

LONG TERM FINANCIAL PLAN



POLICY, PROCESSES AND PROCEDURES

RECOMMENDED

THAT the Long term Financial Plan Policy including Key Deadline Checklist and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version 2

Date March 2014

Document Name **Long Term Financial Plan Policy and Procedures**

Reviewed By

_____ **Date:** _____
INTERNAL AUDITOR

Supported By

_____ **Date:** _____
CHIEF FINANCIAL OFFICER

Signature

_____ **Date:** _____
MUNICIPAL MANAGER

Adopted by the Mayoral Committee

_____ **Date:** _____
CHAIRPERSON

Approved by the Council

_____ **Date:** _____
RESOLUTION

Effective date

Next revision date

1. POLICY

1.1	Overview	4
1.2	Purpose	5
1.3	Objective	5
1.4	Business Process Framework	5
	1.4.1 Legislative Framework	5
	1.4.2 Accounting Framework	6
1.5	Recommendations	6

2. PROCESSES

2.1	Methodology	8
2.2	Financial Strategies	8
2.3	Non Financial Strategies	9

3. PROCEDURES

3.1	Crafting the Long Term Financial Plan	10
3.2	Assessing the Strategy	11
3.3	Implementation	11
3.4	Amendment and Review of Policy	12

1. POLICY

1.1 Overview

Sedibeng District Municipality has developed its Long Term Financial Plan with a view to ensure financial sustainability and capacity to accommodate future planning. This in recognising its:

- i. community orientation; and
- ii. the need for good governance.

The policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework for Municipality's processes to sustain cash flow in a manner prescribed in the Municipal Finance Management Act, 2003 and National Treasury Regulations.

1.2. Purpose

The purpose of this policy is to adhere to all legislative, regulatory and policy imperatives by infusing effective and efficient budget monitoring processes and procedures into the Sedibeng District Municipality.

The policy is further intended to meet the requirements of the Municipal Finance Management Act, 2003 and to be consistent with any prescripts issued by the South African National Treasury. Central to these are the need to infuse sound financial management practices and structures for long term sustainability.

1.3 Objectives

The policy objectives of the long term financial plan also specifically seeks to address the following:

- 2.1 A seamless integration of the financial relationship between the various revenue and expenditure streams upon which the Integrated Development Plan (IDP) is based – by clustering the current budgets to allow cost benefit effects to be tested on the overall budgets and thereby on service tariffs.
- 2.2 Sedibeng District Municipality has thus on the basis of scenario planning developed financial model consistent with a 10 year view on the financial sustainability of the District inclusive of proposed capital projects.

1.4 Legal and Accounting Framework Definitions

1.4.1 Legal Framework

The Municipal Finance Management Act (MFMA) 56 of 2003, the Municipal Systems Act (MSA) 32 of 2000, and all other applicable legislation, policies and circulars make reference.

Section 21 of the **MFMA** requires the Executive Mayor to table before council 10 months before the start of the budget year a time schedule outlining key deadlines inclusive of the annual budget process, the Integrated development Plan as prescribed by section 34 of the **MSA**, the budget related policies, any amendments to the IDP or budget related policies, and the necessary consultative process which need to give effect to the above.

Section 7(1) of the **MBRR** makes reference to the fact that the annual budget of the municipality should include a policy related to long term financial planning.

Section 26(h) of the **MSA** holds that the IDP needs to incorporate a financial plan inclusive of three years budget projections.

1.4.2 Accounting Framework

The responsibility of financial planning rests with the Municipal Manager and the Chief Financial Officer. The performance of this function may be delegated to subordinates; however this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

1.5 Recommendations

- i.** This policy, processes and procedures document be adopted as the Long Term Financial Policy;
- ii.** This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of long term financial planning process;

- iii.** This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of the policy;
- iv.** This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for the Long term financial planning.

2. PROCESSES

2.1 Methodology

The long term policy needs to incorporate the various variables consistent with good scenario planning. In this regard aside from the regulatory compliance, the municipal records, financial statements and performance reviews of the various business units, expression is also to be given to the strategic direction the municipality is embarking on.

In this regard it needs to pay heed to the clearly identified strategic priorities of the district, intertwined with the constituency desires – as contracted in SDBIP – and match it with the practical realities of the financial constraints of the district. Such constraints also need to be aligned with the ability to raise funding from whichever source for future capital projects for enlargement of the taxable base for revenue growth. It will thus in crafting the long term plan consider both the financial strategies and realities with the non-financial strategies and pressure dictates. In essence the plan would be to craft a feasible socio economic plan rooted in firm and prudent fiscal principles.

2.2 Financial Strategies

Central to the planning process is the economic realities the district faces. The plan would thus have to consider the following, indicative but not exhaustive list:

- i. The current financial position of the district municipality;
- ii. Current debt levels and prescribed debt appetite;
- iii. Capital / Infrastructure maintenance and renewal;
- iv. The need to improve on the municipality's rating;
- v. Improving service delivery mechanisms and thereby budgets;
- vi. Maintaining equitable and fair rates and tariffs;
- vii. Cost recovery for internal services provided;
- viii. Operational efficiencies consistent with or improving on budgeted operational expenditure

2.3 *Non Financial Strategies*

- i. The municipalities key strategic objectives;
- ii. The spatial development plan;
- iii. The environmental plan;
- iv. Infrastructure led development;
- v. Community dictates

3. PROCEDURES

3.1 *Crafting the Long Term Financial Plan*

3.1.1 Planning should commence in June annually;

3.1.2 Both past and present data should be considered in conjunction with economic forecasts, and market borrowing appetites. More specifically attention should be paid to:

- i. Current events, trends, financial forecasts which have prevailed over the past 12 months;
- ii. Trends obtained from stress testing the past 3 years audited financials;
- iii. Financial objectives and assumptions;
- iv. Economic indicators;
- v. The municipal financial position and liquidity status;
- vi. The present funding mix of the municipality and the prospects in this regard;
- vii. Regulatory and legislative frameworks;
- viii. Current and future challenges and constraints and possible solutions thereto

3.1.3 Via sound methodology create the necessary assumptions;

- i. Socio economic dictates on the municipality;
- ii. Economic indicators pertinent to inflation, interest rates etc;
- iii. Collection aged analyses and the projections stemming there from;
- iv. Potential revenue streams;
- v. Widening the net of collectable tariffs;
- vi. Price movements;
- vii. Labour costs and the unemployment figures;
- viii. Demand side indicators;
- ix. Supply side indicators, constraints and challenges;
- x. Programme and project management ability

- 3.1.4 Access to inter governmental funding pools inclusive of the equitable share, fuel levy and various grants;
- 3.1.5 Forecasting based on sound modeling which pays cognizance to National Treasury prescripts and parameters, resources available, expansion bases and strategic initiatives;
- 3.1.6 Balance revenue collection and municipal spend optimally – by looking at:
 - i. Scenrio impacts on the plan;
 - ii. Whether scenarios are realistic;
 - iii. Revenue enhancement strategies;
 - iv. Cost saving mechanisms;
 - v. Capital and infrastructure projects

3.2 *Assessing the Strategy*

- 3.2.1 The Municipality will establish the relevant committee to assess the planning – inclusive of either the accounting officer or chief financial officer;
- 3.2.2 Presentations need to be made to such committee, both in the final planning stages for commentary and feedback, and for final endorsement;
- 3.2.3 The committee will endorse the scenario planning for incorporation into the MTREF

3.3 *Implementation*

- 3.3.1 Based on the long term plan, the assumptions and framework for budgeting for the ensuing financial year should proceed;
- 3.3.2 Such information should be to hand by January annually.

3.4 *Amendment and Review of the policy*

The long Term Financial Plan shall be reviewed annually and/or at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.