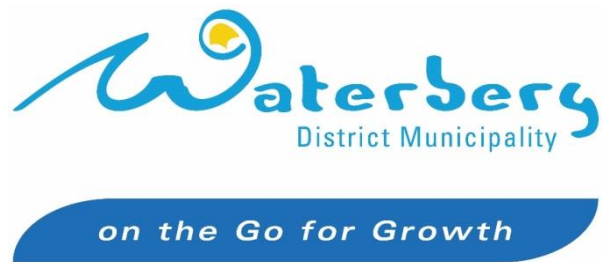


# WATERBERG DISTRICT MUNICIPALITY



# FUNDING AND RESERVES POLICY

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## 1. INTRODUCTION AND OBJECTIVE

The Council sets as objective a long term financially sustainable municipality with acceptable levels of service delivery to the community. This policy aims to set standards and guidelines towards ensuring financial viability over both the short - and long term and includes funding as well as reserves requirements.

## 2. SECTION A: FUNDING POLICY

### 2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous year's surpluses not committed for other purposes, and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are therefore clear in that the budget must be cash funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

### 2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise to the management of his or her own finances with the primary objective of ensuring that the objectives of this policy are achieved.

### 2.3 STATEMENT OF INTENT

The municipality will not pass a budget which is not cash funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, provided that the requirements of the MFMA must at all times be adhered to.

### 2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Investment Policy.

### 2.5 DEBT MANAGEMENT

Debt must be managed in terms of the municipality's Debt collection and credit control Policy, together with any requirements in this policy.

## 2.6 FUNDING THE OPERATING BUDGET

### 2.6.1 Introduction

The municipality's objective is that the user of municipal resources must pay for such usage in the period it occurred.

### 2.6.2 General Principle When Compiling The Operating Budget

The following specific principles apply when compiling the budget:

- a) The budget must be cash funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information and in any line with any budget circulars issued by National and Provincial Treasury;
- c) Tariff adjustments must be fair;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

For the purpose of the Cash flow budget any National- or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation as it must be included in changes in Cash and Cash Equivalents and Payables.

Furthermore, in the budget the total grants recognised as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA circular 48.

- e) Projected revenue from services charges must be reflected as net (all billing less revenue foregone, which is levy payable to Meat statutory body).
- f) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortised discount must be included in the Operating Budget but excluded in the cash flow budget.
- g) Employee related costs include contributions to non-current and current employee benefits.
- h) Depreciation must be fully budgeted for in the operating budget.
- 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.

## 2.7 FUNDING THE CAPITAL BUDGET

### 2.7.1 Introduction

The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent. In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

## 2.7.2 Funding Sources For Capital Expenditure

The capital budget can be funded by way of own contributions, grants, public contributions as well as external loans.

### Own Contributions

The capital budget financed from own contributions must primarily be funded from the accumulated surpluses which must be cash backed and/or current year surplus revenue.

### Accumulated Surpluses

Council shall establish an accumulated Surplus for the purpose of financing capital projects. Such reserve shall be established from the following sources of revenue:

- a) Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- b) Interest on the investments of the Accumulated Surplus, appropriated in terms of the investments policy;
- c) Additional amounts appropriated as contributions in each annual or adjustments budget; and
- d) Before any asset can be financed from the Accumulated Surplus the financing must be available within the reserve and available as cash as this fund must be cash backed;
- e) If there is insufficient cash available to fund the Accumulated Surplus, this reserve fund must then be adjusted to equal the available cash;
- f) Transfers to the Accumulated Surplus must be budgeted for in the cash budget.

Notwithstanding the above the capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions are determined during the budget process.

### Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.

## 2.8 FUNDING COMPLIANCE MEASUREMENT

### 2.8.1 Introduction

The municipality wants to ensure that the budget or adjustments budget complies with the requirements of the MFMA and this policy. For this purpose

a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless any negative indicators can be reasonably explained and future budget projections address the turnaround of these indicators to within acceptable levels

### 2.8.2 Cash Plus Investments Less Application Of Funds

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- VAT due to SARS;
- secured investments;
- other working capital requirements;
- other provision of funds;
- long term investment committed; and
- reserve funds
- In addition, it must be sufficient to back reserves as approved by the municipality and the portions of provisions as indicated elsewhere in this policy.

### 2.8.3 Monthly Average Payments Covered By Cash Or Cash Equivalents

The municipality must evaluate its ability to meet monthly payments regardless of annual cash position. Cash coverage ratio is a useful indicator that must be used to assess its ability to meet monthly payment obligation. The ratio measure the number of times average monthly payments are covered by dividing the estimated average monthly payments into the available cash balance. A low or reducing ratio may indicate an inability to meet payment obligations when they fall due.

### 2.8.4 Surplus/Deficit Excluding Depreciation Offset

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

## 3. SECTION B: RESERVES POLICY

### 3.1 INTRODUCTION

The municipality recognizes the importance of providing to the municipality itself, as well as its creditors, financiers, staff and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

The aim of this policy is to provide for such measure of protection by creating certain reserves.

3.2 LEGAL REQUIREMENTS

As there are no legal requirements for the creation of reserves, the Housing Act, No 107 of 1997, requires the creation of the Housing Development Fund. According to GRAP “Framework and Preparation and Presentation of Financial Statements” such reserves may be created, but “Funding Accounting” is not allowed and any such reserves must be legal reserves created by law or through a Council Resolution.

3.3 FUNDS TO BE SET AS ASIDE IN RESERVES

The Council shall maintain a cash backed reserve that will be part of the accumulated surplus for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:

- a) Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- b) Further amounts appropriated as contributions in each annual or adjustments budget as and when it can be afforded by the municipality

3.4 NON CASH FUNDED RESERVES

Currently the district municipality do not have any such reserves.

**4. IMPLEMENTATION & REVIEW PROCESS**

This policy will be reviewed at least annually or when required by way of a council resolution.

**5. IMPLEMENTATION**

This policy must be implemented by the employees of WDM who have been delegated the authority by the Accounting Officer and other delegations as stipulated in this policy. Any employee who breaches this policy shall be liable for disciplinary measures.

Adopted by Council at its meeting held on \_\_\_\_\_ 2023

per Council Resolution Number \_\_\_\_\_

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2023