

5-Year Financial Plan

21.1 CAPITAL & OPERATING BUDGET ESTIMATES

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

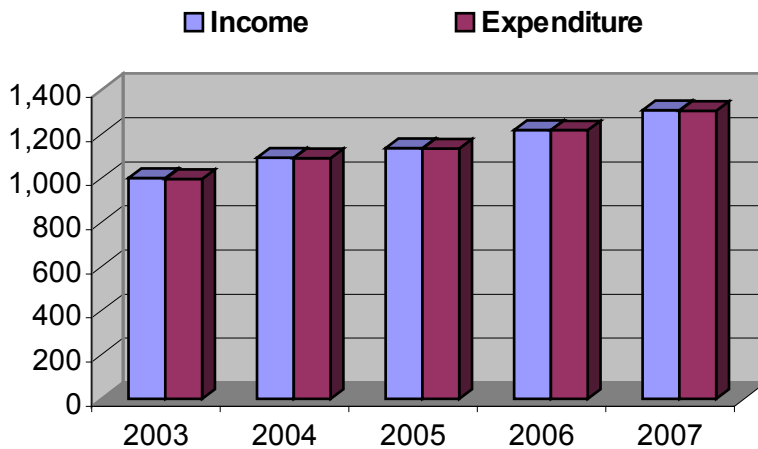
The five-year financial plan includes an Operating Budget (Table 21.1), the Capital Investment Programme/Capital Budget (Table 21.2) and the Sources of Funding for the Capital Investment Programme (Table 21.3) for the five years covered by this plan. The information contained in these tables is based on information available at the time of drafting this document and these estimates could therefore possibly change in the future.

TABLE 21.1 : Operating Budget, 1 July 2002 to 30 June 2007

	2003	2004	2005	2006	2007
	R millions	R millions	R millions	R millions	R millions
INCOME					
Grants - Equitable share	108	135	108	114	120
Grants – Other	12	10	10	11	11
Assessment rates	190	205	220	236	254
Sale of electricity	303	326	350	377	405
Sale of water	91	98	106	114	122
Other service charges	280	300	323	347	373
Total income	984	1,074	1,117	1,198	1,286
EXPENDITURE					
Salaries	360	388	419	453	489
General expenses	248	266	284	304	325
Purchase of electricity	193	206	221	236	252
Purchase of water	43	46	50	53	57
Repairs and maintenance	90	97	105	113	122

Capital charges	164	177	190	204	220
Contributions	45	64	28	25	21
Amounts charged out	-164	-173	-182	-192	-203
Total expenditure	979	1,072	1,114	1,196	1,284
SURPLUS / -DEFICIT	4	4	2	2	2

FIGURE 21.1 : 5 Year Operating Budget (Rm)



As reflected in the table and figure above, the City expects to realise surpluses of R14m over the period under review. Selected key assumptions relating to this budget are as follows:

- ❑ Government grants for years 2003 – 2005 are as per the Division of Revenue Act, thereafter increases of 5.5% per annum have been assumed.
- ❑ The inflation rate has been assumed to be 7% per annum.
- ❑ Growth in the salary and wage bill has been provided for in the budget at 8% per annum, growth in the remaining expense items range from 7% - 10% per annum.
- ❑ Increases for the purchase of electricity and water have been assumed at 7% per annum.
- ❑ Provision has been made for tariff increases relating to rates and services at an average rate of 7% per annum.

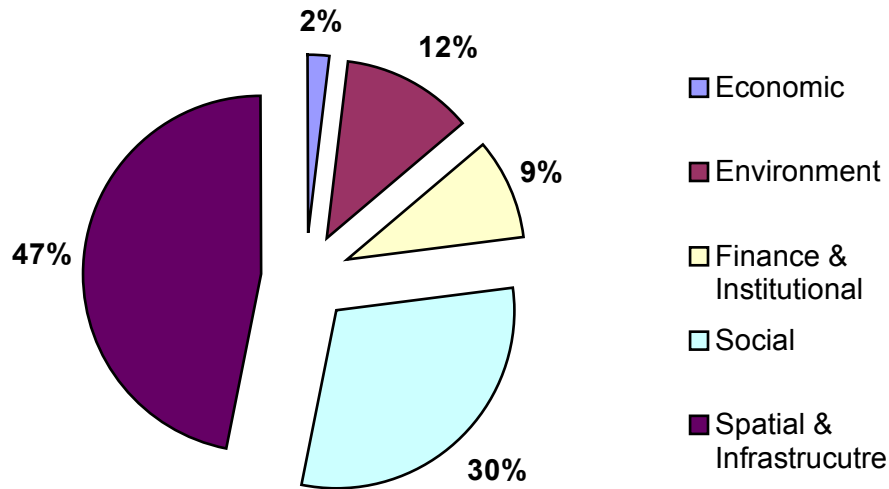
- ❑ The amount for Contributions expense included in the budget relates largely to provision for bad debts.
- ❑ The budget is based on current service levels and does not make provision for major expansion of services into the rural areas.
- ❑ Equitable share capital portion reflected in the funding sources for capital investment programme may (Table 21.2) also be allocated to revenue.

TABLE 21.2 : Capital Investment Programme : 1 July 2002 to 30 June 2007

	Allocation	2003 R millions	2004 R millions	2005 R millions	2006 R millions	2007 R millions
Own Funds						
Economic	2%	1	1	1	-	-
Environment	12%	8	8	9	3	3
Finance & Institutional	9%	6	6	6	2	2
Social	30%	21	21	21	7	7
Spatial & Infrastructure	47%	32	33	43	10	10
Total	100%	68	69	80	22	22
Specified Grant Funds						
Amatole District Municipality		13	14	14	15	16
BCMET		5	5	5	5	5
DVPP		17	-	-	-	-
Housing funds		45	47	50	53	56
IDZ		50	-	-	-	-
Restructuring grant		30	30	30	-	-
Land Restitution		12	12	12		
National Department of Transport		1	1	1	1	1
National Government - Infrastructure		33	33	33	35	37
National Electricity Regulator		5	4	4	4	4
National Water Projects		10	2	-	-	-

Sida		22	23			
Total		312	241	221	135	141

TABLE 21.2 : Capital Investment Programme 2002 to 2007



As can be seen from the above table and figure, most of the capital expenditure over the period covered by this plan will be for Spatial and Infrastructure projects at 47% of total expenditure, followed by Social projects which account for 30% of the planned expenditure.

**TABLE 21.3 : Funding Sources for Capital Investment Programme:
1 July 2002 to 30 June 2007**

	2003 R millions	2004 R millions	2005 R millions	2006 R millions	2007 R millions
Own Funding					
Equitable share – Capital Portion	13	14	15	15	15
Equitable share - Rural	6	6	7	7	7
Loan funding – DBSA	50	50	50		

Specified Grant Funding					
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Amatole District Municipality	13	14	14	15	16
BCMET	5	5	5	5	5
DVPP	17	-	-	-	-
Housing funds	45	47	50	53	56
IDZ	50	-	-	-	-
Restructuring grant	30	30	30	-	-
Land Restitution	12	12	12		
National Department of Transport	1	1	1	1	1
National Government - Infrastructure	33	33	33	35	37
National Electricity Regulator	5	4	4	4	4
National Water Projects	10	2	-	-	-
Sida	22	23			
Total	312	241	221	135	141

The Capital Investment Programme (Table 21.2) will be subject to the availability of the funding as per Table 21.3. It has been assumed that the City will take out further loans from DBSA amounting to R50m per year for the 2003 – 2005 financial years.

TABLE 21.4 : Debt Management Framework: 1 July 2002 to 30 June 2007

	2003	2004	2005	2006	2007
	R millions	R millions	R millions	R millions	R millions
Opening balance	348	372	412	433	410
Additional loans - DBSA	50	50	50	-	-
Interest charge for year	57	63	68	68	64
Less repayments for year	-83	-73	-97	-90	-99
Closing balance	372	412	433	410	375
Capital repayments	26	10	29	22	35

Certain of the capital repayments which are due during the period covered by this plan are covered by dedicated investments; however, the bulk of these payments will need to be funded internally.

21.2 FINANCIAL STRATEGY

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 categorised into either :

- Developed – maintenance
- Developing – growing

Buffalo City can be categorised 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 City 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 chapter, the priority from the financial perspective is the financial viability and sustainability of the City. 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.

21.2.1 THE FINANCIAL FRAMEWORK

i. Revenue Adequacy and Certainty

It is essential that the City 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 furthermore 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 for the 2003 – 2005 financial years.

It is important to track the respective sources of revenue received by the City 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 City's position more accurately, its ability to secure loans relative to its income streams and its borrowing capacity.

ii. 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 City are:

The current ratio, which expresses the current assets as a proportion to current liabilities. "Current" refers to those assets which could be converted into cash within 12 months and those liabilities which will be settled within 12 months. A current ratio in excess of 2:1 is considered to be healthy. The City will aim to improve this ratio from the existing 1.23:1 to the desired level in the medium term.

Debtors' collection measurements, which have a great impact on the liquidity of the City. Currently the City takes on average 107 days to recover its debtors, while the annual debtors collection rate is 83%. The City will attempt to reduce the days debtors outstanding to less than 60 days in the medium term and will strive to increase the annual debtors collection rate by 3% per annum, until it exceeds the desired level of at least 90%.

iii. Sustainability

The City needs to ensure that its budget is balanced (income covers expenditure). As there are limits on revenue, it is necessary to ensure that 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.

iv. Effective and Efficient Use of Resources

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

v. Accountability, Transparency and Good Governance

The City is accountable to the people who provide the resources, for what they do with the resources. The budgeting process and other financial decisions should 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 time-frames.

vi. Equity and Redistribution

The City must treat people fairly and justly when it comes to the provision of services. In the same way, the City 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 City will continue to cross-subsidise between high- and low-income consumers within a specific service (e.g. electricity) or between services.

vii. **Development and Investment**

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

viii. **Macro-economic Investment**

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

ix. **Borrowing**

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

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

The manner in which the City 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. The current "capital charges" as a percentage of income is 17%. The City aims to reduce this to the desired level of 15% over the medium term.

21.2.2 STRATEGIES AND PROGRAMMES

With the above 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 City. Time-frames have been set for each of the projects that have been identified.

i. **Revenue Raising Strategies and Programmes**

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

- ❑ **The development and implementation of a credit control policy.**
This policy and the relevant procedures will detail all areas of credit control, collection of amounts billed to customers, procedures for non-payment etc.
- ❑ **The development and implementation of an indigent policy.**
This policy will define the qualification criteria for 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 Buffalo City area.
- ❑ **The development and implementation of a property rates and valuation policy.**
This will ensure that a fair rates policy is applied to the entire Buffalo City area and will aim to ensure that all properties are included in the City's records. Furthermore the policy will ensure that valuations are systematically carried out on a regular basis for all properties.
- ❑ **The establishment of Customer Service Centres.**
This project aims to establish 10 'one stop' customer service centres in the rural areas to improve customer service and accessibility. It is envisaged that these 10 centres will be established over a period of 3 years.
- ❑ **The development and implementation of a customer incentive policy.**
This policy will detail the incentives and prizes that will be made available to encourage customers to pay their accounts promptly.
- ❑ **Customer education projects.**
These projects will educate the customer on the advantages to the community and the moral obligation that he/she has to promptly settle amounts due. The projects will also communicate incentives for prompt settlement and penalties for non-payment.
- ❑ A study is to be undertaken in the area of **financing municipal services** and a draft **sustainable funding and rating policy** is to be developed.

ii. **Asset Management Strategies and Programmes**

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

- ❑ **The implementation of a fixed asset register and asset control system** as well as the maintenance thereof. This programme will involve the formulation of policies regarding fixed assets, the purchase of a suitable system, the capture of all assets onto this system and the maintenance of this system in terms of GAMAP 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 City in the event of a disaster, to ensure that there is the least possible disruption and loss. 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 City's operations in the event of a disaster rendering the existing centres not usable.
- ❑ **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 asset categories eg roads, buildings, motor vehicles etc.
- ❑ **The development and implementation of a fleet management system.** This system will ensure that the City's fleet is managed in the most effective manner and that up-to-date and comprehensive information required for the fleet is readily available.

iii. Financial Management Strategies and Programmes

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

- ❑ **The development and implementation of an integrated information technology plan.** Such a plan will ensure that the City's IT needs are met in the most effective manner and that the IT resources are well-managed and secure and that users are well-trained.

- ❑ **Integration of all computerised systems and acquisition of hardware and software required.** The integration of computerised systems and acquisition of the required hardware and software within the Buffalo City area to ensure that information is accurate, relevant and prompt, which in turn will facilitate the smooth running and effective management of the City.
- ❑ **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.

iv. **Capital Financing Strategies and Programmes**

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

- ❑ **The development and implementation of a debt capacity policy.** This policy will ensure that any borrowings taken by the City will be done in a responsible manner and that the repayment and servicing of such debt will be affordable.
- ❑ **The development and implementation of a large scale economic policy.** This policy will set out ways in which the City can become more effective in attracting large-scale economic investment. It will be the 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 projects for which funding will be sought, the procedures to be used and donor conditions which are acceptable or unacceptable.

v. **Operational Financing Strategies and Programmes**

The following programme has been identified:

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

vi. **Strategies to Enhance Cost-effectiveness**

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

- **Establishment of benchmarks and performance indicators.**
This will involve an investigation of suitable benchmarks and performance indicators that will enable the City to assess its efficiency and effectiveness when compared to similar organisations in different areas.
- **Training and development of financial (and other) staff.**
The aim of this project will be to constantly ensure that Financial (and other) staff have the training they require to ensure a cost-effective and efficient service to the City.
- **Establishment of a centralised Civic Centre.**
Establishing suitably located office accommodation for staff to ensure the most effective and efficient service provision and administration of the City. This arrangement will provide the environment for better and cheaper communication and minimum time wastage.
- **Enhanced budgetary controls and timeliness of financial data.**
The improvement of the Budget Office with respect to producing financial information and monitoring/reporting on budget variances. Some of the more significant measures of acceptable performance in this area will be:
 - financial bottom line matched to forecasts to a 10% variance level
 - receipt of unqualified audit reports
 - monthly financial statements produced within 5 days of month end etc.
- **A USAID sponsored project** that will assist in building the ability of the City to expand service delivery on a cost effective basis. This will include an analysis of the cost of services rendered in respect of water, electricity, sanitation, solid waste and housing. Appropriate benchmarks will be set for service provision and guidelines for appropriate costing methodologies will be developed.