

DRAKENSTEIN MUNICIPALITY



DRAKENSTEIN

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LONG TERM FINANCIAL PLAN

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DRAKENSTEIN MUNICIPALITY LONG TERM FINANCIAL PLAN

1. FINANCIAL MANAGEMENT

1.1 INTRODUCTION

Financial Management is the cornerstone of any organisation. Controls and policies must be in place to achieve sound financial management. Over the first year of the 5-year plan, financial regulations and policies must be reviewed to ensure all legal, internal control and social requirements are met. Implementing the projects included in the 5-year plan will require large capital investment, which in turn requires effective management and control.

The Drakenstein Municipality has recognised that to be successful the IDP must be linked to a workable financial plan, which includes a multiyear budget.

The financial plan is set out as follows:

- Financial strategies - Overview
- Detailed financial issues and strategies
- Capital and investment programmes
- Multiyear budgets

2. FINANCIAL STRATEGIES OVERVIEW

The following section sets out general financial strategies that should guide the municipality, now and in the future, in practicing sound financial management. The financial strategies adopted by council include a general strategy, which will apply to the detailed strategies, a financial resources (capital and operational) strategy, revenue raising strategy, asset management strategy, capital financing strategy, operational financing strategy and a cost effectiveness strategy. More details of the aforementioned strategies are set out below.

2.1 General considerations

➤ Social Responsibilities

All aspects of matters relating to financial matters will take cognizance of council's social responsibilities including transformation and empowerment such as in council's procurement policy.

➤ Investor attraction

Council's main aim is to create a revenue base through the attraction of investors to the municipality. This will be done in conjunction with District Municipality initiatives.

An important factor considered by investors in relocating to an area is the ability of the authorities to demonstrate financial discipline, this includes adherence to statutory requirements, timely preparation and production of financial statements, adherence to generally accepted accounting practices and unqualified audit reports. It is intended that the business plan of the finance department will address these factors. In order for the finance department to deliver on these strategies it is council's intention to clearly define accounting policies and recruit the best

finance people for that department. To this end council will define recruitment policy for finance staff, put in place a pre and continuing education policy and develop career progression paths for designated finance staff. Like the IDP, the financial action plan will be subject to a regular review and comparison of actual performance to predetermined performance measures.

2.2 Financial Resources

For the purposes of this plan council has considered financial resources for both capital projects and operational purposes. The various resources available to council are summarised below.

Capital expenditure:

- National government funding
- Provincial funding
- Infrastructure funding
- Own funding
- External Loan funding
- Public / private partnerships

Operational expenditure:

Normal revenue streams in the form of grants

➤ **Revenue raising**

The Drakenstein Municipality's main sources of revenue are from grants, property rates, and municipal services such as sewerage, water and electricity. The short-term objective of the municipality is to identify and access all available revenue.

2.3 Asset management

It is important to maintain a regular inventory of property, plant and equipment, implementation of a maintenance programme and insurance cover review. This part of the plan will be extended to assist in identifying and listing unutilised / uneconomic assets with a view to disposal as indicated earlier. Although directly related to revenue raising it is appropriate to include the monitoring of rental income and policies, with the asset management programme. This aspect of asset management will ensure that council is receiving economic benefit from council owned land and buildings which are rented out.

2.4 Financial Management

It is most important that the Drakenstein Municipality maintains a strong finance department and in due course an audit steering committee and internal audit function that will be responsible for monitoring financial and other controls. The council is committed to sound financial management and as indicated earlier the creation of a sound economic base

Financial management policies and procedures for the entire municipality will have to be implemented and these will include the following principles:

- Cash forecasts and cash flow monitoring against forecasts
- Budgeting methods
- Management reporting
- Credit risk management
- Credit policies
- Procurement policies
- Supplier payment periods
- Investment policies

Staff will be encouraged to adhere to value for money principles in carrying out their work. On the issue of audit reports, both internal and external, council has to adopt a zero tolerance approach and measures will be put in place to ensure that any material or fundamental issues are addressed immediately. It is expected that the internal audit function will raise any material or fundamental issues before external audit. Other issues arising will be prioritised and addressed accordingly. Council recognises the need to maintain a positive cash flow at all times and will be investigating various avenues to improve cash flow. Strong positive cash flow will result in additional revenue in the form of interest earned.

2.5 Capital financing

When determining appropriate sources of funding it is important to assess the nature of projects, expected revenue streams and time frames for repayment. As a general guide the following principles will apply:

- Statutory funds for funding specific projects (e.g. housing)
- Provincial and national government funding for medium term and long term projects
- External loan funding for medium term and long-term projects

2.6 Operational financing

Council's policy is to fund operating expenses from normal revenue streams with short term funding being used as a last resort. It is expected that strong financial management including accurate cash forecasting will obviate the need to resort to short-term borrowings. As indicated earlier it is council's intention to maintain a strong economic base through good working capital management including setting aside of adequate provisions for working capital. It is anticipated that these reserves will be based on the same principles as currently apply to contributions to existing statutory funds.

2.7 Cost effectiveness

In any organisation it is necessary to strive for cost effectiveness and municipalities are no different. It is council's intention to pursue the shared services concept wherever possible. The sharing of services will enable the municipality to minimize total costs on these services.

3. DETAILED FINANCIAL ISSUES AND STRATEGIES

The action plan identifies the most feasible strategies to increase efficiency and cost effectiveness within the Municipality. The implementation of the financial plan requires a team effort. A team approach requires the involvement of the Council, Municipal Manager and Chief Financial Officer in implementing these strategies. It is crucial that individuals to whom the responsibilities have been allocated according to the action plan be held accountable for the outcome of these strategies. The progress made towards achieving these strategies should be measurable and it is essential that these strategies be included in the performance appraisals of individuals.

3.1 Financial Issues

Some of the key financial issues affecting the Drakenstein Municipality are listed below.

1. Debt Collection drive to collect the outstanding debt of Council
2. A revenue base is dependent on electricity, property rates, sewerage, water and refuse and other income streams
3. Affordability by Council to address all needed capital and operational expenditure received from various directorates
4. Lack of funds for capital projects
5. Council needs to be provided with monthly and quarterly financial reports

4. FINANCIAL STRATEGIES

The implementation of the sound and good financial strategies will enhance the future financial sustainability of the municipality.

4.1 Capital financing strategy

4.2 Asset management strategy

4.3 Sound Financial management

4.4 Credible Financial projections

- Projected revenue requirements
- Projected expenditure requirements