



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

ANNEXURE 14

LONG TERM FINANCIAL PLAN POLICY

2023/24 BUDGET (MAY 2023)



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1. DEFINITIONS AND ABBREVIATIONS

In this policy unless the context indicates otherwise –

“Basic municipal service” means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

“BSC” means Budget Steering Committee, a committee established in terms of regulation 4 of the Municipal Budget Reporting Regulations (MBRR), to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Municipal Finance Management Act (MFMA).

“Budget-related policy” means a policy of a municipality affecting or affected by the annual budget of the municipality, including—

- (a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- (c) the credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act.

“City” means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No 479 of 22 September 2000 issued in terms of the Local Government Municipal Structures Act 1998 or any structure or employee of the City acting in terms of delegated authority.

“Chief Financial Officer (CFO)” means a person designated in terms of section 80(2)(a) of the MFMA.

“IDP” means the Integrated Development Plan.

“LTFP” means Long Term Financial Plan.

“Long-term debt” means debt repayable over a period exceeding one year.

“MBRR” means the Municipal Budget and Reporting Regulations.

“MFMA” means the Municipal Finance Management Act No 56 of 2003.

“MTREF” means Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years.



"Municipal Council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act.

"Municipal tariff" means a tariff for services, which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

"Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose.

"National Treasury" means the National Treasury established by Section 5 of the Public Finance Management Act.

"Short Term" refers to a period up to 3 (three) years.

"Medium Term" refers to a period between 3 (three) and 5 (five) years.

"Long Term" refers to any period longer than 5 (five) years).

2. INTRODUCTION

- 2.1. The Local Government: Municipal Finance Management Act No 56 of 2003 (hereafter MFMA) has instituted various financial reform measures. Sound financial management practices have been identified as essential to the long-term sustainability of municipalities. In this regard the MFMA necessitates that municipalities must have a policy related the Long Term Financial Plan (hereafter LTFP).
- 2.2. A municipality's financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the Integrated Development Plan (hereafter IDP). It provides guidance for the development of current budgets and assesses financial impacts on outer years' budgets by incorporating capital expenditure outcomes, operating expenditure trends, optimal asset management plans and the consequential impact on rates, tariffs and other service charges.
- 2.3. The City has developed a financial model that aims to determine the appropriate mix of parameters and assumptions within which the City should operate to facilitate budgets which are affordable and sustainable at least 10 years into the future. In addition, it identifies the consequential financial impact of planned capital projects on the municipality's operational budget.

3. PROBLEM STATEMENT

Preceding the inception of the MFMA municipal budgets usually catered for immediate demands with little or no view of future needs or the future consequences of particular decisions. This poor planning practice fragmented the sustainability of municipal budgets.



4. PURPOSE

The policy aims to ensure that all long-term financial planning is based on a structured and consistent methodology therefore enabling delivery of City Strategies whilst ensuring the City's long term financial sustainability and affordability in order to achieve objectives over the medium and long term.

5. STRATEGIC FOCUS AREA

5.1. The City's Five Year IDP (2022-2027) identifies six priorities and three foundation areas, which support the vision of creating a City of Hope and provide a solid foundation for the articulation of service delivery. The priorities and foundation areas are:

Priority:

1. Economic Growth
2. Basic Services
3. Safety
4. Housing
5. Public Space, Environment and Amenities
6. Transport

Foundation:

1. A resilient City
2. A more spatially integrated and inclusive City
3. A capable and collaborative City government

The City has identified linked objectives and programmes within the above areas.

5.2. This policy supports the following priority/foundation area, objective and programme:

- 5.2.1. Foundation 3 - Objective 16: A capable and collaborative City government and
Programme 16.1: Operational sustainability Programme.

6. GUIDING PRINCIPLES

6.1. The policy is based on the following principles

- 6.1.1. Future financial sustainability inclusive of realistic revenue sources;
- 6.1.2. Optimal collection of revenue, taking into consideration the socio economic environment;
- 6.1.3. Optimal utilisation of grant funding;
- 6.1.4. Continuous improvement and expansion in service delivery framework; and
- 6.1.5. Prudent financial strategies.

7. ROLE PLAYERS AND STAKEHOLDERS

7.1. The following role players will ensure that the LTFP is implemented in accordance with the prescribed legislative requirements and Council processes.

- 7.1.1. Budgets department



- 7.1.1.1. Responsible for the preparation, compilation and presentation of the LTFP in line with this policy; and
 - 7.1.1.2. Review this policy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.
- 7.1.2. Directorates and departments
 - 7.1.2.1. Responsible for providing information to the Budgets department to update the financial plan;
 - 7.1.2.2. Required to identify revenue and expenditure plans for both operating and capital budgets for at least 3 years; and
 - 7.1.2.3. Required to make recommendations on future service delivery matters.
- 7.1.3. Executive Management Team
 - 7.1.3.1. Mechanism of engagement in the Strategic Management Framework (SMF) process; and
 - 7.1.3.2. The SMF process informs planning and helps ensure delivery on the strategic objectives set out in the IDP
- 7.1.4. Budget Steering Committee
 - 7.1.4.1. Responsible for providing guidance on technical budget principles on matters relevant to the LTFP; and
 - 7.1.4.2. Responsible for endorsing the projected MTREF assumptions and parameters contemplated by the LTFP.
- 7.1.5. Executive Mayor
 - 7.1.5.1. Provides guidance in terms of section 53 of the MFMA.

8. REGULATORY CONTEXT

- 8.1. Section 17 (3) of the MFMA states that when an annual budget is tabled it must be accompanied by, amongst others, *“any proposed amendments to the budget-related policies of the municipality”*.
- 8.2. Section 21 of the MFMA states that the mayor of a municipality must at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for, amongst others:
 - (ii) *the annual review of -*
 - (aa) *the Integrated Development Plan in terms of section 34 of the Municipal Systems Act; and*
 - (bb) *the budget-related policies;*
 - (iii) *the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and*
 - (iv) *any consultative processes forming part of the processes referred to in subparagraphs (ii) and (iii).*



- 8.3. Section 7 (1) of the Local Government: Municipal Finance Management Act, 2003, Municipal Budget and Reporting Regulations, 2009 (hereafter MBRR) states that: *“the Municipal Manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of budget-related policies of the municipality, or any or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21 (1)(b) of the MFMA”*.
- 8.4. Section 7 (1) reference (1) of the MBRR, further states that *“as defined in section 1 of the MFMA. Policies that affect or are affected by the annual budget of a municipality include ...(g) a policy related to the long term financial plan”*.
- 8.5. Section 21 (1)(a) of the MFMA states that the mayor of a municipality must co-ordinate the processes for preparing the annual budget and for reviewing the municipality’s integrated development plan and budget related policies to ensure that the tabled budget and any revision of the integrated development plan and budget related policies are mutually consistent and credible.
- 8.6. Section 53(1)(a) of the MFMA states that the mayor of the municipality must provide general political guidance over the budget process and the priorities that must guide the preparation of a budget. Section 4 (1) of the MBRR states *“that the mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the MFMA”*.
- 8.7. Section 26 (h) of the Local Government: Municipal Systems Act 32 of 2000 (hereafter the MSA) states that *“An Integrated Development Plan must reflect a financial plan, which must include a budget projection for at least the next three years”*.

9. POLICY DIRECTIVE DETAILS

9.1. Financial strategies

9.1.1. An intrinsic feature of the LTFP is to give effect to the City’s financial strategies. These strategies include

- 9.1.1.1. Maintaining or improving basic municipal services;
- 9.1.1.2. Maintaining fair, equitable and cost reflective rates and tariff increases;
- 9.1.1.3. Continuous improvement to the financial position;
- 9.1.1.4. Ensuring funding for asset maintenance and renewal;
- 9.1.1.5. Ensuring realistic revenue sources and affordable debt levels to fund the capital budget;
- 9.1.1.6. Optimizing utilization of previous years’ surpluses (if any);
- 9.1.1.7. Achieving and maintaining a breakeven/surplus in the total Operating budget (inclusive of appropriations and secondary budget); and
- 9.1.1.8. Ensuring full cost recovery for the provision of internal services.



9.2. Non – financial strategies

The LTFP is a key component for achieving the goals listed in the IDP of the City and must consider the IDP inclusive of other City strategies and frameworks.

9.2.1. In preparation of the LTFP

9.2.1.1. The fiscal overview must be considered by reviewing past financial performance and taking into account strategic and policy direction of the City to ensure sustainability.

9.2.1.2. The LTFP being a forecasting model requires assumptions on, amongst other, the following internal and external factors:

- (a) External factors – demographic trends related to socio economic factors e.g. Population migration, employment, health, development of businesses, and new residential areas, etc.;
- (b) General inflation outlook and its impact on the municipal activities;
- (c) Affordability of municipal rates and tariffs;
- (d) Credit rating outlook;
- (e) Interest rates for borrowing and investment of funds;
- (f) Rates, tariffs, charges and timing of revenue collection;
- (g) Growth or decline in tax base of the municipality;
- (h) Collection rates for each revenue source;
- (i) Price movements on specifics e.g. bulk purchases of water and electricity, fuel etc.;
- (j) Average salary increases;
- (k) Industrial relations climate, reorganisation and capacity building;
- (l) Changing demand characteristics (demand for services);
- (m) Trends in demand for free or subsidised basic services;
- (n) Impact of national, provincial and local policies;
- (o) Ability of the municipality to spend and deliver on the programmes;
- (p) Implications of organisational restructuring and other major events into the future;
- (q) Consideration of the Cost Containment Regulatory measures; and
- (r) Sector Plans and Infrastructure Masterplans.

9.2.1.3. Intergovernmental fiscal transfers/allocations/subsidies from National and Provincial government play a pivotal role in the finances of the City. The following unconditional transfers/allocations must be considered, as a minimum, when projecting the budget:

- (a) Local Government Equitable Share;
- (b) Fuel levy; and



- (c) Grants related to the provision of Provincial government functions.

9.3. The annual updated LTFP must identify the following:

- 9.3.1. Assumptions and parameters to be used to compile the operating- and capital budget over the next MTREF;
- 9.3.2. Future operating revenue and expenditure projections based on assumptions and parameters;
- 9.3.3. Future affordability of projected capital plans; and
- 9.3.4. Funding requirements, which include external funding.

10. EVALUATION AND REVIEW

- 10.1. This policy shall be implemented once approved by Council.
 - 10.2. This policy must be reviewed on an annual basis, or as required due to any contextual/legislative changes.
 - 10.3. Changes in financial strategy, non-financial strategic strategies and legislation must be taken into account for future amendments to this policy.
 - 10.4. Any amendments must be tabled to Council for approval as part of the budget process.
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