

DRAFT ANNUAL BUDGET

**DRAFT LONG TERM FINANCIAL
PLANNING AND
IMPLEMENTATION POLICY**



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POLICY ON LONG TERM FINANCIAL PLANNING

1. INTRODUCTION

- 1.1 In essence a financial plan encompasses the development, implementation and evaluation 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 make informed choices about the provision of basic services and capital assets and to promote stakeholder participation in the process.
- 1.2 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.
- 1.3 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:-
 - 1.3.1 Immediate (12 months).
 - 1.3.2 Medium term (5 years).
 - 1.3.3 Long term (15 years onwards).

2. PURPOSE

- 2.1 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:-
 - 2.1.1 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 the Bitou Municipality.
 - 2.1.2 Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;
 - 2.1.3 Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
 - 2.1.4 Identify new revenue sources as funding for future years.

3. GUIDING PRINCIPLES

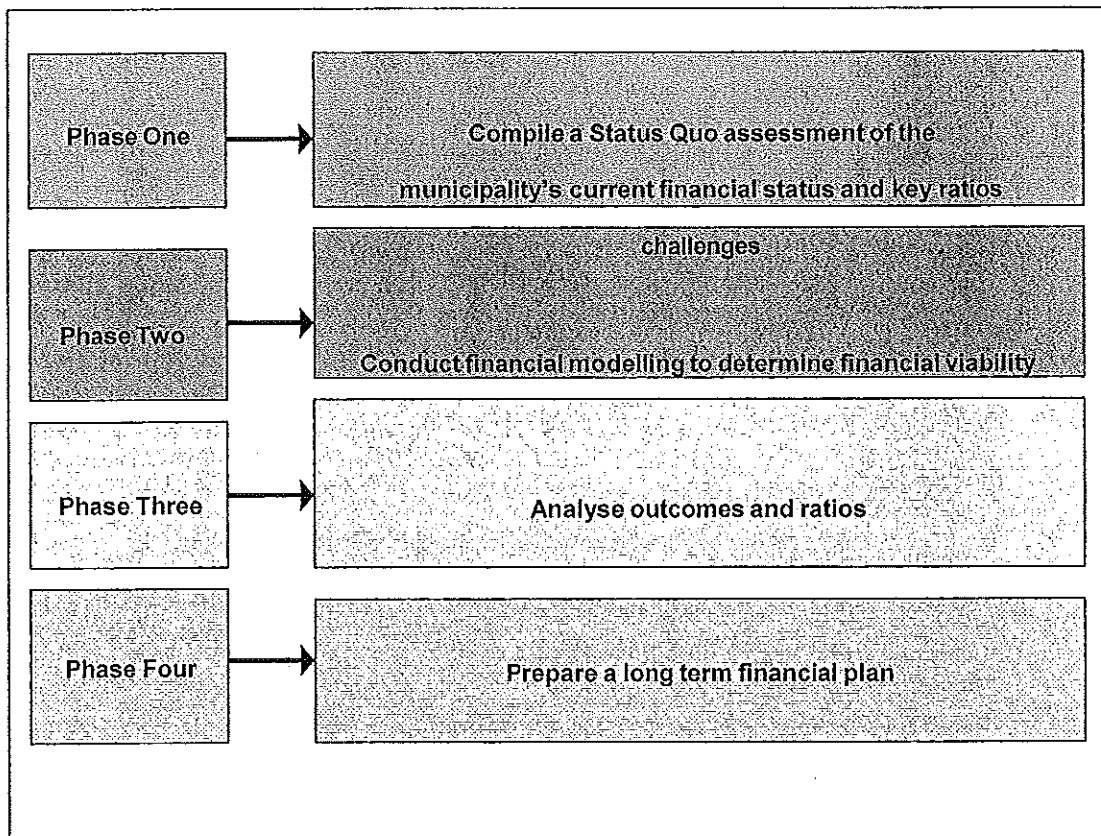
3.1 The policy on Long Term Financial Planning is based on the following principles:-

- 3.1.1 Future financial sustainability;
- 3.1.2 Annual growth in population and consumer base;
- 3.1.3 Optimal collection of revenue, taking into consideration the socio economic environment;
- 3.1.4 Optimal utilisation of grant funding and public donations; and
- 3.1.5 Continuous improvement and expansion in service delivery framework.

3.2 Once developed, the Financial Plan needs to be updated on an annual basis as part of the annual review of the IDP.

4. DEVELOPMENT OF A FINANCIAL PLAN

4.1 The phases for development of the Financial Plan are set out below.



4.2 Phase One: Status Quo Assessment

4.2.1 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.

4.2.2 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.

4.2.3 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).

4.2 Phase Two: Planned Finance and Financial Modelling

- 4.2.1 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.
- 4.2.2 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.
- 4.2.3 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.

4.3 Phase Three: Analyse Outcomes and Ratios

4.3.1 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:-
- (c) Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality;
- (d) Evaluate cost saving mechanisms to minimise the cost of effective service delivery;
- (e) Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery;

4.3.2 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:-
 - 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.

4.4 Phase Four: Develop a Long Term Financial Plan

- 4.4.1 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.
- 4.4.2 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.
- 4.4.3 The fourth phase involves finalising a medium-term income and expenditure plan based on the various alternative service delivery options.
- 4.4.4 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.
- 4.4.5 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.

5. ANNUAL REVIEW

- 5.1 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:-
- 5.1.1 any direct change in financial status or internal factors, other than previously predicted which may influence the financial status and viability of the Municipality;
 - 5.1.2 any changes in the economic and socio economic environment, other than previously predicted, which may influence the financial status of the Municipality;
 - 5.1.3 any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;
 - 5.1.4 any changes in the national or municipal priorities as previously identified; and
 - 5.1.5 any factors which may have an impact on the ability to implement previously identified projects.

6. IMPLEMENTATION AND REVIEW OF THIS POLICY

This policy shall be implemented once approved by Council.

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