RICHMOND LOCAL MUNICIPALITY

Draft Long Term Financial Plan Policy 2024/2025

Contents

1 Definitions

"Accounting Officer"-
Means the Municipal Manager;

"Approved budget,"
Means an annual budget-
(a) Approved by a municipal council, or
(b) Includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service"
Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Chief Financial Officer"
Means a person designated in terms of section 80(2) (a) of the MFMA;

"Councillor"
Means a member of a municipal council;

"Current year"
Means the financial year, which has already commenced, but not yet ended;

"Financial year"
Means a twelve month period commencing on 1 July and ending on 30 June each year

"Financing agreement"
Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"Fruitless and wasteful expenditure"
Means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"IDP"
Integrated Development Plan

"Irregular expenditure",
Means-
(a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by- laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"Investment",
In relation to funds of a municipality, means-
(a) The placing on deposit of funds of a municipality with a financial institution; or
(b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Local community"
Has the meaning assigned to it in section 1 of the Municipal Systems Act;

"Municipal Structures Act"
Means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act"
Means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt"
Means debt repayable over a period exceeding one year;

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

"Municipality"-
(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
(b) When referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"Municipal manager" "MM"
Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"Municipal service"
Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipal tariff"
Means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"Municipal tax"
Means property rates or other taxes, levies or duties that a municipality may impose;

"National Treasury" "NT" means the National Treasury established by section 5 of the Public Finance Management Act;

"Official"
Means-
(a) An employee of a municipality or municipal entity;
(b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
(c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending"-
(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
(b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Past financial year"
Means the financial year preceding the current year;

"PT", "Provincial Treasury"
Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

"Quarter"
Means any of the following periods in a financial year:
(a) 1 July to 30 September;
(b) 1 October to 31 December;
(c) 1 January to 31 March; or
(d) 1 April to 30 June;

"SDBIP"," Service Delivery and Budget Implementation Plan"
means a detailed plan approved by the Mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-
(a) Projections for each month
(i) Revenue to be collected, by source; and
(ii) Operational and capital expenditure, by vote;
(b) Service delivery targets and performance indicators for each quarter; and
(c) Any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"Short-term debt"
Means debt repayable over a period not exceeding one year;

"Unauthorised expenditure",
Means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-
(a) Overspending of the total amount appropriated in the municipality's approved budget;
(b) Overspending of the total amount appropriated for a vote in the approved budget;
(c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(f) A grant by the municipality otherwise than in accordance with the MFMA;

2 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 3-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 3-year plan will require large capital investment, which in turn requires effective management and control.

The Richmond 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

3 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 included in the IDP and rolled out in the SDBIP, a financial resources (capital and operational) strategy, revenue enhancement strategy, asset management strategy and financing strategy (capital and operational).

3.1 General considerations

3.1.1 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 Supply Chain Management policy.

3.1.2 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 budget 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, put in place a pre and continuing education policy and develop career progression paths. The budget of the finance department will be subject to a regular review and comparison of actual performance to predetermined performance measures.

3.1.3 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 from services revenue, taxes and other operational sources

Revenue Enhancement

The Richmond Municipality's main sources of revenue are from grants, property rates, and other community services. The short-term objective of the municipality is to identify and access all available revenue.

3.1.4 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 (Refer also to the Asset Management Policy) will ensure that council is receiving economic benefit from council owned land and buildings which are rented out.

3.1.5 Financial Management

It is most important that the Richmond 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.

3.1.6 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:

- Owns Funds
- Grant Funds
- External loans for medium term and long-term projects

Capital financing refer to the Budget Policy

3.1.7 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.

3.1.8 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.

4 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 and heads of department 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.

4.1.1 Financial Issues

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

- Debt Collection drive to collect the outstanding debt of Council
- A revenue base is dependent on property rates, solid waste, refuse and other income streams
- Affordability by Council to address all needed capital and operational expenditure received from various directorates
- Lack of funds for capital projects
- Council needs to be provided with monthly and quarterly financial reports in terms of the MFMA.

4.1.2 Financial Strategies

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

- Capital financing strategy (IDP)
- Asset management strategy
- Sound Financial management
- Credible Financial projections (Budget)
  - Projected revenue requirements
  - Projected expenditure requirements

5 Implementation and Review

This policy has been implemented as at 1 July 2010 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.