

**BLUE CRANE
ROUTE
MUNICIPALITY
(EC102)**



**LONG TERM
FINANCIAL
PLANNING POLICY**

Financial Year
2023/2024

No. 16

CONSIDERED / APPROVED BY
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MZWANDILE PATRICK NINI
MUNICIPAL MANAGER

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(1) Introduction

- (a) In essence, a financial plan encompasses the development, implementation and evaluation of a plan for the provision of basic municipal services which are necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety of the environment and also the acquisition of capital assets. Such a plan aims:
- (i) to assist Councillors and other decision makers to make informed choices and decisions about the provision of such basic services and capital assets; and
 - (ii) to facilitate stakeholder participation in the process.
- (b) 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 these goals and objectives. In addition, the financial plan must set out the anticipated source of funding for the planned expenditure.
- (c) A financial plan is a core component of the Integrated Development Plan (IDP) of the Municipality.
- (d) The desirable timeframe allocations for a long-term financial plan are:-
- (i) Immediate (12 months).
 - (ii) Medium term (3 years).
 - (iii) Long term (4 years and longer).

(2) Purpose

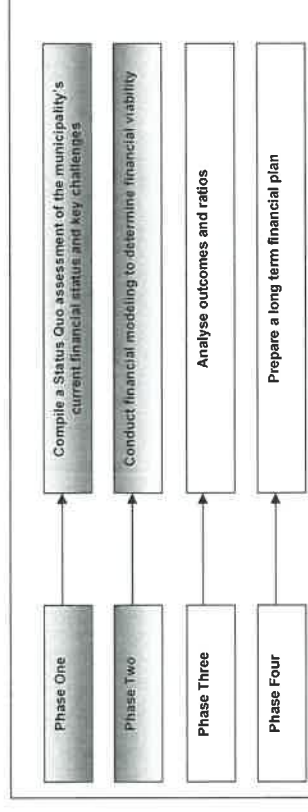
- (a) The Policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient and cost-effective funding in order to achieve its long term objectives through the implementation of the medium term operating and capital budgets.
- (b) The purpose of the Policy on Long Term Financial Planning is, therefore, to:-
- (i) 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 Blue Crane Route Municipality;
 - (ii) Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;
 - (iii) Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
 - (iv) Identify new revenue sources as funding for future years.

(3) Guiding Principles

- (a) The policy on "Long Term Financial Planning" is based on the following principles:-
- (i) Future financial sustainability;
 - (ii) Annual growth in population and consumer base;
 - (iii) Optimal collection of revenue, taking into consideration the socio- economic environment;
 - (iv) Optimal utilisation of grant funding and public donations; and
 - (v) Continuous improvement and expansion in service delivery.
- (b) Once developed, the plan needs to be reviewed and updated on an annual basis as part of the annual review of the IDP.

(4) Development of a Financial Plan

The phases for the development of a "Financial Plan" are as follows:



(a) Phase One: Status Quo Assessment

- (i) 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.

(ii) The financial viability and creditworthiness of the Municipality is measured against a number of nationally recognized key ratios. These key ratios should provide, for example, for 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.

(iii) 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).

(b) Phase Two: Planned Finance and Financial Modelling

- (i) 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 needs over the medium-term.
- (ii) This entails determining what expenditure the Municipality plans to incur over the medium-term and what its financing requirements are likely to be and how these can be funded either internally or externally.
- (iii) 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, accordingly, also be included under this phase.

(c) Phase Three: Analyse Outcomes and Ratios

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

(ii) 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 minimize 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.

(d) Phase Four: Develop a Long Term Financial Plan

- (i) Once the Municipality has finalized 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 undertaken in order to illustrate the projected result of the implementations throughout the five year period.

- (ii) 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 moving target and should be subject to honest and realistic assessments of successes and failures on a regular basis.
- (iii) The fourth phase involves finalizing a medium-term income and expenditure plan based on the various alternative service delivery options.
- (iv) A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditure. The revenue and expenditure plan essentially involves combining the forecasting of revenue and the forecasting of expenditure into a single financial forecast.
- (v) Finalization of the Financial Plan includes collating all short, medium and long term financial data and the 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 municipal priorities, within the funding restrictions; and
 - (d) Identifies external funding requirements required for capital investment.

(5) Annual Review

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:

- (i) any direct change in financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality;
- (ii) any changes in the economic and socio economic environment, other than previously predicted, which may influence the financial status of the Municipality;
- (iii) any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;
- (iv) any changes in the national or municipal priorities as previously identified; and
- (v) any factors which may have an impact on the ability to implement previously identified projects.

(6) Implementation and Review of this Policy

- (i) This policy shall be implemented once approved by Council.
- (ii) This policy constitutes a budget-related policy which must be reviewed on an annual basis and the reviewed policy must be submitted to Council for approval in terms of section 17(3) (e) of the Municipal Finance Management Act No. 56 of 2003 as part of the annual budgetary process.

(7) Council Resolution

The Long-Term Financial Planning Policy to be reviewed.