

THEMBELIHLE

LOCAL MUNICIPALITY
PLAASLIKE MUNISIPALITEIT
U-MASIPALA WASEKUHALENI



✉ Private bag X3 HOPETOWN 8750

Church Street HOPETOWN 8750

☎ (053) 2030005/8

Fax (053) 2030490

www.thembelihlemunicipality.co.za

LONG-TERM FINANCIAL PLANNING

THEMBELIHLE MUNICIPALITY

POLICY ON LONG-TERM FINANCIAL PLANNING 2015/2016

1. POLICY TITLE

POLICY ON LONG TERM FINANCIAL PLANNING

2. MAIN PURPOSE

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:-

- 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 Thembelihle Municipality
- Identify the need for revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
- Identify new revenue sources required to fund future budget cycles.

3. SCOPE OF THE POLICY

- 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.
- 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 a planned expenditure will come from
- The compilation of the financial plan is a score component of an integrated Development Plan (IDP). The envisaged timeframe allocations for a long term financial plan are:-
 - Short term (12 months)
 - Medium term (2-3 years)
 - Long term (4 years onwards).

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4. STRATEGIC OBJECTIVE

To ensure that the municipality achieves a status of financial resilience whereby it is no longer grant dependent.
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5. KEY PRINCIPLES

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

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| <ul style="list-style-type: none">• Future financial sustainability;• Annual growth in population and consumer based;• Optimal utilization of grant funding and public donations; and• Continuous improvement and expansion in service delivery framework |
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6. GOVERNANCE ISSUES

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| <ul style="list-style-type: none">• The Constitution of the Republic of South Africa, 1996• The Municipal Finance Management Act, 56 Of 2003 |
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7. POLICY PROCEDURES

7.1 DEVELOPMENT OF A FINANCIAL PLAN

The phases for development of 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

7.1.1 Phase One : Status Quo Assessment

- Performance 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
- The financial viability and creditworthiness of the Municipality is measured against a number of nationally recognized key ratios.
- The objective of the status quo report is to assess the current financial position and to identify the key challenges faces 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 annual financial statements)

7.1.2 Phase Two: Planned finance and financial Modeling

- Upon completion of the status quo assessment, resulting in an understanding of the Municipality's financing need over the medium-term.
- 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.

7.1.3 Phase three: Analyse Outcome and Ratios

- Develop a financial forecast model to identify immediate opportunities and risks;
- Perform scenario planning to identify the optimum balance between revenue collection and municipal spending; taking into account the following:
 - a) Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality;
 - b) evaluate cost saving mechanisms to minimize the cost of effective service delivery
 - c) current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery;
- Evaluate the medium and long term viability (2 years onwards):-
 - a) Development 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
 - the impact each scenario has on the financial viability ratios of the Municipality;
 - potential revenue enhancement strategies which may have a long-term impact on the revenue base of the Municipality;
 - evaluate cost saving mechanisms to minimize the cost of effective service delivery; taking into account potential infrastructure development and renewals ;
 - the impact of current infrastructure investments and maintenance programs on future revenue streams or cost of service delivery;
 - the impact of envisaged future infrastructure investments on the revenue stream and cost of service delivery ; and
 - the impact of provincial, national and municipal priorities over the medium and long term

7.1.4 Phase four: Develop a long term Financial Plan

- Once the Municipality has finalise 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.
- 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.

- The fourth phase involves finalizing a medium-term income and expenditure plan based on the various alternative service delivery options.
- A key component in determining future options, potential problems and opportunities is the forecast of revenue and expenditures . The revenue and expenditure plan essentially involves combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast.
- Finalisation of the Financial Plan includes collating all short, medium and long-term financial data and development of a long-term financial plan that:-
 - Identifies future revenue projections based on current and projected revenue streams, as well as those projects required to achieve these projections;
 - Identifies future expenditure frameworks 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

7.2 ANNUAL REVENUE OF FINANCIAL PLAN

7.2.1 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:-

- 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 the provincial, national or municipal priorities are previously identified; and
- any factors which may have an impact on the ability to implement previously.

8. COMPETENCE AND CAPACITY TO IMPLEMENT

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| <ul style="list-style-type: none">• Budget & Treasury Office |
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9. RELEVANT LEGISLATION APPLICABLE TO THIS POLICY

This policy gives effect to the provision of the following legislation

- The Constitution of the Republic of South Africa, 1996
- The Local Government Municipal Finance Management Act (MFMA), Act No. 56 of 2003