LONG TERM FINANCIAL PLAN

POLICY

BREEDE VALLEY

Municipality Munisipaliteit U Masipala wase

WORCESTER • RAWSONVILLE • DE DOORNS • TOUWS RIVER

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1. DEFINITIONS AND ABBREVIATIONS

‘‘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 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 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;

“Municipality” means the Breede Valley Municipality;

“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 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 12 months

“Medium Term” refers to a period between 1 (one) and 3 (three) years

“Long Term” refers to any period longer than 3 (three) years

2. INTRODUCTION

2.1 In essence a financial plan encompasses the development, evaluation and implementation of a plan for the provision of basic municipal services and capital assets.
Such a plan aims to help Municipal Councillors and other decision makers to make informed choices about the provision of basic services and capital assets and to promote stakeholder participation in the process.

2.2 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.

2.3 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:-

2.3.1 Immediate (12 months).
2.3.2 Medium term (3 years).
2.3.3 Long term (more than 3 years onwards).

3. PURPOSE

3.1 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:

3.1.1 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 Breede Valley Municipality;

3.1.2 Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;

3.1.3 Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and

3.1.4 Identify new revenue sources as funding for future years.

4. LEGISLATIVE FRAMEWORK

4.1 Section 17 (3) of the MFMA states that "when an annual budget is tabled it must be accompanied by, amongst others, "any proposed amendments to the budget-related policies of the municipality".

4.2 Section 21 of the MFMA states that the mayor of a municipality must at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for, amongst others:

(ii) the annual review of—

(aa) the integrated development plan in terms of section 34 of the Municipal Systems Act; and

(bb) the budget-related policies;

(iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and

(iv) any consultative processes forming part of the processes referred to in subparagraphs (ii) and (iii).

4.3 Section 7 (1) of the Local Government: Municipal Finance Management Act, 2003, Municipal Budget and Reporting Regulations, 2009 (hereafter MBRR) states that:

"the Municipal Manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of budget-related policies of the municipality, or any or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21 (1)(b) of the MFMA".

4.4 Section 7 (1) references (1) of the MBRR, further states that "as defined in section 1 of the MFMA. Policies that affect or are affected by the annual budget of a municipality include …."(g) a policy related to the long term financial plan".

4.5 Section 4 (1) of the MBRR states "that the mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the MFMA".

4.6 Section 26 (h) of the Local Government: Municipal Systems Act 32 of 2000 (hereafter the MSA) states that "An Integrated Development Plan must reflect a financial plan, which must include a budget projection for at least the next three years".

5. GUIDING PRINCIPLES

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

5.1.1 Future financial sustainability;

5.1.2 Annual growth in population and consumer base;

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

5.1.4 Optimal utilisation of grant funding and public donations;

5.1.5 Continuous improvement and expansion in service delivery framework;

5.1.6 A sound financial position over the next 10 years; and

5.1.7 Efficient, effective and economic expenditure.

5.2 The Financial Plan needs to be reviewed on an annual basis as part of the annual review of the IDP.

6. DEVELOPMENT OF A FINANCIAL PLAN

6.1 The phases for development of the 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 ratio's**
PHASE FOUR	→	**Prepare a long term financial plan**

6.2 Phase One: Status Quo Assessment

6.2.1 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.

6.2.2 The financial viability and creditworthiness of the Municipality is measured against a number of nationally recognised key ratios. These key ratios should include for example the following:-

a) Gross debtors to annual revenue;

b) Gross Debtors Collection Period Days);

c) Net debtors to annual revenue;

d) Net Debtors Collection Period (Days);

e) Annual Collection Rate;

f) Service Charges and Property Rates Revenue Budget Implementation Indicator;

g) Cash Coverage Ratio;

h) Personnel Costs to Total Operating Expenditure;

i) Repairs and Maintenance to PPE;

j) Liquidity Ratio (Current Ratio); and

k) Net Asset Position.

6.2.3 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).

6.3 Phase Two: Planned Finance and Financial Modelling

6.3.1 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 need over the medium-term.

6.3.2 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.

6.3.3 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.

6.4 Phase Three: Analyse Outcomes and Ratios

6.4.1 Evaluate the short-term financial viability (6 months 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; taking into account the following:-

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

6.4.2 Evaluate the medium and long term financial viability (1 year to 10 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:-

1) The impact each scenario has on the financial viability ratios of the Municipality;
2) Potential revenue enhancement strategies which may have a long term impact on the revenue base of the Municipality;
3) Cost saving mechanisms to minimise the cost of effective service delivery; taking into account potential infrastructure developments and renewals;

4) The impact of current infrastructure investments and maintenance programs on future revenue streams or cost of service delivery;
5) The impact of envisaged future infrastructure investments on the revenue stream and cost of service delivery; and
6) The impact of national and municipal priorities over the medium and long term.

6.5 Phase Four: Develop a Long Term Financial Plan

6.5.1 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.

6.5.2 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.

6.5.3 The fourth phase involves finalising a medium-term income and expenditure plan based on the various alternative service delivery options.

6.5.4 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.

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

(a) Identifies future revenue projections based on current and projected revenue streams, as well as those projects required to achieve these projections;

(b) Identifies future expenditure frameworks and cost of service delivery based on current and projected expenditure patterns;

(c) Identifies the level of infrastructure development required to achieve the municipal priorities, within the funding restrictions; and

(d) Identifies external funding requirements required for capital investment.

7. ANNUAL REVIEW

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

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

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

7.1.3 Any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;

7.1.4 Any changes in the national or municipal priorities as previously identified; and

7.1.5 Any factors which may have an impact on the ability to implement previously identified projects.

8. IMPLEMENTATION AND REVIEW OF THIS POLICY

This policy shall be implemented on 1 July 2015.

8.1 In terms of section 17(1)(e) of the MFMA this policy may be reviewed on an annual basis and the reviewed policy tabled to Council for approval as part of the budget process.