



SUPPORTING THE DEVELOPMENT OF METRO LONG-TERM FINANCIAL STRATEGIES

THE IMPORTANCE OF STRATEGIC FINANCIAL DECISIONS

Metropolitan municipalities have made significant progress in the delivery of basic services with high levels of access to water, sanitation, refuse collection and electricity, as well as providing housing and reducing backlogs. Despite the progress, trends of urbanisation in South Africa produce a whole new set of challenges for metros:

- Population growth in all income levels
- Spatial concentration on the urban periphery
- Slow economic growth and a limited fiscus.

Metros are in a difficult position, having to balance a number of tasks:

- Providing adequate services to their populations and businesses
- Building infrastructure that supports service delivery and national economic growth

Figure 1: Infrastructure investment needs in metros (PDG 2015)



- Driving spatial transformation that provides equal opportunities to the growing population
- Optimising the mix of grants, own revenue sources, borrowing and development charges to provide the required services
- Spending wisely and efficiently on the right projects and initiatives

National Treasury and the Cities Support Programme recognise these challenges and offer metros support in making strategic investment decisions that promote growth and service delivery within a healthy fiscal position.

LONG-TERM FINANCIAL STRATEGY

Strategic investment decisions spell out the following:

- **WHAT** are investment priorities?
- **WHEN** will investments take place?
- **WHERE** will investments be located?
- **HOW** can investments be funded?

These key decisions need to be made by the metro leadership in consultation with the public. What the Cities Support Programme offers is a set of tools that support informed decision-making and the formulation of a **long-term financial strategy**:

- **A CREDIBLE, BANKABLE CAPITAL INVESTMENT AND FINANCING PLAN FOR DECISION-MAKERS IN THE METRO THAT CAN ALSO BE PRESENTED TO THE FINANCE COMMUNITY.**

APPROACH: FINANCIAL MODEL

Strategic financial decision-making will be supported with the help of a financial model, which forecasts the cash position of the metro into the long-term future (10-20 years). The financial model rests on three legs, which are

- Cash flow management: How can the metro best use the financial resources available?
- Infrastructure needs: What infrastructure is required and at what cost?
- Spatial implications: What are the financial implications of spatial location?





Figure 1: The financial model can support strategic financial decision-making



The financial model will be able to project a baseline scenario (business as usual) into the future and help the metro understand its fiscal position over the long-term, its headroom for investment and borrowing, as well as main drivers of revenues and costs going forward. Based on this understanding, the model will then allow the metro to model a range of policy decisions and understand their impact on the fiscal position of the metro.

Based on this modelling exercise, the metro can develop a long-term financial strategy and corresponding financial policies. The model will not make any decisions for the municipality, but rather

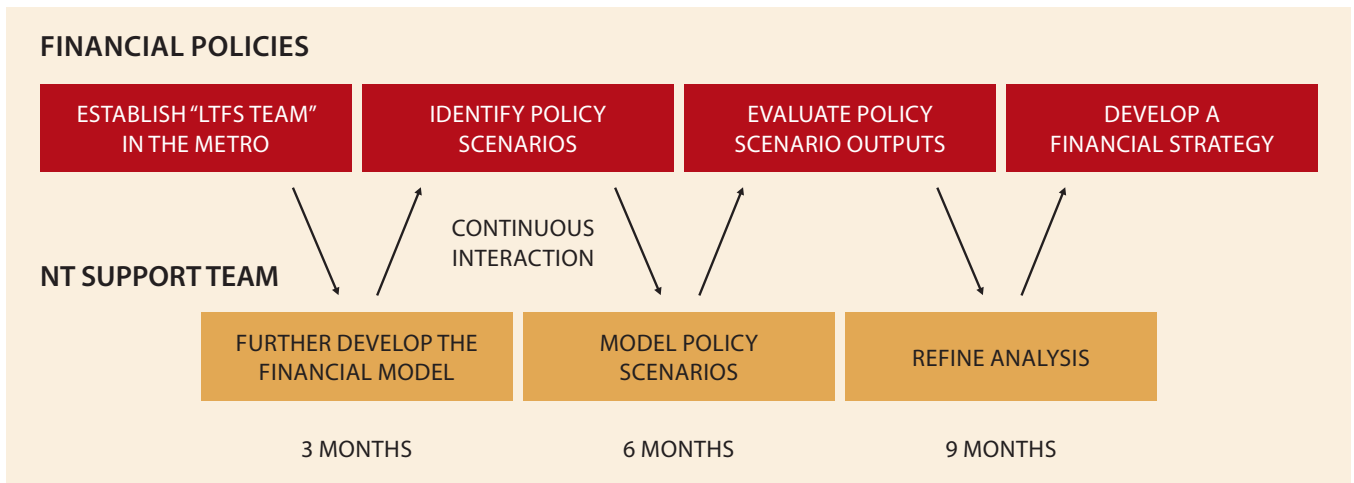
support informed decision-making and effective communication of policy choices.

Examples of financial policies in a metro long-term financial strategy include:

- Capital investment programme, including size and timing of investments
- Proposed funding mix for capital investment programme
- Acceptable levels of short and long term debt and acceptable purposes for which debt can be issued
- Optimisation of the operating balance through improved rates policy, water and electricity loss reduction and efficient spending
- Human settlements policy, including location of housing and industry

PROCESS MAP

Work has begun in selected pilot metros and the financial model is jointly developed to ensure its usefulness in the metro planning and implementation process. Interested met-ros can receive support through their Cities Support Programme coordinator but substantial participation and engagement will be required, as demonstrated below.



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