Amahlathi Municipality

POLICY RELATED TO LONG TERM FINANCIAL PLANNING

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1. LEGISLATIVE REQUIREMENTS

- Section 17(3)(e) of the MFMA requires that when an annual budget is tabled, it must be accompanied by any proposed amendments to the budget-related policies of the municipality.
- Section 21(1)(a) of the MFMA requires that the mayor co-ordinate the processes for preparing the annual budget and for reviewing the municipality's IDP and budget-related policies to ensure that the tabled budget and any revisions of the IDP and budget-related policies are mutually consistent and credible.
- Section 21(1)(b)(iii) of the MFMA requires that the mayor must, inter alia, table in the municipal council at least 10 months before the start of the budget year a time schedule outlining key deadlines for amongst others, the annual review of the budget-related policies.
- Regulation 7(1) of the MBRR requires that the municipal manager of a municipality must ensure that all the required budget-related policies or any amendments to these policies is done in accordance with section 21(1)(b) of the MFMA.
- Included in Regulation 7(1) of the MBRR is a list of required budget-related policies and included in subsection (g) of the list is "a policy related to the long-term financial plan".
- Section 26(h) of the MSA requires that an IDP must reflect a financial plan, which must include a budget projection for at least the next three years.

2. OBJECTIVES OF THE POLICY

The main objective of the policy on long term financial planning is to ensure that the Municipality has sufficient and cost-effective funding in order to be able to achieve its long term financial objectives through the implementation of its medium term revenue and expenditure framework. The main objectives of this policy are detailed as follows:

- To ensure that the municipality remains financially sustainable.
- To ensure that infrastructure development projects over the longer term are informed by strategic long-term plans and financed in the most effective manner.
- To apply fair, equitable and cost reflective rates and tariff increases.
- To continuously strive to improve the financial position.
- To ensure that the budget adopted is from realistic anticipated revenue sources.
- To ensure that full cost recovery of trading services.

- To implement revenue strategies that will improve revenue generation to ensure sustainability.
- Ensuring financial sustainability.

3. POLICY PROCEDURES

Financial Plan constitutes the following phases.

3.1 Phase One: Status Quo Assessment

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 annual financial statements). The criteria to asses status core is as follows:

- Assess current financial status of the Municipality.
- Assess current revenue sources.
- Assess main cost drivers that impacts sustainability of the Municipality.
- Assess status of municipal infrastructure.
- Assess ability to finance capital expenditure.
- Assess Municipal service delivery backlogs.

3.2 Phase Two: Planned Finance and Financial Modelling

- 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 through its annual budget.
- 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.

3.3 Phase Three: Analyse Outcomes and Ratios

Evaluate the short-term financial viability (1 month to 12 months) by assessing the following:

- Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality.
- Evaluate cost saving mechanisms to minimise the cost of effective service delivery.

- Assess current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery;

Evaluate the medium and long term financial viability (2 years onwards):-

(a) 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 a long-term impact on the revenue base of the Municipality.

   ii. evaluate cost saving mechanisms to minimise the cost of effective service delivery, taking into account potential infrastructure developments and renewals.

   iii. the impact of current infrastructure investments and maintenance programs on future revenue streams or cost of service delivery.

   iv. the impact of envisaged future infrastructure investments on the revenue stream and cost of service delivery; and

   vi. the impact of provincial, national, and municipal priorities over the medium and long term.

3.4 **Phase Four: Develop a Long-Term Financial Plan**

- After finalizing the prioritization of projects and other initiatives to be undertaken during the budget year; 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.

- 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 working document and should be subject to honest and realistic assessments of successes and failures on a regular basis.

- Finalization of the Financial Plan includes collating all short, medium and long term financial data and development of 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.

4. ANNUAL REVIEW OF FINANCIAL PLAN

The financial plan must be reviewed on an annual basis if that is necessitated as part of the annual review of the IDP. The plan must be revised where internal or external factors have been identified that may impact the financial status and viability of the Municipality.