

4 January 2011

GREATER TZANEEN MUNICIPALITY
FINANCE DEPARTMENT
LONG TERM FINANCIAL PLANNING POLICY

1. 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 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 large capital investment, which in turn requires effective management and control.

The Greater Tzaneen Municipality has recognised that to be successful the IDP must be linked to a workable financial plan, which includes a multiyear budget.

Financial Strategies Overview

The following section sets out general financial strategies that should guide the Municipality in practicing sound financial management. The financial strategies include a general consideration, which will apply to the detailed financial resources (capital and operational) and revenue raising. Other considerations are:

- Asset Management
- Financial Management
- Capital Financing
- Operational Financing
- Cost Effectiveness
- Financial Issues

2. GENERAL CONSIDERATIONS

- ✓ 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.

✓ Investor attraction

Council 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 Municipality 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 business plan of the finance department will address these factors. In order for the finance department to deliver on these strategies it is Council's responsibility to ensure that the best financial people are recruited for this department. Like the IDP, the financial action plan will be subject to a regular review and comparison of actual performance to predetermined performance measures.

3. FINANCIAL REOURCES

Financial resources available for both capital projects and operational purposes are as follows:

Capital Expenditure:

- National Government Funding
- Provincial Funding
- Infrastructure Funding
- Own Funding
- External Loan Funding
- Public/ Private Partnerships

Operational expenditure:

- Own Funding
- Grants and Donations

4. REVENUE RAISING

The Greater Tzaneen Municipality main sources of revenue are from property rates, Municipal services such as sewerage, water, electricity, refuse removal and Grants. The short-term objective of the municipality is to access all

available revenue and to identify additional sources of revenue to extend Councils tax base

5. 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, with the asset management programme. This aspect of asset management will ensure that Council is receiving economic benefit from Council owned land and buildings which are rented out.

6. FINANCIAL MANAGEMENT

It is most important that the Greater Tzaneen Municipality maintains a strong finance department 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 as required by legislation will have to be implemented and maintained.

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 measures will be put in place to ensure that any material of 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 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.

7. 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:

- Statutory funds for funding specific projects (e.g. housing)

- Provincial and National Government funding for medium term and long term projects
- External loan funding for medium term and long-term projects

8. OPERATIONAL FINANCING

Council's policy is to fund operating expenses from normal revenue streams. 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.

9. 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.**

10. FINANCIAL ISSUES AND STRATEGIES

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.