

Setsoto Local Municipality Financial Strategy

1. Introduction

The financial strategy is the process used in the implementation of the IDP. The financial strategy can be broken down into the following:

1. Basic financial guidelines and procedures
2. Capital and operating financial strategies
3. Revenue raising strategies
4. Asset management strategies
5. Cost-effectiveness strategies

The capital investment programme and the three-year action programme will form part of this financial strategy.

2. Basic financial guidelines & procedures

The following policies and procedures can be highlighted that will achieve/effect substantial financial reform and overtly reflect major development priorities and objectives such as local economic development and poverty alleviation:

- Credit control and debt collection policy,
- Indigent policy,
- Tariff policy,
- Local economic development strategy,
- Integrated development plan,
- Service Delivery and Budget Implementation Plan linked to performance indicators,
- Asset management policy,
- Procurement policy,

3. Capital and operating financial strategy

The Municipalities cash flow is not running in a positive direction. Therefore, before the Council can start planning a capital strategy the operating cash flow will have to be drastically improved. A recovery plan has been formulated to address the financial position of the Municipality. In this plan it is necessary to provide for sufficient working capital in the budget, implement credit control and reduce expenditure wherever possible. These underlying principals are the basics for the correction of the Municipality's financial position.

Until the financial position has been addressed the only capital projects that the Municipality can afford to undergo are those financed from external sources, the rest will not be possible due to their poor financial position. Therefore it is imperative that the financial position of the Municipality is improved in order to implement some of the necessary capital projects as highlighted in the IDP.

The Council should develop a program in which external funding received for pre-outlined purposes, such as basic services grants and equitable share, are used for projects that will enhance the financial sustainability of the municipality. An example will be to use the next grant to supply conventional water meters. The sustainability of such an investment will ensure that it will fund itself sooner or later and further be spinning the ball into other projects. The management of such a project will be the critical factor in determining the success thereof. The possibility of loans can also be considered, but as a last resort since it will have cost implication resulting in effecting the tariffs. Council should levy interest on outstanding amounts (services) since interest is payable to creditors on outstanding amounts (overdrafts).

Programs should be put in place to address the interest and redemption levels of the Council. Negotiations should take place with loan institutions to discuss the possibility of earlier redemption. This should be calculated carefully since it will have an influence on the tariff structure.

Table 3.1 overleaf gives an indication of the financial resource potential of the municipality table 3.2 is a summary of the main assets of the municipality.

Table 3.1: Financial Resource Potential

Sources of Income	Income from previous year		Collection efficiency (%)	Expected income this year (R)	Improvement potential (good/fair/poor)
	Budget (R)	Actual (R)			
Internal Sources					
Property Rates					
Surplus on trading services					
External Sources					
Equitable Shares					
Municipal Infrastructure Grant					
Municipal Systems Improvement Grant					
Financial Management Grant					
National Electrification Fund					
Operation Hlasela					
Thabo Mofutsanyana District Municipality					
Other					
Total for all sources of income					

Table 3.2: Register of Assets

Description of Assets/Item	Current Use and Purpose of the Assets	Estimated Annual Cost of the Assets	Estimated Annual Revenue Generated	Existing Condition (Good/Fair/Poor)	Expected Replacement Date
Buildings					
Motor Vehicles					
Maintenance Equipment					
Other					
Total of all Assets					

4. Revenue raising strategy

The guidance on how to improve the payment ratio of the area can be found in the credit control and debt collection policy. This policy highlights the procedures to be followed in the collection of all money owed to the Municipality. An ad hoc committee will be established to formulate procedures in making the credit control policy more effective. Data-purification is being done to make the process of collecting even more accurate. Table 4.1 overleaf contains the revenue raising strategies.

Table 4.1: **Increasing revenue**

BRIEF DESCRIPTION OF THE STRATEGY	INCOME SOURCE TO BE AFFECTED BY STRATEGY	ESTIMATED COST FOR IMPLEMENTATION	ESTIMATED INCREASE IN REVENUE	ESTIMATED AVERAGE ANNUAL GROWTH (%) P/A
Strategy 1.1 To ensure that rural areas are valuated and that services are delivered in those areas so as to start generating an income from the rural areas	Services payment			
Strategy 1.2 To ensure through Local Economic Development that employment opportunities are generated which will enable families to start paying for services	Services payment			
Strategy 1.3 To create a climate for investment in the area which will in turn also generate employment opportunities	Services payment			
Strategy 1.4 To ensure that the figures in respect of families that qualify in terms of the indigent policy, are correct so as to qualify for an increased amount from National Government.	Equitable share			
Strategy 1.5 To introduce a system through which services payment by employed people is guaranteed by having such payments deducted by their employers before salaries are paid out.	Services payment			
Strategy 1.6 The installation of Pre paid meters is essential in securing future payment for services by residents.	Services payment			
Strategy 1.7 To improve debt collecting through the provision of more credit collection facilities.	Services payment			

Guiding principles: Non-payers should not be allowed to place an additional burden on people who do pay for services.

5. Asset management strategy

The Municipality is currently planning on doing a survey on the equitable use of vehicles plant and equipment, in this report the asset management strategy will be addressed. Due to the financial constraints the Municipality can only repair the major assets if they break and not always maintain them. The asset management plan is largely dependent upon the financial position of the Municipality. This strategy is indicated in table 5.1 overleaf.

Table 5.1: **Managing Assets**

BRIEF DESCRIPTION OF THE STRATEGY	ASSET TO BE AFFECTED BY STRATEGY	ESTIMATED COST FOR IMPLEMENTATION	EXPECTED IMPROVEMENT ON ASSET	ESTIMATED AVERAGE ANNUAL GAIN / LOSS
Strategy 2.1 No guiding principles or strategies have yet been determined, but will be addressed during formulation of the 5 Year Financial Plan for the Municipality				
Strategy 2.2				
Strategy 2.3				
Strategy 2.4				
Strategy 2.5				
Strategy 2.6				

6. Cost effectiveness strategy

All departmental heads have been met with in order to brainstorm on possible ways and means to reduce the operating expenditure of the Municipality. All expenditure items were looked at and ways of reducing them or making them more effective were explored.

A three-year budget can be found on Annexure C1. As a result of the current financial position the tariffs need to be increased drastically in order to make a sufficient provision for working capital. Since it is impossible to make budget cash funded within a year the provision for working capital will be phased in over a period.

Table 6.1: Improving cost-effectiveness

BRIEF DESCRIPTION OF THE STRATEGY	ITEM / PROCEDURE TO BE AFFECTED BY STRATEGY	ESTIMATED COST FOR IMPLEMENTATION	EXPECTED IMPROVEMENT OR IMPACT	ESTIMATED AVERAGE ANNUAL GAIN / LOSS
Strategy 3.1 To improve the administrative and financial systems through the implementation of Microsoft and GRAP compatible system				
Strategy 3.2 To implement a proper Geographical Information System ("GIS") to improve overall decision-making.				
Strategy 3.3 To consider the privatisation of certain Municipal functions.				
Strategy 3.4				
Strategy 3.5				
Strategy 3.6				

The financial management arrangement is a summary of the financial management resources and the base financial guidelines and procedures, which the Municipality has at its disposal to give effect to the required output of the Council.

The Council is the financial supervisory authority who is to supervise over the financial affairs of the Municipality. The Council is responsible for the compilation of the budget for the current financial year, approval of the financial statements, adoption of all policies and by-laws and making most of the decisions that relate to the financial affairs of the Municipality.

7. Financial management arrangements

The implementation authority is the Municipal Manager, assisted by all the officials of the Municipality. He is the accounting officer of the Municipality, and is therefore responsible for all the assets of the Municipality, and the implementation of all Council resolutions.

The guidelines for the financial management are in the form of policies and by-laws. The officials prepare draft policies and by-laws for approval by Council. Council can amend or totally reject the drafts laid forward by the officials.

Some of these policies and by-laws are:

- **Credit control and debt collection policy**
- **Indigent policy**
- **Tariff Transparency policy**
- **Powers and Functions**

These policies give guidelines to officials in the procedures and methods to be used in the collection of outstanding monies from the consumers who default in the payment of their accounts. The policies have been approved by Council and are in the process of being implemented.

- **Indigent policy**

The indigent policy is a policy which dictates who qualifies for a subsidy on their municipal account and the procedures to follow in order to ensure that the registration, subsidisation and control over the funds is correctly administrated. The policy has already been approved by Council and implemented by officials.

- **Tariff policy**

The tariff policy dictates how the tariffs are to be structured and increased from time to time, usually at the beginning of the new financial year. The tariff policy has been prepared and approved by Council.

- **Supply Chain Management policy**

The procurement policy assists the officials in the awarding of tenders and the purchasing of day-to-day consumables. A draft is still in the process of being presented to Council.

These are some of the most important policies available to officials to guide them in the implementation of their duties.

- **Powers and functions**

It has been proclaimed that the status of functions for the municipality will be continued with the same status quo. It is now the responsibility of the Council to investigate the cost effect thereof and to ensure that it is managed properly. A plan needs to be set up in this regard for further discussion. Examples of this would be the possibility of ring fencing libraries, health etc. Bulk services can also be looked at although it will be more difficult to ring fence these. It should be kept in mind that ring fencing will have a material effect on the organogram of the Council.

The three-year capital investment programme is regarded as an extension of the three-year Financial Plan, as it also deals with financing of identified capital projects.

The purpose of the three-year capital investment programme is to link prioritised capital projects from the IDP with potential sources of financing. This will ensure that the following objectives are achieved simultaneously;

8. Three year capital investment programme

- Informing the Municipal Budget
- Aligning inter-governmental spending
- Integrating and sequencing of capital projects
- Creating Public and Private Investment confidence
- Providing an overview of projects as basis for accountability

The three-year Capital Investment Programme for the Municipality is reflected in Annexure C2.

9. Three-year action programme

The three-year action programme can also be seen as an extension of the financial plan. The purpose of the five action programme is firstly to link the IDP with the municipal management system by providing a summary of the major activities in the municipality which results from the IDP and secondly to establish a basis for monitoring and progress.

10. Project Estimates per Sector

The three-year action programme for the Municipality is indicated in Annexure C3. Annexure C4 gives a breakdown of the estimated expenditure on different sectors within the municipality. This will enable the municipality to monitor how much of the resources are spent in different sectors and to check whether this correlates with the priorities of the municipality. The tables should be seen as a monitoring tool as part of the financial plan.

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