



BA-PHALABORWA LOCAL MUNICIPALITY

FIVE YEAR FINANCIAL PLAN

2015/2016 - 2019/2020

TABLE OF CONTENTS

NO	DESCRIPTION	PAGE NO
1.	Introduction	4
2.	Purpose	4
3	Responsibility	4-5
4	Capital and Operating Budget Estimates	5-9
5	Financial Strategy	10-12

6	Strategies and Programmes	13-17
7	Financial Management policies	18-26
8	Key Financial Targets	27
9	Key Performance Indicators	27-28
10	Summary and Concluding Remarks	29

FIVE YEAR FINANCIAL PLAN: 2016- 2020

1) INTRODUCTION

This plan is prepared in terms of section 26 (h) of the Local Government: Municipal Systems Act, as amended, which stipulates that a financial plan must be prepared as part of the Integrated Development Plan (IDP).

The five year financial plan includes an Operating Budget, a Capital Investment Programme, and the sources of funding for the Capital Investment Programme, financial strategies and programmes, various financial management policies adopted by council, key financial targets, key performance indicators, and a budget according to the IDP priorities.

2) PURPOSE

To create a medium term strategic financial framework for allocation municipal resources, through the municipal budgeting process in order to ensure the financial viability and sustainability of the municipality's investments and operations.

3) RESPONSIBILITY

The finance department collects revenues due to the municipality and pays all amounts due for payrolls and outside vendors. The finance department also manages the investments of municipal funds and municipal borrowings, if any.

The Finance Department is therefore charged with the responsibility of compiling the financial plan in close consultation with the municipal manager, heads of department, IDP, Representative forum, and council or the mayor.

A Finance Portfolio Committee assisted by competent financial planners (Treasurers) should assist in the formulation of alternative financial strategies to be presented to the IDP Representative Forum under the leadership of the councillor Responsible for financial matters.

It is important to note that the priority issue from a financial perspective is the viability and sustainability of the municipality. This goal can best be achieved through efficient and effective financial management. The plans and the strategies that have been formulated were prepared with this in mind.

Maintaining healthy financial base that fully supports municipal services according to mayoral priorities requires constant vigilance. This too is reflected in restructuring and reshaping municipal services, implementing new financial management systems, securing sound recurring revenues and making responsible spending adjustments in light of the revenue growth limitations in order to achieve a balanced budget.

Budget assumptions and parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The municipal fiscal environment is influenced by a variety of macro-economic control measures. National Treasury determines the ceiling of year-on-year increases in the total Operating Budget. Various government departments also affect municipal service delivery through the level of grants and subsidies.

4) OPERATING AND CAPITAL BUDGET ESTIMATES

The financial plan includes an Operating Budget (Table 1), the capital investment programme per GFS Classification (Table 2) and the capital investment per funding source (Table 3) for the five years ending 30 June 2020. The information contained in these tables is based on information available at the time of drafting this document and these estimates could therefore possibly change in the future.

As reflected in Table 1 below, the municipality expects to break-even in the period under review. Selected key assumptions relating to this budget are as follows.

- Government grants for the years 2016 – 2018 are as per Division of Revenue Act; thereafter increases of 3.3 % – 18.9 % per annum have been estimated.
- The inflation rate has been estimated to be 4.8– 5.9 % per annum.

- Growth in the salary and wage bill has been provided for in the budget at 4.4 % per annum and inflation related increase plus additional 0.25 for the outer years, growth in the remaining expense items in general, range from 4.8–5.9 % per annum.
- Provision has been made for tariff increases relating to property rates at an average of 12.20 – 16 % per annum.
- The amount for contribution expense included in the budget relates largely to leave provision and the provision for bad debts.
- Equitable share capital portion as well as other conditional grants reflected in the funding sources for capital investment programme (Table 3) may also be allocated to revenue.

Table 1: Operating Budget: 1 July 2015 to 30 June 2020

	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20
Revenue	R	R	R	R	R
Property rates	124 588 976	130 569 247	138 272 832	145 739 565	153 609 502
Service charges – electricity revenue	105 665 576	110 737 524	117 271 038	123 603 674	130 278 272
Service charges – refuse revenue	11 971 361	12 545 986	13 286 199	14 003 654	14 759 851
Rental of facilities and equipment	345 840	362 440	383 824	404 550	426 396
Interest earned – external investments	274 560	287 739	304 715	321 170	338 513
Interest earned – outstanding debtors	70 972 831	71 316 337	71 732 103	75 605 637	79 688 341
Dividends received	2 640	2 767	2 930	3 088	3 255
Fines	2 917 200	3 057 226	3 237 602	3 412 432	3 596 704
Licences and permits	9 399 186	9 850 347	10 431 517	10 994 819	11 588 539
Agency services	2 381 476	2 495 787	2 643 039	2 785 763	2 936 194
Transfers recognised – operational	113 160 000	115 290 000	115 663 000	121 908 802	128 491 877
Other revenue	1 385 219	1 451 709	1 537 360	1 620 378	1 707 878
Transfers recognised – capital	36 492 000	37 560 000	42 159 000	44 435 586	46 835 108
Total Revenue	479 556 865	495 527 108	516 925 160	544 839 118	574 260 431
Expenditure					
Employee related costs	122 692 587	128 397 792	134 689 284	140 952 336	147 506 619
Remuneration of councillors	12 810 565	13 579 199	14 393 951	15 063 270	15 763 712
Debt impairment	33 325 587	34 925 215	36 985 803	38 705 643	40 505 455
Depreciation & asset impairment	70 103 904	73 468 891	77 803 556	81 421 421	85 207 517
Finance charges	2 109 363	2 210 613	2 341 039	2 449 897	2 563 817
Bulk purchases	94 331 738	95 000 000	96 000 000	100 464 000	105 135 576

Contracted services	52 256 449	54 764 759	57 995 880	60 692 688	63 514 898
Other expenditure	82 361 673	86 267 033	91 297 788	95 543 136	99 985 891
Total Expenditure	469 991 867	488 613 503	511 507 301	535 292 390	560 183 487
Surplus/(deficit)	9 564 998	6 913 605	5 417 859	9 546 728	14 076 944

Table 2: GFS Specification: 1 July 2015 to 30 June 2020

	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20
	R	R	R	R	R
GFS Specification					
Executive and Council	-	-	-	-	-
Budget and Treasury Department	-	-	-	-	-
Corporate Services	5 700 000	5 700 000	5 700 000	6 007 800	6 332 221
Community and Social Services	-	-	-	-	-
Planning and Development	-	-	-	-	-
Technical Services Department	48 092 000	49 160 000	53 759 000	56 661 986	59 721 733
	53 792 000	54 860 000	59 459 000	62 669 786	66 053 954

As can be seen from Table 2 above, most of the capital expenditure over the period covered by this plan will be primarily for Roads and Electricity Infrastructure projects, at approximately 10% of total expenditure, followed by administrative needs, which account for the balance of the planned expenditure. Certain grant funding can only be used in a prescribed manner e.g. Municipal Infrastructure Grant as per Government allocations.

TABLE 3: Capital Investment Programme per Funding Source: 1 July 2015 to 30 June 2020

	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20
	R	R	R	R	R
Funding Source					
Grants and Subsidies	36 492 000	37 560 000	42 159 000	44 435 586	46 835 108
Public contributions and Donations	-	-	-	-	-
Accumulated Surplus – Own funds	17 300 000	17 300 000	17 300 000	18 234 200	19 218 847
External Borrowings	-	-	-	-	-
Total capital Expenditure	53 792 000	54 860 000	59 459 000	62 669 786	66 053 954

The Capital Investment Programme will be subject to the availability of funding.

5. FINANCIAL STRATEGY

Managing municipal finances involves both a strategic and operational component. Strategically, the finances must be managed to accommodate fluctuations in the economy and the resulting changes in costs and revenues.

Operationally, the municipality must put in place clear financial goals, policies, and tools to implement its strategic plan.

It must be noted that not all municipalities are the same and this should be kept in mind when assessing the financial health of and the setting of benchmarks for a municipality.

A municipality can be categorized into either:

- Developed – maintenance
- Developing – growing

Ba-Phalaborwa Local Municipality can be categorized as a developing – growing municipality. Such municipalities require significant additional resources and funding to conduct the growth that is expected of them.

In contrast, already developed – maintenance municipalities are mainly concerned with the need to maintain existing infrastructure.

With the demands for growth, come risks that need to be managed. Wherever possible, the Municipality will set benchmarks appropriate for a developing – growing municipality and strive to achieve these benchmarks within the medium term.

As mentioned at the beginning of this plan, the priority from the financial perspective is the viability and sustainability of the Municipality.

The financial plan and related strategies will need to address a number of key areas in order to achieve this goal. The areas, which have been identified, are detailed below.

5.1 The Financial Framework

5.1.1 Revenue Adequacy and Certainty

It is essential that the municipality has access to adequate sources of revenue, from both its own operations and intergovernmental transfers, to enable it to carry out its functions .it is further more necessary that there is a reasonable degree of certainty with regard to source, amount and timing of revenue. The Division of Revenue Act has laid out the level of funding from national government that will be received in 2015/16 to 2017/18 financial years.

It is important to track the respective sources of revenue received by the municipality as they can be quite different and can vary substantially depending upon the phase that the municipality is in. Knowledge of the sources of funds will illustrate the municipality's position more accurately and the ability to secure loans relative to its income streams and its borrowing capacity.

I. Cash / Liquidity position

Cash and cash management is vital for the short and long term survival and good management of any organisation. The appropriate benchmarks which can assist in assessing the financial health of the municipality are:

The current ratio expresses the current assets as a proportion to current liabilities. "current " refers to those assets that could be converted into cash within 12 months and those liabilities which could be settled within 12 months .A current ratio in excess of 2:1 is considered to be healthy.

Debtors' collection measurements have a great impact of liquidity of the municipality.

II. Sustainability

The Municipality needs to ensure that the budget is balanced (income covers expenditure).As there are limits on revenue , coupled with the increased reliance on government grants to fund operational needs , it is necessary to ensure that the services are provided at levels that are affordable and that the full costs of service delivery are recovered .

However, to ensure that households which are too poor to pay for even a proportion of service costs, at least have access to basic services, there is a need for subsidisation of these households.

III. Effective and Efficient Use Of Resources

In an environment of limited resources, it is essential that the municipality make maximum use of the resources at its disposal by using them in an effective, efficient and economical manner. Efficiency in operations and investment will increase poor people's access to basic services.

IV. Accountability ,Transparency and Good Governance

The municipality is accountable to the people who provide the resources, for what they do with the resources .The budgeting process and other financial decisions must therefore be open to public scrutiny and participation. In addition, the accounting and financial reporting

procedures must minimise opportunities for corruption. It is also essential that accurate financial information is produced within acceptable timeframes.

V. Equity and Redistribution

The municipality must treat people fairly and justly when it comes to the provision of services. In the same way, the municipality should be treated equitably by national and provincial government when it comes to inter-governmental transfers. “The equitable share “from national government will be used primarily for targeted subsidies to poorer households. In addition, the municipality reserves the right to cross subsidize between high and low income consumers within a specific service or between services.

VI. Development and Investment

In order to deal effectively with backlogs in services there is a need for the municipality to maximise its investment in municipal infrastructure (see table 2). In restructuring the financial systems of the municipality, the underlying policies should encourage the maximum degree of private sector investment.

VII. Macro-Economic Investment

As the municipality plays a significant role in the area, it is essential that it operates efficiently within the national macro – economic framework. The municipality’s financial and developmental activities should therefore support national fiscal policy.

VIII. Borrowing

The strong capital market in South Africa (banks and other lending institutions like DBSA, etc.) provides additional instrument to access financial resources .However, it is clear that the municipality cannot borrow to balance its budget and pay for overspending.

Safeguards need to be put in place to ensure that the municipality borrows in a responsible way. In order to have access to this market, the Municipality will need to have accurate and appropriate financial accounting policies and procedures and effective reporting systems.

The manner in which the municipality manages debt or takes on new debt to finance activities will have a significant impact on the solvency and long – term viability of the council.

6) **STRATEGIES AND PROGRAMMES**

With the above financial framework as a background, strategies and programmes have been identified and form part of the financial plan to achieve the desired objective – the financial viability and sustainability of the municipality. In terms of time frames, each of the projects have been identified will be embarked on and completed during a five year plan.

6.1 Revenue Raising Strategies and Programmes

The following are some of the more significant program that has been identified:

- The development and implementation of a credit control and debt collection policy.
This policy and relevant procedures will detail all areas of credit control, debt collection of amounts billed to consumers, procedures for non- payment, etc.
- The development and implementation of an indigent support policy.
This policy will define qualification criteria of an indigent, the level of free basic services that will be enjoyed by indigent households, penalties for abuse, etc.
- The development and implementation of a uniform tariff policy.
This policy will ensure that fair tariffs are charged in a uniform manner throughout the municipal area.
- The development and implementation of a customer incentive policy
This policy will detail the incentive and prizes that will be made available to encourage customers to pay their accounts promptly.

- Project consolidate – Free basic services , billing systems and municipal service debt
This project aims to enhance the delivery of free basic services to poor households and assist the municipality in developing innovative, reliable and integrated billing systems that would allow for improved delivery of services and an effective and efficient billing system for the debtors / consumers of the municipality.
- Improved Payment Strategy
This strategy aims at implementing innovative cost effective processes to encourage customers to pay their accounts in full, on time, each month. Ensure that effective and efficient customer care and repayment procedures are implemented.
- Customer care and Prepayment
Ensure that effective and efficient customer care and prepayment procedures are implemented.
- Ensuring Effective and Efficient Customer Services
The municipality's technological needs must be continually assessed and updated. The municipality must perform an analysis of strategies to strengthen its Citizens Relationship Management systems that should result in operational efficiencies and improved customs service. An implementation plan must be developed to improve the handling of citizen service calls and implement supporting technology in selected front – line agencies

6.2 Asset Management Strategies and Programmes

The following are some of the more significant program that has been identified:

- The implementation of a fixed asset register and asset control system as well as maintenance thereof.
This programme will involve the formulation of policies regarding fixed assets, the purchase of suitable system, and the capture of all assets onto this system and the maintenance of this system in terms of GRAP requirements.

- The development and implementation of a disaster recovery plan.
This plan will detail the procedures to be followed with regard to the operations and administration of the municipality in the event of a disaster, to ensure that there is the least possible disruption and loss of service rendition. The plan will detail alternative locations, IT arrangements, back –up / start – up procedures, etc.
- The establishment of a disaster recovery centre the building and or equipping of an alternative site from which to manage the municipality’s operations, in the event of a disaster rendering the current operational centres unusable.
- The development and implementation of a repairs and maintenance policy.
Such a policy will set out the details with regard to repairs and maintenance of all assets categories e.g. Infrastructure assets, buildings, motor vehicles, etc. the intention is to ensure that planned and preventive maintenance is always on going
- The development and implementation of fleet management systems .This system will ensure that the municipality ‘s fleet is managed in the most effective manner and that up- to- date and comprehensive information required for the fleet is readily available.

6.3 Financial Management Strategies and Programmes

The following are some of the more significant program that has been identified:

- The development and implementation of an integrated information technology plan.
Such a plan will ensure that the municipality ‘s IT needs are met in the most cost effective manner , that the IT resources are well – managed and secure and that the administrators and users are well –trained .
- Integration of all computerised systems and acquisition of hardware and software required.

- Financial management is supported through the municipality's eVenus accounting systems. This integrated financial management system is designed to track and control its daily activities and report the financial position and performance of the municipality. This system support the rigorous monitoring control and reporting requirements required of the municipality.
- The integration of all other computerised to this financial management system and the acquisition of the required hardware and the software must be finalized to ensure that information is accurate ,relevant and prompt , which in turn will facilitate the smooth running and effective management of the municipality .
- Upgrading and restructuring of the budget office in line with the budget reform process initiated by National Treasury .This will result in better control of expenditure and improved reporting.

6.4 Capital Financing Strategies and Programmes

The following are some of the more significant program that has been identified:

- The development and implementation of a debt capacity policy
This policy will ensure that any borrowings taken by the municipality will be done in a responsible manner and that the repayment and servicing of such a debt will be affordable.
- The development and implementation of a large scale economic policy.
This policy, including targeted procurement, will set out ways in which the municipality can become more effective in attracting large scale economic investment. It will be the framework to framework to provide an environment that is investor friendly, efficient (with quick decision – making ability) and will detail any incentives, which may be given to attract large business.
- The development and implementation of a policy for accessing donor finance
This policy will create a framework for the accessing of funds from local and overseas donors. It will detail the type of project s for which funding will be sought, the procedures to be used and donor conditions which are acceptable or unacceptable.

6.5 Operational Financing Strategies and Programmes

The following program has been identified:

- Investigation of service delivery options and public/private partnerships

This refers to the ongoing investigation into how the Municipality can service the community in the most efficient and effective manner, including an investigation of public/private partnerships for service delivery.

6.6 Strategies to enhance Cost-effectiveness

The following are some of the more significant programmes that have been identified:

- The establishment of benchmarks and performance indicators are paramount .This will include :

- Training and development of financial (and other) staff

The aim of this project will be to constantly ensure that the financial and other staffs receives the training they require to ensure a cost – effective and efficient service of the municipality.

- Enhanced budgetary controls and timeliness of financial data

To improve the operation of the budget office ,in respect of producing financial information and the monitoring and reporting of budget variances. Some of the more significant measures of acceptable performance in this area will be, financial bottom line matched to forecast to a 10% variance level, receipt of unqualified audit reports, monthly financial statements produced within 10 working days of month end, etc.

7) FINANCIAL MANAGENT POLICIES

7.1 General Financial Philosophy

The financial policy of the Ba-Phalaborwa Municipality is to provide a sound financial base and the resources necessary to sustain a satisfactory level of municipal services for the citizens of the municipality.

It is the goal of the municipality to achieve a strong financial position with the ability to:

- Withstand local and regional economic impact
- Adjust efficiently to the community 's changing service requirements
- Effectively maintain and improve and expand the municipal infrastructure ;
- Manage the municipality 's budget and cash flow to the maximum benefit of the community ;
- Prudently plan , coordinate and implement responsible and sustainable community development and growth;
- Provide a high level of social services to assure public health and safety

Ba-Phalaborwa Municipality's financial policy shall address the following fiscal goals:

- Keep the municipality in a sound position in both the short and long term ;
- Maintain sufficient financial liquidity through regular reviews and adjustments to meet normal operating and contingent obligations ;
- Apply a credit control and debt collection policies which maximise collection while providing relief for the indigent;
- Credit control and debt collection policies that recognises the basic policy for customer care and convenience
- Operate utilities in a responsive and fiscally sound manner ;
- Maintain existing infrastructure and capital assets;
- Provide framework for prudent use of debt financing ;
- Direct the municipality's financial resources toward meeting the goals of the municipality's Integrated Development plan.

7.2 Budget Policies

The annual budget is the central financial planning document that embodies all operating revenue and expenditure and capital budget decisions. It establishes the level of services to be provided by such department.

The municipal manager shall priorities in the formulation of the preliminary and final budget proposal.

The budget will be subject to a monthly control and be resorted to council with recommendations of action to be taken to achieve the budget's goals. The budget will be subject to a mid- term review, which may result in an adjustment budget. The budget shall balance recurring operating expenses to recurring operating revenues.

The budget will have Revenue plans based on realistically expected income and expenditure figures. Plans will be included to achieve maximum revenue collection percentages.

7.3 Capital Infrastructure Investment Policies

The municipality will establish and implement a comprehensive rolling five years Capital Investment Plan (CIP). This plan will be updated annually. The capital planning process must be synchronized with the annual operating budget cycle, allowing for the regular reassessment of capital needs and projections, as well as the update of the rolling five year capital plan. An annual capital investment budget will be developed and adopted by the municipality as part of the annual budget. The Municipality will make all capital improvements in accordance with the CIP. Unexpected capital project budget shall not be carried forward or rolled over to future fiscal years unless the projected Expenditure is omitted or funded from grant funding.

Routine and administrative capital needs shall be financed from current revenues (Capital Replacement Reserve) as opposed to the issuance of long – term debt. The municipality will maintain all assets at a level adequate to protect the Municipality's capital investment and to minimize future maintenance and replacement costs.

7.4 Revenue Policies

The municipality will estimate annual revenues through a conservative, prudent, objective and analytical process based on realistically expected income. The municipality will consider market rates charged levied by other public and private organisations for similar services in establishing tariffs and charges. The municipality will set fees and user charges at a level that fully supports the total direct and indirect cost of operations. Tariffs will be set to reflect the

Development and Social Policies of the Municipality. The municipality will continue to identify and pursue grants and appropriations from provincial and national government and other agencies that are consistent with the municipality's goals and strategic plan. The municipality will follow an aggressive policy of collecting revenues.

7.5 Credit Control and Debt Collection Policies and Procedures

The municipality must adopt a credit control and debt collection policy

The principles supported in this policy, amongst others, should cover at least the following:

- The administrative integrity of the municipality must be maintained at all costs. The democratically elected councillors are responsible for the policy making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- All customers must complete an official application form, formally requesting the municipality to connect them to a service supply. Existing customers may be required to complete new application forms from time to time, as determined by the municipal manager.
- A copy of the application form, conditions of service and relevant exactions of the council's credit control and debt collection policy and by-laws must be handed to every customer on request, at such fees as may be prescribed by council.
- Billing to be accurate, timeouts and understandable.
- Customer is entitled to reasonable access to pay points and to a variety of reliable payments methods.
- Customer is entitled to an efficient and effective and reasonable response to appeals and should suffer no disadvantage during the processing of a reasonable appeal.
- Enforcement of payment must be prompt, consistent and effective.
- Unauthorised consumption and connection and re-connection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal services will lead to disconnection, penalties, loss of rights and criminal prosecutions.
- Incentives and disincentives may be used in collection procedures.
- The collection process must be cost-effective.
- Results will be regularly and efficiently reported by the Municipal Manager and the mayor.
- Application forms will be used to, inter-alia, categorise customers according to credit risk and to determine relevant levels of service and deposits required.

- Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non – performance.

The policy document must, amongst others cover:

- Duties and Functions of Council, Mayor, Ward Councillors, Municipal Manager and of the communities.
- Area of Application
- Application of services
- Deposits and guarantees
- Accounts and billing
- Metering of services
- Customer Assistance Programmes
- Communication
- Payment facilities and Methods
- Enquiries and appeals
- Tenders for business
- Debt collection
- Theft and fraud
- Reporting and performance management
- Income collection target
- Application of the policy

The impact of the National Credit Act.

A document titled “Debt Collection Procedures “must support or form an integral part of the Credit Control and Debt Collection Policy.

7.6 Indigent Support Policy

An indigent support policy must be adopted by council.

This policy should identify the conditions that must be satisfied to be regarded as an indigent and the process to be followed to apply for indigent status.

The form of subsidy is identified, as is the process of auditing the indigent applications.

In addition, procedures which will be followed in the event of a death of an indigent and a false indigent application must be covered. Finally, the treatment of the outstanding debt of a customer on becoming an indigent must be addressed.

7.7 Investment and Cash Management Policies

In terms of the Municipal Finance Management Act, Act 56 of 2003 section 13 (2):"Each Municipal Council shall adopt by resolution an investment policy regarding the investment of its money not immediately required.

Investment of the municipality shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The portfolio shall remain sufficiently liquid to enable the municipality to meet daily cash flow demands and conform to all state and local requirements governing the investment of public funds. The preservation of the principal amount is the foremost objective of the investment program.

The municipality will continue with the current cash management and investment practices, which are designed to emphasize safety of capital first, sufficient liquidity to meet obligations second and the highest possible yield third.

Investments shall be made with care, skill, practice and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of fund of like character and with like aims , to safeguard the principal amount and

maintain the liquidity need of the municipality. The standard of prudence to be used by investment officials shall be the “prudent person “standard and shall be applied in the context of managing an overall investment portfolio.

Investment officials are required to:

- a) Adhere to written procedures and policy guidelines.
- b) Exercise due diligence
- c) Prepare all reports timorously
- d) Exercise strict compliance with all legislation

The municipality shall attempt to match its investments with anticipated cash flow requirements .Unless matched to a specific requirement, the municipality will not directly invest in securities maturing more than two years from date of issue.

The municipality’s financial information systems will provide adequate information concerning cash position and investment performance. The municipality will not invest monies in contradiction to the policy guidelines as adopted by council. The Municipality is also discouraged from investing more than 30 %of available funds with a single institution.

The minister of finance may identify by regulation of section 168 of the Municipal Finance Management Act, instrument or investments other than those referred to below in which municipality may invest.

- Deposits with banks registered in terms of the Banks Act 1990 (Act no 94 of 1990);
- Securities issued by the National Government ;
- Investment with the public investment commissioners as contemplated by the Public Investment Commissions Act ,1984 (Act no 5 of 1984);
- Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- Deposits with the corporation for public deposits as contemplated by the corporation for Public deposits Act 1984 (Act 46 of 1984)
- Bankers acceptance certificates or negotiable certificates of deposits of banks registered in terms of a banks Act 1990 (Act 94 of 1990);
- Municipal bonds issued by a municipality ;
- Guaranteed endowment policies with the intention of establishing a sinking fund ; and
- Repurchase agreements with banks registered in terms of the Banks Act , 1990 (Act 94 of 1990)
-

7.8 Investment and Cash Management Policies

The Financial Department manages all municipal borrowings. The municipality's cash flow must be carefully managed and anchored by at least quarterly loan draw downs, so as to eliminate the need for short -term borrowings, Guidelines must be established by the Treasury Department to set forth the municipality's management policies toward rapidity of debt repayment, affordability, the limitations on the level of variable rate debt the municipality will issue and the target savings amount on debt to be refinanced.

The municipality shall incur a debt only when necessary to meet a public need and when funding for such project is not available from the current revenues, reserves or other sources.

Long term borrowings will be used to finance capital programmes, including refurbishment, as approved in the municipality 'capital investment plan.

Capital projects financed through the issuance e of debt shall be financed for a period not exceeding the expected useful life of the project.

The municipality will not incur debt to finance current operations.

Leasing options, after a cost benefit analysis, may be used as a medium- term method of borrowing for the financing of vehicle, computers other specialised types of equipment, or other capital refurbishment programmes.

7.9 Asset management Policy

The objective of the asset management policy is to prescribe the accounting and administrative policies and procedures relating to Property, Plant & Equipment (PPE).which are fixed assets of the Ba-Phalaborwa Municipality.

A summary of the principle supported in this policy amongst others, should cover:

- A fixed asset shall mean an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in- service delivery, over a period extending beyond 12 month.
- The fixed asset register shall comply with the requirements of Generally Recognized Accounting Practice (GRAP) and any other accounting requirements, which may be prescribed.
- Fixed assets are classified under the following heading:
 - Land
 - Infrastructure assets
 - Community assets
 - Heritage assets
 - Investment properties
 - Other assets
- Every Head of Department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
- PPE is stated at cost less accumulated depreciation or fair value at date of acquisition less accumulated depreciation where assets have been acquired by grant or donation.
- Subsequent expenditure relating to property, Plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only tore's the originally assessed standard performance, then it is regarded as repairs and maintenance and is expensed. The enhancement of an existing asset, so that it's use is expanded or; the further development of an asset so that its original life is extended, are examples of subsequent expenditure which should be capitalized.
- Assets are capitalised according to a capitalization criteria and all expenditure below a capitalisation threshold , as determined in the approved policy, is expensed when incurred

- Depreciation is calculated on cost , using a straight-line method , over the estimated useful lives of the assets
- Heritage assets, which are defined, as culturally significant resources, are not depreciated as there are regarded as having an infinite life. In general, Land is also not depreciated for the same reasons; the exception to the policy is that cemetery land and landfill sited are depreciated.
- Incomplete construction work is stated at historic cost.
- The carrying amount of an item or a group of identical items of PPE will be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount. When such decline has occurred the carrying amount will be reduced to the recoverable amount (also termed as impairment of assets). The amount of the reduction will be recognised as an expense immediately, unless it reverses a previous revaluation, in which case it will be charged to the revaluation non-distributable reserve.
- Assets are eliminated from the statement of financial position on disposal or retirement.
- The difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a gain or loss in the statement of financial performance.

7.10 Asset management Information

To ensure that assets are adequately maintained, a programme for the planned maintenance and replacement of all fixed and movable assets is essential.

The magnitude of differed maintenance due to past lack of funding must be reviewed , quantified and appropriate steps taken to address same within these next five years , whilst at the same time ensuring that the current and ongoing preventative maintenance plan does not fall behind and end up as unbudgeted for differed maintenance in future years.

8 KEY FINANCIAL TARGETS

The multi – year budget is underpinned by the following key financial target assumptions:

- Tariff increase ,
- Macro Growth factor indicator
- Capital Charges
- Total expenditure increases allowed (excluding repairs and maintenance)
- Increase in repairs and maintenance.

9 KEY PERFORMANCE INDICATORS

Table 5 overleaf, gives details of commonly used financial ratios / benchmarks. The information in this table is the targeted position the municipality shall strive to achieve year on year, over the next five financial years.

TABLE 5: Targeted Ratio Analysis / Financial Benchmarks, Year on Year, over the next five financial years

Ratio analysis / Financial benchmarks	Basis of Calculation	Target	Target	Target	Target	Target
		2015/16	2016/17	2017/18	2018/19	2019/20
5.1 Borrowing Management						
Debt to Asset ratio	Total debt / total assets	10%	8%	8%	9%	9%
Debt to revenue	Total debt / Annual income	34%	27%	27%	30%	32%
Interest bearing debt to revenue	Interest – bearing debt / annual income	15%	14%	14%	15%	16%
Average interest paid on debt						

Capital charges to operating expenditure	Interest and principal paid/ Operating expenditure	15%	15%	14%	14%	15%
Interest as a %of operating expenditure	Interest paid / operating expenditure	15%	15%	14%	15%	14%
5.2 Safety of Capital						
Debt to Equity	Total debt / Funds and reserves	12	9	9	10	11
Gearing	Funds and reserves / long term debt	677	858	1063	1161	1236
5.3 Liquidity						
Current ratio	Current assets/ current liabilities	2739	2295	2320	2338	2538
Liquid ratio	Cash assets/ Current Liabilities	24	87	105	123	128
5.4 Revenue Management						
Annual debtors collection rate (payment level %)	Last 12 months receipt / last 12 months billing	52%	52%	52%	53%	54%
Outstanding debtors to revenue	Outstanding debtors (net) / annual revenue (total included	34%	27%	27%	30%	32%
Days debtors outstanding	Outstanding debtors (net)/annual revenue (total included* 365	123	98	99	119	113
5.5 EFFICIENCY						
Personnel costs to operating expenditure	Personnel costs / operating expenditure	26%	26%	26%	26%	26%
Creditor management		30days	30days	30days	30days	30days
5.6 Other Indicators						
Asset maintenance rate	Repairs & maintenance / total value of fixed assets	2%	2%	2%	2%	2%

10. SUMMARY AND CONCLUDING REMARKS

The five year financial plan includes an Operating Budget, a Capital Investment Programme, and the Sources of Funding for the Capital Investment Programme, financial strategies and programs, various financial Management policies adopted by Council, key financial targets, key performance indicators, and a budget according to the IDP priorities.

A municipality can be categorized into either:

- Developed – maintenance
- Developing – growing

Ba-Phalaborwa Local Municipality can be categorized as a developing – growing municipality. Such a municipality requires significant additional resources and funding to conduct the growth that is expected of it. In contrast, already developed – maintenance municipalities are mainly concerned with the need to maintain existing infrastructure.

The five year financial plan forms an integral part of the integrated development plan of the municipality. These exact ingredients are in fact the financial plan, for without it being included in the integrated development plan, service delivery would cease to exist.