NDLAMBE LOCAL MUNICIPALITY

LONG-TERM FINANCIAL PLANNING POLICY 2026/2027

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DEFINITION

The policy on Long-Term Financial Planning is aimed at ensuring that the municipality has sufficient and cost-effective funding to achieve its long-term objectives through the implementation of the medium-term operating and capital budgets.

MAIN PURPOSE

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 to ensure the long-term financial sustainability of Ndlambe Local 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 to improve service delivery at affordable rates; and

- Identify new revenue sources required to fund future budget cycles.

SCOPE OF THE 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 (IDP). The envisaged timeframe allocations for a long-term financial plan are:-
    - Short term (12 months)
    - Medium term (2-3 years)
    - Long term (4 years onwards)

OBJECTIVES

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

- Assumptions and parameters to be used to compile the operating and capital budgets over the next Medium-Term Revenue and Expenditure Framework (MTREF);
- Future operating revenue and expenditure projections based on assumptions and parameters;
- Future affordability of projected capital plans;
- The level of infrastructure development required to achieve the Municipal priorities, within the funding restrictions; and
- External funding requirements in respect of long-term debt

KEY PRINCIPLES

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

- Future financial sustainability;
- Annual growth in population and consumer base;
- Optimal collection of revenue, 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
- Optimal utilization of grant funding and public donations; and
- Continuous improvement and expansion in service delivery framework

During the process of compilation of the LTFP 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.

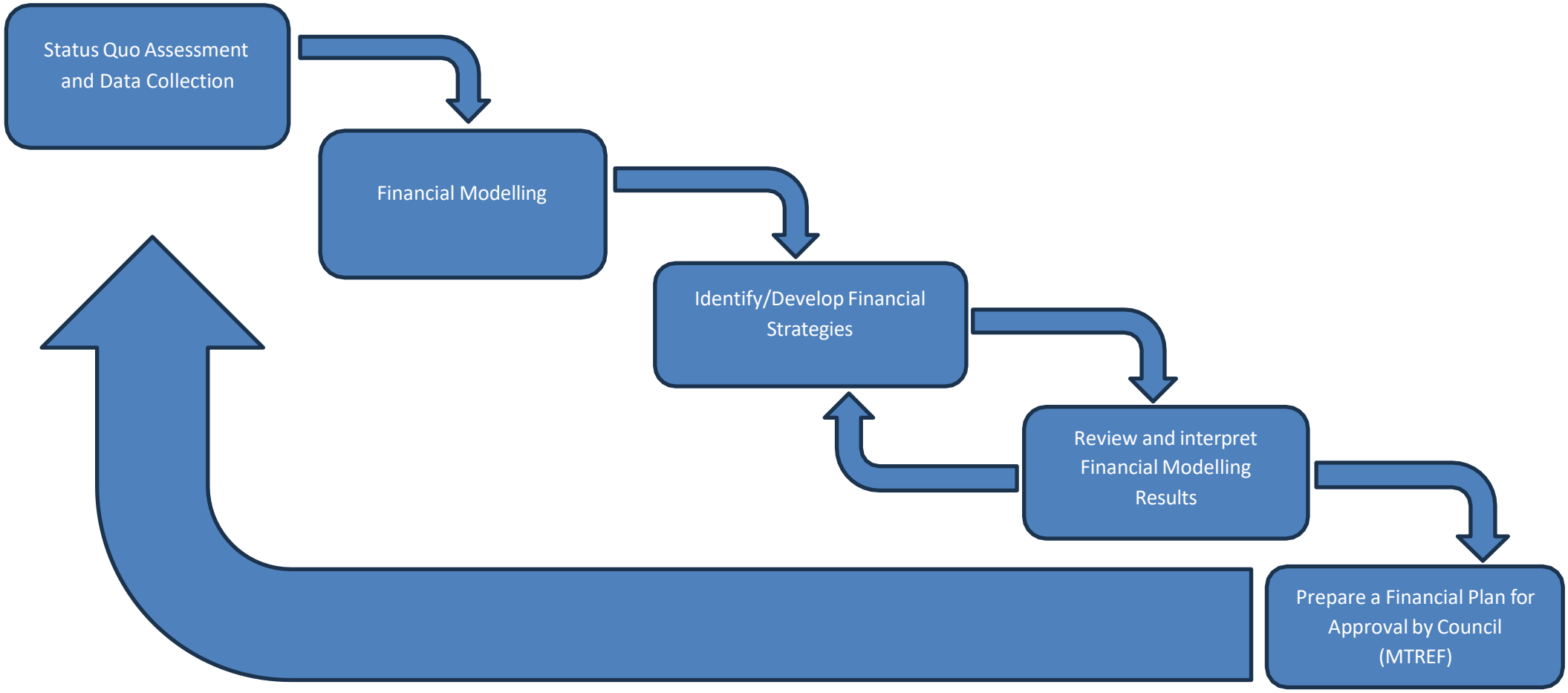
- An anchor of financial sustainability and policy development.
  The plan develops big-picture and long-term thinking among elected and appointed Councilors and Officials and aims to ensure alignment and credibility of the IDP.

- Long term in nature.
  The plan will cover three (3) years.

POLICY PROCURES

DEVELOPMENT OF FINANCIAL PLAN

The phase for development of the financial plan is set out below:



Status Quo Assessment

Perform a status quo assessment under the following criteria: -

- Municipality's current financial status
- Current revenue sources, internal and external proportion of revenue
- Main cost drives impacting on the sustainability of the Municipality
- Status of municipal infrastructure
- Ability to finance capital expenditure, and
- Municipal service delivery backlogs
- Repairs and maintenance and refurbishments as per the infrastructure assets management plan
- Distribution losses
- Determine the main expenditure categories and the scale of each
- Ability to finance expenditure

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.

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:-

(a) Develop a financial forecast model to identify immediate opportunities and risk, and
(b) To identify future opportunities and risk

This entails determining what expenditure the municipality plans to undertake over the medium-term and what its financing requirement 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. Lond-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:

(a) Increasing funding for asset maintenance and renewal;

(b) Continuous improvement to the financial position;

(c) Ensuring affordable debt levels to fund the capital budget;

(d) Maintaining fair, equitable and affordable rates and tariff increase;

(e) Maintaining or improving basic municipal services;

(f) Achieving and maintaining a breakeven/surplus Operating budget; and

(g) Ensuring full cost recovery for the provision of internal services

Analyse results

(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:-
- potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality;
- evaluate cost saving mechanisms to minimize the cost of effective service delivery;
- 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) 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 rations of the Municipality;
(ii) potential revenue enhancement strategies which may have a long-term impact on the revenue base of the Municipality;
(iii) evaluate 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 provincial, national and municipal priorities over the medium and long term

Develop a Long-Term Financial Plan

- 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 done in order to illustrate the projected result of the implementations throughout the five-year period.

- Although a long-term financial plan provides a forecast of potential outcomes, it must 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 working document and should be subject to honest and realistic assessments of successes and failures on a regular basis.

- The fourth phase involves finalizing a medium-term income and expenditure plan based on the various alternative service delivery options.

- A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditures. The revenue and expenditure plan essentially involve combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast.

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

Annual Review

- The financial plan must be reviewed on an annual basis as part of the annual review of the IDP and update 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.
- The impact of any national disasters that may be declared.

IMPLEMENTATION OF THE POLICY

The policy will be effective as from 1st July 2024