LONG-TERM FINANCIAL PLANNING POLICY

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Adopted by Council:
Implemented:

TABLE OF CONTENT

1. INTRODUCTION

Financial planning is in essence an essential transparent control system incorporated in the IDP as a Long-Term Financial Plan, which is needed for future planning processes to ensure financial sustainability and capacity which is imperative for achieving the constitutional goals, objectives and responsibilities of the municipality.

The financial plan should set out the Municipality's estimated expenditure over the immediate term (12 months), the medium term (3 years) and long term (4 years onwards), based on its goals and objectives, as well as the resources required in order to achieve this. In addition, the financial plan must set out where funding for the planned expenditure will be received from. The main objective remains to promote good governance.

2. PURPOSE

The purpose of this policy is to inform the processes required to adhere to all legislative, regulatory and policy imperatives to develop a Long-Term Financial Plan.

The policy is further intended to meet the requirements of the Municipal Finance Management Act and to be consistent with any prescripts issued by the South African National Treasury. Central to these are the need to infuse sound financial management practices and structures for long-term sustainability with the aim to ensure 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.

3. OBJECTIVE

The main objective of this policy is to establish and document a structured approach to be followed when compiling a Long-Term financial plan. The long-term plan must ensure that the Municipality remains financially viable for the foreseeable future while also ensuring that current and future service delivery needs of the community are met.

The policy objective is to specifically address the basis of scenario planning to develop a financial model consistent with a 5 year view on the financial sustainability of the Municipality.

4. PLANNING PRINCIPLES

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

4.1.1 Future financial sustainability;

4.1.2 Optimal collection of revenue, taking into consideration the socio-economic environment;

4.1.3 Optimal utilisation of grant funding and public donations; and

4.1.4 Continuous improvement and expansion in the quality of service delivery.

4.2 The long-term policy needs to incorporate the various variables consistent with good scenario planning. In this regard aside from the regulatory compliance, the municipal records, financial statements and performance reviews of the various departments, expression is also to be given to the strategic direction the municipality is embarking on.

In this regard the Municipality needs to pay attention to its clearly identified strategic priorities of the Municipality as reflected in the IDP and match it with the practical realities of the financial constraints. Such constraints also need to be aligned with the ability to raise funding from all available sources for future operational and capital projects.

4.3 In essence the policy dictates how the long- term financial plan could be a feasible socio-economic plan rooted in firm and prudent fiscal principles.

5. DEVELOPMENT OF A LONG-TERM FINANCIAL PLAN

5.1 The phases for the development of a Long-Term Financial Plan are set out below.

Phase One	→	Compile a status quo assessment of the Municipality's current financial status and key challenges
Phase Two	→	Conduct financial modelling to determine financial viability
Phase Three	→	Analyse outcomes and ratios
Phase Four	→	Prepare a Long-Term Financial Plan

5.2 Phase One: Status Quo Assessment

5.2.1 Perform a status quo assessment under the following criteria:-

(a) The Municipality's current financial status;

(b) Current revenue sources, internal and external;

(c) Main cost drivers impacting on the sustainability of the Municipality;

(d) Status of municipal infrastructure;

(e) Ability to finance capital expenditure; and

(f) Municipal service delivery backlogs.

1.2.2 The financial overview will be based on actual historic information as well as tabled budgets. The overview should include sections on the following:

Revenue Management;
Expenditure Management;
Debtor and creditor management;
Cash Management;
Asset Management; and
Funding and Reserves.

1.2.3 The financial viability and creditworthiness of the Municipality is measured against a number of nationally recognised key ratios. These key ratios should include, **but are not limited to,** the following:

(a) Cash Coverage Ratio;

(b) Personnel Costs to Total Operating Expenditure;

(c) Repairs and Maintenance to PPE;

(d) Liquidity Ratio (Current Ratio); and

(e) Net Asset Position.

1.2.4 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 stability of the Municipality and will include a historical analysis and assessment of financial results (based on financial statements).

1.3 Phase Two: Planned Finance and Financial Modelling

5.3.1 Upon completion of the status quo assessment the next phase is to determine the Municipality's financing need over the medium-term.

5.3.2 This entails determining what expenditure the Municipality plans to undertake over the medium-term and what its financing requirements are.

5.3.3 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.

5.4 Phase Three: Analyse Outcomes and Ratios

5.4.1 Evaluate the short-term financial viability (6 months to 12 months);

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

5.4.3 Perform scenario planning to identify the optimum balance between revenue collection and municipal spending; taking into account 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 minimise the cost of effective service delivery.
iii) Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery.

5.4.4 Evaluate the medium- and long-term financial viability (1 year to 5 years):-

(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 municipal 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) Cost saving mechanisms to minimise the cost of effective service delivery; taking into account potential infrastructure developments and renewals;

iv) The impact of current infrastructure investments and maintenance programs on 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 and municipal priorities over the medium and long-term.

5.5 Phase Four: Develop a Long-Term Financial Plan

5.5.1 Once the Municipality has finalised the prioritisation 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.

5.5.2 Although a Long-Term Financial Plan provides a forecast of potential outcomes, it has to be emphasised 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 moving target and should be subject to honest and realistic assessments of successes and failures on a regular basis.

5.5.3 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.

5.5.4 Finalisation of the Financial Plan includes collating all short, medium- and long-term financial data and develop a Long-Term Financial Plan that:-

i) Identifies future revenue projections based on current and projected revenue streams, as well as those projects required 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.

6. ANNUAL REVIEW

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:-

i) any direct change in financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality;

ii) any changes in the economic and socio economic environment, other than previously predicted, which may influence the financial status of the Municipality;

iii) any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;

iv) any changes in the national or municipal priorities as previously identified; and

v) any factors which may have an impact on the ability to implement previously identified projects.