

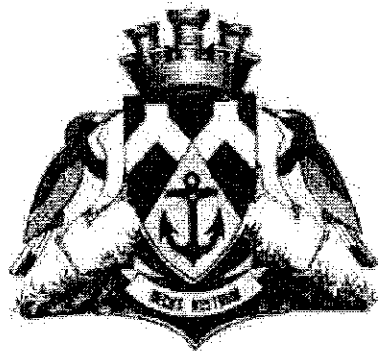
# **OVERBERG**

## **DISTRICT MUNICIPALITY**

### **LONG TERM FINANCIAL PLANNING**

#### **POLICY**

Reviewed: 30 March 2017



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## 1. BACKGROUND

- 1.1 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 capital investment, which in turn requires effective management and control.
- 1.2 The Overberg District Municipality has recognised that to be successful the IDP must be linked to a workable financial plan, which includes a multiyear budget.
- 1.3 The long-term financial planning policy is set out as follows:
- Financial strategies overview;
  - Detailed financial issues and strategies;
  - Capital and investment programmes; and
  - Multi-year budgets

## 2. PURPOSE

- 2.1 The Policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient and cost-effective funding in order to achieve its long term objectives through the implementation of the medium term operating and capital budgets.
- 2.2 The purpose of the Policy on Long Term Financial Planning is therefore to:-
- Ensure that all long term financial planning is based on a structured and consistent methodology in order to ensure the long term financial sustainability of Overberg District Municipality;
  - Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;
  - Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and

- Identify new revenue sources as funding for future years.

### **3. DEFINITIONS**

“**IDP**” means Integrated Development Plan;

“**GRAP**” are standards of Generally Recognised Accounting Practice.

“**Municipality**” refers to the Overberg District Municipality.

### **4. LEGAL CONTEXT**

4.1 The policy aims to give effect to the requirements and stipulations of –

- The Municipal Finance Management Act 56 of 2003 (MFMA);
- Treasury regulations issued in terms of the MFMA; and
- The Municipal Systems Act 32 of 2000.

### **5. SCOPE FOR APPLICATION**

5.1 This policy applies to the long term financial planning of the municipality’s funds, within the context of the following policies:

- Liquidity policy
- Procurement policy
- Budgeting policy
- Cash management and investment policy
- Borrowing policy
- Credit control and debt collection policy

### **6. FINANCIAL STRATEGIES OVERVIEW**

6.1 The following section sets out general financial strategies that should guide the municipality in its financial planning, 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, operational and revenue raising) strategy, asset management strategy, financial management, capital financing strategy, operational financing strategy

and a cost effectiveness strategy. More details of the aforementioned strategies are set out below.

## **6.2 General strategy considerations**

### **6.2.1 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.

### **6.2.2 Investor attraction**

Council's main aim is to create a revenue base through the attraction of investors to the municipality.

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 recognised accounting practice (GRAP) 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.

### **6.3 Financial Resources strategy**

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 summarized below.

#### Capital expenditure:

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

#### Operational expenditure:

Normal revenue streams in the form of grants.

#### Revenue raising

The ODM's main sources of revenue are from grants and to a much lesser extent charges from resorts, ferry service, fire and rescue and municipal health.

The short-term objective of the municipality is to identify and access all available and possible resources.

### **6.4 Asset management strategy**

It is important to maintain a regular inventory of property, plant and equipment, implementation of a maintenance programme and insurance cover review within the financial capabilities. This part of the plan will be extended to assist in identifying and listing unutilized / uneconomic assets with a view to disposal. The implementation of a GRAP compliant asset management system is an essential part of the financial strategy. The asset management policy provides further guidance on this topic.

## **6.5 Financial Management strategy**

### **6.5.1 Human resources for financial management**

It is most important that the Overberg District Municipality maintains a strong finance department, internal audit function and audit committee 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.

To achieve the financial and strategic goals of the municipality appropriately qualified staff must be employed and a retention and succession planning strategy must be employed to ensure continuity. The recruitment and training of financial interns must be continued to provide a resource pool for future appointments.

It is imperative that finance staff receive on-going training to keep abreast of changes that occur.

### **6.5.2 Financial management system**

The financial system used must at all times be totally up to date in terms of available technology to ensure legal compliance and to facilitate timeous reporting and up to date data.

### **6.5.3 Financial management policies and procedures**

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 control policies;
- Procurement policies;
- Supplier payment periods; and
- Investment policies.

#### 6.5.4 Oversight

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.

#### 6.5.5 Cash flow

Other issues arising will be prioritized and addressed accordingly. Council recognizes 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.

### 6.6 Capital financing strategy

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;
- Provincial and national government funding for medium-term and long term projects; and
- External loan funding for medium term and long-term projects.

### 6.7 Operational financing strategy

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 applied to contributions to existing statutory funds.

## **6.8 Cost effectiveness strategy**

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.

## **7. DETAILED FINANCIAL ISSUES AND STRATEGIES**

### **7.1 Action Plan**

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.

### **7.2 Financial Issues**

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

- Debt Collection drive to collect the outstanding debt of Council;
- A revenue base is dependent mainly on an equitable share allocation and other grants, with less than 20% made up by the customary municipal income streams;
- Affordability by Council to address all needed capital and operational expenditure received from various directorates;
- Lack of funds for capital projects; and
- Council needs to be provided with monthly and quarterly financial reports.

## **8. FINANCIAL STRATEGIES**

The implementation of the sound and good financial strategies will enhance the future financial sustainability of the municipality. The following strategies have to be formulated:

- Capital financing strategy;
- Asset management strategy;
- Sound Financial management;
- Credible Financial projections;
- Projected revenue requirements; and
- Projected expenditure requirements.

## **9. RELATED POLICIES**

The following documents are related to this policy:

- 9.1 Liquidity policy
- 9.2 Procurement policy
- 9.3 Budgeting policy
- 9.4 Cash management and investment policy
- 9.5 Borrowing policy
- 9.6 Credit control and debt collection policy

## **10. REVIEW**

In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

## **11. EFFECTIVE DATE**

This policy shall come into effect on 1 July 2017.