

## 7. FIVE YEAR FINANCIAL PLAN

### 7.1 INTRODUCTION

In general usage a financial plan is a budget, in other words a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as salaries, insurances and also reserves some income for short term and long term savings. A financial plan is also an investment plan, which allocates savings to various assets or projects expected to produce future income.

One of the key issues identified for the sustainability of Matatiele Local Municipality is expanding its revenue base whilst remaining financially viable and sustainable. The objectives are therefore to provide effective, efficient and co-ordinated financial management and financial accounting.

### 7.2 CAPITAL AND OPERATING BUDGET

The five-year financial plan includes an Operating Budget and Capital Investment Programme for the five years ending June 2015.

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#### 7.2.1 BUDGET ASSUMPTIONS

The selected key assumptions related to this budget are as follows:

- Matatiele Local Municipality will continue with its current powers and functions;
- The Budget is based on current service levels and does not make provision for major expansion of services into the rural areas;
- Government grants for the years 2010/2011 to 2014/2015 are as per the Division of Revenue Act;
- The inflation rate has been estimated at 6% per annum;
- Growth in staff related costs has been provided for in the budget at 8,3% per annum, growth in the remaining expense items range from 0% to 10%;
- Provision has been made for tariff increases relating to services at an average rate of 6% per annum;
- No provision was made in relation to the Provision for Leave as staff will be encouraged to redeem their leave.

## 7.2.2 OPERATING BUDGET

Table F1 details the Operating Budget for the five years starting 1 July 2010 and ending 30 June 2015

**Table F1 Operating Budget**

SOURCES OF INCOME	2010/11 BUDGET	2011/12 BUDGET	2012/13 BUDGET	2013/14 BUDGET	2014/15 BUDGET
Property Rates	20 028 612	21 535 167	21 727 947	22 814 344	23 955 062
Property Rates – Penalties Imposed	1 500 000	2 460 000	2 558 400	2 686 320	2 820 636
Service Charges	25 265 438	29 078 698	30 516 953	32 042 801	33 644 941
Rentals of facilities and equipment	723 634	1 508 884	1 322 806	1 388 946	1 458 394
Interest earned – external investments	3 000 000	3 120 000	3 244 800	3 407 040	3 577 392
Interest earned – outstanding debtors	180 000	189 000	198 450	208 373	218 791
Fines	1 303 000	1 368 120	1 436 495	1 508 320	1 583 736
Licenses and permits	2 506 384	3 171 703	2 830 288	2 971 802	3 120 393
Government grants & subsidies	88 729 957	83 146 498	86 400 358	90 720 376	95 256 395
Capital Grants	81 787 675	63 364 145	64 264 670	66 505 432	68 809 607
Other	2 201 920	2 769 656	2 407 555	2 527 933	2 654 329
Deficit	2 405 634	-	-	-	-
<b>TOTAL OPERATING INCOME</b>	<b>229 632 254</b>	<b>210 983 357</b>	<b>216 908 722</b>	<b>226 781 686</b>	<b>237 099 674</b>

SOURCES OF INCOME	2010/11 BUDGET	2011/12 BUDGET	2012/13 BUDGET	2013/14 BUDGET	2014/15 BUDGET
Employee related costs	46 617 551	48 900 115	50 407 145	52 927 502	55 573 877
Remuneration of Councilors	11 921 954	12 398 832	12 894 785	13 539 524	14 216 500
Bad Debt Provision	2 000 000	2 080 000	2 163 200	2 271 360	2 384 928
Depreciation	12 084 885	12 571 524	13 077 790	13 731 680	14 418 263
Repairs and maintenance	10 565 200	10 623 158	10 678 450	11 212 373	11 772 991
Bulk purchases – Electricity	18 507 317	19 432 683	20 404 317	21 424 533	22 495 759
Contracted Services	9 719 324	10 238 249	10 653 400	11 186 070	11 745 374
Grants and subsidies paid	14 092 548	7 969 991	8 216 791	8 627 631	9 059 012
General Expenses	26 379 443	27 704 321	27 694 678	29 079 412	30 533 382
<b>Sub-Total</b>	<b>151 888 222</b>	<b>151 918 873</b>	<b>156 190 556</b>	<b>164 000 084</b>	<b>172 200 088</b>
Capital Grants	81 877 850	63 364 145	64 264 670	67 477 904	70 851 799
Depreciation on Capital funded from Grants	-4 133 818	-4 299 903	-4 472 668	-4 696 301	-4 931 116
Surplus		244	926 164		
<b>TOTAL OPERATING EXPENDITURE</b>	<b>229 632 254</b>	<b>210 983 359</b>	<b>216 908 722</b>	<b>226 781 686</b>	<b>238 120 770</b>

### 7.2.3 CAPITAL BUDGET

Table F2 details the estimated Capital Investment Programme for the five years starting 1 July 2010 and ending 30 June 2015. The Capital Investment Programme remains subject to the availability of funding.

**Table F2 Capital Investment Programme**

SOURCE	2010/11 BUDGET	2011/12 BUDGET	2012/13 BUDGET	2013/14 BUDGET	2014/15 BUDGET
	R Millions	R Millions	R Millions	R Millions	R Millions
Own Funds					
Capital Replacement Reserve (CRR)	9	2	2	2	2
Loans					
External Financing Funding	0	0	0	0	0
Specified Grant Funds					
Department of Minerals and Energy	33	5	5	5	5
Local Government Housing	2	0	40	0	40
Municipal Infrastructure Grant	39	20	30	20	30
Neighborhood Development Partnership Grant	0	30	20	30	20
<b>TOTAL</b>	<b>83</b>	<b>57</b>	<b>97</b>	<b>57</b>	<b>97</b>
<b>TOTAL ALL FUNDING SOURCES</b>	<b>83</b>	<b>57</b>	<b>97</b>	<b>57</b>	<b>97</b>



#### 7.2.4 DEBT MANAGEMENT FRAMEWORK

Table F3 table details the Debt Management Framework. Loans will only be raised to fund the Capital Investment Programme. In terms of the Budget Policy debt servicing costs will not exceed 15% of the total operating expenses.

**Table F3 Debt Management Framework**

	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>
<b>Opening Balance</b>	1,155,160	18,396,580	15,527,657	30,514,407	25,001,282
Additional Loans DBSA	20,000,000	0	20,000,000	0	0
Less Capital repayments for the year	2,758,580	2,868,923	5,013,250	5,513,125	6,013,125
<b>Closing Balance</b>	<b>18,396,580</b>	<b>15,527,657</b>	<b>30,514,407</b>	<b>25,001,282</b>	<b>18,988,157</b>

## 7.2.5 GRANTS RECEIVABLE

Table F4 details the Grants receivable in the 2010/2011 financial year.

**Table F4 Grants Receivable**

	<b><u>Subsidies</u></b>		4,109,744
<b>Library</b>	Subsidy (ito SLA)	804,680	
<b>Museum</b>	Subsidy (ito SLA)	163,014	
<b>Health</b>	Subsidy (ito SLA)	2,932,000	
<b>Road</b>	Subsidy (ito SLA)	10,050	
<b>Corporate</b>	Subsidy Seta	200,000	
	<b><u>Total Equitable Share</u></b>		71,817,301
<b>Finance</b>	Equitable Share – I Grant	9,782,202	
<b>Electricity</b>	Equitable Share - Free Basic Services	38,195,966	
<b>Refuse</b>	Equitable Share - Free Basic Services	21,171,534	
<b>Council</b>	Contribution to Councillor Allowance	2,667,598	
<b>Roads</b>	MIG Administration Fee		1,290,000
<b>Finance</b>	FMG		1,200,000
<b>Finance</b>	MSIG		750,000

	<b>Establishment Plan Grant (DHLGTA</b>		<b>9,563,213</b>
<b>Council</b>	Establishment of Wards (PT)	350,000	
<b>Council</b>	Public Awareness	400,000	
<b>Finance</b>	Capacity Building	200,000	
<b>Finance</b>	Office Accommodation	930,300	
<b>Finance</b>	New GIS	467,000	
<b>Finance</b>	Organizational Structure	49,980	
<b>Finance</b>	Valuation Roll GIS	540,000	
<b>EDP</b>	Maluti Town Establishment	400,000	
<b>EDP</b>	Town and LUMS Amalgamation	1,600,000	
<b>EDP</b>	Matatiele Land Use Framework	540,000	
<b>EDP</b>	Matatiele SDF (DBSA)	600,000	
<b>EDP</b>	Matatiele SDF	150,000	
<b>Solid Waste</b>	Landfill Site	834,840	
<b>Solid Waste</b>	FBS	2,471,900	
<b>Elec</b>	FBS	29,193	
<b>TOTAL</b>			<b>88,729,957</b>



## 7.3 FINANCIAL MANAGEMENT STRATEGIES

Matatiele Local Municipality is a developing municipality located in the rural areas of the Province of the Eastern Cape. Only 6.5% of its population is economically active which poses specific challenges regarding financial sustainability. Council operations must be conducted in a manner that will ensure that services will remain affordable and yet tariffs must be able to cover costs.

### 7.3.1 REVENUE RAISING STRATEGY

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

**The review and implementation of the Credit Control & Debt Collection Policy.** This policy and the relevant procedures detail all areas of credit control, collection of amounts billed to customers, procedures for non-payment etc.

**The review and implementation of the Indigent Policy.** This policy defines the qualification criteria of an indigent, the level of free basic services enjoyed by indigent households, penalties for abuse etc.

**The review and implementation of the Tariff Policy.** This policy will ensure that fair tariffs are charged in a uniform manner throughout the Matatiele Local Municipality area.

**The review and implementation of the Property Rates and Valuation Policy.** This will ensure that a fair rates policy and an updated valuation roll is applied to the entire Matatiele Local Municipality area and will aim to ensure that all properties are included in the municipality's records. Furthermore the policy will ensure that valuations are systematically carried out on a regular bases for all properties.

**The review and implementation of the Customer Incentive Scheme.** This scheme will detail the incentives and prizes that will be made available to encourage customers to pay their accounts promptly.

**The review and implementation of the Improved Payment Strategy.** This strategy aims at implementing innovative cost effective processes to encourage consumers to pay their accounts in full on time each month, including increasing the methods of payment and implementing on-line pre-payment systems.

### 7.3.2 ASSET MANAGEMENT STRATEGY

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

**The implementation of an integrated asset management system.** This programme will involve the investigation, identification and implementation of a suitable integrated asset management system. It will also include the capture of all assets

onto this system, the maintenance of this system and the production of a complete asset register in terms of GRAP requirements.

**The implementation of the fixed asset infrastructure roadmap i.e. action plan.** This plan will involve a status quo assessment of current infrastructure assets, the implementation of individual action plans within the roadmap and the development of individual infrastructure asset registers. This project is contingent on various departments maintaining their respective infrastructure asset registers and supplying all the necessary information to the Asset Management Section to enable the necessary infrastructure asset information to be included in the asset register in terms of GRAP requirements.

**The review and update of asset and risk insurance procedures and the renewal of the insurance portfolio.** This programme will involve the identification of risks in conjunction with insurers and all Departments and the review and update of the asset and risk insurance procedure manual. It will also include the review of the existing insurance portfolio and the renewal of the insurance policy as per the renewal terms.

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### 7.3.3 CAPITAL FINANCING STRATEGY

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

**The review and implementation of the debt capacity policy.** This policy will ensure that any borrowings taken by the Matatiele Local Municipality will be done in a responsible manner and that the repayment and servicing of such debt will be affordable.

**The review and implementation of the policy for access finance (including donor finance).** This policy will ensure that all available funding sources are vigorously pursued.

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### 7.3.4 FINANCIAL MANAGEMENT POLICIES

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#### 7.3.4.1 GENERAL FINANCIAL PHILOSOPHY

The financial policy of the Matatiele Local Municipality is to provide sound, secure and fraud free management of financial services. The Budget and Finance Office has the following objectives:

- Implementation of LG MFMA
- Implementation of the LG Municipal Property Rates Act
- Management of the Budget Process
- Performance of the Treasury Function
- Management of Municipal Revenue
- Establishment of a Supply Chain Management Unit
- Establishment of a FBS/Indigent Support Unit

Maintenance of Internal Financial Control  
Production of Financial Performance Reports  
To Retain the Financial Viability of the Municipality  
To have an Unqualified Audit Report

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#### 7.3.4.2 BUDGET POLICY

The aim of the policy is to set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such budget.

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#### 7.3.4.3 TARIFF POLICY

A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

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#### 7.3.4.4 RATES POLICY

In developing and adopting this rates policy, the council has sought to give effect to the sentiments expressed in the preamble of the LG Municipal Property Rates Act, namely that:

the Constitution enjoins local government to be developmental in nature, in addressing the service delivery priorities of our country and promoting the economic and financial viability of our municipalities;

there is a need to provide local government with access to a sufficient and buoyant source of revenue necessary to fulfill its developmental responsibilities;

revenues derived from property rates represent a critical source of income for municipalities to achieve their constitutional objectives, especially in areas neglected in the past because of racially discriminatory legislation and practices;

and

it is essential that municipalities exercise their power to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation, and which takes account of historical imbalances and the burden of rates on the poor.

In applying its rates policy, the council shall adhere to all the requirements of the Property Rates Act no. 6 of 2004 including any regulations promulgated in terms of that Act.

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#### 7.3.4.5 INDIGENT SUPPORT POLICY

The objective of Indigent Support Policy is to ensure the following:

The provision of basic services to the community in a sustainable manner, within the financial and administrative capacity of the Council; and

To provide procedure and guidelines for subsidization of basic provisions received from Central Government, according to prescribed Policy guidelines.

The Council also recognizes that there may be residents simply not able to afford the cost of full provision and for this reason the Council will endeavour to ensure affordability through:

Settings tariffs in terms of the Council Tariff Policy; which will balance the economic viability of continued service delivery; and

Determining appropriate service levels.

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#### 7.3.4.5 CREDIT CONTROL & DEBT COLLECTION POLICY

The purpose is to ensure that credit control forms an integral part of the financial system of the local authority, and to ensure that the same procedure be followed for each individual case.

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#### 7.3.4.6 SUPPLY CHAIN MANAGEMENT POLICY

The objective of this policy is to provide a policy framework within which the municipal manager and chief financial officer can institute and maintain a supply chain management system which is transparent, efficient, equitable, competitive, which ensures best value for money for the municipality, applies the highest possible ethical standards, and promotes local economic development.

By adopting this policy the council further pledges itself and the municipal administration, to the full support of the Proudly SA campaign and to the observance of all applicable national legislation, including specifically the:

Preferential Procurement Policy Framework Act No. 5 of 2000 and its regulations;  
Broad Based Black Economic Empowerment Act No. 53 of 2003 and any applicable code of practice promulgated in terms of that Act; and

LG Municipal Finance Management Act No. 56 of 2003, including the regulations relating to the prescribed framework for supply chain management.

A paraphrase of the relevant provisions of the foregoing statutes is annexed to this policy. Where applicable, the council also pledges itself to observe the requirements of the Construction Industry Development Board Act No. 38 of 2000 and its regulations.

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#### 7.3.4.7 ACCOUNTING POLICIES

Matatiele Local Municipality has always submitted its Annual Financial Statements in time to the Auditor General. Regrettably, qualified audit reports were received for the 2005/2006 and 2006/2007 financial years. The Budget and Treasury Standing Committee has addressed the matters that caused the qualifications and correctives steps have being implemented, which includes amongst others the strict adherence to policies. Hence, an Unqualified Audit Report was received for the 2007/2008 financial year. The AG has to date not issued his report for the 2008/2009 financial year.