



Multi Year Financial Modelling

a Prerequisite for sound financial management and sustainable process of service delivery

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Achieving Financial Sustainability



- An organisation is financially sustainable if its core work will not collapse and if it is able to be there for its beneficiaries in the long term.
- For humans, sustainability is the potential for long-term maintenance of well being, which has environmental, economic, and social dimensions, and encompasses the concept of stewardship, the responsible planning and management of resources.

Steps to consider to achieve this goal



1 Perform a historical financial trend analysis

2 Acknowledge present financial position

3 Cash flow – Past, Present & Forecast

4 Assess capital infrastructure funding strategy

5 Set financial objectives and guidelines

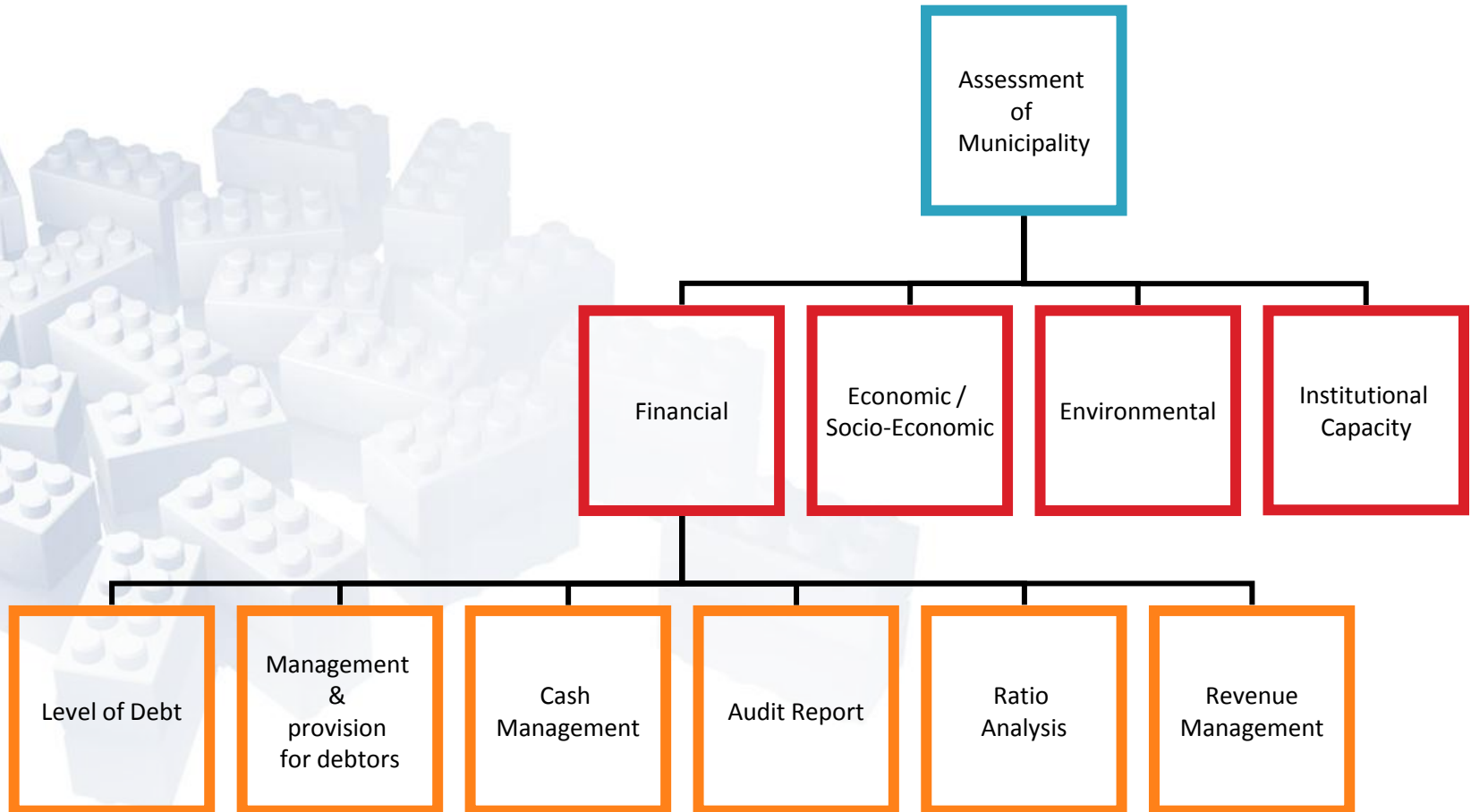
6 Monitor progress and reassess steps

Sources of Information used in Assessment

- Audited Financial Statements
 - Historical view of the financial affairs
- Audit Report
- Medium Term Revenue & Expenditure Framework
 - Future view of the financial affairs
- Multi-year Capital Programme
 - Future financial needs
- Integrated Development Plan
- Turn Around Strategy
- Socio-economic potential of area
- Local/International news reports on the sector
- Reports from market analysts
- Comparison to peers in the market



Factors Influencing Assessment



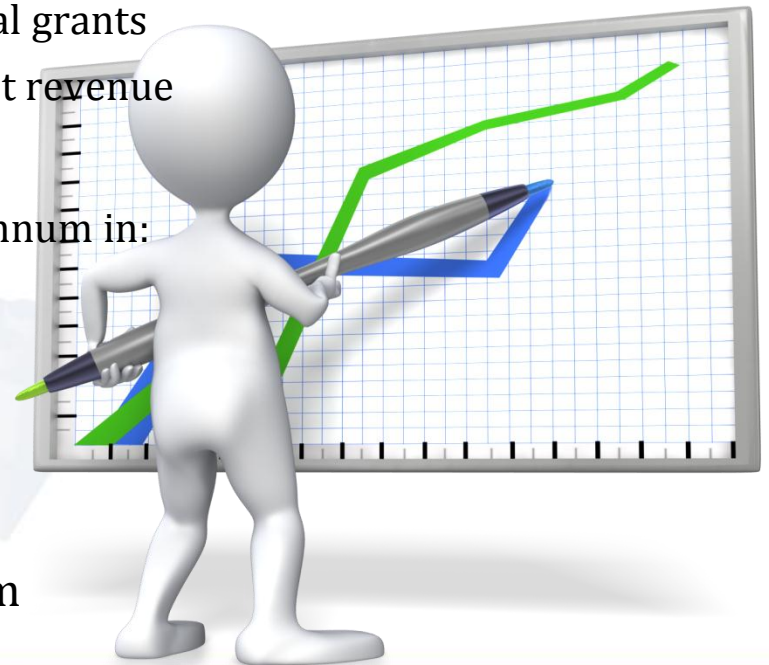
Perform a historical financial trend analysis

- Balance Sheet Assessment
 - Consumer Debtors
 - Growth in net debtors per annum
 - Level of provisions for bad debts
 - Collection rate per annum
 - Liquidity
 - Current Assets to Current Liabilities
 - Cash and investment balances per annum
 - Statutory reserves vs. Free cash
 - Gearing
 - Long term debt to Total Income



Perform a historical financial trend analysis

- **Income Statement Assessment**
 - **Operational Revenue**
 - Contribution per revenue source per annum
 - Growth in revenue source per annum
 - Contribution to revenue from operational grants
 - Contribution to revenue from investment revenue
 - **Operational Expenditure**
 - Level of contribution and increase per annum in:
 - Staff costs
 - Repairs and maintenance
 - Finance charges
 - Depreciation and asset impairment
 - Provision to bad debts
 - **Operational Surplus/(Deficit) per annum**



Acknowledge present financial position

- What is the current consumer payment level?
- Is there sufficient provision for bad debts?
- What is the current level of cash?
- Are statutory requirements provided for?
- What is the level of external borrowing?
- What is the current capital funding strategy?
- Are operational surpluses or deficits posted?
- What are financial limitations and weaknesses?
- What is level of risk for investors?



Cash Flow – Past, Present & Forecast

- Base decisions on real cash flow
- Verify reasonability of budget assumptions
- Historical trends vs. Projected performance
- Assess future financial sustainability based on
 - Impact of operational budgets on cash
 - Level of consumer collections
 - Impact of capital funding requirements on cash
 - Level of gearing anticipated
 - Level of cash reserves required



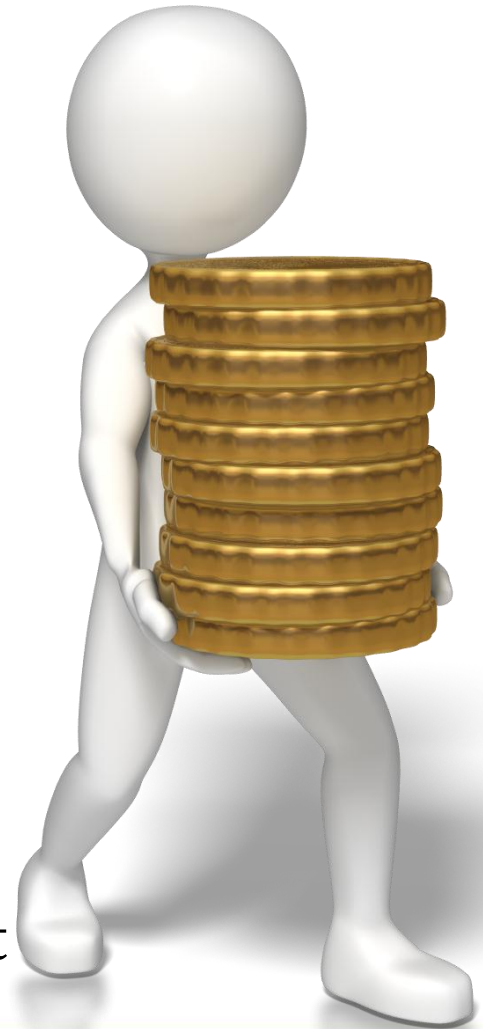
Assess capital infrastructure funding strategy

- Leverage
 - The action of a lever
 - The mechanical advantage of a lever
 - Positional advantage; power to act effectively
 - The use of credit or borrowed funds to improve one's speculative capacity and increase the rate of return from an investment
 - To supplement with leverage
 - To improve or enhance



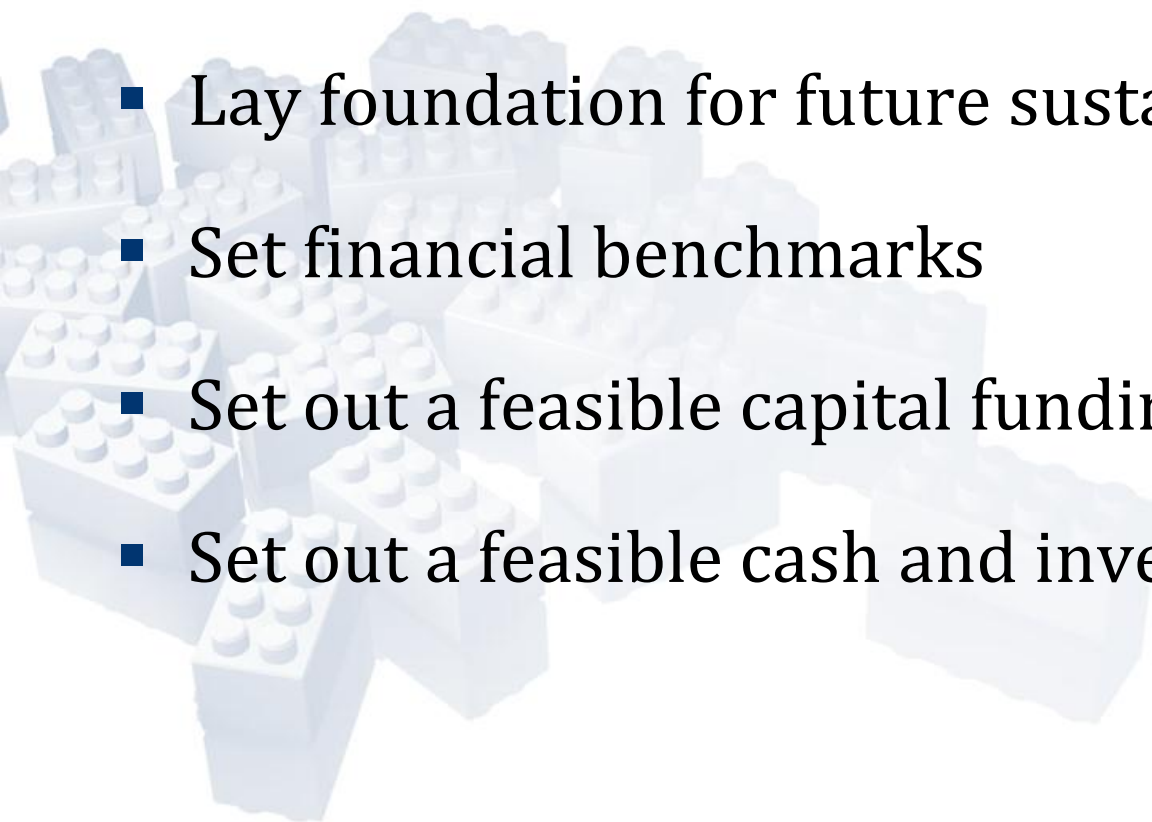
Assess capital infrastructure funding strategy

- Needs vs. Resources
- Multiple years to consider
- Limited by funding from:
 - Capital grants
 - Own resources generated
 - Leveraging of external loans
- Lower the average long term borrowing cost




Set financial objectives and guidelines

- Learn from the past to improve the future
- Lay foundation for future sustainability
- Set financial benchmarks
- Set out a feasible capital funding strategy
- Set out a feasible cash and investment strategy



Monitoring and Reassess

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- Actively monitor cash levels on a monthly basis
 - Operational Income vs. Expenses
 - Reserves vs. Free Cash
 - Collection rates
 - Actively manage investments to optimize returns
 - Monitor and reassess financial position every quarter or six monthly
 - Monitor and reassess strategy every year
 - Active management process

THANK YOU

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