

SECTION F

FINANCIAL PLAN

1. Introduction

One of the key issues identified for the sustainability of BCM is 'expanding its revenue in relations to its costs and its financial viability, whilst implementing its mandate'. The responsive key objective is 'effective, efficient, coordinated financial management and increased revenue – enabling BCM to deliver its mandate'. The plans and strategies detailed in this chapter contribute to the achievement of this objective.

2. Capital & Operating Budget Estimates

The five-year financial plan includes an Operating Budget (Table F.1) and the Capital Investment Programme per source of funding (Table F.2), for the five years ending June 2012.

2.1 Budget Assumptions

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

- Government grants for years 2008/2009 to 2010/2011 are as per the Division of Revenue Act.
- The inflation rate has been estimated at 8.8% per annum.
- Growth in the salary and wage bill has been provided for in the budget at 10.5% p.a., growth in the remaining expense items in general range from 0% - 9% p.a.
- Increases for the purchase of electricity and water have been estimated at 15.02% and 10.0% p.a.
- Provision has been made for tariff increases relating to rates and services at an average rate of 11.29% p.a.
- The amount for Contributions expense included in the budget relates largely to provision for leave.
- The budget is based on current service levels and does not make provision for major expansion of services into the rural areas.

2.2 Operating Budget Estimates

Table F.1 details the Operating Budget estimates for the five years starting 1 July 2008 and ending June 2013.

TABLE F.1: Operating Budget: 1 July 2008 to 30 June 2013

	2008/2009 BUDGET	2009/2010 BUDGET	2010/2011 BUDGET	2011/2012 BUDGET	20012/2013 BUDGET
<u>Revenue Per Source</u>					
Assessment Rates	358,523,317	394,375,649	433,813,214	477,194,535	524,913,989
Refuse Charges	119,414,425	131,355,857	144,491,454	158,940,599	174,834,659
Sewerage Charges	132,516,432	145,768,075	160,344,883	176,379,371	194,017,308
Trade Effluent	7,624,750	8,387,225	9,225,948	10,148,543	11,163,397
Water Charges	196,809,224	216,490,146	238,139,161	261,953,077	288,148,385
Electricity Charges	536,285,742	600,640,031	672,716,835	739,988,519	813,987,370
Fire Levy	26,365,680	29,002,248	31,902,473	35,092,720	38,601,992
Grants and Subsidies	463,501,631	490,028,669	566,043,445	622,647,790	684,912,568
Operating Project Grants	116,674,910	62,882,408	41,750,000	45,925,000	50,517,500
Fines	8,021,879	8,743,849	9,530,796	10,483,876	11,532,263
Housing Rentals	7,218,059	7,867,683	8,575,777	9,433,355	10,376,690
Other Rentals	2,386,233	2,600,995	2,835,083	3,118,591	3,430,450
Income Foregone	(161,461)	(166,305)	(176,283)	(193,911)	(213,302)
Other	35,032,684	100,566,243	135,435,341	148,978,875	163,876,763
<u>Total Direct Operating Income</u>	2,010,213,505	2,198,542,773	2,454,628,127	2,700,090,940	2,970,100,034
<u>Expenditure Per Category</u>					
Salaries, Wages & Allowances	659,606,021	725,523,620	797,714,946	877,46,441	965,235,085
Remuneration of Councillors	19,252,967	20,311,880	21,530,594	23,683,653	26,052,019
General Expenses	472,915,198	529,859,339	566,955,747	623,651,322	686,016,454
Operating Projects	116,674,910	62,882,408	41,750,000	45,925,000	50,517,500
Bulk Electricity Purchases	310,422,464	357,047,918	410,676,516	451,744,168	496,918,584
Bulk Water Purchases	92,108,987	101,319,886	111,451,875	122,597,063	134,856,769
Repairs & Maintenance	133,621,906	151,461,380	238,961,854	262,858,039	289,143,843
Depreciation	106,054,835	108,054,835	112,418,120	123,659,932	136,025,925
Interest on External Loans	78,762,140	119,703,575	128,994,695	141,894,165	156,083,581
<u>Total Direct Operating Expenditure</u>	1,989,419,428	2,176,164,841	2,430,454,347	2,673,499,782	2,940,849,760
Internal Charges	674,067,335	708,352,597	750,853,756	825,939,132	908,533,045
<u>Total Operating Expenditure</u>	2,663,486,763	2,884,517,438	3,181,308,103	3,499,438,913	3,849,382,805
Internal Recoveries	(674,067,437)	(708,352,598)	(750,853,754)	(825,939,129)	(908,533,042)
<u>Sub-Total</u>	1,989,419,326	2,176,164,840	2,430,454,349	2,673,499,784	2,940,849,762
Contribution to Leave Reserve Fund	20,361,751	21,694,159	22,995,817	25,295,399	27,824,939
<u>Total Operating Expenditure</u>	2,009,781,077	2,197,858,999	2,453,450,166	2,698,795,183	2,968,674,701
<u>(Surplus) / Deficit</u>	432,428	683,774	1,177,961	1,295,757	1,425,333

2.3 Capital Budget Estimates

Table F.2 details the estimated Capital Investment Programme for the five years starting July 2008 and ending 30 June 2013. The Capital Investment Programme remains subject to the availability of funding.

TABLE F.2: Capital Investment Programme: 1 July 2007 to 30 June 2012

	2008/09 Budget R millions	2009/10 Budget R millions	2010/11 Budget R millions	2011/12 Budget R millions	2012/13 Budget R Millions
OWN FUNDS					
External Financing Funding	112	92	74	81	89
Capital Replacement Reserve	90	48	34	36	41
TOTAL	202	140	108	117	130
SPECIFIED GRANT FUNDS					
Buffalo City Metropolitan Transport	13	14	23	25	28
DBSA Additional Loan	65	65	70	77	85
European Commission	45	32	3	3	4
Municipal Electricity Provider	33	50	55	61	67
Department of Land Affairs	2	10	5	6	7
Local Govt Housing	24	161	126	140	150
Municipal Infrastructure Grant	138	8	2	3	4
Public	8	31	71	78	85
Public Transport Infrastructure & Systems Grant	9	94	20	22	24
Neighbourhood Development Partnership Grant	8	0	0	0	0
TOTAL	345	465	375	415	454
TOTAL ALL FUNDING SOURCES	547	605	483	532	584

Figure F.1, below, details the proposed percentage allocation of "Own Funds" (EFF & CRR), to the IDP Clusters.

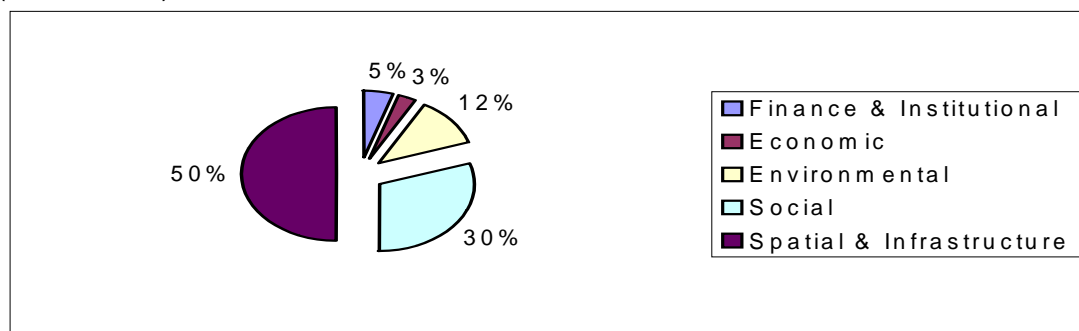


FIGURE F.1: Approved IDP Allocations for Capital Investment Programme 2008/09 to 2012/13

TABLE F.3: Capital Investment Programme Per Cluster : 1 July 2008 to 30 June 2013

	2008/09 Budget R m	2009/10 Budget R m	2010/11 Budget R m	2011/12 Budget R m	2012/13 Budget R m
Economic	8	2	7	8	9
Environment	19	14	19	21	22
Finance & Institutional	74	36	17	19	21
Social	37	35	18	20	22
Spatial & Infrastructure	408	518	422	464	510
Total	547	605	483	532	584

Table F.4 details the consolidated (both Specified Grant Funds and Own Funds) percentage allocation to each of the Clusters.

TABLE F.4: Capital Investment Programme Per Cluster (% Allocation): 1 July 2008 to 30 June 2013

Cluster	Budget 2008/09	Budget 2009/10	Budget 2010/11	Budget 2011/12	Budget 2012/13
Economic	1%	0%	1%	1%	2%
Environment	3%	2%	4%	4%	4%
Finance & Institutional	14%	6%	4%	4%	4%
Social	7%	6%	4%	4%	4%
Spatial & Infrastructure	75%	86%	87%	87%	87%
Total	100%	100%	100%	100%	100%

The actual IDP allocations, after project selection, for the Capital Investment Programme for 2007/2008 is detailed in Figure F.2, below.

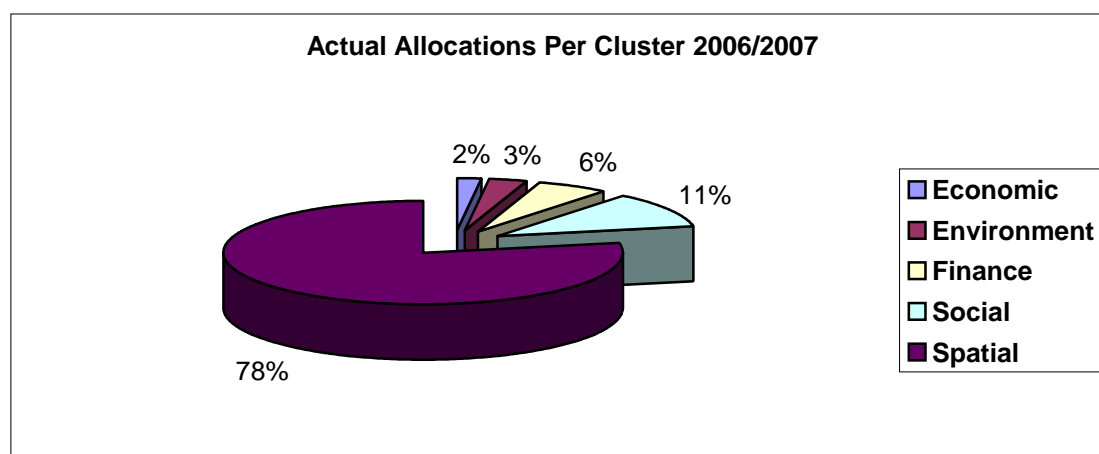


FIGURE F.2: Actual IDP Allocations for Capital Investment Programme 2008/09

2.4 Debt Management Framework

Table F.5 details the Debt Management Framework.

TABLE F.5: Debt Management Framework: 1 July 2008 to 30 June 2013

	2008/09 (R Mill)	2009/10 (R Mill)	2010/11 (R Mill)	2011/12 (R Mill)	2012/13 (R Mill)
OPENING BALANCE	625,953	659,953	659,920	725,920	686,078
Additional Loans DBSA	68,000	67,000	65,000	-	-
Less Capital repayments for the year	25,000	30,033	35,000	39,833	39,833
CLOSING BALANCE	658,953	695,920	725,920	686,078	646,253

3. 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 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.

3.1 The Financial Framework

3.1.1 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 2008/09 to 2010/2011 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.

i. 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 currently stands at a ratio of 2.27:1 and is seen as desirable in the medium term.

Debtors' collection measurements, which have a great impact on the liquidity of the City. Currently the City takes on average 80 days to recover its debts, while the annual debts collection rate is 94.75%. The City will attempt to reduce the day's debts outstanding to less than 60 days in the medium term and will strive to increase the annual debts collection rate by 2% per annum, until it exceeds the desired level of 97%.

ii. 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.

iii. Effective and Efficient Use of Resources

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

iv. 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.

v. 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.

vi. 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 F.2). In restructuring the financial systems of the City, the underlying policies should encourage the maximum degree of private sector investment.

vii. Macro-economic Investment

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

viii. 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 9.4%. The City aims at a desired level of 15% over the medium term.

3.2 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.

3.2.1 Revenue Raising Strategies and Programmes

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

- **The review and implementation of a 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 an Indigent Policy**
This policy defines the qualification criteria for an indigent, the level of free basic services 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 & Valuation Policy**
This will ensure that a fair rates policy and an updated valuation roll 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 development and implementation of a Customer Incentive Scheme**
This scheme will detail the incentives and prizes that will be made available to encourage customers to pay their accounts promptly.
- **Project Consolidate – Free Basic Services, Billing Systems and Municipal Services Debt**
This project aims to enhance the delivery of Free Basic Services to poor households, and assist BCM in developing innovative, reliable and integrated billing systems that would allow for improved delivery of services and an effective and efficient billing system for the debtors/consumers of the municipality.
- **The review and implementation of an 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.
- **Negotiate fully-funded agency agreements with Province and the District**

3.2.2 Asset Management Strategies and Programmes

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 GAMAP/GRAP/GAAP 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 the various Directorates 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 GAMAP/GRAP/GAAP 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 Directorates 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.

3.2.3 Financial Management Strategies and Programmes

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

- **The review of the computerised accounting system**
- **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.
- **Development of a GRAP compliant MTREF budget**
- **Develop and implement budget and community consultation processes**
- **Develop and implement a uniform budget reporting framework**
- **Review of Post GRAP implementation issues and implement GAAP standards**
- **Review and update asset and accounting policies and procedures**
- **Training and development of financial and other staff**
The aim of this project will be to constantly ensure that the Financial (and other) staff receive the training they require to ensure a cost-effective and efficient service to the City.
- **Enhance 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 10 days of month-end etc.

3.2.4 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 policy for accessing finance (including donor finance)**

3.2.5 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.

4. Financial Management Policies

4.1 General Financial Philosophy

The financial policy of the BCM is to provide a sound financial base and the resources necessary to sustain a satisfactory level of municipal services for the citizens of BCM.

It is the goal of the City to achieve a strong financial position with the ability to:

- withstand local and regional economic impacts;
- adjust efficiently to the community's changing service requirements;
- effectively maintain, improve and expand the City's infrastructure;
- manage the City's budget and cash flow to the maximum benefit of the community;
- prudently plan, coordinate and implement responsible and sustainable community development and growth;
- provide a high level of fire and other protective services to assure public health and safety.

BCM's financial policies shall address the following fiscal goals: -

- keep the City in a fiscally sound position in both the long and short term;
- maintain sufficient financial liquidity through regular reviews and adjustments to meet normal operating and contingent obligations;
- Apply credit control policies which maximize collection while providing relief for the indigent;
- Credit control policies that recognize the basic policy of customer care and convenience;
- operate utilities in a responsive and fiscally sound manner;
- maintain existing infrastructure and capital assets;
- provide a framework for the prudent use of debt financing;
- direct the City's financial resources toward meeting the goals of the City's IDP.

4.2 Operating Budget Policies

The annual budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department.

The City Manager shall incorporate the BCM's priorities in the formulation of the preliminary and final budget proposal.

The budget will be subject to monthly control and be reported to Council with recommendations of action to be taken to achieve the budget's goal. The budget will be subject to a mid-term review, which will result in a Revised Budget.

Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the annual budget.

The budget shall balance recurring operating expenses to recurring operating revenues.

The budget will have Revenue plans based on realistically expected income and expenditure figures. Plans will be included to achieve maximum revenue collection percentages.

4.3 Capital Infrastructure Investment Policies

The City will establish and implement a comprehensive five-year Capital Investment Plan (CIP). This plan will be updated annually.

An annual Capital Investment Budget will be developed and adopted by the Buffalo City Municipality as part of the annual budget. The City will make all capital improvements in accordance with the CIP.

Unexpended capital project budgets shall not be carried forward to future fiscal years unless the Project Expenditure is committed or funded from grant funding.

Routine capital needs will be financed from current revenues as opposed to the issuance of long-term debt.

The City will maintain all assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

4.4 Revenue Policies

The City will estimate annual revenues through a conservative, objective and analytical process based on realistically expected income.

The City will consider market rates and charges levied by other public and private organizations for similar services in establishing rates, fees and charges.

The City will implement a new valuation system based on market values of all properties within its boundary as well as periodically review the cost of activities supported by user fees to determine the impact of inflation and other cost increases. Fees will be adjusted where appropriate to reflect these increases.

The City will set fees and user charges at a level that fully supports the total direct and indirect costs of operations. Tariffs will be set to reflect the Development and Social Policies of the City.

The City will continue to identify and pursue grants and appropriations from Province, Central Government and other agencies that are consistent with the City's goals and strategic plan.

The City will follow an aggressive policy of collecting revenues.

4.5 Credit Control Policies and Procedures

Buffalo City Council approved a Credit Control and Debt Collection Policy on 2 May 2007.

The Principles supported in this Policy are:

- The administrative integrity of the municipality must be maintained at all times.
- This Policy must have the full support of all Councillors.
- Councillors must have full knowledge of the implementation and enforcement of the Policy.
- The Executive Mayor oversees & monitors the implementation and enforcement of this Policy.
- The Municipal Manager implements and enforces this Policy.
- The Municipal Manager may delegate the implementation and enforcement of this Policy to the Chief Financial Officer.
- Consumers must be informed of the contents of this Policy.
- Consumers must apply for services from Council by the completion of the prescribed application form.
- Consumers must receive regular and accurate accounts that indicate the basis for calculating the amounts due.
- Consumers must pay their accounts regularly by the due date.
- Consumers are entitled to reasonable access to pay points and to a variety of reliable payment methods.
- Consumers are entitled to an efficient, effective and reasonable response to appeals, and should not suffer any disadvantage during the processing of a reasonable appeal.
- Debt collection action will be instituted promptly, consistently, and effectively without exception and with the intention of proceeding until the debt is collected.

The Policy document covers:

- Supervisory Authority
- Application for the Provision of Municipal services
- Deposits and Guarantees
- Accounts and Billing
- Metering of municipal services
- Payments of accounts
- Interest on arrear debt
- Enquiries and appeals
- Debt collection
- Arrangement to pay arrear debt
- Indigent debtors
- Municipal staff – payment of arrears
- Administration orders – payment of arrears
- Write-off of irrecoverable debt
- Provision for bad debt
- Certificates required for tenders
- Theft & fraud
- Reporting on performance management

- Income collection target
- Application of the policy

4.6 Indigent Scheme

The Indigent Assistance Scheme was approved on 2 May 2007 and it forms part of the Credit Control Policy.

This Scheme identifies the conditions that must be satisfied to be regarded as an indigent and the process to follow to apply for indigent status.

The form of subsidy is identified, as is the process of auditing indigent applications. In addition, procedures, which will be followed in the event of a death of an indigent and a false indigent application is covered.

Finally treatment of debt of a customer on becoming an indigent and interest on arrear charges are addressed.

4.7 Investment Policies

In terms of the Municipal Finance Management Act, Act 56 of 2003, Section 13(2) and the draft municipal investment regulations: "Each Municipal Council and Governing body shall adopt by resolution an investment policy regarding the investment of its money not immediately required.

Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The portfolio shall remain sufficiently liquid to enable the City to meet daily cash flow demands and conform to all state and local requirements governing the investment of public funds. The preservation of principal is the foremost objective of the investment program.

The City will continue the current cash management and investment practices, which are designed to emphasize safety of capital first, sufficient liquidity to meet obligations second, and the highest possible yield third.

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. The standard of prudence to be used by the Investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall investment portfolio. Investment officials are required to:

- a) adhere to written procedures and policy guidelines.
- b) exercise due diligence.
- c) prepare all reports timeously.
- d) exercise strict compliance with all legislation.

The City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than two years from the date of issue. The City's financial information system will provide adequate information concerning cash position and investment performance.

The City will not invest more than 30% of available funds with a single institution.

The Minister of Finance may identify by regulation in terms of Section 168 of the MFMA instruments or investments other than those referred to below in which Municipality may invest:

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
- Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984);
- Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- Municipal Bonds issued by a Municipality;
- Guaranteed endowment policies with the intention of establishing a sinking fund; and
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

4.8 Debt Management Policies

- The City shall issue debt only when necessary to meet a public need and when funding for such projects is not available from current revenues, reserves or other sources.
- Long-term borrowing will be used to finance capital improvements as approved in the City's CIP.
- Capital projects financed through the issuance of debt shall be financed for a period not to exceed the expected useful life of the project.
- The City will not incur debt to finance current operations.
- Lease-purchase obligations, capital outlay notes or other debt instruments may be used as a medium-term method of borrowing for the financing of vehicles, computers, other specialized types of equipment, or other capital improvements.

4.9 Ratio Analysis/Benchmarks

Table F.6 gives details of commonly used financial ratios/benchmarks. The information in the Table is the actual position for the 2005/06 financial year, the projected situation for the 2006/07 financial year and the targeted position by the end of the 2008/09 financial year.

TABLE F.6: Ratio Analysis / Financial Benchmarks for the 2005/06 & 2006/07 financial years and the targeted position for the 2007/08 financial year.

FINANCIAL BENCHMARKS	BASIS OF CALCULATION	2005/06	2006/07	2007/08	2008/09
<u>Borrowing Management</u>					
Debt to revenue	Total debt / Annual income	34.95%	35.0%	35.0%	35.0%
Capital charges to operating expenditure	Interest & principal paid / Operating expenditure	4.3%	16.0%	16.0%	16.0%
<u>Revenue Management</u>					
Annual debtors collection rate (payment level %)	Last 12 months receipts / Last 12 months billing	96.05%	97.0%	97.0%	97.0%
Outstanding debtors to revenue	Outstanding debtors (net)/ Ann rev (total inc)	17.8%	18.0%	18.0%	18.0%
<u>Efficiency</u>					
Personnel costs to operating expenditure	Personnel costs / Operating expenditure	33.0%	30.0%	30.0%	30.0%
<u>Creditors Management</u>					
Creditors days	Outstanding creditors / Credit purchases x 365	30	30	30	30

4.10 Asset Management Policies

The objective of the asset management policy is to prescribe the accounting and administrative policies and procedures relating to Property, Plant & Equipment (PPE), which are fixed assets of BCM.

A summary of the Principles supported in this policy are:

A fixed asset shall mean an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond 12 months.

- The fixed asset register shall comply with the requirements of Generally Recognized Accounting Practice (GRAP) and any other accounting requirements, which may be prescribed.
- Fixed assets are classified under the following headings:
 - Land
 - Infrastructure Assets
 - Community Assets
 - Heritage Assets
 - Investment Properties
 - Other Assets
- Every Head of Department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
- PPE is stated at cost less accumulated depreciation, or fair value at date of acquisition less accumulated depreciation where assets have been acquired by grant or donation.
- Subsequent expenditure relating to property, plant and equipment is capitalized if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and maintenance and is expensed. The enhancement of an existing asset so that its use is expanded or the further development of an asset so that its original life is extended are examples of subsequent expenditure which are capitalized.
- Assets are capitalized according to capitalization criteria and all expenditure below a capitalization threshold of R10 000 is expensed when incurred.
- Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets.
- Heritage assets, which are defined, as culturally significant resources, are not depreciated as they are regarded as having an infinite life. In general Land is also not depreciated for the same reason. The only exception to the policy is that cemetery land and landfill sites are depreciated.
- Incomplete construction work is stated at historic cost.
- The carrying amount of an item or a group of identical items of PPE will be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount will be reduced to the recoverable amount. The amount of the reduction will be recognized as an expense immediately, unless it reverses a previous revaluation, in which case it will be charged to the revaluation non-distributable reserve.

- Assets are eliminated from the Statement of Financial Position on disposal or retirement.
- The difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a gain or loss in the statement of financial performance.

4.11 Asset Management Information

To ensure that assets are adequately maintained, a programme for the planned maintenance and replacement of all fixed and moveable assets is essential.

The magnitude of deferred maintenance due to past and present lack of funding can be judged by the following estimated amounts.

TABLE F.7: Deferred Maintenance

Electricity:	195,000,000
Water:	190,198,000
Wastewater (Sewerage):	230,000,000
Roads:	
Entire Network	373,000,000
Buildings:	
Office Accommodation	12,000,000
Depots	12,000,000
City Hall	16,000,000
Vehicles:	
Replacement	25,000,000
Development Planning Transport	
Traffic signals	4,000,000
Direction Signs	3,000,000
City Bus recapitalisation	30,000,000
Bus Depot Equipment	100,000
Public transport infrastructure	20,000,000
Metropolitan main roads	228,000,000
Community Services	
Amenities	2,200,000
Arts & Culture	2,450,000
Integrated Environmental Development	2,500,000
TOTAL	R1,345,448,000

4.12 Accounting Policies

A summary of the principal accounting policies adopted in the preparation of the annual financial statements is as follows:

1. Basis of presentation - the annual financial statements are prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value. The annual financial statements are prepared in accordance with Generally Accepted Municipal Accounting Practices (GAMAP) and Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003).
2. Basis of consolidation - the consolidated annual financial statements incorporate the financial statements of Buffalo City Municipality and municipal entities controlled by Buffalo City Municipality.
3. Presentation currency - the annual financial statements are presented in South African Rand.

4. Going concern assumption - the annual financial statements are prepared on a going concern basis.
5. Compensation for occupational injuries and diseases (COID) - this fund has been established in accordance with the Compensation for Occupational Injuries and Diseases Act No 130 of 1993.
6. Reserves – the economic entity creates and maintains the following reserves in terms of specific requirements:
 - Capital replacement reserve
 - Capitalization reserve
 - Government grant reserve
 - Donations and public contributions reserve
 - Self insurance reserve
 - Revaluation reserve
7. Property, plant and equipment (PPE) - is stated at cost, less accumulated depreciation and accumulated impairment losses, except land and buildings. The accounting policies for PPE include the following:
 - Depreciation of property, plant and equipment
 - Disposal of property, plant and equipment
 - Incomplete construction work
 - Impairment losses
 - Revaluation of land and buildings
8. Investments - the accounting policies for investments include the following:
 - Financial instruments
 - Investment in associate
 - Investment in municipal entities
9. Inventories - consist of consumables, raw materials, work in progress and finished goods which are valued at the lower of cost or net realizable value. The basis of determining cost is the first-in-first-out method.
10. Accounts receivable - are carried at anticipated realizable value.
11. Trade creditors - are stated at their nominal value.
12. Revenue recognition - the accounting policies for revenue include the following:
 - Revenue from rates
 - Service charges
 - Fines
 - Rentals
 - Approved tariff of charges
 - Interest on investments
 - Sale of goods
 - Interest on outstanding debtors
 - Donations and contributions
 - Recovery of unauthorised, irregular, fruitless and wasteful expenditure
13. Conditional grants and receipts - are recognized as revenue to the extent that Buffalo City Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.
14. Provisions – are recognized when the Economic entity has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
15. Cash and cash equivalents - includes cash on hand and cash with registered banking institutions.
16. Unauthorised expenditure - is expenditure that has not been budgeted for.
17. Irregular expenditure - is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies.
18. Fruitless and wasteful expenditure - is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

19. Foreign currency transactions - are initially accounted for at the rate of exchange ruling on the date of the transaction.
20. Comparative information - the accounting policies for comparative information include the following:
 - Current year comparatives
 - Prior year comparatives
21. Leases - are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Economic entity.
22. Value added tax - Buffalo City Municipality accounts for Value Added Tax on the payment basis.
23. Grants in aid - Buffalo City Municipality transfers money to individuals, institutions and organizations.
24. Unutilized conditional grants - are reflected on the Statement of Financial Position as a Creditor - Unutilized Conditional Grants.
25. Intangible assets - are initially recorded at their cost price and are subsequently amortized over their expected useful lives.

4.13 Supply Chain Management System Policy

Section 111 of the Local Government Municipal Finance Management Act (MFMA) requires municipalities to develop and implement a supply chain management policy. The principle objective of the legislation has been to comply with Section 217 of the Constitution, which among other things states that when contracting for goods and services the system must be fair, equitable, transparent, competitive and cost effective.

Supply Chain Management (SCM) generally refers to the management of activities along the supply chain including the supplier, manufacturer, wholesaler, retailer and consumer

The MFMA and its relevant regulations also identify processes/mechanisms which must be included in a SCM Policy.

The supply chain management system is applicable for the –

- Procurement by Buffalo City Municipality (and any municipal entity of Buffalo City) of all goods and services or works;
- Selection of contractors to provide assistance in the provision of municipal services;
- Selection of external mechanisms for the provision of municipal services in circumstances contemplated in section 83 of the Local Government: Municipal Systems Act;
- Disposal of assets or goods no longer required;
- Letting or sale of Municipal property.

BCM approved its Supply Chain Management System Policy in August 2005.