

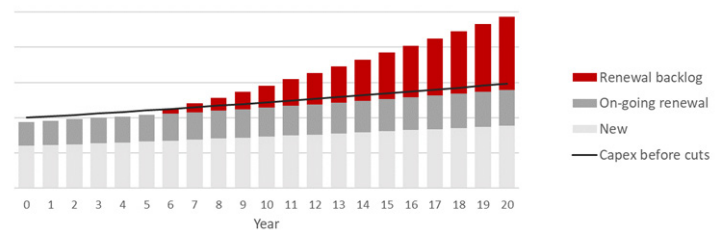
Long term financial plans for five Intermediate City Municipalities



The delivery and maintenance of infrastructure is a key municipal function, but the ability of municipalities to perform this function has been hindered by, among other things, a lack of proper investment planning and limited availability of capital finance. It is against this background that National Treasury is supporting a process of putting long term financial plans in place in Intermediate City Municipalities in South Africa. Among other things, these plans seek to assess the amount of capital finance that the municipalities will sustainably be able to raise over the long term.

PDG developed long term financial plans on National Treasury's behalf in five local municipalities. We used an Excel based long-term financial planning (LTFP) tool that was developed for this project, drawing on the functionality in the Municipal Services Financial Model (MSFM), a long-standing infrastructure investment tool previously developed by PDG and applied in close to 40 municipalities in South Africa to date. The new LTFP tool builds on the MSFM but improves the operating account projections and includes spatial functionality that allows results to be developed separately for different areas within the municipal boundaries. This means that the tool can conduct analysis required for a stand-alone long-term financial plan as well as for a Capital Expenditure Framework, as required by the Spatial Planning and Land Use Management Act. This is a key innovation and allows long-term financial plans and Capital Expenditure Frameworks to be developed through a single process in future, ensuring alignment in assumptions about the affordability of infrastructure investment.

A key feature of this new tool is that it highlights the strategic decisions that a municipality must make to improve its



Caption: Diagram demonstrating long-term implications of cuts to capital expenditure on renewal. The LTFP tool makes the implications of these strategic decisions, which are often poorly understood, explicit

financial viability and thus narrow any funding gaps that it faces, as well as making the implications of these decisions clear. The tool includes projections of the condition of assets as a key indicator of long-term sustainability. The tool is used to perform analysis to inform the long-term financial plan, but the plan itself is developed through a process of engagement and consultation with municipal officials in the finance department, as well as those in technical and spatial planning departments.

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DLTFP PROJECT:

Project Profile: Long term financial plans for five Intermediate City Municipalities

Client: National Treasury

Date: 2018 - ongoing