

LEKWA LOCAL MUNICIPALITY



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DRAFT POLICY ON LONG TERM FINANCIAL PLANNING

2025/2026

1. MAIN PURPOSE

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 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 Lekwa 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 in order to improve service delivery at affordable rates; and
- Identify new revenue sources required to fund future years

2. Scope of the Plan

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).

3. Strategic Objective

- To ensure the long-term financial sustainability of the Municipality
- To adequately provide for both capital requirements as well as the servicing of debt incurred to fund capital infrastructure
- To adequately charge for depreciation of assets to generate sufficient cash to renew the assets
- To progressively improve collections and reduce the provision for bad debts budget; and
- To identify new revenue sources as funding option for future years.

4. 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 socio economic environment
- Optimal utilisation of grant funding and public donations; and
- Continuous improvement and expansion in service delivery framework.

5. Governance Issues

- The Constitution of the Republic of South Africa, 1996
- The Municipal Finance Management Act, Act 56 of 2003

6. Policy Procedures

Development of a financial plan

The current infrastructure backlogs of the Municipality places tremendous financial strain on the community and proper financial planning are required to ensure the viability of the municipality.

The phases for development of the Financial Plan are set out below:

Phase One	Compile a Status Quo assessment of the municipality's current financial status and key challenges
Phase Two	Conduct financial modelling to determine financial viability
Phase Three	Analyse outcomes and ratios
Phase Four	Prepare a long-term financial plan

6.1 Phase One: Status Quo Assessment

- 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.
- The financial viability and creditworthiness of the Municipality is measured against a number of nationally recognised key ratios.
- 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 annual financial statements).

6.2 Phase Two: 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.
- 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.

6.3 Phase Three: Analyse Outcomes and Ratios

- Evaluate the short-term financial viability (1 month 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; considering 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
 - 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; considering 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. evaluate cost saving mechanisms to minimise the cost of effective service delivery, considering potential infrastructure developments and renewals.
 - IV. the impact of current infrastructure investments and maintenance programs on future revenue streams or cost of service delivery
the impact of envisaged future infrastructure investments on the revenue stream and cost of service delivery; an

- V. the impact of national and municipal priorities over the medium and long term.

6.4 Phase Four: Develop a Long-Term Financial Plan

- Once the Municipality has finalised the prioritisation 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 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 emphasised 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 finalising 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 involves 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:- (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 the municipal priorities, within the funding restrictions; and (d) identifies external funding requirements required for capital investment.

2. ANNUAL REVIEW OF FINANCIAL PLAN

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.

7. Revenue Enhancement Strategy (RES)

This is a medium to long term programme that will in addition to looking at the traditional sources of revenue, explore other sources of generating revenue for the municipality.

The function within the RES is to improve revenue levels and collections through

- Fixing of the metering and billing value chain to ensure billing accuracy and integrity
- Indigent Management through the automatic implementation of process and systems thereof
- Implementation of a Telephone Query Management System supported by the Call Centre and trained staff
- Reduction of the loss of water
- Improvement of the municipal debtor's data quality
 - Restructuring the Key Accounts Management
 - Improvement of systems and processes
 - Installing Water and Electricity Meters where needed.

As RES is an organisational wide process, resources must be pooled together to work towards a common goal of the revenue unit. The resources will be coordinated from various departments: -

- Finance
- Local Economic Development
- Infrastructure Services Water
- Engineering Services
- Communications & Marketing
- Corporate Services
- Community Services

Projects will be identified and prioritised as the core projects. Subsequently the number of priority projects should be at least 25 to ensure that all high revenue impact projects are monitored.

Four main project streams must be setup to manage various projects that are clustered under these project or programme streams

- Indigent Management
- Metering and Billing
- Systems and Processes
- Key Accounts Management
- Customer Care

One of the objectives of RES is to ensure that municipal services are made more accessible to the communities that the municipality is serving. To realise this objective, RES will design a Customer Care Model with the purpose of streamlining the interaction of the communities with the municipality.

Through the designing of the Customer Operating Model, more channels of communication between the customer and the council will be implemented. The channels will improve the speed of communication both ways, ensuring for example that the customer receive that bill on time, the bills are accurate and are up-to date. The Customer Operating Model will also provide channels that are convenient for use for the customers.

8. Competence and Capacity to implement

Finance Office.

9. Relevant Legislation applicable to this Policy

This policy gives effect to the provision of the following legislation. The Local Government Municipal Finance Management Act (MFMA), Act No. 56 of 2003.