



Harry Gwala District Municipality

HGDM-P012
POLICY ON LONG
TERM FINANCIAL
PLANNING
2016-17
(DRAFT)



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1. PURPOSE

The policy on long term financial planning is aimed at ensuring that Harry Gwala District Municipality (hereafter 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 the Municipality;
- Identify capital investment requirements and associated funding sources to ensure the future sustainability of the 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.

A long term financial plan (hereafter the LTFP) is an important part of the Municipality as it is essential to ensure that the Municipality continues to implement its mandate effectively without impairing its capital base.

2. REGULATORY FRAMEWORK

2.1. Section 17 (3) of the Municipal Finance Management Act No56 of 2003 (hereafter 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”.

2.2. 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—*

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

2.3. 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*”.



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2.4. Section 7 (1) reference (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”.

2.5. 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”.

2.6. 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”.

3. DEFINITIONS AND ABBREVIATIONS

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;

IDP - means Integrated Development Plan, as prescribed by the MSA;

LTFF - means Long Term Financial Plan;

MBRR - means Municipal Budget and Reporting Regulations;

MFMA - means Municipal Finance Management Act No 56 of 2003;

MUNICIPALITY - means Harry Gwala District Municipality;

MSA - means Municipal Systems Act No 32 of 2000;

MTREF - means Medium Term Revenue and Expenditure Framework, as prescribed by MFMA;

4. SCOPE OF 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 the planned expenditure will come from.

The compilation of a financial plan is a core component of an Integrated Development Plan (hereafter IDP). The envisaged timeframes allocations for LTFF are:

- Short term (12 months);
- Medium term (2 – 3 years); and
- Long term (4 years onwards).



The LTFP is prepared for a period of at least 3 years, however it is recommended that it should be for over a period of 5 years.

5. GUIDING PRINCIPLES

The policy is based on the following guiding principles:

- Future financial stability;
- Optimal collections of revenue, taking into consideration the socio economic environment;
- Optimal utilisation of grant funding and public donations; and
- Continues improvement and expansion in service delivery framework.

6. STAKEHOLDERS AND ROLE PLAYERS

6.1. Budget office

- 6.1.1. Responsible for preparation and compilation of LTFP; and
- 6.1.2. Present LTFP outcome to Budget Steering Committee (hereafter BSC).

6.2. Directorates and Departments

- 6.2.1. Responsible for providing reasons for past performance outcomes;
- 6.2.2. Responsible for providing information to Budget office to update the LTFP;
- 6.2.3. Required to identify revenue and expenditure plans for both operating and capital budgets;
- 6.2.4. Required to make recommendations on future service delivery matters.

6.3. Budget Steering Committee

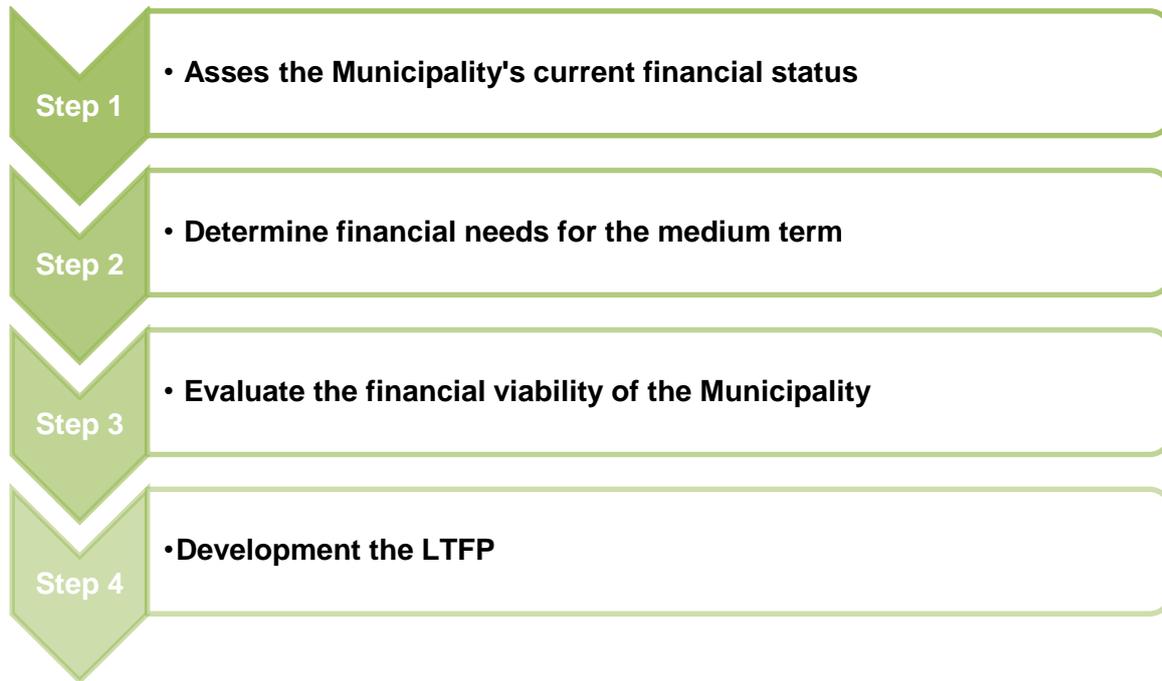
- 6.3.1. Responsible for providing strategic guidance on matters relevant to LTFP;
- 6.3.2. Responsible for endorsing the projected MTREF assumptions and parameters contemplated by the LTFP.

7. POLICY PROCEDURES

7.1. PREPARATION OF LTFP

The process should commence by latest June of each year.

The steps for development of the LTFP are set out below:



7.1.1. Step 1 – Asses the municipality's current financial status

The objective of this assessment is to determine what the Municipalities current financial position is and to identify key challenges faced by the Municipality. This report will aim to identify matters that will impact the Municipalities overall financial stability and will include a historical analysis of financial results (based on financial statements).

Perform the assessment under the following criteria:

- The Municipality's current overall financial position and liquidity;
- Current revenue sources (both internal and external);
- Status of financial infrastructure;
- Main cost drivers impacting the sustainability of the Municipality;
- Ability to finance capital expenditure (financial constrains); and
- Municipal service delivery backlogs.

7.1.2. Step 2 – Determine the financial needs for the medium term

The entails determining:

- What expenditure the Municipality plans to undertake over the medium-term;
- What the financing requirements are likely to be; and
- How these expenditure can be funded (either internally of externally).

It is imperative to ensure that the funding requirement as calculated be 100% cash backed, this will ensure that the projected requirements do not outstrip the available resources.

7.1.3. Step 3 – Evaluate the financial viability of the Municipality

Evaluate the short-, medium- and long-term viability of the Municipality by:

- Developing a financial forecast model to identify immediate and future opportunities and risks;



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- Perform a 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 minimise the cost of effective service delivery; taking into account potential infrastructure developments 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.

The LTFP is prepared in an uncertain environment and it is therefore required to make certain assumptions. Assumptions must be made on the following factors (internal and external):

- General inflation outlook and its impact on the municipal activities;
- Credit rating outlook;
- Interest rates for borrowing and investment of funds;
- Rates, tariffs, charges and timing of revenue collection;
- Growth or decline in tax base of the municipality;
- Collection rates for each revenue source;
- Price movements on specifics e.g. bulk purchases of water and electricity, fuel etc;
- Average salary increases;
- Trends in population and households (growth, decline, stable);
- Changing demand characteristics (demand for services);
- Trends in demand for free or subsidised basic services;
- Impact of national, provincial and local policies;
- Ability of the municipality to spend and deliver on the programmes; and
- Implications of restructuring and other major events into the future.

7.1.4. Step 4 – Development of FLTP

An overall financial forecast will then have to be done in order to illustrate the projected result of the implementations throughout the 3 year period.

Although a LTFP 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 working document and should be subject to honest and realistic assessments of successes and failures on a regular basis. The fourth phase involves finalising a medium-term income and expenditure plan based on the various scenarios.

A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditures. The revenue and expenditure plan essentially



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involves combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast.

Finalisation of the LTFP includes collating all short, medium and long term financial data and development of a LTFP.

7.2. ANNUAL REVIEW OF LTFP

The LTFP must be reviewed on an annual basis as part of the annual review of the IDP and updated with at least the following information:

- Assess compliance with the MFMA and other relevant legislation;
- Any factors which may have an impact on the ability to implement previously identified projects;
- Any changes in the national or municipal priorities as previously identified;
- Any changes in the socio economic and economic environment, which were not previously predicted, which may have an impact on the financial status of the Municipality;
- Any changes in the overall revenue base or funding mix which may have an impact on the financial status of the Municipality; and
- Any changes in the overall financial position and/or liquidity situation of the Municipality which were not previously identified.

7.3. IMPLEMENTATION OF LTFP

The annual updated LTFP should provide the parameters and assumptions for the compilation of the operating and capital budgets.

This information should be provided to the operation and capital budget departments by latest January of each year.

BSC should endorse the final MTREF scenario inclusive of assumptions and parameters annually by latest January.



8. REVIEW OF POLICY

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

The following should be taken into account for future amendments to this policy:

- Changes in financial strategy;
- Changes in no-financial strategic strategies; and
- Changes in legislation

Policy section:	Director: Budget and Reporting
Current date:	30 March 2016
Previous review date:	22 May 2015

9. APPROVAL AND IMPLEMENTATION OF POLICY

This policy shall be implemented on 01 July once approved by council.

Policy section:	Director: Budget and Reporting
Approval by council:	