

MAFUBE LOCAL MUNICIPALITY



LONG TERM FINANCIAL PLANNING POLICY

2025/26

LONG TERM FINANCIAL PLANNING POLICY

TABLE OF CONTENTS

1. PURPOSE OF THIS DOCUMENT	1
2. DEFINITIONS	2
3. OBJECTIVES	4
4. APPROVAL AND EFFECTIVE DATE	5
5. RELATIONSHIP WITH OTHER POLICIES	7
6. REFERENCES	8
7. PRINCIPLES	9
8. DEVELOPMENT OF A FINANCIAL PLAN	10
9. IMPLEMENTATION AND REVIEW OF THE POLICY	15

PURPOSE OF THIS DOCUMENT

This policy sets out the principles for determining the following:-

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:-

- 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 revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
- Identify new revenue sources as funding for future years.

OBJECTIVES

The annual updated Long Term Financial Planning should identify the following:

- (a) Assumptions and parameters to be used to compile the Operating and Capital budgets over the next MTREF;
- (b) Future Operating revenue and expenditure projections based on assumptions and parameters;
- (c) Future affordability of projected Capital Plans;
- (d) The level of infrastructure development required to achieve the Municipal priorities, within the funding restrictions; and
- (e) External funding requirements in respect of long term debt.

APPROVAL AND EFFECTIVE DATE

The policy will be effective as from 1 July 2024.

RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Delegation of Powers;
- Credit Control and Debt Collection Policy;

- Indigent and Free Basic Services Policy;
- Budget funding and reserves Policy
- Cost containment policy,

PRINCIPLES

The policy is based on the following principles:-

1. Viability and sustainability of the municipality;
2. Optimisation of the municipal revenue basket, taking into consideration the following:
 - Grant funding is optimally utilised and managed; and
 - Effective credit control and debt collection, ensuring optimal revenue collection in the context of the socio-economic environment.
3. Continuous improvement and expansion in service delivery framework, and
4. Effective financial strategies.

During the process of compilation of the Policy the Municipality should take cognisance of the following additional factors regarding the process:-

- A collaborative and visionary process. The LTFP does not just forecast the status quo into the future but considers different possible scenarios.
- A combination of technical analysis and strategising. Long-term forecasts and analysis are used to identify long-term imbalances and financial strategies are developed to counteract these imbalances or inequities.
- An anchor of financial sustainability and policy development. The plan develops big-picture and long-term thinking among elected and appointed Councilors and Officials and also aims to ensure alignment and credibility of the IDP.

MTREF

Status Quo assessment and data collection

Perform a Status Quo assessment under the following criteria:-

- The Municipality's current financial status;
- Audit Outcome for prior Financial Years;
- Current revenue sources, internal and external proportion of revenue;
- Main cost drivers impacting on the sustainability of the Municipality;
- Determine the main expenditure categories and the scale of each;
- Identify internal and external factors, which influence expenditure levels;
- Loan and liability obligations;
- Status of municipal infrastructure;

- Repairs and maintenance and refurbishments as per the Infrastructure Asset Management Plans;
- Distribution Losses;
- Ability to finance capital expenditure;
- Trends and the implications including the financial problems; opportunities and constraints/risks facing the Municipality;
- Powers and Functions of the Municipality;
- Service backlogs and population projections in order to determine service needs; and Summarise the gaps and challenges to be addressed in the financial and funding plan.

In reviewing the current revenue sources in terms of:

- Existing service charges and fees.
- Options for increasing user charges and fees based on:
 - the impact of inflation;
 - other cost increases;
 - number of registered indigents;
 - the adequacy of the coverage of costs and current competitiveness of rates; and impact on households, particularly poorer households.
 - The nature and extent, purpose and predictability of National and Provincial Grants and Agency
 - Payments.
- Future opportunities and threats in terms of revenue:
 - Other revenue opportunities, such as leases and the sale of non-core assets.
 - Revenue constraints, such as maximum service charges and poor payment levels.
 - Potential threats to Municipal revenue, including changes in Grant allocations.
- Potential expansion of the current revenue base.
- Factors, which influence revenue collections.

Other non-financial issues to consider during status quo analysis

- Proposed organisational structure and assessing its cost implications;
- Proposed community projects and programmes by Departments, such as Housing and Health,
- and assessing their cost implications; and
- Current state of Information Communication and Technology
- Financial Modeling

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:-

- Develop a financial forecast model to identify immediate opportunities and risks; and
- To identify future opportunities and risks.
- 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.
- 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.

Financial Strategies

A key feature of the LTFP is to give effect to the Municipality's financial strategies. These strategies

should include:

- Increasing funding for asset maintenance and renewal;
- Continuous improvement to the financial position;
- Ensuring affordable debt levels to fund the capital budget;
- Maintaining fair, equitable and affordable rates and tariff increase;
- Maintaining or improving basic municipal services;
- Achieving and maintaining a breakeven/surplus Operating budget; and (g) Ensuring full cost recovery for the provision of internal services.

Analyse Results

- For the short-term needs of the Municipality based on the Financial Modelling, perform scenario planning to identify the optimum balance between revenue collection and municipal spending, taking into account 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; and Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery.

Prepare Financial Plan

The Long Term Financial Plan should indicate the following:-

- Illustrate the projected result for a five (5) year period.
- Forecasting of revenues and the forecasting of expenditures into a single financial forecast.

- Finalisation of the Financial Plan includes collating all financial data and develop a financial plan that:-
 - Identifies future revenue projections based on current and projected revenue streams, as
 - well as those projects required to achieve these projections;
 - Identifies future expenditure frameworks and cost of service delivery based on current and projected expenditure patterns;
 - Identifies the level of infrastructure development required to achieve the municipal priorities, within the funding restrictions; and
 - Identifies external funding requirements required for capital investment.
 - Commencement preparation of plan date, approval date of plan

Annual Review

The success of the LTFP lies in continuous revision:

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

IMPLEMENTATION AND REVIEW OF THE POLICY

This policy shall be implemented once approved by Council. All future Long Term Financial Planning must be considered in accordance with this policy.

The Chief Financial Officer must–

- (a) at least annually review the implementation of this Policy; and
- (b) when the CFO considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations.