



Umzumbé
M U N I C I P A L I T Y

POLICY ON LONG-TERM FINANCIAL PLANNING

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1. DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

“Accounting Officer” it means Municipal Manager of Umzumbe Local Municipality or his/ her delegate.

“GRAP” means the Generally Recognised Accounting Standards.

“IDP” it's a shortened name for Integrated Development Plan.

“MFMA” it's a shortened name for Municipal Finance Management Act, Act 56 of 2003.

“Municipality” for the purpose of this policy it means Umzumbe Local Municipality.

2. INTRODUCTION

- 2.1 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 large capital investment, which in turn requires effective management and control.
- 2.2 Umzumbe Municipality has to recognise that to be successful the IDP must be linked to workable financial plans which include a multiyear budget.
- 2.3 A long-term financial planning is prepared for a period of at least three years, however it is preferred that it should be for over a period of five or more years.
- 2.4 The long-term financial planning will also ensure that the Municipality has greater financial health and sustainability, making it easier to collaborate on projects with other levels of Government and various public and private stakeholders. This will further enhance the ability of the Municipality to have access to more financing, funding and grants.

3. PURPOSE

- 3.1 The purpose of this policy is to outline the comprehensive long-term financial planning that will ensure long-term financial sustainability for the Municipality.
- 3.2 A long-term financial planning is essential to ensure that the Municipality continues to implement its mandate effectively without impairing its capital base. It will also enable the Municipality to move towards self-sufficiency in meeting the growing demands of Service Delivery and infrastructure requirements.
- 3.3 A long-term financial planning its important by identification and prioritization of expected needs based on the Municipality's Five-Year Integrated

Development Plan and details estimated amounts of funding various sources.

4. FINANCIAL STRATEGY FRAMEWORK

The priority for the Municipality, from the financial perspective is to ensure viability and sustainability of the Municipality. The long-term financial planning and related strategies will therefore need to address a number of key areas in order to achieve this priority. These strategies are detailed below:

4.1 Revenue enhancement strategy:

- a) To seek alternative sources of funding.
- b) Expand Income base through implementation of new Valuation Roll.
- c) The ability of the Community to pay for services.
- d) Identification and pursuance of Government Grants.
- e) Tightening Credit Control measures and Debt Collection Targets.
- f) Improve customer relations and promote a culture of payment.
- g) Realistic Revenue estimates.
- h) The impact of inflation, the Municipal cost index and other cost increases;
- i) The creation of an environment which enhances growth, development and service delivery.

4.2 Asset Management Strategy:

- a) The implementation of a GRAP compliant Asset Management System.
- b) Adequate Budget provision for Asset Maintenance over their economic lifespan.
- c) Maintenance of asset according to an Infrastructural Asset Management Plan.
- d) Maintain a system of internal control of assets to safeguard assets.
- e) Ensure all assets owned and control except specific exclusions are covered by insurance.

4.3 Financial Management Strategies:

- a) To maintain an effective system of Expenditure control including procedures for the approval, authorization, withdrawal and payment of funds.
- b) Preparation of the Risk Register and application of Risk Control.
- c) Implement controls, procedures, policies and by-law to regulate fair, just and transparent transaction.
- d) Training and development of Senior Financial staff to comply with prescribed minimum competency level.
- e) Implement GRAP standards as gazette by National Treasury.
- f) Prepare annual financial statement timeously and review performance and achievements for past financial years.

4.4 Operational Financing strategies:

- a) Effective cash flow management to ensure continuous, sufficient and sustainable cash position.
- b) Enhance budgetary controls and financial reporting.
- c) Direct available financial resources towards meeting the projects as identified in the IDP.
- d) To improve Supply Chain Management processes in line with regulations.

4.5 Capital Funding Strategies:

- a) Ensure service delivery needs are in line with Long-term Financial Planning.
- b) Careful consideration / prioritisation on utilising resources in line with the IDP.
- c) Analyse feasibility and impact on operating budget before capital projects are approved.
- d) Determine affordable limits for borrowing.
- e) Source external funding in accordance with affordability.
- f) Improve capital budget spending.
- g) Maximizing of infrastructural development through the utilisation of all available resource.

4.6 Cost effective Strategy:

- a) Invest surplus cash not immediately required at the best available rates.
- b) Restrict capital and operating expenditure increase in relation to the inflation rate taking into consideration the macro growth limit guideline and Municipal cost increase.
- c) To remain as far as possible within the following selected key budget assumptions:
 - i. Provision of bad debts of at least 2%.
 - ii. Overall cost escalation to be linked to the average inflation rates.
 - iii. Tariff increase to be in line with inflation plus Municipal growth except when regulated.
 - iv. Utilisation of Equitable Share for indigent support through Free Basic Services.
 - v. Maintenance of assets of at least 6% of total operating expenditure.
 - vi. Capital cost to be in line with the acceptable norm of 18%

4.7 Measurable Performance Objective for revenue:

- a) To maintain the Debtors to revenue ratio below 10%.
- b) To maintain a Debtors payment rate of above 90%.
- c) To ensure that the Debtors return remain under 40 days.
- d) To keep the Capital cost on the Operating Budget less than 18%.

5. FINANCIAL MANAGEMENT POLICIES

The purposes of Financial Policies are to provide a sound environment to manage the financial affairs of the Municipality. The following are key budget related policies:

5.1 Tariffs Policy

Tariffs Policy prescribes the procedures for calculating tariffs charged to the consumers. This policy is required in terms of Section 74 of the Local Government Municipal System Act, Act 32 of 2000.

5.2 Rates Policy

Rates Policy required by the Municipal Property Rates Act, Act 6 of 2004. This Policy provides the framework for the determination of property rates.

5.3 Indigent Support Policy

This policy is to ensure that the Municipality is providing and regulate access to free basic to all registered indigents.

5.4 Budget Policy

Budget Policy set out the principles which must be followed in preparing Medium Term Revenue and Expenditure Framework Budget. It further ensures that the Budget reflects the strategic outcomes embodied in the IDP and related strategic policies.

5.5 Asset Management Policy.

The objective of Asset Management Policy is to prescribe the accounting and administrative procedures relating to the property, plant and equipment.

5.6 Accounting Policy

The Accounting policy describes the basis of presentation of the Annual Financial Statements in accordance with the Generally Recognised Accounting Practices (GRAP) and Accounting Standards.

5.7 Supply Chain Management Policy

SCM Policy is developed in terms of Section 111 of the MFMA Act 56 of 2003. The principles of this Policy is to give effect to a fair, equitable, transparent, competitive and cost effective system for the procuring of goods and services, disposing of goods and selecting of contractors in the provision of Municipal Services.

5.8 Subsistence and Travel Policy

The S&T Policy regulates the reimbursement of travelling and subsistence costs to officials and Councilors attending official business.

5.9 Credit Control and Debt Collection Policy.

This Policy provides for Credit and Debt Collection Procedures and mechanisms to ensure that all consumers pay for the services that are supplied by the Municipality.

5.10 Cash Management, Banking and Investment Policy.

This Policy must be established in terms of section 13 of MFMA act 56 of 2003 and Municipal Investment Regulation R308 to ensures that cash resources are managed in the most efficient and effective manner possible.

6. REVENUE

- 6.1 In order for the Municipality to serve the Community and to render the services needed, revenue generation is fundamental to financial sustainability of every municipality.
- 6.2 The Municipality must table a balanced and more credible Budget, based on realistic estimation of revenue that is consistent with the budgetary resources and collection experience.
- 6.3 The Municipality derives its revenue from the provision of services such as electricity, cleansing and solid waste. A considerable portion of the Revenue is also derived from property rates and grants by National Governments as well as other minor charges such as traffic fines

7. GENERAL PROVISIONS

7.1 Commencement:

This Policy will come into effect on the date of adoption by the Council of the Umzumbe Local Municipality.

7.2 Interpretation of this policy:

- i. All words contained in this policy shall have the ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- ii. The dispute on interpretation of this policy shall be declared in writing by any party concerned.
- iii. Municipal Manager shall give a final interpretation of this policy in case of written dispute.

7.3 Permanent/temporary waiver or suspension of this policy:

- i. This policy may be partly or wholly waived or suspended by Umzumbe Local Municipality on temporary or permanent basis.

7.4 Compliance and enforcement:

- i. Violation of or non-compliance with this policy will give a just cause of disciplinary steps to be taken by Umzumbe Local Municipality.
- ii. It will be the responsibility of the Accounting Officer or his/her delegated official to enforce compliance with this policy.

7.5 Amendment and /or abolition of this policy:

This policy maybe amended or repealed by Umzumbe Local Municipality as it may deem necessary to do so.

8. POLICY ADOPTION

This policy has been considered and approved by the **COUNCIL OF UMZUMBE LOCAL MUNICIPALITY** as follows:

Board Resolution No:.....

Approval Date:.....

APPROVED:

Mr. S Cele
Municipal Manager