



LONG TERM FINANCIAL PLANNING POLICY

REVIEWED: 30.05.2022

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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 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 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 to improve service delivery at affordable rates; and
- Identify new revenue sources as funding for future years.

3 DEFINITIONS

ACRONYM	DEFINITION
IDP	Integrated Development Plan
GRAP	standards of Generally Recognised Accounting Practice
Municipality	Overberg District Municipality
MFMA	Municipal Finance Management Act 56 of 2003

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.
 - MFMA Circular 112 dates 6 December 2021

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 resource (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 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. 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.

6.3.1 Capital expenditure:

- National government funding.
- Provincial funding-
- Infrastructure funding.
- Own funding.
- External Loan funding; and
- Public | private partnerships.
- Donations in kind

6.3.2 Operational expenditure:

- National government funding.
- Provincial funding-
- Infrastructure funding.
- Own funding.
- Donations in kind

6.3.3 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 always 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:

- Budgeting methods.
- Management reporting.
- Credit risk management
- Credit control policies.
- Procurement policies.
- Supplier payment periods; and
- Investment policies.

Cash forecast and cash flow monitoring against forecasts

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 must 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 always maintain a positive cash flow 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 must 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:

- Liquidity policy
- Procurement policy
- Budgeting policy
- Cash management and investment policy
- Borrowing policy
- 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 2022.



EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022

Item A63. 30.05.2022

MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-6/1/1/3)

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

PURPOSE

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
 - (b) appropriating expenditure for the budget year under the different votes of the municipality;
 - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - (d) setting out—
 - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
- (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
- (iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the municipality;

(f) particulars of the municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;

(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;

(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;

(iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—

(i) each political office-bearer of the municipality;

(ii) councillors of the municipality; and

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and

(ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets —

(1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

(a) in accordance with Chapter 4 of the Municipal Systems Act—

(i) make public the annual budget and the documents referred to in section 17(3); and

(ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets —

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
 - (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
 - (a) to the submissions; and
 - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tabled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

The Municipality's budget reflects funded, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draaiberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.

- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

RESOLVED : (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
 - i Asset Management Policy (as amended)
 - ii Credit Control and Debt Collection Policy (as amended)
 - iii Cash Management and Investment Policy (as amended)
 - iv Tariff Policy (as amended)
 - v Supply Chain Management Policy (as amended)
 - vi Virement Policy (as amended)
 - vii Borrowing Policy (as amended)
 - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD
ON 30 MAY 2022.**



**P. OLIVER
MUNICIPAL MANAGER (ACTING)**