SENQU MUNICIPALITY

LONG TERM FINANCIAL PLANNING POLICY

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Table of Contents

1. INTRODUCTION

The Municipal Budget and Reporting Regulations (section 7) requires the Accounting Officer to prepare, or take all reasonable steps to ensure the preparation of the Budget Related Policies of the municipalities. Budget related policies include a policy relating to the long term financial plan.

The long term financial plan is considered to be one of the most important strategic documents of the municipality, as this document does not only incorporate various development and implementation plans for the provision of basic services, it is also aimed to assist Municipal Councillors to make informed decisions relating to the provision of basic services and capital programs.

The long term financial plan will also contribute significantly to the obligation that every organ of state, including municipalities, have in term of Section 215 of the Constitution of the Republic of South Africa whereby budgetary processes must promote the following principles:-

- Transparency;
- Accountability;
- And the effective financial management of the economy, debt and the public sector.

Goals and objectives, which forms the core of the financial plan, should be established for the short term (12 months), medium term (2 – 5 years) as well as the long term (beyond 5 years). These goals and objectives should guide all budget and policy related decision of the municipality and should directly inform the Municipality's estimated expenditure over the medium term. The financial plan should also set out where the funding for the expenditure will come from.

2. SCOPE OF THE POLICY

In order to ensure that all budget and policy related decisions contribute to the long term sustainability of the municipality, this policy includes:

- The objectives of the policy;
- Guidance to develop the financial plan;
- Implementation and Review of this policy

3. OBJECTIVES OF THE POLICY

The main objective of this policy is to establish and document a structured approach to be followed when compiling a long term financial plan. The long term plan must ensure that the municipality remains financially viable for the foreseeable future while also ensuring that current and future service delivery needs of the community are met.

4. GUIDANCE TO DEVELOP THE FINANCIAL PLAN

The long term financial plan must be developed (and reviewed) in a phased approach. The phases include the following:

- Phase 1: Perform a status quo assessment
- Phase 2: Determine medium to long term needs
- Phase 3: Perform a risk assessment
- Phase 4: Develop the Long Term Financial Plan

The four phases will be discussed in the following sections.

4.1. Phase 1: Perform a status quo assessment

The status quo assessment must be performed to establish the current financial status of the municipality. This assessment will highlight both the key challenges faced by the municipality as well as the areas of strength. It will also identify the current revenue sources, the main cost drivers, the status of municipal infrastructure (including service delivery backlogs) as well as the municipality's ability to finance capital expenditure programs.

Based on the above, the status quo assessment of the municipality must incorporate the following:

- The current realities of the municipality, which includes the demographic information, local economic information, indigent household and service delivery backlogs information as well as housing needs.

- The financial overview based on actual historic information as well as tabled budgets. The overview should include sections on the following:
    - Revenue Management;
    - Expenditure Management;
    - Debtor and creditor management;
    - Cash Management;
    - Asset Management; and
    - Funding and Reserves.

- Where applicable, all assessments must include relevant ratio- and trend analysis. Ratio- and trend analysis should include, **but is not limited to,** the following:
    - Trends on major line items and balances;
    - Gross debtors to annual revenue;
    - Debtors Collection Period (Days);
    - Annual Collection Rate;
    - Cash Coverage Ratio;
    - Employee Costs to Total Operating Expenditure;
    - Repairs and Maintenance to PPE; and
    - Liquidity Ratio (Current Ratio).

- Financial goals and targets should be developed to guide municipal decision making.

4.2. Phase 2: Determine medium to long term financing needs

The integrated development plan (IDP) is considered to be the primary document to determine the medium to long term capital needs of the municipality. The IDP is directly informed by the various area plans of the municipality. Area based planning is an initiative that complements the IDP process by focusing and zooming in on the needs of communities.

These capital needs, together with the operating needs, are then incorporated into the 5 year budget of the municipality. The budget will also identify the relevant sources of funding.

4.3. Phase 3: Perform a risk assessment

Based on the information gathered in phase 1 and phase 2, the municipality should perform a detailed financial viability assessment. This assessment must identify all the risk areas that pose a threat to the financial sustainability of the municipality. The assessment should also provide guidance to the management/council of the municipality on the financial areas that require corrective measures.

Management and Council of the municipality should develop strategies to address these sustainability threats.

4.4. Phase 4: Develop the Long Term Financial Plan

The detailed long term financial plan must be developed by incorporating all strategies identified in phase 3. The modeling of the financial plan is also based on the current realities, financial overview and targets and risk assessments.

The financial plan must clearly highlight the projected effect the proposed plan will have on the financial status of the municipality over the Medium Term Revenue and Expenditure Framework.

5. IMPLEMENTATION AND REVIEW OF THIS POLICY

This policy shall be implemented once approved by Council.

The long-term financial plan is based on a risk analysis model which assesses 10 key financial indicators. A scoring (based on a scoring matrix) is then allocated to each indicator based on the performance/projected performance over the budgeted period. The scoring matrix and weighting allocated to each indicator is as follows:

ITEM	Bench-mark	Viability Weight	Std 1	Measure ment 1	Std 2	Measure ment 2	Std 3	Measure ment 3	Std 4	Measure ment 4	Std 5	Measure ment 5
Acid Test Ratio	2	10	2	10	1.5	8	1	5	0.5	2	-	0
Payment Level (Excluding write-off of bad debts)	> 95%	15	95%	15	90%	11	85%	6	80%	3	75%	0
Cash Generated from Operations as % of Revenue	> 20%	8	20%	8	15%	6	10%	4	5%	2	0%	0
Purchase of PPE as % of Cash Generated	< 100%	8	100%	8	110%	6	120%	4	135%	2	150%	0
Cost Coverage (Excluding Unspent Grants)	4	15	4	15	4	10	3	5	2	2	1	0
Debtors Turnover (days) (Before impairment)	< 45 days	2	75	2	90	1	110	0	130	0	150	0
Long-term debt as % of Revenue	< 40%	5	40%	5	50%	4	75%	3	95%	2	100%	0
Debt servicing cost to Revenue	< 7,5%	8	5%	8	7.50%	6	10%	4	12.50%	2	15%	0
Short-term debt as % of Cash	< 100%	4	50%	4	70%	3	80%	2	100%	1	125%	0
Cash Funded Budget over MTREF	> R0	25	Yes	25	No	0	0	0	0	0	0	0

All proposed budgets should be measured against this model in order to assess the proposed impact that the budgeted forecast will have on the financial sustainability of the municipality.
Any projected regression in scoring over the budgeted forecast period will require Council approval in terms of this policy before the budget can be approved and adopted by Council.

As part of the financial sustainability perspective the municipality must maintain low to medium risk tolerance with roles and responsibilities that must be fulfilled by the following stakeholders

- The Chief Financial Officer has the responsibility to inform the Municipal Manager in writing what the potential effect of key financial risk will have on the long-term financial sustainability of the municipality.

- The Municipal Manager to advise the Executive Committee and Council in writing on the effects of key Financial Risk and decisions on the financial sustainability of the municipality.

- Council to specifically note and approve key areas that will have an impact on the financial sustainability of the municipality.

Key Risk includes the following elements at a minimum.

KEY RISKS	
1	High Indigent Rate - High unemployment in the municipal area contributing to the inability of consumers to settle debt when it becomes due.
2	Dependency on Grants (i.e. Equitable Share) to finance the municipal budget.
3	Cost Reflective Tariffs - The inability to transfer all costs associated with delivering electricity services to the consumers in the area. Significant distribution losses could also be indicative of ageing infrastructure or procedures not adequate to ensure all consumers are billed accurately (or at all) for actual consumption
4	Rehabilitation of Landfill Sites - Although the service is currently being operated at a surplus, the significant cost associated with future rehabilitation of landfill sites could pose a significant risk to the financial viability of the municipality if not adequately provided for in future budgets.
5	Employee Related Costs - High Salary costs above good practice norm is considered a significant risk for all municipalities, not only Senqu.
6	Adequate Budgeting towards Repairs and Maintenance - Adequate allocations towards the maintenance of assets are critical to ensure assets are utilised to its full potential.
7	Credit Control and Debt Collection - Procedures relating to the recovery of outstanding debt is crucial to ensure all billed revenue is recovered from consumers.
8	Funded Budget / Underspending - Appropriations towards the capital and operating budget should be within administrative and financial capabilities. Underspending on crucial projects could negatively impact on the eradication of service delivery backlogs if all planned projects are not implemented
9	Financial Gearing and Utilisation of Long Term Liabilities - Under-utilisation of Long-term Liabilities as funding source to fast track critical infrastructure projects and promote the “user pay” principle.
10	Capital Affordability - Affordability of Capital Program, especially the portion funded from internal revenue sources and historical cash reserves.

The Overall risk that the Municipality adopted is that of **low to medium risk** with focus on remaining financially sustainable.

The policy shall be reviewed in terms of section 17(2) (e) of the MFMA.