

SETSOTO LOCAL MUNICIPALITY



POLICY ON LONG TERM FINANCIAL PLANNING

Policy: Long Term Financial Planning	Effective Date:
Approved:	Review Date:
Resolution No:	Resolution Date:

Notwithstanding the review date herein. This policy shall remain effective until such time approved otherwise by Council and may be reviewed on an earlier date if necessary

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1. DEFINITIONS AND ABBREVIATIONS

1.1. In this policy unless the context indicates otherwise –

“Basic municipal service” means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

“BSC” means Budget Steering Committee, a committee established in terms of regulation 4 of the Municipal Budget Reporting Regulations (MBRR), to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Municipal Finance Management Act (MFMA).

“Budget-related policy” means a policy of a municipality affecting or affected by the annual budget of the municipality, including— (a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act; (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or (c) the credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act.

“Chief Financial Officer (CFO)” means a person designated in terms of section 80(2)(a) of the MFMA.

“IDP” means the Integrated Development Plan.

“LTFP” means Long Term Financial Plan.

“Long-term debt” means debt repayable over a period exceeding one year.

“MBRR” means the Municipal Budget and Reporting Regulations.

“MFMA” means the Municipal Finance Management Act No 56 of 2003.

“MTREF” means Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years.

"Municipal Council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act.

“Municipal tariff” means a tariff for services, which a municipality may set for the provision of a service to the local community and includes a surcharge on such tariff.

“Municipal tax” means property rates or other taxes, levies or duties that a municipality may impose.

“National Treasury” means the National Treasury established by Section 5 of the Public Finance Management Act.

“Short Term” refers to a period up to 3 (three) years.

“Medium Term” refers to a period between 3 (three) and 5 (five) years.

“Long Term” refers to any period longer than 5 (five) years).

2. INTRODUCTION

2.1. The Local Government: Municipal Finance Management Act No 56 of 2003 (hereafter MFMA) has instituted various financial reform measures. Sound financial management practices have been identified as essential to the long-term sustainability of municipalities. In this regard the MFMA necessitates that municipalities must have a policy related the Long-Term Financial Plan (hereafter LTFP).

2.2. A municipality’s financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the Integrated Development Plan (hereafter IDP). It provides guidance for the development of current budgets and assesses financial impacts on outer years’ budgets by incorporating capital expenditure outcomes, operating expenditure trends, optimal asset management plans and the consequential impact on rates, tariffs and other service charges.

3. MAIN PURPOSE

3.1. The Policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient and cost-effective funding to achieve its long-term objectives through the implementation of the medium term operating and capital budgets. The purpose of the Policy on Long Term Financial Planning is therefore to:-

- a) Ensure that all long-term financial planning is based on a structured and consistent methodology in order to ensure the long-term financial sustainability of Setsoto Local Municipality.
- b) Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality.

4. SCOPE OF THE POLICY

4.1. In essence a financial plan encompasses the development, implementation, and evaluation of a plan for the provision of basic municipal services and capital assets. It is to assist decision makers in making informed choices about the provision of basic services and capital assets and to promote stakeholder participation in the process.

4.2. The financial plan should set out the Municipality's estimated expenditure over the medium-term, based on its goals and objectives, as well as the resources necessary to achieve this. In addition, the financial plan must set out where funding for the planned expenditure will come from.

4.3. The compilation of a financial plan is a core component of an Integrated Development Plan (IDP). The envisaged timeframe allocations for a long term financial plan are:-

- a) Short term (12 months);
- b) Medium term (2-3 years);
- c) Long term (4 years onwards);

5. STRATEGIC OBJECTIVE

5.1. To ensure that the Setsoto Local Municipality achieves a status of financial resilience whereby it is no longer grant dependent.

6. KEY PRINCIPLES

6.1. The policy on Long Term Financial Planning is based on the following principles:-

- a) Future financial sustainability.
- b) Investor attraction.
- c) Annual growth in population and consumer base.
- d) Optimal utilisation of grant funding and public donations.
- e) Continuous improvement and expansion in service delivery framework.
- f) Optimal collection of revenue, taking into consideration the socio-economic environment and factors prevailing within the municipality.

7. ROLE PLAYERS AND STAKEHOLDERS

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7.1. The following role players will ensure that the LTFP is implemented in accordance with the prescribed legislative requirements and Council processes.

a) Treasury Services Department

- i. Responsible for the preparation, compilation, and presentation of the LTFP in line with this policy; and
- ii. Review this policy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.

b) Other Directorates / departments

- i. Responsible for providing information to the Treasury Services Department to update the financial plan
- ii. Required to identify revenue and expenditure plans for both operating and capital budgets for at least 3 years; and
- iii. Required to make recommendations on future service delivery matters.

- c) Executive Management Team
 - i. Mechanism of engagement in the Strategic Management Framework (SMF) process.
 - ii. The SMF process informs planning and helps ensure delivery on the strategic objectives set out in the IDP.
- d) Budget Steering Committee
 - i. Responsible for providing guidance on technical budget principles on matters relevant to the LTFP;
 - ii. Responsible for endorsing the projected MTREF assumptions and parameters contemplated by the LTFP.
- e) Executive Mayor
 - i. Provides guidance in terms of section 53 of the MFMA.

8. POLICY DIRECTIVE

8.1. Financial strategies

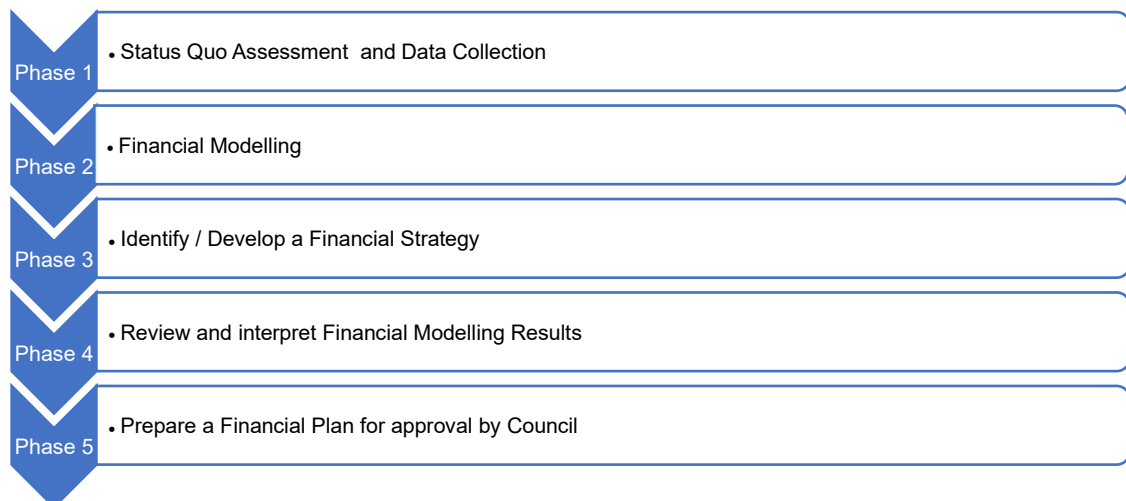
- a) An intrinsic feature of the LTFP is to give effect to the Municipality's financial strategies. These strategies include
 - 8.1.1.1. Maintaining or improving basic municipal services;
 - 8.1.1.2. Maintaining fair, equitable and cost reflective rates and tariff increases;
 - 8.1.1.3. Continuous improvement to the financial position;
 - 8.1.1.4. Ensuring funding for asset maintenance and renewal;
 - 8.1.1.5. Ensuring full cost recovery for the provision of internal services.
 - 8.1.1.6. Optimizing utilization of previous years' surpluses (if any);
 - 8.1.1.7. Ensuring realistic revenue sources and affordable debt levels to fund the capital budget;
 - 8.1.1.8. Achieving and maintaining a breakeven/surplus in the total Operating budget (inclusive of appropriations and secondary budget).

8.2. Non – financial strategies

- a) The LTFP is a key component for achieving the goals listed in the IDP of Setsoto Local Municipality and must consider the IDP inclusive of other municipal strategies and frameworks.
- b) In preparation of the LTFP, the fiscal overview must be considered by reviewing past financial performance and considering strategic and policy direction of the Municipality to ensure sustainability.

9. DEVELOPMENT OF A FINANCIAL PLAN

9.1. The phases for development of the Financial Plan are set out below:



a) Phase One – Status Quo Assessment

9.1.1.1. The objective of the status quo report is to assess the current financial position and to identify the key challenges faced by the Municipality. The status quo report will aim to identify issues which impact on the overall financial sustainability of the Municipality and will include a historical analysis and assessment of financial results (based on the annual financial statements). Perform a Status Quo Assessment under the following criteria:-

- a) The Municipality's current financial status;
- b) Audit Outcome for prior Financial Years;

- c) Current revenue sources, internal and external proportion of revenue;
- d) Main cost drivers impacting on the sustainability of the Municipality;
- e) Determine the main expenditure categories and the scale of each;
- f) Identify internal and external factors, which influence expenditure levels;
- g) Loan and liability obligations;
- h) Status of municipal infrastructure;
- i) Repairs and maintenance and refurbishments as per the Infrastructure Asset Management Plans;
- j) Distribution Losses;
- k) Reviewing the Municipality's funding requirements as per: financial plan; and IDP.
- l) Ability to finance capital expenditure;
- m) Trends and the implications including the financial problems; opportunities and constraints/risks facing the Municipality;
- n) Powers and Functions of the Municipality;
- o) Service backlogs and population projections in order to determine service needs; and
- p) Summarise the gaps and challenges to be addressed in the financial and funding plan.

b) Phase Two : Financial Modelling

9.1.2.1. Upon completion of the status quo assessment, resulting in an understanding of the Municipality's financial position, the next phase is to determine the Municipality's financing needs over the medium-term. This entails determining what expenditure the Municipality plans to undertake over the mediums-term and what its financing requirements are likely to be and how these can be funded either internally or externally.

- a. Develop a financial forecast model to identify immediate opportunities and risks; and
- b. To identify future opportunities and risks. This entails determining what expenditure the Municipality plans to undertake over the medium-term and what its financing requirements are likely to be and how these can be funded either internally or externally. As the Municipality evolves and expands its service delivery framework, so do those of the National Government. Long term community development and economic development projects will therefore also be included under this phase.

c) Phase Three : Financial Strategies

9.1.3.1. A key feature of the LTFP is to give effect to the Municipality's financial strategies. These strategies should include:

- a) Increasing funding for asset maintenance and renewal;
- b) Continuous improvement to the financial position;
- c) Ensuring affordable debt levels to fund the capital budget;
- d) Maintaining fair, equitable and affordable rates and tariff increase;
- e) Maintaining or improving basic municipal services;
- f) Achieving and maintaining a breakeven/surplus Operating budget; and
- g) Ensuring full cost recovery for the provision of internal services.

**d) Phase Four: Analyse and interpret financial modelling results
[Outcomes and Ratios]**

9.1.4.1. Evaluate the short-term financial viability (1 month to 12 months):-

- a) Develop a financial forecast model to identify immediate opportunities and risks;

- b) Perform scenario planning to identify the optimum balance between revenue collection and municipal spending, considering the following:
 - i. Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the municipality;
 - ii. Evaluate cost saving mechanisms to minimize the cost of effective service delivery;
 - iii. Current infrastructure investments and maintenance programmes which may influence revenue streams or the cost of service delivery.

9.1.4.2. Evaluate the medium and long-term financial viability (2 years onwards):-

- a) Develop a financial forecast model to identify future opportunities and risks;
- b) Perform scenario planning to identify the optimum balance between revenue collection and municipality spending, taking into account the following:
 - i. The impact each scenario has on the financial viability ratios of the Municipality;
 - ii. Potential revenue enhancement strategies which may have a long term impact on the revenue base of the Municipality;
 - iii. Evaluate cost saving mechanisms to minimize the cost of effective service delivery, taking into account potential infrastructure developments and renewals;
 - iv. The impact of current infrastructure investments and maintenance programs of future revenue streams or cost of service delivery;
 - v. The impact of envisaged future infrastructure investments on the revenue stream and cost of service delivery; and

- vi. The impact of National, Provincial and Municipal priorities over the medium and long term.

e) Phase Five: Prepare a Long Term Financial Plan

- 9.1.5.1. Once the Municipality has finalized the prioritization of initiatives and projects, a comprehensive long term financial plan will have to be developed to indicate the envisaged impact it will have on the financial status of the Municipality. An overall financial forecast will then have to be done in order to illustrate the projected result of the implementations throughout the five-year period.
- 9.1.5.2. Although a long term financial plan provides a forecast of potential outcomes, it has to be emphasized that the success of the financial plan remains in continuous revision. As is the case with any forecast model, the financial plan should be seen as a working document and should be subject to honest and realistic assessments of successes and failures on a regular basis.
- 9.1.5.3. The fourth phase involves finalizing a medium-term income and expenditure plan based on the various alternative service delivery options;
- 9.1.5.4. A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditures. The revenue and expenditure plan essentially involves combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast.
- 9.1.5.5. Finalization of the Financial Plan includes collating all short, medium and long term financial data and development of a long term financial plan that:-

- i. Identifies future revenue projections based on current and projected revenue streams, as well as those projects require to achieve these projections;
- ii. Identifies future expenditure frameworks and cost of service delivery based on current and projected expenditure patterns;
- iii. Identifies the level of infrastructure development required to achieve the municipal priorities, within the funding restrictions; and iv. Identifies external funding requirements required for capital investment.

10. ANNUAL REVIEW OF THE FINANCIAL PLAN

10.1. The financial plan must be reviewed on an annual basis as part of the annual review of the IDP and updated with at least the following information:-

- a) Any direct change in the financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality;
- b) Any changes in the economic and socio-economic environments, other than previously predicted, which may influence the financial status of the municipality;
- c) Any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;
- d) Any changes in the National, Provincial or Municipal priorities as previously identified; and
- e) Any factors which may have an impact on the ability to implement previously

11. POLICY TITLE

11.1. This policy shall be called 'Policy on Long Term Financial Planning' and is effective from date of approval