



MUNICIPALITY
MUNISIPALITEIT

Long Term Financial Planning Policy

2023/2024

TABLE OF CONTENTS

ABBREVIATIONS

PURPOSE OF THE DOCUMENT

DEFINITIONS

OBJECTIVES

APPROVAL AND EFFECTIVE DATE

RELATIONSHIP WITH OTHER POLICIES

REFERENCES

PRINCIPLES

DEVELOPMENT OF A FINANCIAL PLAN

IMPLEMENTATION AND REVIEW OF THE POLICY

This policy sets out the principles for determining the following: -

The policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient and cost-effective funding in order 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 the Municipality
- b) Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality
- c) Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
- d) Identify new revenue sources as funding for future years

DEFINITIONS

In this policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

“Accounting officer”

means the municipal manager, as indicated in section 60 of the Local Government: Municipal Finance Management Act, 2003, Act No 56 of 2003;

“Act”

as referred to in this policy means the Local Government: Municipal Finance Management Act, 2003, Act No. 56 of 2003;

“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;

“Budget Steering Committee” means:

A committee stabled to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the MFMA

“Budget related policy” means

a policy of the municipality affecting or affected by the annual budget of the municipality including-

- a) The tariff policies 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 policy which the municipality must adopt in terms of Section 96 of the Municipal Systems Act

“Chief Financial Officer” means

a person designated in terms of section 80(2) (a) of the Act;

“Council” or “Municipality” means

the Municipal Council of AbaQulusi Municipality as referred to in Section 18 of the Municipal Structures Act;

“Creditor” in relation to the municipality, means

Any person or service provider to whom money is owing by the Municipality;

“Debt” means

- a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or
- b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another

“Financing Agreement” means

Any long-term agreement, lease, instalment purchase contract or hire purchase agreement under which the Municipality undertakes to pay the capital cost of property, plant or equipment over a period of time;

“Financial year” means

a twelve-month financial period commencing on 1 July and ending on 30 June each year;

“Financial Statement” means statements consisting of at least

- a) a balance sheet (statement of financial position);
- b) an income statement (statement of financial performance);
- c) a cash-flow statement;
- d) any other statements that may be prescribed; and
- e) any notes to these statements

“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

the Medium-Term Revenue and Expenditure Framework, as prescribed in the MFMA. It sets out indicate revenue and projected expenditure for the budget year, plus two outer financial years;

“Municipal debt instrument” means

Any note, bond, debenture or other evidence of indebtedness issued by a municipality, including a virtual or electronic evidence of indebtedness intended to be used in raising debt;

“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

“National Treasury” means

the National Treasury established by Section 216(1) of the Constitution and section 5 of the Public Finance Management Act;

“Short Term” refers

To a period of up to 1 (one) year;

“Medium Term” refers

to a period between 3 (three) and 5 (five) years;

“Long Term structure” refers
to any period of 5 (five) years and longer

“Security” means
A lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor; and

“Short Term Debt” means
a debt which is repayable over a period not exceeding 12 months

OBJECTIVES

The annual updated Long-Term Financial Plan should identify the following:

- a) Assumptions and parameters to be used to compile the Operating and Capital budgets over the next MTREF;
- b) Future Operating Revenue and Expenditure projections based on assumptions and parameters;
- c) Future affordability of projected Capital Plans;
- d) The level of infrastructure development required to achieve the Municipal priorities, within the funding restrictions; and
- e) External funding requirements in respect of long-term debt

APPROVAL AND EFFECTIVE DATE

This policy takes effect on the 1st of July 2023

RELATIONSHIP WITH OTHER POLICIES

This policy is read in conjunction with the following relevant adopted policies of the municipality including:

- The Delegation of Powers
- Accounting Policy
- Credit Control and Debt Collection Policy
- Indigent and Free Basic Services Policy
- Budget Funding and Reserves Policy
- Cost Containment Policy

REFERENCES

The following reference were observed in compiling this document:

- Municipal Finance Management Act 56, 2003

- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- MFMA Circular 18 & 44
- MFMA Budget Circular 51
- Municipal Budget and Reporting Regulations, 2008
- Government Gazette 30013 and Government Gazette 31021
- Generally Recognised Accounting Practice

PRINCIPLES

This policy is based on the following principles: -

- a) Viability and sustainability of the municipality;
- b) Optimisation of the municipal revenue basket, taking into consideration grant funding is optimally utilised and managed. Effective credit control and debt collection, ensuring optimal revenue collection in the context of the socio-economic environment
- c) Continuous improvement and expansion in service delivery framework and effective financial strategies

During the process of compilation of the Long-Term Financial Plan the Abaqulusi Municipality took into consideration the following additional factors regarding the process: -

- A collaborative and visionary process. The Long-Term Financial Plan does not just forecast the status quo into the future but considers different possible scenarios
- A combination of technical analysis and strategizing. Long term forecasts and analysis are used to identify long-term imbalances and financial strategies are developed to counteract these imbalances or inequities
- An anchor of financial sustainability and policy development. The plan develops bit-picture and long-term thinking among elected and appointed Councillors and Officials and also aims to ensure alignment and credibility of the IDP
- Long term in nature, the plan will cover 5 (five) years

STATUS QUO ASSESMENT AND DATA COLLECTION

Perform a Status Quo Assessment under the following criteria: -

- The current financial status of the municipality
- Prior financial years audit outcomes
- Current revenue sources, internal and external proportion of revenue
- Main cost drivers impacting on the sustainability of the Municipality
- The main expenditure categories of the Municipality and the scale of each
- Identify internal and external factors that influence expenditure levels
- Loan and liability obligations
- Status of municipal infrastructure
- Repairs, maintenance and refurbishments as per the Infrastructure Asset Management Plans
- Distribution losses
- Review of the Municipality's funding requirements as per the financial plan and IDP
- Ability to finance capital expenditure

- Trends and the implications including the financial problems, opportunities and constraints/risks facing the Municipality
- Powers and Functions of the Municipality
- Service backlogs and population projections in order to determine service needs
- Summarise the gaps and challenges to be addressed in the financial and funding plan

In reviewing the current revenue sources in terms of:

- Existing service charges and fees
- Options for increasing user charges and fees based on the impact of inflation, other cost increases, the number of registered indigents, the adequacy of the coverage of costs and current competitiveness of rates and the impact on households particularly poorer households
- The nature and extent, purpose and predictability of National and Provincial Grants and Agency payments
- Future opportunities and threats in terms of revenue
- Other revenue opportunities such as leases and the sale of non-core assets
- Revenue constraints, such as maximum service charges and poor payment levels
- Potential threats to Municipal revenue, including changes in Grant allocations
- Potential expansion of the current revenue base
- Factors which influence revenue collections

Other non-financial issues to consider during status quo analysis

- Proposed organisational structure and assessing its cost implications
- Proposed community projects and programmes by Departments such as Human Settlements and assessing their cost implications
- Current state of Information Communication and Technology

FINANCE MODELING

Upon completion of the status quo assessment, resulting in an understanding of the Abaqulusi Municipality's financial position, the next phase is to determine the financing need over the medium term: -

- Develop a financial forecast model to identify immediate opportunities and risks
- 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 be included under this phase.

FINANCIAL STRATEGIES

A key feature of the Long-Term Financial Planning Policy is to give effect to the Municipality's financial strategies which include: -

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

ANALYSE RESULTS

For the short-term needs of the Municipality based on the Financial Modelling, perform scenario planning to identify the optimum balance between revenue collection and municipal spending, taking into account the following:-

- Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality
- Evaluate cost saving mechanisms to minimise the cost of effective service delivery
- Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery

PREPARE A FINANCIAL PLAN

The Long-Term Financial Plan should include the following: -

- Illustrate the projected result for a five (5) year period
- Finalisation of the plan including the collating of all financial data that identifies future revenue projections based on current and projected revenue streams as well as those projects required to achieve these projections. Future expenditure framework and cost of service delivery based on current and projected expenditure patterns. Identifies the level of infrastructure development required to achieve the municipal priorities within the funding restrictions and identifies external funding requirements required for capital investment.

ANNUAL REVIEW

The success of the Long-Term Financial Plan lies in continuous revision.

- The financial plan must be reviewed on an annual basis as part of the Budget preparation and review of the IDP.
- Any direct change in financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality
- Any changes in the economic and socio-economic environment, other than previously predicted, which may influence the financial status of the Municipality
- Any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality

- Any changes in National or Municipal priorities as previously identified
- Any factors which may have an impact on the ability to implement previously identified projects

IMPLEMENTATION AND REVIEW OF THE POLICY

This policy shall be implemented once approved by Council. All future Long-Term Financial Planning must be considered in accordance with this policy.

The Chief Financial Officer must at least annually review the implementation of this Policy and where necessary submit proposals for the amendment of this Policy to Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations.