the supreme law of the Republic of South Africa

"allocation", in relation to a municipality, means —

- (a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;
- (b) an allocation of money to a municipality in terms of section 214(1)(c) of the Constitution;
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction.

"annual Division of Revenue Act" (DoRA) means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution; "Council" means a municipal Council established in section 18 of the Municipal Structures Act and referred to in section 157(1) of the Constitution.

"municipality " means the Chris Hani District Municipality established in terms of section 155 of the Constitution.

"accounting officer" means the Municipal Manager of the Chris Hani District Municipality

"senior managed" means a manager referred to in section 56 of the Municipal Systems Act, Act 32 of 2000 in other words managers appointed by Chris Hani District Municipality Council and who is directly accountable to the Municipal Manager.

"official" means an employee of the Chris Hani District Municipality or person seconded to the municipality or person contracted by the municipality to work as a member of staff of the Chris Hani District Municipality .

2. INTRODUCTION

Most of governmental revenue raised at national level is allocated to provinces and municipalities based on the relative demand for services, rather than their ability to contribute revenue. Provincial and local governments are best placed to respond to community needs and priorities and are responsible for compiling their own plans and budgets. Provinces and municipalities must however adhere to national policies and regulations, including those covering financial management. National Treasury monitors the financial management of provinces and municipalities and provides capacity support and guidance to ensure budgets respond to spending priorities.

Local governments provide basic services such as water, sanitation, electricity reticulation, as well as roads and community services. Transfers are made by national government to redistribute resources from areas of high economic activity, where most of the country's taxes are raised, to areas where public services are most needed and in order for municipalities to exercise their powers and perform their duties. One of the transfers made to municipalities are the annual Equitable Share allocation.

In meeting governments' vision that all South Africans should have access to basic water supply, sanitation, energy and refuse services, this policy was compiled to provide a framework for the governance of the Equitable Share allocation to help fulfil this purpose.

3. LEGISLATIVE FRAMEWORK

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their function

In accordance with section 227 of the Constitution, local government and each province is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it

Section 214 of the Constitution requires Parliament to pass an act providing for: (a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government

(b) the determination of each province's equitable share of the provincial share of that revenue; and

(c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.

4. EQUITABLE SHARE ALLOCATION

In terms of section 227 of the Constitution and as already mentioned in paragraph 2 above, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions.

Local government, being a distinct sphere of government, determine the priorities for these funds and are directly accountable for how they are spent. However, local government spending is largely assigned to functions in which national legislation sets norms and standards. Local government plays a role as part of the whole system of three spheres of government in addressing poverty through directly providing free or subsidised services to poor households.

The local government equitable share is an unconditional transfer that supplements the revenue that a municipality can raise themselves (including revenue raised through property rates and service charges).

5. OBJECTIVES OF THE POLICY

The objectives of the policy are to:

- (a) provide a guideline to govern Equitable Share allocations and
- (b) institute uniform accounting and reporting procedures.

6. GOVERNANCE OF EQUITABLE SHARE ALLOCATION

Municipalities are given both Equitable Share allocations and conditional grants in accordance with the annual DoRA. Designated officials must be responsible for the governance of the Equitable Share allocations and other grants received.

In respect of the Equitable Share allocation, the designated officials must perform the following functions:

6.1 Identification of Equitable Share allocation

Identify and list the Equitable Share allocation that will be distributed in accordance with the Gazetted annual DoRA in the grant register, as described in paragraph 6.8 hereunder. In addition, the municipality will receive from National Treasury an allocation letter of its Equitable Share allocation.

6.2 Annual Municipal Budget

The accounting officer must ensure that the annual tabled budget to the council reflects the Equitable Share allocations set out in the annual DoRA and the spending thereof.

6.3 Recognition of Equitable Share allocation

On identification of the Equitable Share allocations that will be distributed as Gazetted in the annual DoRA, the income must be recognized when it is probable that there will be an inflow of economic benefits or service potential associated with the transaction and when the amount can be measured reliably, by creating a debtors account and credit a grants income vote. (The ASB FAQ on the Standards of GRAP give guidance on the above accounting treatment)

6.4 Timing of Equitable Share allocation transfers

The determined Equitable Share allocations are transferred by the national government to the primary bank account of the municipality, as determined in terms of section 8 of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA). For the timing of the transfers refer to the annual DoRA. Usually the Equitable Share

allocation are done in three transfers during July, December and March of each financial year.

Transfers received from another level of government to fund the activities of the municipality must be accounted for using the principles in GRAP 23 on Revenue from Non-Exchange Transactions (Taxes and Transfers). On receipt of money, the debtors account must be credited with the funds received.

6.5 Interest received

Interest received on the unspent portion of the allocation must be regarded as municipal income and be included as interest received on bank accounts and/or investments, whatever will be the case.

6.6 Expenditure

As already mentioned the allocation must be used for the delivery of free basic services to poor households and to subsidise the cost of administration and other core services of the municipality if there is no potential to cover these costs from the municipality's own revenue.

The Equitable Share allocation is an unconditional grant and can easily be misused for other expenses.

The accounting officer, senior managers and other responsible officials on a regular basis ensure that the funds are spend in accordance with the Constitution, DoRA, any other applicable act and the approved municipal budget.

Furthermore, in accordance with regulation 7 of the Municipal Budget and Reporting Regulations, 2008, the municipality must institute an Indigent policy to determine indigent criteria and relief measures (support) as well as a Free Basic Service policy for the provision of certain basic services free of charge. Detail of the indigent support and provision for free basic services must also be included in the annual approved tariff list.

6.6.1 Understanding of concepts

Understanding the concepts of revenue foregone and free basic services is very important. Revenue foregone must be distinguished from grant expenditures made in relation to the provision of, for instance, free basic services.

- (i) "Revenue Foregone" is that revenue that will not be collected by the entity. The municipality must apply the 'generally available to all' rule to determine whether an item is revenue foregone or expenditure (most often 'grant' expenditure). For example, if a rate rebate is available to all ratepayers of a particular category; e.g. residential land use, then the rebate should be treated as 'revenue foregone'. The broadly applied rebate is considered an adjustment to the tariff.
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- (ii) "Free basic services" is services provided for poor households (indigent support) and that are funded through the local government's Equitable Share allocations.

6.6.2 Accounting treatment of expenses

The accounting of rebates on property rates and the provision of free basic services must be done as follow:

(i) Provision of free basic services

Where a municipality provides free basic services, the intention is not to collect any revenue from the provision of such services. As there is no intention of collecting any revenue, GRAP 9 should not be applied. The municipality should:

- not recognise revenue for such transactions in the statement of financial performance; and
- recognise an expense for the services provided in the statement of financial performance.

The focus here on the recognition of an expense for the services provided is on the actual cost of the municipality to provide the free basic service. In this regard refer also to MFMA Circular 70, Annexure B — Accounting treatment for Non-Revenue Water and Electricity.

Where municipalities provide water and electricity in excess of the free basic services provided, the intention is usually to collect such amounts from the consumer. As the intention is to collect revenue from such transactions, GRAP 9 on Revenue from Exchange Transactions, IGRAP 1 on Applying the Probability Test on the Initial Recognition of Revenue (2012) and the Standard of GRAP on Financial Instruments (GRAP 104) should be applied in accounting for such transactions.

6.7 VAT Implications

In respect of the VAT implications on Equitable Share allocations received and expenditure in this regard refer to the VAT419 - Guide for Municipalities.

6.8 Grant register

A grant register must be kept that contains at least the following information for easy reference and disclosure in the AFS in accordance with section 123 of the MFMA:

- (i) Name of grant/allocation
- (ii) Name of organ of state who made the grant/allocation
- (iii) Grant/allocation Gazetted
- (iv) Quarterly receipts
- (v) Quarterly expenditure
- (vi) Grants/allocations delay/withheld

- (vii) Reasons for grants/allocations delay/withheld
- (viii) Compliance to Division of Revenue Act in other words did the municipality comply with the grant conditions in terms of the "Grant Framework" in the latest DoRA. If not, include reasons for the non-compliance.

The register must be reviewed on a regular basis by a senior official to ensure the completeness and correctness thereof and signed as proof thereof.

6.9 Offset of funds against Equitable Share allocation

In accordance with the annual DoRA, National Treasury may offset any unspent conditional grant funds that must revert to the National Revenue Fund but not paid into that Fund by a determined date from the municipality's Equitable Share allocation.

Any unspent conditional grant funds that should have been repaid to the National Revenue Fund will be offset against a municipality's November Equitable Share allocation or recovered as per an indication from National Treasury.

7. DISCLOSURE IN THE ANNUAL FINANCIAL STATEMENTS (AFS)

The annual financial statements of the municipality must include disclosures regarding the Equitable Share allocations received by the municipality as prescribed in section 123 of the MFMA.

Furthermore, consider the requirements of GRAP 1 and the Framework in determining whether any disclosures about the provision of free basic services transactions are necessary in the notes to the financial statements.

The minimum disclosures in this regard are the amount in respect of the grant expenditure, the kind of free basic services provided and to whom the free basic services were provided.

8. IMPLEMENTATION AND REPORTING

The Accounting Officer is responsible and accountable for the implementation of this policy and shall, in respect of this policy and the Free Basic Service and Indigent policies, submit a monthly report to the Executive Mayor, containing at least the following information:

- (i) the number of households receiving free basic services and a brief explanation of any variation in that number since the prior report;
- (ii) the monetary value of subsidies and rebates constituting free basic support for the reporting period and cumulatively for the financial year to date;
- (iii) the Equitable Share allocation, amount budgeted for the provision of free basic support and the balance available.

The Executive Mayor shall in turn report on the above matters to the Council on a quarterly basis.

9. REVIEW

This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and the operating requirements of the municipality.


10. SHORT TITLE


This policy shall be called the Equitable Share Policy of Chris Hani District Municipality .

This Policy takes effect on the 01ST of July 2024

Policy Adopted at the Chris Hani District Municipality Council meeting, dated 24 May 2024.

**Council Resolution number: C143
2023-2024**

Signed by Municipal Manager: G. Mashipi  _____
Initial & Surname *Signature* *Date*

Signed by Speaker of Council: J. CENGANI  _____
Initial & Surname *Signature* *Date*
